

# THE FORIA

## Markets, States and Justice

### Socialism Revisited

John E. Roemer  
David Schweickart

### Challenges of Democracy

Frank Cunningham  
David Held

### Post-Industrialism and the Welfare State

Erika Kvapilova

### Rethinking Macroeconomics

Ben J. Heijdra &  
Anton D. Lowenberg

### Health, Education and Resource Allocation

Robert Paul Wolff

### Inequality and Oppression

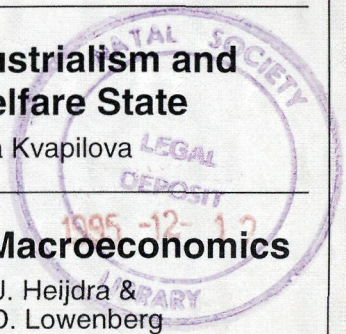
Richard W. Miller

### Individualism

Andrew Vincent

May 1995

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## Errata

In the last issue of *Theoria* (83/84), David Schweickart's surname was misspelt on the cover, on the contents page, and on the list of contributors, and Andries Gouws' name was omitted from the list of contributors. The Editors of *Theoria* apologize most sincerely to David Schweickart and Andries Gouws for these errors.

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# THEORIA

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## About *Theoria*

Based in South Africa, *Theoria* is a multidisciplinary journal of engaged theoretical reflection in the humanities and social sciences. Its purpose is to address, through scholarly debate, the many challenges posed to intellectual life by the major social, political and economic forces that configure the contemporary world. Thus it is principally concerned with questions such as how modern systems of power, processes of globalization and capitalist economic organization bear on matters such as justice, democracy and truth. How might such systems best be explained? In what do justice and freedom consist? How might these ends best be realized under the conditions both of advanced modernity and of uneven modernization in the 'developing' world? In what, precisely, do the problems of social and political identity consist, and how might sense best be made of phenomena such as resurgent ethnic nationalisms? And what, in addressing these concerns, is the scope of philosophy, art, literature, history, social and political theory and economics? These, among many others, are the kinds of questions by which *Theoria* is driven.

Although the compass of the journal is wide and any one issue may carry contributions in a diversity of fields, the editors have decided that the contents of each issue will be largely dictated by one or more governing themes. To secure contributions in good time, these themes will be announced well ahead of publication. Besides articles the editors would like to encourage communications from readers which are intended to further debate on topics addressed in the journal. The editors would also like to encourage a review essay tradition and maintain a book review/book note section.

### **Note to Contributors**

Contributors are requested to submit THREE hard copies of their articles, as well as a disk version. Please indicate which word-processing program has been used. The disk must be readable by IBM-compatible/MS-DOS systems. Contributors are advised to retain copies of their texts as we do not return unused copy. A short abstract of each article should be included.

Single quotation marks should be used throughout. Quotations of more than 25 words should be indented, without quotation marks. Only the least familiar foreign words need to be italicized (or underlined). Notes should be in the form of endnotes rather than footnotes.

Contributors are also requested to submit brief biographical sketches indicating their institutional affiliation, research interests and the activities and publications they consider most important. This information should preferably be so formulated as to be reproduced in *Theoria's* brief list of contributors at the end of each issue.

*Theoria* uses the Harvard style of referencing i.e. in the text of articles, bracketed references appear like this: (Williams 1972:23).

A list of References should appear at the end of each article.

### **Past Issues of *Theoria***

Since no. 76, *Theoria's* themes have been as follows:

76	(October 1990)	The Meaning of 1989
77	(May 1991)	Aesthetics and Ideology
78	(October 1991)	Development and Ethics
79	(May 1992)	The State and Civil Society
80	(October 1992)	Literature and Art in South Africa
81/82	(October 1993)	Our Catastrophic Century
83/84	(October 1994)	Progress, Modernity and Marxism

### **Future Issues of *Theoria***

***Theoria* 86.** The problems of democratic government and of democratic practices in the wider arenas of the economy and civil society pose challenges to both the advanced and developing areas of the world. These challenges are, necessarily, challenges to social and political theory too. This issue of *Theoria* will focus on the theme: 'Democracy and Development'. Contributions on this topic should reach the editors by 25 August 1995.

***Theoria* 87.** The claims that history can be 'rationally reconstructed' and that it has some kind of 'logic' or 'direction' to it are clearly controversial. Are these claims in any way sustainable? What purpose, if any, might be served through the study of history? How might it properly be grasped and with what implications? What are the challenges that face history and historiography as we approach the end of the twentieth century? In what ways might history be abused, and what, if anything, does it mean to speak coherently of a 'philosophy of history'? These, among many others, are the issues that *Theoria* 87 will address, as it focuses on the theme: 'Reason, Theory and History'.

## Editorial

G.A. Cohen in his article 'Equality as Fact and as Norm' in *Theoria* 83/84 articulated, with great precision, the challenge posed to social enquiry by the persistent and seemingly intractable problem of inequality. This problem of inequality invites us to reflect on the nature of the institutional mechanisms that define the distribution of those goods and values – such as opportunities, freedoms and material resources – that most fundamentally affect the life chances of individuals. Markets and states are, without doubt, the institutions that bear most directly on these questions of distributive justice. The concern to explore, and to bring theoretical precision to the analysis of these institutional arrangements and their manifold implications, constitutes the unifying purpose of this issue of *Theoria*. It is thus appropriate that Richard Miller in his contribution searchingly and impressively extends the reflection on the question of equality in a manner that connects it directly with the analysis of states, markets and morality.

The collapse of the state-socialist systems in eastern Europe decisively shattered the hope that, through the construction of at least one form of economic system markedly different from modern capitalism, the problems of inequality – and of human flourishing more generally – might be lastingly resolved. The victory of what might broadly be termed 'liberal capitalism' over its principal twentieth century institutional rival, while of world-historical moment, has, however, been bitter-sweet. One need only mention the subsequent political history of the former Yugoslavia and the former Soviet Union to make the point. The exploration of the meaning of this collapse was the governing theme of *Theoria* 76 and is, once again, addressed in this issue. What, if anything, of the vision or practices that informed the socialist enterprise might be redeemed, retrieved or re-articulated in ways that plausibly permit of institutional realization? What, for instance, are the scope and limits of market socialism and how, if at all, might the systems of advanced capitalism be so 'inflected' as to bring them into closer accord with those moral ends of socialism which remain compelling? In this issue John Roemer and David Schweickart invite us, in bold and creative contributions, to revisit the socialist project in the light of the post-1989 global context.

It might be argued that, among the institutional arrangements that have given the most durable expression to modernity's highest moral intuitions, the welfare state systems of western Europe rank among the most impressive. These systems are not, however, without their own serious problems, some of them born of the shift from an

industrial to a post-industrial society. Erika Kvapilova, in her taut and engaging analysis, alerts us to these problems and to the difficulties of theorizing the contemporary welfare state, paying particular attention to how its problems bear on the complex question of the definition of the scope and substance of citizens' rights.

David Held and Frank Cunningham both register the importance of democracy not only to the sphere of the polity and state, but to that of the economy as well. They are concerned, too, to press – in different ways – a case for 'democratic progress'. Held, in an article of great synthetic power, reminds us of the need to bring the economy into 'the sphere of democracy' and to take proper cognisance of the essentially global character of contemporary political and economic systems. Cunningham, in his contribution, articulates a powerful and stimulating challenge to the widely held 'catallactic' view of democracy. These explorations of the 'democratic moment' appropriately introduce 'Democracy and Development', the governing theme of the next issue of *Theoria*.

Robert Paul Wolff provocatively urges us to explore anew the assumptions that underlie the allocation of educational resources. His contribution not only raises the more general question of the control of access to public goods; it also continues a now well established concern in *Theoria* with the challenges of tertiary education in South Africa and, by implication, other countries too.

Individualism has, in different forms, been central to much of the philosophical and political discourse of modernity. The principal templates of this discourse have, in the past decade, been deeply unsettled by the challenges presented by what, very broadly, might be termed the postmodern movement. Andrew Vincent in his original and arresting contribution poses the question of whether, and if so to what extent, postmodern thought marks a decisive break with liberalism and with the earlier liberal constructions of individualism.

Finally, the problem of distributive justice in market economies demands an engagement with the issue of macroeconomic policy. This, in turn, demands an engagement with the very foundations of macroeconomic theory. Ben J. Heijdra and Anton D. Lowenberg, in their deeply thoughtful article, address this demand through a specific focus on the historical development of equilibrium notions in macroeconomic theory. They argue that new classical economics and the current generation of Keynesian conjectural models have converged to a common position in which the important roles played by transaction costs, expectations formation and multiple equilibria in model building are explicitly recognized. What, if this is the case, might the implications be both for macroeconomic theory and, not least excitingly, for macroeconomic policy?



# Economic Inequality and Political Oppression

*Richard W. Miller*

During the last twenty-five years, the mainstream of philosophical arguments for economic equality has passed through two stages. First, in *A Theory of Justice*, Rawls created a new mainstream, defending a perspective for the judgement of basic institutions which was as detached and as attentive to consequences as utilitarianism, but more sensitive to the typical fate of those in the worst-off social positions. In response, critics of equality, most notably Nozick, in *Anarchy, State and Utopia*, argued that moral constraints on what one individual may do to another preclude the use of the state to interfere with market processes in order to achieve goals of economic equality, however desirable these goals may be from a detached perspective. The search for a defence against this attack helped to stimulate the second stage, a turning backward toward Kant's great legacy. Here, friends of economic equality connected the ethics of social change with a broadly Kantian understanding of the underpinnings of morally responsible choice in general. For example, the connection was drawn in Rawls' discussions of moral personality and in Scanlon's proposal to base moral obligation on rules that are freely and rationally acceptable to all. At this second, neo-Kantian stage, egalitarians began an effort (which I will be extending) to show that an adequate understanding of the demands of moral responsibility, which produce whatever moral protection market activity deserves, would reveal an individual duty to support state action in the interest of equality.<sup>1</sup>

This second, neo-Kantian stage seems to have run its course, with results that are frighteningly meagre for any friend of equality. Rawls' arguments for the difference principle have dwindled to a mere hope that it will somehow become the overlapping consensus among tolerant citizens committed to political activities based on rational persuasion.<sup>2</sup> Meanwhile, it has become increasingly unclear how Scanlon's demand for free and rational acceptability can justify anything stronger than Kant's own vague principle of non-indifference, the requirement that people be willing to eliminate severe burdens when they can do so at small cost.

I think that a third stage is needed, adding to this brilliantly productive work, in which the friends of equality advance by stepping

further back into the past, to the founding of modern contractualism by Hobbes, Locke and Rousseau. In those early days, the main goal was the description of how the use of force which is part of all effective government can be justified – how these chains can be rendered legitimate, in Rousseau's golden phrase. A new egalitarian argument in this old spirit would expose the centrally important type of economic inequality as a form of political oppression.

Arguing in this style, I will try to show that it is wrong not to support what I will call 'a regime of equal prospects'. By 'equal prospects' I mean equally valuable chances of economic success in the course of a lifetime, given equal willingness to try. A regime of equal prospects promotes as much equality of prospects as serves the interests of those whose prospects are least. My claim will be that support for any less egalitarian regime commits the wrong of forcing morally responsible people to conform to arrangements that they can only rationally accept on account of inferior coercive power, ignorance or self-abnegation. The lack of political will to improve the *economic* prospects of the worst-off is complicity in their *political* oppression.

At this third stage of the equality dispute, the effectiveness of the argument from political oppression depends on a supportive general conception of the nature of right and wrong in individual conduct. Otherwise, the regime of equal prospects is at best a Good Thing that the less generous taxpayers among us may vote against without wrongdoing, at worst, a systematic violation of a moral duty not to interfere with unequal prospects created by morally inviolate processes. I will begin by describing a basic conception of right and wrong in individual conduct and by deriving from it the central demand to avoid political oppression. Then, I will show how this avoidance requires support for a regime of equal prospects. The argument depends, in part, on the rejection of duties not to interfere which many find appropriate for a state of nature. So I will next turn to such pre-governmental situations, arguing that any strong protections for private enterprise that are appropriate in these settings depend on special features of these settings. Finally, having spent most of this article emphasizing the moral importance of the state, I'll close by deriving a moral about the moral irrelevance of markets: reflections on market processes considered apart from the context of state enforcement have no fundamental role to play in grounding a standard of economic justice.

### **Responsible Choice and Moral Politics**

Conduct is morally wrong just in case the chooser could not choose to engage in it if she were morally responsible. A morally responsible

person is principled and other-regarding: she will not engage in conduct if it conflicts with principles that all relevant people have reason to accept, as constraints on conduct, on the basis of appropriate rationales.

If one can describe the relevant kinds of justification and the relevant kinds of people, these observations become a powerful tool for resolving questions about right and wrong. Here is a way of developing such a description. It is familiar in broad outline (for example, from Scanlon's writings), but I hope the presentation will make clear both the plausibility of this view of individual responsibility and its reliance on considerations that also require political criticism of large-scale institutions.

The justifiability at which the morally responsible person aims is justifiability of her principles as rules to which everyone might adhere. They are vindicated if everyone has adequate reason willingly to accept them as rules by which everyone is to constrain his or her conduct while otherwise pursuing freely chosen personal goals without constraint. Suppose, for example, that I wonder whether to break the promise I made in a syllabus to start office hours at 4:30, when a depressed friend calls me at home at 4:15. The mere fact that no one will actually seek me out during that day's office hours would not justify my breaking the promise and coming in late. Because people need to rely on one another, any set of principles that is acceptable as the constraints that are generally self-imposed must include prohibitions against promise-breaking severe enough that the mere belief that one will do no harm is no excuse. For related reasons, no one would want people to stop holding themselves to promises on account of a mere belief that one will do harm to no one and good to someone. But it's also true that we lead vulnerable, unpredictable lives, so that each of us may have an urgent, serious need for help from another who could not have foreseen this opportunity to help in advance. So a rule permitting the breaking of a promise when this is necessary to meet an urgent serious need and no irremediable consequence worse than inconvenience can be foreseen does seem to have an adequate justification. The impatient student waiting at my door might prefer that I fended off my friend. Still, on the basis of shared human concerns, she would accept an appropriately permissive set of rules as the generally applied basis for self-constraint.

Other examples suggest that the kind of acceptance that is sought must, in the following ways, be rational and free: the rationales must not essentially involve fear depending on inferior coercive power; acceptance must not essentially depend on confusion or ignorance; and acceptance must not depend on self-abnegation, i.e. on someone's willingness to give less weight to her interests than to the same

interests in others when she accepts or rejects alternative sets of rules.

Thus, it may have been rational for the native peoples of Rhodesia to accept the rule, 'If black, give up your land when whites demand it', since otherwise they would have been subjected to fierce repression. But this does not begin to show that Cecil Rhodes acted responsibly. If every slave in the southern United States before the Civil War had been converted to the false conviction that blacks are incapable of thriving on their own, acceptance based on this falsehood would not have removed the wrongness of support for the slave system. If, like Uncle Tom in Beecher Stowe's novel, all slaves had accepted a regime in which they were bought and sold, accepting it because of willingness to contribute to general agreement by declining to assert interests that whites asserted, support for slavery would still have been wrong.

Finally, an adequate account of moral responsibility will have to set some limits on the kinds of persons whose free and rational acceptance is required to vindicate a set of rules. More precisely, it must describe the kinds of motivational systems that can support relevant rationales for acceptance.

For one thing, an adequate rationale may presuppose the capacities and interests implicit in an effective commitment to moral responsibility as described so far. Perhaps there are free spirits who hate constraint so much that they really would prefer to live in a world in which everyone breaks promises in order to take advantage of the opportunities of the moment. No challenge to promise-keeping results, since such a person could not have the effective, self-imposed commitment to principled other-regarding conduct of a morally responsible person. The willingness to discipline impulses implicit in moral responsibility cannot be integrated with the free spirit's hatred of self-constraint.

In addition, an adequate rationale can appeal to certain generally shared human interests and needs. For example, no human can be sure that the resources under her control will be adequate to meet the goals that are important to her. A human has a fundamental interest in the physical integrity of her body; her concern for it is part of her concern for her identity, not just the maintenance of access to especially useful equipment. Humans have interests in accomplishment based on striving, in relaxed enjoyment and in deep personal relationships. The rationale for accepting or rejecting a set of rules may appeal to fundamental human needs and interests, of which these are examples, balancing them through trade-offs within a normal range. (In contrast, trade-offs outside the range will constitute one-sided emphases on certain of the fundamental concerns.) The rationale may also appeal to

goals and attitudes implicit in moral responsibility itself. No other rationale is relevant to acceptance or rejection of a rule. This is why my stealing to finance a leave for work on non-naturalistic semantics would be wrong. Perhaps no disaster that I could not accept would result from mere permission to steal to finance work on non-naturalistic semantics. But a rationale based on fundamental needs and interests, not just specific derivative concerns, could only support a broader permission to steal in order to bring oneself closer to goals toward which one strives, and this general reduction in self-restraint would be a disaster.

What I have called 'fundamental human needs and interests' correspond to sources of satisfaction for all, or nearly all, human beings. But this does not explain their status in producing relevant rationales. Perhaps we all are apt to experience *Schadenfreude*; still, we should rise above this. Part of the authority of these concerns does derive from the fact that they are (or involve necessary means to) goals that figure non-derivatively in an account of what makes one way of living worth choosing over another. Striving to accomplish something of intelligent interest is worth choosing even if the value of the striving cannot be grounded in anything else; but work in semantics is valuable for me because it is one of my chosen forms of accomplishment.

Still, a fundamental source of worthwhileness and the resources on which it necessarily depends might not provide an adequate rationale for accepting or rejecting a set of rules. Perhaps unstinting generosity is such a fundamental source of worthwhileness, giving meaning to a life regardless of connection with further aims. Still, a rule prescribing help for those in need which every person of unstinting generosity would be rational to accept might be too demanding to be a dictate of mere moral responsibility.

How, then, can we resolve the question of which fundamental concerns should govern relevant rationales? In the same way as we resolve any substantive moral question. On the one hand, we judge the cogency of premises for moral argument. The acceptance I ought to seek from someone who has been let down by my breaking a promise is not acceptance requiring her to put to one side the fact that she sometimes needs to rely on others for help. An appeal to this vulnerability is a cogent premise for a morally relevant refusal to accept my promise-breaking. On the other hand, we adjust premises in light of the acceptability of their consequences, as when we decide that a fundamental interest in unstinting generosity must not be assumed because the range of morally permissible conduct would become too narrow when the resulting requirement of acceptability is applied. Although the resulting specification of acceptability will

depend on some particular moral judgements it can still shed light on other questions of moral judgement, so long as the former judgements are widely shared among those who dispute the latter questions.

These connections between wrongness and general acceptability seem to sustain very little in the way of demands for equality without blatant begging of the questions at hand. This is the major crisis at the second stage of recent arguments for equality.

The fundamental human interests described so far are demanding, and any human is vulnerable enough that she may have an urgent need of help from another because these interests are in serious jeopardy. So everyone, no matter how well-situated, would freely and rationally accept a requirement that people in dire need be helped at trivial cost. But it seems that a careful investor, who has inherited an ample diversified portfolio, might be rational to reject any redistributive principle more demanding than this, without abnormal emphasis on the prospect of luxury as opposed to the availability of a secure guarantee. After all, access to absorbing diversions often is not cheap, and there is a fundamental human interest in mere enjoyment. Also, extensive resources may be required to sustain projects that come to be central to one's life or to nurture those one loves. It might seem, then, that every set of rules supported by rationales which all relevant people would find compelling will permit the defence of superior assets against non-trivial demands. So (to put it crudely, but with fundamental accuracy) the rich do not do wrong to defend their riches. The remaining requirement of trivial sacrifice will not much help the poor in a world in which little relief of serious disadvantages is purchased at trivial cost.

An egalitarian might seek to overcome this permissiveness by introducing a further constraint into the definition of moral responsibility or the specification of fundamental human concerns. But these additions seem to beg the questions at issue in the debate over economic equality. Thus, the morally responsible person's desire to conform to rules that are freely and rationally acceptable to all could be made into a more rigorous requirement that strains of commitment be as small as *equal* strain of commitment permits. Since it is especially hard for the worst-off to commit themselves not to improve their lot at others' expense, such a requirement seems to exclude all seriously burdensome equalities. But it is hardly obvious that commitment to morality must, in fact, be no more of a strain to one than to another. After all, the greater burdens for some might be the product of sheer bad luck, for which the less burdened are by no means responsible. Similarly, a friend of economic equality could take extensive sympathy or an interest in cooperating on terms that afford equal net benefit to all to be a fundamental, overriding human

concern. But this constraint, while far from foolish, will hardly provide a non-question-begging argument for economic equality. Whether one embraces it will largely depend on prior commitments concerning the demands of equality.

My strategy will be to assume no more than the relatively uncontroversial conception of moral responsibility presented before, with its minimal list of fundamental human concerns. Implicit in the commitment to free and rational acceptability is a goal of political equality, a goal which will turn out to make it wrong to support any regime that is not a regime of equal prospects.

The political commitment implicit in moral responsibility is commitment to help change basic arrangements enforced by a state when some morally responsible people's rational, informed adherence to the enforced rules would essentially depend on their inferior coercive power or their self-abnegation. If the only reason why some morally responsible people do not rebel is that they are willing to be less assertive about their needs than others or that their coercive resources are so inferior to the current regime's that change would be impossible or impossible without an intolerable cost in violence, then any morally responsible citizen will seek to end this state of affairs. Note that there will no longer be the excuse that those burdened by these arrangements suffer from sheer bad luck. They suffer on account of human coercive activity, activity in which one is oneself complicit if, say, one could vote for a candidate who might help change the burdensome laws and one chooses not to.

The attitude toward free and rational acceptability that I described before implies an overriding political commitment of this kind (i.e. a willingness to do something to promote change if change is a realistic possibility – not, of course, a commitment to risk one's neck). A morally responsible person has an overriding commitment not to impose costs on others that are only permitted by some generally acceptable system of rules because it is acceptable to victims on account of their ignorance, inferior coercive power or self-abnegation. So a morally responsible person is willing, to an indefinitely great extent, voluntarily to forgo the sort of benefit Cecil Rhodes exacted. A commitment to oppose regimes to which informed, rational obedience would depend on inferior coercive power or self-abnegation is implicit in this moral stance in the following sense. If someone is willing to forgo those benefits, it is arbitrary for her to stop short of opposing (if she safely can) the sort of regime that produces them. The presence of the moral attitude and the absence of the political one cannot be aspects of one coherent personality. Tolerance of political oppression cannot be integrated with moral responsibility just as the free spirit's hatred of self-constraint could not.

Since this implication stops short of logical entailment, it is useful to see that the same commitment might be added to the list of fundamental human concerns without begging any question at issue in the dispute over economic equality. That general adherence to rules governing political choice would conflict with the desire that regimes not depend on the weakness, ignorance or meekness of morally responsible people certainly seems a cogent reason for rejecting the rules as a morally inadequate constraint on conduct. Moreover, the conclusion, based on this premise, that it is wrong to support such a regime is not highly controversial among those who dispute the moral importance of economic inequality. In particular, those who deny that governments should use tax revenues to reduce economic inequalities also think government should not exercise its enormous coercive superiority at anyone's expense except to punish those who act as the morally responsible would not. They think that force and fraud, i.e. the intentional self-interested creation of misinformation, are the basic wrongs to be opposed by state action. And they oppose caste systems regardless of whether the lower castes accept the barriers out of self-abnegation. For all these reasons, most of those who think that regimes of unequal prospects are blameless ought to regard regimes dependent on the inferior coercive power, ignorance or self-abnegation of morally responsible people as very much to blame. So I will not beg the question when I turn the tables on them.

### **From Political Equality to Equal Prospects**

Suppose that people advance their individual interests under institutions, laws and policies protected by the coercive power of the state. Some people do not fulfil all their goals, and would be more successful if the dominant arrangements were different in ways that imposed costs on others. How can all accept these rules unless acceptance by some morally responsible people depends on ignorance of the effects of social arrangements, inferior coercive power or self-abnegation?

The dominant rules could be cleared of the charge of oppressiveness if (within feasible limits for social policy) everyone is subject to the same life prospects, the same chance of success over the course of one's life, given equal willingness to sacrifice. In assessing a system of rules, a morally responsible person will reflect on the consequences of spending one's whole life in a society in which people generally adhere to them. This is why a responsible seventy-year-old could not refuse to help desperately needy teenagers at trivial cost, on the grounds that he will only accept rules requiring help for the aged. If life under the dominant social rules involves *equal* life prospects for all, then someone's lesser success will reflect the free choice of leisure



or safety. So the charge of oppression is out of place. (Here, as elsewhere, I assume that the egalitarian arrangement includes the sort of insurance against bad luck that all would favour if everyone's prospects were relevantly equal.)

Also, some special forms of inequality are non-oppressive because the only feasible rectification would be an intolerable imposition on others, intolerable just on account of fundamental human concerns. Here, equalization must itself rely on inferior coercive power, ignorance or self-abnegation. For example, there is nothing oppressive about a system in which the two-thumbed are not selected for forcible one-thumb amputation, with transfer to the thumbless. A two-thumbed person with the fundamental interest in bodily integrity could not possibly accept such forcible transfer, so the alternative system presupposes inferior coercive power, ignorance or self-abnegation.

Still, these answers do not respond to a typical protest against inequality, the protest of those who are seriously frustrated by the absence of purchasing power, when the absence reflects life prospects making them less likely to succeed than others who try no harder. What set of rules which the disadvantaged would be rational to accept as a universal basis for self-constraint would prevent the disadvantaged from bloodlessly establishing a regime of equal prospects, if they could do so through the acquisition of the overwhelming coercive power which they signally lack? There seem to be none. Perhaps the advantaged would not be wrong to defend their riches, if this defence did not involve the wrong of imposing a regime coercing the morally responsible. But there are conflicts in which neither side is wrong to coerce, and, in any case, the political wrong is very much in question. Nor can the rich finesse this question by dispensing with state enforcement of the rules of economic life. No economic system (at any rate, none in which a gap between the rich and poor arises) can operate without this coercive support.

If the disadvantaged would be significantly better-off if prospects were more equal, the duty to avoid political oppression requires such equality. For this is part of the only way of avoiding a regime that the morally responsible disadvantaged can only accept out of coercive inferiority (ignorance or self-abnegation, disjuncts which I will routinely omit, for simplicity's sake).

Consider alternative social arrangements with their different life prospects. If improved life prospects based on social change are more desirable to some than avoidance of the associated changes in life prospects is to any others, but no change occurs, this must be due to the coercive inferiority of those who have the greater motivation to strive for social change. (After all, if all had equal coercive power, the

ones with greater incentive to use it would be rational to take the risk of seeking to exact concessions from those with less, who would be rational to grant them out of their greater interest in social peace.) More precisely, social stability depends on coercive inferiority in this way if the lack of social change is a significant loss, since otherwise acquiescence might be due to a morally responsible person's general reluctance to engage in coercion. And the desirability of improved life prospects among the seriously disadvantaged *will* be greater than the undesirability of the consequent reduction of life-prospects for those who remain, in any case, seriously advantaged. Presumably, the desirability of improved education to a migrant farmworker's child is greater than the undesirability of the needed tax increase to an investment banker's child. So acquiescence in a system in which life-prospects are significantly unequal will essentially depend on the coercive inferiority of the worst-off – unless, of course, the worst-off would not be significantly better off in any alternative system. Assuming that coercive transfers of purchasing power are not forbidden by every system of generally acceptable rules, it is wrong to support any regime in which life-prospects are substantially unequal, if reduction in inequality would substantially benefit the worst-off. Only a regime of equal prospects can render the chains of government legitimate, by giving everyone an equally compelling non-coercive incentive not to rebel.

Note that the chains are not rendered legitimate by a meritocracy in which prospects are equal given equal willingness to try and equal initial aptitude. The frustrations of the worse-endowed would not be due to their free choices. They would have a greater incentive to rebel. So their acceptance of the dominant rules would be due to inferior coercive power.

It might seem that I have been overly optimistic in assessing the trade-off between gains for the disadvantaged and losses for the advantaged. Mightn't a significant gain in life-prospects for the worst-off be feasible but only at an exorbitant cost, reducing the advantages of those better-off so dramatically that their incentive to resist would be as great as the incentive to rebel of those at the bottom? It is hard to imagine such a dilemma if one keeps in mind special features of the goal of equal prospects. If one compares the worst-off with those who have a much greater prospect of much greater income whichever alternative is implemented, the rough truth of diminishing returns at the margin excludes the troubling trade-offs. Yet when one considers the middle class, i.e. those whose prospects are not so superior, taxation burdening them is, in itself, a significant loss in life prospects to the worst-off as well. The daughter of migrant farmworkers has some significant chance of moderate success, so taxes so

severe that middle class folk cannot afford three bedroom houses have a tendency to reduce her life prospects as well. In addition, the regime of life prospects is an ultimate goal, which might be achieved gradually and incrementally so that relevant incentives to resist do not exceed relevant incentives to rebel. In assessing a set of institutions, one asks how a whole life would go under them; but in assessing ways of instituting change, one keeps in mind that certain specific projects will eventually make one's life meaningful. There is a fundamental human interest in avoiding the sorts of disruptions which make such projects pointless. Taken together, these considerations would seem to exclude exorbitant costs for feasible significant improvements in life-prospects.

### **The State and the State of Nature**

The most urgent objection to the argument that a regime of unequal prospects is oppressive challenges the assumption that typical results of honest commercial activity can be taken away without wrongdoing. According to this challenge, forbearance by the disadvantaged need not be due to coercive inferiority; it can merely reflect their moral responsibility. Those who defend inequality on these grounds must admit that many people who are, in general, morally responsible treat taxing the rich to help the disadvantaged poor as a legitimate option, in arguments over public policy. But the critics of equality attribute this openness to generations of muddled argument and social blackmail, a cloud of unwisdom best avoided by reflection on a state of nature in which people advance their interests through simple interactions unregulated by any government.

Eventually, I will argue that attention to the state of nature is itself a source of confusion when our interest is the description of a just regime. But first, it is useful to see that familiar descriptions of side-constraints advanced by the critics of equality really are quite implausible even in their home territory of the state of nature.

One such side-constraint, which would make it wrong to promote any regime other than *laissez-faire* capitalism, would prohibit the use of force except in defence against force or dishonesty. This prohibition is clearly too severe. For it does not permit the use of force to defend oneself against a harmful side-effect of another's peaceful, honest activity. Suppose Crusoe manufactures automobile batteries, releasing sulphuric acid into a river. The quite unintended effect is to kill Friday's corn downstream. If Friday cannot persuade Crusoe to stop and lacks the means to pay Crusoe so that stopping is worth his while, then Friday need not do wrong in forcing Crusoe to stop. (Note that this does not entail that Crusoe is wrong to defend himself. Apart from whatever duty they have to work out mutually acceptable terms

for ending their conflict, each may be morally free to intrude on the other to advance his interests.)

A more plausible pre-cooperative side-constraint widens the proviso about self-defence to include, not just aggression, but all worsening, i.e. all unchosen interactions in which the presence of someone else makes one worse-off than one would have been in his absence. 'Don't worsen except to defend oneself against worsening' is the new proposed golden rule. To the extent to which the creation of superior life-prospects for some does not worsen others, this constraint would set limits to the demand for equal prospects. (Note, though, that the extent of the limits is unclear. In creating superior life prospects for her child, the investment banker enables the child to out-compete children of secretaries.)

As another story shows, this side-constraint is also too severe. One is not always wrong to take a benefit of another's activity when, as a result, he is worse off than he would have been in one's absence.

A traveller (call him 'Ishmael') gets lost in a sandstorm. Once the storm lifts, he wanders for days until, virtually dying of thirst, he sees shimmering waters on the horizon. And this turns out to be no mirage. But as Ishmael approaches the waterhole, he sees that it is surrounded by a very high fence with a man (call him 'Ahab') at the gate.

Here is what Ahab says, after the usual pleasantries.

Indeed, I am *very* glad that we have met, for I only found and dug this well when I had spotted you from my watchtower and decided that the well would bring you to me. Indeed, were it not for my loneliness I would have been quite content to live out my days at my own oasis, even farther off the beaten track than this. Here is my proposal. I will let you drink if you promise me to live out the rest of your days keeping me company at Wadi Ahab – a promise that I will enforce with very high fences and cunning hounds. [Here, the bloody-minded may want to imagine an additional proposal involving immediate submission to handcuffing, as a guarantee of good faith.] I am sure that you will not find this a fate worse than dying of thirst. And you must admit that a worse fate would be yours had I not found this source and dug this well. For you would hardly have had the strength and skill to find this water before thirst overcame you.

Ishmael would not be worsened by compliance with Ahab's proposal. But surely he would do no wrong if he offered Ahab something less than companionship for life, and desperately tried to force his way to the water if Ahab refused. Yet this endeavor might make Ahab even worse off than he would have been in Ishmael's absence. Ishmael does no wrong if Ahab is seriously injured in the tussle, or if Ahab would have signed a lucrative contract to dig wells for Texaco had he not spotted Ishmael from his watch tower. (Perhaps Ishmael is only permitted to force Ahab to accept the least that would

make his well-digging rational if Ahab had no opportunity to achieve more with the same effort. Still, a corresponding amendment to the golden rule of non-worsening would give the friends of equality all the resources they need. Investment bankers would do their work for less if they had no opportunity to get more with the same effort. That is why parents are not unsure whether to help their children get the education that provides entry to investment banking as opposed to pumping gas.)

The failure of the familiar specific proposals makes it attractive to apply the general account of wrongness, according to which wrongness is incompatibility with freely and rationally acceptable rules. To apply this account accurately to the state of nature, one must keep two facts in mind. First, apart from special features of the setting in which people interact, the general account only establishes vague constraints against taking. Second, the features that justify the strongest restrictions on taking in the state of nature are special to that situation. In particular, they do not exclude the taking that sustains equality of prospects when people can use a government as their instrument.

Just as the rejection of political oppression is implicit in moral responsibility, so, too, is a substantial preference for making over taking as a way of getting ahead. Moral responsibility involves absolute willingness to forgo benefits depending on general adherence to rules that some would only accept on account of inferior coercive power. It would be irrational to combine this commitment to free acceptability with indifference as to whether one obtained a good by producing it or by forcing another to give it up. Even if Crusoe is somewhat better at snatching fish than at catching fish, he will, if responsible, prefer hauling in his clumsy net to the somewhat easier task of taking fish from Friday.

Still, an *absolute* preference for making over taking is *not* implicit in the commitments constituting moral responsibility. Provided that he is willing to support a regime of equal prospects, a morally responsible person can resort to coercion to fulfil serious needs, in the absence of similar support from others. A regime of equal prospects is his ideal, and he must be willing to join with others in realizing it. But if he is the victim of a serious shortfall from the ideal, he need not willingly bear the burden. More precisely, this mixture of attitudes is coherent. Further restrictions on moral responsibility will depend on features of the setting in which people are to adhere to proposed systems of rules.

Suppose that the setting is a state of nature in which people are vulnerable to one another's activities, and have no recourse to government. Then, moral side-constraints against taking may well be stringent. Unless Crusoe has a desperate need for fish that Friday can

spare, it is, arguably, wrong for Crusoe to take them. However, this argument will depend on special features of this setting. Suppose that people in the state of nature adhered to a principle that one may take if this is the only way to relieve one's serious deprivation and if the taking does not give rise to a loss that is greater than one's gain. Or suppose, for that matter, that people adhere to rules permitting taking that reduces serious inequalities in life-prospects. Everyone has reason to reject such a system in a setting in which these remedies for deprivation will be administered freelance, by the private initiatives of the deprived. If they are vulnerable to taking whenever someone has reason to believe the lax rules are met, people will not enjoy reasonable security in pursuing demanding projects according to a plan, so the fundamental human interest in accomplishment is thwarted. Indeed, in the absence of government or some similarly effective authority, it seems downright irrational to reject a prohibition against taking to fulfil non-urgent needs. What would make it rational to permit non-urgent taking would be an interest in obtaining comforts. But in the absence of security, people will be discouraged from engaging in the long-term productive projects on which the provision of comforts depends. Moreover, lax rules are bound to give rise to violent feuding in the absence of courts and cops, a situation that may be better than starvation, but not much better.

These considerations suggest that, apart from desperate need, taking is an immoral way to respond to unchosen deprivation in a non-governmental state of mutual vulnerability. But these considerations appeal to specific features of the state of nature. Substitute a governmental setting, in which taxation is the vehicle of redistribution, and the rationales for stringent constraints disappear. The rule of law can make the implementation of a permission to equalize life-prospects a predictable matter, compatible with the planned pursuit of self-imposed projects. The rule of law guards against the breakdowns of production or peace which lower the life-prospects of all when each may, in good conscience, engage in freelance equalizing. So, far from shedding light on the demands of economic justice, emphasis on rules suitable for a state of nature obscures the demands that we must care about, since we must have a government.

Note that this turning away from the state of nature is not a rejection of the standpoint of the individual chooser, in favour of detached assessment of large-scale social consequences. Questions of individual moral responsibility are ultimately decisive. It's just that the demands of individual responsibility depend on the individual's situation.

Of course, when economic life is regulated by a government, the considerations that dictated stringent prohibitions against taking in

the state of nature apply to taking by private parties, even poor ones preying on rich ones. But here the difference between private and public acts has turned out to be profound. That is why it sounds hysterical when enemies of equality complain that the tax collector in the welfare state is a law-abiding person doing a mugger's work.

### **Markets and Morality**

While emphasizing connections between justice and the state, I have said very little about markets, the third element in our triadic theme. What is the moral status of the transactions constituting self-advancement by market means? Of course, the same considerations that supported a vague but substantial preference for making over taking would support a similar preference for voluntary transfer. So a responsible person must respect self-advancement by market means unless overriding burdens would result. However, market processes inevitably generate significantly unequal life prospects, as losses in one generation provide the starting points for the next. We have seen that the burdens of such inequality *are* morally overriding, at least when a state enforces the rules of economic self-advancement. In this situation, so far as I can see, the moral status of markets depends on the usefulness of some limited reliance on markets in fostering a regime of equal prospects (for example, on the possibility of harnessing market efficiencies in ways that improve everyone's prospects). The moral status of markets does not reflect any independent moral dictate to leave them alone. If we factor out the state, with its special capacities for oppression and for improvement, there may seem to be such an imperative. All the more reason not to forget the inevitably political nature of modern economic life.

### **NOTES**

1. See John Rawls, *A Theory of Justice*, Cambridge: Harvard University Press, 1971; Robert Nozick, *Anarchy, State and Utopia*, New York: Basic Books, 1974; John Rawls, 'Kantian Constructivism in Moral Theory', *Journal of Philosophy*, 77, 1980, pp. 515–72; T. M. Scanlon, 'Contractualism and Utilitarianism', in Amartya Sen and Bernard Williams, *Utilitarianism and Beyond*, Cambridge: Cambridge University Press, 1982.
2. See, for example, Rawls, *Political Liberalism*, New York: Columbia University Press, 1993, pp. 40, 166–68.

# A Future for Socialism\*

*John E. Roemer*

## **Introduction**

The demise of the Communist system in the Soviet Union and Eastern Europe has caused many to believe that socialism cannot exist, either in the present world or as an ideal. I shall argue that it can: but this requires some revision of standard views of what constitutes socialism, for if one thought socialism were coextensive with the Soviet model, then clearly it would be dead. I shall defend the idea of market socialism. The term comes to us from what has been called the socialist calculation debate of the 1930s, in which the two principal protagonists were Oscar Lange and Friedrich Hayek. Lange argued that what economists now call neo-classical price theory showed the possibility of combining central planning and the market, while Hayek retorted that planning would subvert at its heart the mechanism which is the source of capitalism's vitality. Hayek's criticisms of Lange's market socialism, and more recently those of Janos Kornai, are for the most part on the mark. But the experiences of capitalism, as well as of socialism, in the last fifty years, suggest ways of reformulating the concept of market socialism in response to the Hayekian critique of its intellectual ancestor. This reformulation is my task.

Economic theory does not yet enable us to write a complete balance sheet of the benefits and costs of the market mechanism. During the 1930s, when Lange and Hayek wrote about market socialism, the Soviet Union was undergoing rapid industrialization. There was, apparently, full employment in that country, while workers and machines were massively idle in the industrialized capitalist world. Hayek therefore wrote from a defensive position, while Lange may well have felt that his proposal was fine-tuning for a socialist system

\* This article summarizes the main ideas of *A Future for Socialism*, (USA: Harvard University Press, 1994; UK: Verso, 1994). The description of the coupon economy in this article differs from that in the book, and also from that in an earlier published article with the same title (in *Egalitarian Perspectives: Essays in Philosophical Economics* [New York: Cambridge University Press, 1994]). The amendments presented here to the coupon proposal are due to suggestions made by participants in the Conference on *A Future for Socialism*, Madison, Wisconsin, 13–15 May, 1994. I have, however, made no attempt to incorporate here the many other good suggestions and criticisms of conference participants to be found in this issue. I am grateful to all of them.



that was, inevitably, the face of the future. Today, the tables are turned. Yet both the pro-socialists of the 1930s and the pro-capitalists of today jump too quickly to conclusions, for we understand fully the effects of markets only in very special circumstances.

Economic theory can explain how, if all economic actors are small relative to the market and cannot individually affect prices, if externalities are absent, and if there is a sufficient number of insurance and financial markets, the equilibrium in a market economy will engender an allocation of resources that is Pareto efficient – that is, efficient in the sense that no other allocation of resources exists which could render everyone simultaneously better off. But this kind of static efficiency may be relatively unimportant compared to the dynamic efficiency with which markets are often credited – that they produce innovations in technology and commodities more effectively than any other economic mechanism could. Although we seem to have much evidence of market dynamism, we have no fully adequate economic theory of it. Nor do we have a controlled experiment which would permit a sceptical scientist confidently to assert that markets are superior to planning in this dynamic sense. The real-life experiments are severely polluted, from a scientific viewpoint: the most dynamic economies of the last thirty years (Japan and the East Asian tigers) used markets with a good dose of planning, and the Communist economies not only had planning and the absence of markets, but also political dictatorship, a background condition an experimental designer would like to be able to alter.

The social scientist must, therefore, be more agnostic about the effects of the market than are elementary economics text books and the popular press. Indeed, contemporary economic theory has come to see markets as operating within the essential context of non-market institutions. These are, notably, firms, contract law, the interlinking institutions between economic institutions and other actors, such as between the firm and its stockholders, and the state. Large capitalist firms are centrally planned organizations (in which internal transactions are not mediated by a price system), usually run by managers hired to represent the interests of shareholders. This they do imperfectly, as their own interests do not typically coincide with the interests of shareholders. Contract law is an essential supplement to the market: long-term contracts are, indeed, instruments which render it costly for parties to them to return to the market during the life of the contract. Furthermore, in different capitalist economies different kinds of non-market institution have evolved – here, we do have somewhat of a real-life experiment which can help in evaluating alternative economic mechanisms. Germany and Japan, for example, have very different institutions through which owners of firms

monitor their managements from those in the United States and Great Britain.

The market, in a word, does not perform its good deeds unaided; it is supported by a myriad cast of institutional characters which have evolved painstakingly over time, and in a variety of ways, in various market economies. My central argument is that these institutional solutions to the design problems of capitalism also suggest how the design problems of socialism may be solved in a market setting.

To see why this may be so, I will first quickly, and necessarily inadequately, summarize the theory of income distribution of Hayek, more generally, of the Austrian school of economics. The distribution of income in a market economy, according to this view, is, in the long run, determined by the relative scarcity of various factors of production, principally human talents, including entrepreneurial talent. Property rights should, in the long run, be viewed as themselves derivative of talent. Firms are indeed just the means through which entrepreneurs capitalize their talent; in turn, it is profits from firms which enable their owners to purchase real estate and other natural resources, so that, in the long run, natural resources, too, are owned by talented people or their descendants. Furthermore, any attempt to interfere with the operation of markets – that is, with the institution that maximizes the freedom to compete in the economic sphere – will only reduce overall welfare, as it will inevitably result in conditions which inhibit entrepreneurs from bringing their talents fully into play.

Were this ‘naturalistic’ view correct, egalitarians would have little remedy for inequality other than education serving to develop the talents of as many as possible, and perhaps inheritance taxes. What I believe the institutional view of capitalism that I have outlined three paragraphs above shows, however, is that the advanced capitalist economy is in large part the product of large, complex institutions, whose operation depends upon the combined efforts of many ‘ordinary’ people – ordinary in the sense that their talents are not of the rare variety that the Hayekian view envisions, but result from training and education. The wealth of society is not due primarily to rugged and rare individuals, as it were, but is reproducible, according to blueprints which are quite well understood. The market is necessary to implement competition and to economize on information, but not so much to cultivate the inspiration of rare geniuses.

A particular way in which the modern view of capitalism suggests a future for socialism is in its understanding of the firm as a nexus of principal-agent relationships. It is not correct to characterize modern capitalist firms as instruments by which entrepreneurs capitalize their talents. The profits of firms are distributed to many owners, who have

no direct control over decisions which affect profitability, and who are in large part not responsible for firms' successes or failures. Firms are run by hired agents of their owners: and this suggests that hired agents could as well run firms in a socialist economy, one in which profits would be distributed even more diffusely than they are in the large capitalist corporation. Indeed, the mechanisms that have evolved (or been designed) under capitalism that enable owners to control management can be transported to a socialist framework.

In contrast to the 'thin' Hayekian and neo-classical views, which see markets as a minimal structure organizing competition among talented individuals, the modern 'thick' view sees markets as operating within the context of complex, man-made institutions, through which all individual contributions become pasteurized and refined. These two views of the market are, I suggest, substantially different, and the latter view, unlike the former, is amenable to the coexistence of markets and socialism. Income distribution, in particular, is more malleable under the thick view; the door is opened to reducing inequality substantially, short of massive education, as the re-allocation of profits will, if properly done, have little or no deleterious effect on economic efficiency.

In what follows, I will try to flesh out these vague claims.

### **What Socialists Want**

I believe socialists want: (1) equality of opportunity for self-realization and welfare; (2) equality of opportunity for political influence; and (3) equality of social status. By self-realization, I mean the development and application of one's talents in a direction that gives meaning to one's life. This is a specifically Marxian conception of human flourishing,<sup>1</sup> and is to be distinguished, for instance, from John Rawls's notion of fulfilment of a plan of life, for a plan of life might consist in enjoying one's family and friends, or eating fine meals, or counting blades of grass,<sup>2</sup> whereas these activities do not count as self-realization, the latter being a process of self-transformation that requires struggle in a way that eating a fine meal does not. One does, however, derive welfare from enjoying one's family and eating fine meals, and so I do attribute value to these activities in the socialist's reckoning, for (1) requires equality of opportunity for self-realization and welfare.<sup>3</sup>

That equality of *opportunity* for self-realization and welfare is the goal, rather than equality of self-realization and welfare, requires comment. Were equality of welfare the goal rather than equality of opportunity for welfare, then society would be mandated to provide huge resource endowments to those who adopt terribly expensive and unrealistic goals. Suppose I, a poor athlete, come to believe that my

life has been worthless unless I reach the top of Mount Everest on foot. This may require a large amount of money, to hire sufficient sherpas and other support services to make that journey possible. Equality of opportunity for welfare, on the other hand, puts some responsibility on me for choosing welfare-inducing goals that are reasonable. It is certainly tricky to decide what allocation of resources will give all people an equal opportunity for welfare or self-realization, but I hope the principle is clear from this example. What distinguishes socialists or leftists from conservatives is, in large part, the view of how deeply one must go in order to equalize opportunities. Conservatives believe not very deeply: if there is no discrimination in hiring and everyone has access to education through a public school system or vouchers, then the conservative standard of equality of opportunity is met. Socialists believe that those guarantees only touch the surface. Equality of opportunity requires special compensation or subsidy for children who have grown up in homes without access to privilege. Most generally, equality of opportunity requires that people be compensated for handicaps they suffer, induced by factors over which they have no control.<sup>4</sup>

Suppose that we have clarified what each of (1), (2), and (3) mean – and I will not here attempt to offer any explication of (2) and (3). The statements of (1), (2) and (3) are still inaccurate. For instance, what socialists really want is not equality of opportunity for self-realization, but equality of such at a high level. So (1) should be restated as: socialists want an organization of society which equalizes the opportunity for self-realization at a level that is no lower than any other organization of society could achieve as an equal level. Or, in other words, (1) says we should maximize, over all possible organizations of society, the level of opportunity for self-realization which can be achieved as an equal level for all. Desideratum (2) calls on us to choose that organization of society which maximizes the degree of equality for opportunity for political influence, and a similar statement holds for (3). It is, however, impossible to maximize three objectives at once. That is, the kind of social organization that maximizes the equal level of opportunity for self-realization may well induce highly unequal levels of political influence.<sup>5</sup>

There are two responses to this problem. The first says: there is a form of society in which all three objectives are equalized simultaneously, when ‘the free development of each becomes the condition for the free development of all’, or some such thing. I think this is an unsubstantiated and utopian claim. The second response says that one must admit the possibility of trade-offs among the three objectives. This, in fact, is what most of us do. For instance, a lively debate has taken place in the socialist movement on the question: Which is

primary, democracy or equality? Or, rephrased, is equality of opportunity for political influence more important than equality of opportunity for self-realization and welfare? Socialists have different answers to this question. For example, western socialists assign more importance to equality of opportunity for political influence than did most Soviet socialists. Some socialists did not support the Sandinistas because of the lack of press freedom and democracy in Nicaragua.

I will not offer here any particular preference order over the three equalisanda. For the rest of this article, I shall be concerned only with investigating the possibility of equalizing income without any unacceptable loss in efficiency. Indeed, I believe raising the income of the poor is the most important single step to improving their opportunities for self-realization and welfare.

### Public Ownership

I think that socialists have made a fetish of public ownership: public ownership has been viewed as the *sine qua non* of socialism, which is based on a false inference. What socialists want are the three equalities I just enumerated; they should be open-minded about what kinds of property relation in productive assets would bring about those equalities. There is an infinite gradation of possible property rights between full, unregulated private ownership of firms (which exists almost nowhere), and complete control of a firm by a government organ. The link between state ownership, one end of this spectrum, and the three equalities is tenuous, and I think one does much better to drop the concept from the socialist constitution. Socialists should advocate those property relations in productive assets that will bring about a society that ranks highest according to their preferences over the three equalities. One cannot honestly say, at this point in history, that one knows what those property rights must be.

I view the choice of property rights over firms and other resources to be an entirely instrumental matter. The history of socialism on the question is, very crudely, as follows: Private property, characteristic of capitalism, was abolished, and replaced, under the Bolsheviks, by state property. For complex reasons (including bureaucratic ossification and class interest), this form remained dominant for seventy years. The labour-managed-firm property form remained peripheral in the socialist movement. The widest variety of property forms became visible in modern capitalism, not socialism: non-profit firms, limited liability corporations, partnerships, sole proprietorships, public firms, social democratic property,<sup>6</sup> labour-managed firms, and other forms of social-republican property.<sup>7</sup> The property forms which will best further the socialist goals may involve direct popular control or state control of the means of production in only a distant way.

By market socialism, I shall mean any of a variety of economic arrangements in which most goods, including labour, are distributed through the price system, and the profits of firms, perhaps managed by workers or not, are distributed quite equally among the population. By what mechanism profits can be so distributed, without unacceptable costs in efficiency, is the central question.

From a somewhat more abstract viewpoint, the choice of property relations in firms and land should be optimized over two desiderata: their effect on the distribution of income and on efficiency. With respect to efficiency, we can be more specific: property relations should engender competition and innovation, and should shelter firms from certain kinds of inefficient government interference. Private ownership of firms *sometimes* accomplishes these objectives. It engenders competition when ownership is not too highly concentrated in an industry, and it prevents inefficient political interference when constitutional provisions that prevent such interference are enforced. Private ownership gives certain persons the incentive to demand constitutional enforcement of these property rights – hence of government non-interference. But it is worthwhile noting that, even in the United States, private ownership of firms is not a foolproof institution in respect of preventing government interference. In 1950, President Truman seized the big steel firms in order to force them to increase production of armaments for the Korean War. This action was, in the end, overturned by the courts. I mention this example to encourage us to think more generally about a property relation as an instrument with certain properties. The experience of the twentieth century may suggest that only two alternatives exist with regard to firms, state ownership and private ownership. But in principle, there might well exist other institutions than private ownership of firms which would engender competition and prevent inefficient government interference about as well as private ownership does, while having better distributional properties. Surely the failure of the property relation at the other end of the spectrum from private ownership to perform these tasks well should not settle the question.

### **Why the Centrally Planned Economies Failed**

The failure of the Soviet-type economies was due to the conjunction of three of their characteristics: (1) the allocation of most goods by an administrative apparatus under which producers were not forced to compete with each other; (2) direct control of firms by political units; and (3) non-competitive, non-democratic politics. Noting this, however, does not explain the failures, for we must uncover the mechanism through which these characteristics induced economic failure. In some of my own recent work, I wrote that principal-agent

problems were the source of failure of the Soviet-type economies.<sup>8</sup> I now believe that the true story is more complex. In this section I shall first outline the argument of Soviet-type failures based on principal-agent problems, then offer some critical remarks on it, and finally modify the argument.

The contour of the argument is that the three characteristics I have just listed conspired to prevent the solution of principal-agent problems which, in capitalist democracies, are successfully solved. Communist societies faced three principal-agent problems: (1) the manager-worker relationship in the factory or the collective farm; (2) the planner-manager relationship; and (3) the public-planner relationship. Managers must try to get workers to carry out their production plans, planners must try to get managers to carry out the planning bureau's plan, and the planners, in a socialist regime, are supposed to be agents doing the best they can for their collective principal, the public.

The initial, utopian view of the Bolsheviks, and later of the Maoists in China, was that economic incentives were unnecessary to solve these principal-agent problems, and that a socialist society would instead rely upon the transformation of persons into what used to be called 'socialist man'. In Mao's lingo, all should learn to 'serve the people', and not to take those actions which maximize personal security or comfort. If this transformation had occurred, the agency problems would have been greatly mitigated. In the event, most people could not motivate themselves, for a lifetime, by serving only the public good: people responded to their immediate situations much as they do in capitalist societies, by trying to look after their material interests a good proportion of the time.

To be more specific, the *manager-worker agency problem* festered for two reasons: workers had little motivation to work hard if it was virtually impossible to fire them, and there was little incentive to earn more because so few goods were available to buy. Much of the consumption bundle, including housing, was provided directly by the firm and not through the market. Secondly, the *manager-planner relationship* became one where the planners, or politicians, depended on the firms in their regions for income, and so, rather than carrying out plans proposed by the planning bureau, firm managers entered into bargaining relationships with politicians. An instance of this relationship was the 'soft budget constraint': political authorities extended loans and tax exemptions to firms that, from the viewpoint of economic efficiency, should not have been extended. This was done in part because, not officially recognizing the existence of unemployment, the system had no mechanism for retraining and rehiring laid-off workers. The path of least resistance for government

and planning bureaucrats often consisted in continuing to finance a firm that should have been allowed to die. The third agency problem, between the planners and the public, was supposed to be solved, in theory, by the vanguard role of the Communist Party: 'From the masses to the masses' was Mao's theory of the party as agent of the people. But Mao was wrong: political competition is required to empower the public, and this was thoroughly squashed by Communist parties throughout the world holding state power.

What are the analogous principal-agent problems in a capitalist economy, and how are they addressed? The worker-manager problem remains essentially the same; it is solved by using both the carrot and the stick. Arguably, the carrot works better. For instance, job ladders within the firm, with wages increasing as one moves up the ladder, are constructed to give workers an incentive to build a career in the firm. This is a type of 'efficiency wage' theory, in which a firm pays a worker more than the worker is willing to accept – or, to be somewhat imprecise, more than the market requires – to bind her to the job. Much of modern industrial relations is concerned with ways of solving the manager-worker agency problem. In addition, workers depend almost entirely on their wage income to purchase goods, unlike in the Soviet economies.

Under capitalism, the analogue of the planner-manager agency problem is the stockholder-manager agency problem. Managers are supposed to undertake policies which are in the best interests of the stockholders, that is, which maximize profits, or the value of the firm. It is often not in the best personal interest of the manager to do so: he may not want to liquidate an unprofitable branch of the firm, or he may be reluctant to distribute profits as dividends to shareholders, preferring to keep them to finance projects internally, and thus to avoid the scrutiny that a bank would insist upon before approving a loan; or, he may purchase corporate jets for executive travel, and make other lavish expenditures that are not in the stockholders' interest. Different capitalist economies have undertaken quite different strategies to solve this agency problem. It is believed by many finance economists that the stock market and the takeover process are the institutions that force managers to operate firms in the interests of shareholders. If profits decline because of bad management, the stock price of the firm falls, and the firm becomes an attractive target for a takeover. This, it is argued, is the main disciplinary device that induces managers to act in the interests of shareholders.

Japan and Germany, however, have quite different ways of creating efficient management. The stock market has been relatively unimportant in Japanese corporate finance. Firms are largely financed by bank loans, and stockholders have little say in corporate decisions.



Japanese firms are organized into groups called *keiretsu*, each of which is associated with a main bank that is responsible for organizing loan consortia for the firms in its group. The bank is in large part responsible for monitoring the firm's management. The bank even protects its firms from takeovers. A bank has an interest in running a tight ship so that its *keiretsu* is an attractive one for new firms to join, for if it disciplines unprofitable firms it can easily arrange loan consortia for its *keiretsu*'s members. In Germany, there is also bank-centric monitoring, and takeovers are virtually non-existent.

What is the analogue of the public-planner agency problem under capitalism? It must be the *public-stockholder agency problem*, except neither capitalist property relations nor culture require the stockholder to be an agent of the public. At this point, the theory of capitalism invokes Adam Smith: stockholders, that is to say firm owners, are directed to undertake those actions which are in the public interest as if by an invisible hand. But the invisible hand only works well under a stringent set of conditions. In practice, modern capitalist societies have developed other institutions where the invisible hand fails: anti-trust law, regulation of various kinds, indicative planning, taxation and public expenditures, and so on.

The argument, then, seeks to establish that a combination of markets and political democracy solves capitalism's three principal-agent problems better than dictatorship and administrative allocation solve the three analogous problems in Soviet-type economies.

The scepticism I now have about the validity of this argument concerns the growth in Soviet economies in the post-war period until 1970. Indeed, earlier Western criticisms of these political economies were of a markedly different nature from their attacks of the 1980s. In the earlier period, Western critics argued that, *despite* its economic success, Communism was bad for human welfare because of the lack of political freedom.

If, indeed, it is true that for about twenty years in the post-war period, and certainly during the 1930s in the Soviet Union, economic growth was respectable in the Communist economies, then we cannot simply invoke principal-agent problems as an explanation of the failure of those economies in the 1980s. At least, the principal-agent argument is not sufficiently fine-grained, for some characteristic of these economies that changed between 1960 and 1985 must be brought into play. I conjecture that one important change concerned the dependence of the improvement in economic welfare on technological change. In the post-war period, economic welfare could improve rapidly without technological innovation, since these economies were in large part devastated by the war, and rebuilding them increased economic welfare substantially, even without technological

innovation. By the 1980s, or perhaps earlier, growth in economic welfare depended much more on the ability of an economy to innovate. At this, the Soviet-type economies failed dismally, and it is misleading to characterize this failure as due to principal-agent problems, except in the tautological sense that the public was not being well served by its agents, the planners and managers, if the latter were not succeeding in introducing technological change.

To state the issue somewhat differently, it is false to say that sufficient technological change did not occur because some agent was not carrying out some principal's orders. No one gave such orders. The correct statement is that, without the competition that is provided by markets – both domestic and international – no business enterprise is forced to innovate, and without such forcing, innovation, at least at the rate that market economies engender, does not occur. Perhaps even the 'forcing' view puts too much emphasis on the incentive issue. It might just have been extremely difficult to innovate in the Soviet-type economies, because, for instance, information about commodities on the technological frontier was very hard to come by, because the best engineers and scientists were recruited by the defence sector, and because the *Weltanschauung* of the system belittled the kind of consumer gratification that is catered to by capitalist enterprise. This contrasts with the principal-agent explanation, which emphasizes the view that managers and workers didn't work hard because of a failure of incentive due to the economic mechanism.

The question becomes, then, whether an economic mechanism can be designed under which technological innovation will take place, but in which a characteristically capitalistic distribution of income does not come about. More specifically, can competition between business enterprises, leading to innovation, be induced without a regime of private property in firms? For, at this point, we have no observations of innovation as a generic multi-sectoral phenomenon in an economy except when it is induced by competition.

### **Public Bads and the Distribution of Profits**

One might object that a market socialism whose focus is the equal distribution of profits will not amount to much: for profits account for only fifteen to thirty percent of national income, and they may account under market socialism for less than that, because some revenue that takes the form of corporate profits in a capitalist system would there take the form of interest payments to banks and their depositors. I believe, however, that the partial equalization of income that takes place in these systems is only part of the story.

Classical arguments against capitalism note not only its bad

distributional properties, but its generation of what in modern economic parlance is called public bads. Public bads are often created by free rider problems: it may be in the interest of each individual to perform a certain action, treating the behavior of others as given, but the collective result is a situation that is worse for everyone than if all had abstained from the action.

There is a class of public bads having the property of being inputs into or joint products of production. Pollution is the prototypical example: it is a joint product of many production processes, and has a negative effect on people's welfare. The essential property of public bads in this class is that their presence increases the profits of firms and indeed the wages of workers. Other examples are: wars which increase profits, for example, by lowering the price of imported inputs used by firms; noxious advertising, for instance, by cigarette companies; investment in firms doing business in South Africa under apartheid; and fast assembly line speeds, or, more generally, the lack of enforcement of labour legislation, and legislation applying to occupational safety and health. All these practices increase profits, and often wages as well, yet also directly reduce the welfare of the population.

It has also been argued that a highly unequal distribution of wealth is itself a public bad, as it creates a kind of society that decreases the welfare of all – most obviously, through the crime that it generates, and less proximately, through the lack of community that it engenders.

The level of public bads in a democratic political economy is an outcome of the political process, where different actors attempt to implement their economic interests. In a capitalist economy, there is a small class of wealthy individuals who receive large amounts of income as their share of firms' profits, and it is generally in their interest to have high levels of the profit-increasing public bads. The positive effect from the public bad on the income of members of this class more than compensates them for the direct negative welfare effect.<sup>9</sup> Individuals who stand to gain from them actively fight, through political activity, for high levels of these profit-inducing public bads. The virtue of the market-socialist proposals is that there would exist no small, powerful class of individuals deriving large incomes from profits, hence no class would have such an interest in fighting for large levels of public bads.

I do not make the blanket statement that, if no class exists which derives large incomes from corporate profits, then low levels of public bads will be forthcoming. One must examine carefully the general equilibrium effects of a market-socialist mechanism that precludes the formation of such a class. I have done some preliminary work on this, which I summarize later in this article.

## A Market-Socialist Economy with a Stock Market

In this section, I briefly outline one model of a market-socialist economy. There are four 'corporate' actors among whom financial transactions will take place: the first is the *adult citizenry*. The second is the sector of *public firms*, but as we shall see, these are not owned directly by the state. In a thoroughgoing market-socialist economy, all large firms (roughly equivalent to the corporate sector in an advanced capitalist country) would belong to this sector. The third is a set of *mutual funds*, and the fourth is the *state treasury*.

Every adult citizen would receive from the state treasury an equal endowment of *coupons*, that can be used only to purchase shares of mutual funds. *Only* coupons can be used to purchase shares of mutual funds, not money. Only mutual funds can purchase shares of public firms, using coupons. Prices of corporate shares and mutual funds are, hence, denominated in coupons; they will oscillate depending on the supply of and demand for shares. Citizens are free to sell their mutual fund shares for coupons, and to reinvest the coupons in other mutual funds. Finally, firms may exchange coupons with the state treasury for investment funds, and may purchase coupons from the treasury with money. This is the only point at which coupons exchange for money. These investment funds play the role of equity in the firm.

A share of a firm entitles the owning mutual fund to a share of the firm's profits, and a share of a mutual fund entitles the owning citizen to a share of the mutual fund's revenues. When a citizen dies, his mutual fund shares must be sold, and the coupon revenues are returned to the state treasury. The treasury, in turn, issues coupon endowments to citizens reaching the age of majority.

Firms' investment funds come from two sources: bank loans (or corporate bonds financed by banks) and the state treasury, through coupon exchange. Citizens deposit savings in banks. The supply of and demand for loans determine the interest rate, and the supply of coupons and the demand for state investment funds determine the rate at which coupons exchange for investment funds at the treasury. The treasury's funds are raised by taxation of the citizenry (or, perhaps some combination of corporate and personal taxes).

Thus, the coupon system is meant to endow each adult citizen with a stream of income during his lifetime, his transient property right in the nation's 'public' firms. Only during his lifetime does a citizen have an entitlement to the profits of firms. Because shares can be purchased only with coupons, and coupons cannot be sold by citizens for money, rich citizens will not generally own more shares than poor citizens, except in so far as they are better informed about investment opportunities. This effect is mollified by the requirement to purchase mutual funds, not the shares of individual firms. Of course, some

citizens will end up holding relatively valuable portfolios of mutual funds, but those cannot be bequeathed to children. *Inter vivos* gifts of mutual funds shares are prohibited.

Mutual funds are used as (mandatory) intermediaries between citizens and firms for two reasons: the first is paternalistic, to protect citizens from squandering their coupon endowments on poor investments. The second reason is somewhat more subtle. Since a citizen cannot pass down her share holdings to her child, nor can she sell shares for money, were citizens able to purchase (coupon) shares directly from firms, there would be a tendency for some firms to emerge as 'cash cows'. These firms would sell off their assets, and distribute the proceeds to shareholders as dividends. During this process, the (coupon) value of the firm's shares would decrease to zero, but by that time the shareholders would have capitalized their share holdings, thus avoiding the 100% death tax on coupon holdings. Such cash cows might well constitute an inefficient use of resources. Now, in principle, the same thing could happen with unregulated mutual funds: some funds could specialize in holding portfolios of cash cows. One easy way to prevent this occurrence is to regulate mutual funds by requiring that each have a balanced age distribution of owners. To keep the age distribution balanced would require the mutual firm not to purchase only cash cows.

The existence of both equity and debt finance will allow firms to choose a desired degree of leverage. Were no equity available (but all financing were to be through banks), the interest rate would arguably be higher than it is in a 'comparable' capitalist economy, since debtors would be subject to more risk. There is also an element of wealth redistribution in the institution of firm equity, as designed. For it may be assumed that the taxes which raise funds for the treasury are progressive, while all citizens become initially equal owners of the capital stock through the coupon system.

In equilibrium, the total number of coupons is equal to the total coupon value of equity in the public sector, because no firm will desire to hold coupons (absent transaction costs). Since the total coupon value of stock held by citizens is also equal to the total number of coupons, we have the identity that the total value of stock is equal to aggregate equity of firms in the public sector.

Banks will play a special role in the economy, as the primary monitors of firms, as will be described below. Banks will also be public firms in the coupon sector: their shares will be purchasable by mutual funds as well.

As I have indicated, the intention of the coupon mechanism is to distribute the profits of firms quite equally among the adult citizenry. In the next two sections, I study the effect of the coupon system on the

welfare of different income strata of the population, due to the effect of equalizing the distribution of profits on the level of public bads, and the claim that the coupon system will induce the kind of competition and innovation characteristic of capitalist firms.<sup>10</sup>

### **Contrasting Welfare Effects of the Coupon Economy and an Egalitarian Capitalist Economy<sup>11</sup>**

The model I shall describe in this section is not intended to be a complete description of a market-socialist economy. A number of matters are ignored, such as investment planning by the state and the monitoring of firms. The purpose of the present model is to analyse one question only, the difference in the level of welfare of citizens that would come about as a consequence of different ways of defining property rights in firms, when profit-inducing public bads exist.

I shall describe an economic environment upon which two possible politico-economic mechanisms shall be alternatively imposed, one capitalist, the other market-socialist (coupon). The problem is to compute the welfare of the population at the equilibrium induced by each mechanism. The environment is described as follows. There is only one good produced, which all people like to consume. There is also a public bad, to be thought of as pollution. One may think of this public bad as an input in each firm's production function, even if, in actuality, it is a joint product of the firm's production process, for the level of the public bad that the firm is allowed to 'emit' in part determines its production – the higher the permissible level of pollution, the greater the firm's production at a given level of the other input, which is the good itself. Thus firms produce a good using 'inputs' of pollution and the good.

There are many citizens, of whom a small percentage are initially rich, and a large percentage have initially a middle or low level of wealth. Initially, that is, the rich own a large amount of the good, the middle a smaller amount, and the poor an even smaller amount. All citizens have the same preferences over consumption of the good, at various times, and of the public bad: utility is increasing in consumption of the good, and decreasing in consumption of the bad. The bad is public because all citizens must consume the same amount of it, namely, the amount emitted by firms. There may be many firms in the economy. There are also banks, which accept deposits and make loans.

There are three relevant dates at which things happen in the economy: call them 0, 1, and 2. Consumption of the good occurs at dates 0 and 2, and production and consumption of the public bad occur at date 2. Thus, a person's utility function has the form  $u(x_0, x_2, z)$ , where  $x_0$  is consumption of the good at date 0,  $x_2$  is consumption at date 2, and  $z$  is consumption of the public bad at date 2. There is

uncertainty in the economy, which takes the following form. There are various possible *states of the world* that may occur at date 2. These states are brought about by events that should be thought of as occurring outside the model. What is relevant is that the production function of each firm depends upon the state of the world. Thus, the state of the world might be the weather, and the weather might affect the production of firms, which in this case are farms. Or investors may be uncertain about the technological change that will have taken place by date 2. At date 0, all citizens are supposed to know the probabilities with which the various states will occur at date 2. At date 0, each citizen owns, as well as some amount of the good which characterizes her as rich or poor, an equal per capita share of every firm in the economy. At date 0, each citizen shall have to make consumption and investment decisions, whose precise nature depends upon the economic mechanism that shall be imposed. At date 1, citizens vote to determine the level of pollution that firms shall be allowed to emit. At date 2, one of the states of the world occurs, following which production takes place, with each firm emitting the amount of pollution that has been determined by vote at date 1. Output of the firms is distributed to citizens, and consumed by them, according to the investment decisions they have made at date 0.

Let us now impose a capitalist economic mechanism on this economic environment. There is a stock market at date 0. People initially each own equal shares of all firms, but they can now trade these shares, where the price of a share is denominated in units of the good. (The issues of cash cows, and hence mutual funds, are ignored in this section.) Thus, at date 0, a person can purchase a portfolio of stock, using her endowment of stock and her endowment of the good in trade. She also chooses how much of her endowment to consume at date 0, and how much to put in the bank at the going interest rate. (She may, alternatively, borrow from the bank.) She also must contribute to the firm a share of its total investment (which is its input of the good) equal to the share of its stock she has purchased.<sup>12</sup> After elections take place and the amount of the public bad is determined at date 1, and after the state of the world is revealed and production takes place at date 2, the citizen receives a share of output from each firm equal to the share of its stock she has purchased, and also receives her principal plus interest from the deposit she made in the bank at date 0 (or, alternatively, she pays principal plus interest on the loan she took). Thus, if at date 0 citizens can predict the outcome of the vote at date 1, and they face prices for stock of each firm and an interest rate, then they can choose a portfolio and consumption plan that maximizes their expected utility, the expectation being taken over the various states of the world that may occur at date 2. This optimal choice will

be the same for every poor person and the same for every rich person, but it will, of course, differ among the types.

How does a firm choose its level of investment, the amount of input it shall use in production at date 2? At the equilibrium level of investment for each firm, citizens will purchase its stock in varying amounts. The board of directors of the firm will be comprised of representatives of the three types of shareholder, but with votes that are not necessarily in proportion to their ownership shares. The firm's investment choice must be that which is chosen by the board of directors, under some rule for how the board solves its political problem. For instance, the investment choice might be that which is optimal for the median shareholder on the board.

Finally, we must stipulate how people vote at date 1 on the level of the public bad. Given the investment and consumption choices that people have made at date 0, each has some optimal level for the amount of the public bad. (In this economy with just three types, there is one optimal level of the public bad for the poor, one for the middle, and one for the rich.) Recall that increasing the amount of the public bad increases the output firms can produce at date 2, given their investment choices, and because of this, it increases the consumption of the good of each citizen at date 2; but, on the other hand, increasing the level of the public bad also decreases utility directly for each citizen. There is, in general, for each citizen type, a level of the public bad which optimizes this trade-off.

A simple theory of voting would stipulate that the outcome of the election will be the level of the public bad preferred by the median voter, or in this case, preferred by the middle income voters, who will, for the parameters I shall choose, be the median voters. I shall assume, somewhat more realistically, that the political process is sufficiently complex that all three income classes have some impact on the determination of the level of the public bad. As a short-cut to providing a full-fledged theory of this process, I shall simply stipulate that the outcome of the election maximizes some weighted average of the utilities of the poor, the middle, and the rich, and shall fix the weights used in this average as a characteristic of the political process.<sup>13</sup>

We are now prepared to state the concept of capitalist politico-economic equilibrium (CPEE). A CPEE is a set of stock prices for each firm's stock and an interest rate at date 0, a portfolio and consumption choice for each citizen at date 0, an amount of investment for each firm, and an amount of the public bad, such that: (1) at that level of the public bad, at those prices and interest rate, and given the investment choice of each firm, the consumption and portfolio choice of each citizen at date 0 maximizes her expected



utility; (2) given the portfolio choices of each citizen and the level of the public bad, the board chooses a level of investment for the firm by an internal political process that I shall not describe precisely here; (3) the level of the public bad is the outcome of the political process at date 1 (that is, it maximizes the appropriate weighted average of the utilities of the rich, the middle, and the poor), given the portfolio choices of each individual; and (4) total bank deposits made and total bank loans extended are equal at date 0.

Under suitable restrictions on the preferences of agents and the production functions of firms, a CPEE exists, and we can calculate it for specific choices of those functions.

Next, I describe the coupon politico-economic mechanism. It is the same as the capitalist mechanism but for one feature: one cannot purchase stock with the good, but only with coupons. This may be thought of in the following way. Each citizen begins with an endowment of the good, as before, and, say, 1 000 coupons. The prices of the firms' stocks are announced in coupons only. It is illegal to trade coupons for the good; one can purchase stock of a firm only with coupons, and can sell it only for coupons. Thus, each consumer has two budget constraints, one in terms of the good, and one in terms of coupons. The coupon budget constraint states that a person cannot purchase shares valued in excess of 1 000 coupons. The good budget constraint states that total consumption at date 0 plus deposits at date 0 plus amount of the good dedicated to the investment of firms in one's chosen portfolio cannot exceed one's initial endowment of the good.

All else is the same as in the description of the CPEE. We can now define a market-socialist politico-economic equilibrium (MSPEE) as consisting of a set of stock prices for each firm's stock, denominated now in coupons, and an interest rate at date 0, a portfolio and consumption choice for each citizen at date 0, an amount of investment for each firm, and an amount of the public bad, such that conditions (1) through (4), spelled out in the definition of the CPEE, are satisfied. The only difference is that here prices of stock are denominated in coupons, not in units of the good. Under suitable conditions on preferences and production functions, a MSPEE exists, and, for specific choices of those functions, it can be calculated.

Thus one can, in principle, calculate the expected utilities of the rich, the middle, and the poor in the equilibria of the two politico-economic mechanisms. I shall report some of those calculations in a moment. But first, let me conjecture, qualitatively, some of the differences that one might expect in politico-economic choices under the two mechanisms. What one should expect to happen in the capitalist mechanism is that the poor, and to a lesser extent the middle, will sell a good deal of their initial endowment of firm shares to the

rich, who shall pay for them with the good, which the poor and middle shall consume at date 0. This will concentrate the ownership of stock in the hands of the rich, with two effects: firstly, they shall comprise the controlling group in most firms, and hence the firms' investment choices will be in their interest, and secondly, they shall have a greater interest than the poor and middle in a high level of the public bad, as they own such large fractions of the stock of firms. In the coupon economy, however, the rich are precluded from buying controlling shares of all firms – for shares can only be purchased with coupons, and all citizens have the same initial endowment of coupons. One should expect, then, that at equilibrium the middle and poor will control most firms, as they own the majority of coupons in society. Thus, the firms will choose their levels of investments in the interest of the middle and the poor. Furthermore, the rich will derive only a fairly small fraction of their date 2 consumption from the profits of firms, and will not, therefore, desire as high a level of the public bad as they did in the capitalist economy.

All this is conjecture, for the general equilibrium effects can be complicated. The only way to be sure what the welfare effects are in equilibrium is to prove a theorem, or to make some calculations. I have no general theorems at this time, but I report the results of some calculations in Table 1.

Table 1 presents results from calculating the market-socialist and capitalist politico-economic equilibria for this economic environment,<sup>14</sup> for values of  $\lambda$  running between 0 and 1, where  $\lambda$  is the weight assigned to the utility of the rich and  $(1-\lambda)/2$  is the weight assigned to the utility of the poor and of the middle in the determination of the political outcome, the level of the public bad. Three aspects of the equilibria are reported: the level of the public bad, the utilities of the two types, and the firm's level of investment. First, note that the poor and middle income classes are better off in the coupon economy than in the capitalist economy, for all values of  $\lambda$ , and that the rich are worse off in the coupon economy. Second, note that the level of the public bad is consistently lower in the coupon economy – so the coupon economy is a green economy. The difference is quite substantial. At  $\lambda = .24$ , which might not be an unreasonable value, the level of 'pollution' is 50% higher in the capitalist economy. Third, note that the level of investment is consistently higher in the capitalist economy.

To summarize, the market-socialist mechanism prevents a free rider problem from occurring that afflicts the poor and the middle under capitalism. In the capitalist economy, it is individually optimal for each poor and middle class individual to sell a lot of her shares of the firm to the rich, which creates a class of rich individuals who control firms and whose income depends on profits. The rich come to

Table 1: Coupon and Capitalist Equilibria for Various Political Influence Weights

Coupon Equilibria						Capitalist Equilibria							
$\lambda$	$(1-\lambda)/2$	I	z	$u_p$	$u_m$	$u_r$	$\lambda$	$(1-\lambda)/2$	I	z	$u_p$	$u_m$	$u_r$
0	0.50	1375	0.568	2.729	3.561	12.853	0	0.50	1384	0.579	2.727	3.558	12.927
0.04	0.48	1384	0.595	2.729	3.563	12.886	0.04	0.48	1410	0.663	2.725	3.563	13.019
0.08	0.46	1392	0.623	2.729	3.565	12.916	0.08	0.46	1433	0.748	2.720	3.563	13.100
0.12	0.44	1401	0.651	2.728	3.566	12.946	0.12	0.44	1454	0.836	2.711	3.560	13.172
0.16	0.42	1409	0.679	2.727	3.567	12.974	0.16	0.42	1473	0.924	2.699	3.552	13.235
0.20	0.40	1416	0.707	2.725	3.567	13.001	0.20	0.40	1491	1.014	2.684	3.542	13.291
0.24	0.38	1424	0.736	2.723	3.567	13.026	0.24	0.38	1508	1.105	2.667	3.530	13.340
0.28	0.36	1431	0.764	2.721	3.566	13.051	0.28	0.36	1523	1.198	2.648	3.515	13.384
0.32	0.34	1438	0.793	2.718	3.565	13.075	0.32	0.34	1537	1.291	2.627	3.498	13.424
0.36	0.32	1445	0.822	2.715	3.564	13.097	0.36	0.32	1551	1.386	2.604	3.479	13.458
0.40	0.30	1451	0.851	2.712	3.562	13.119	0.40	0.30	1564	1.481	2.580	3.458	13.489
0.44	0.28	1458	0.880	2.708	3.560	13.140	0.44	0.28	1576	1.578	2.554	3.435	13.516
0.48	0.26	1464	0.909	2.704	3.558	13.160	0.48	0.26	1587	1.676	2.527	3.412	13.539
0.52	0.24	1470	0.939	2.699	3.555	13.179	0.52	0.24	1598	1.774	2.498	3.386	13.560
0.56	0.22	1476	0.968	2.695	3.552	13.198	0.56	0.22	1609	1.873	2.469	3.360	13.577
0.60	0.20	1482	0.998	2.690	3.548	13.215	0.60	0.20	1619	1.974	2.438	3.332	13.592

$\lambda$  = political weight of rich;  $(1-\lambda)/2$  = political weight of middle and poor; I = investment; z = public bad;  $u_j$  = utility of class j, j = p, m, r.

control firms, and through their influence on the political process, a high level of the public bad ensues. Under market socialism, the poor and the middle are precluded from liquidating their shares. They therefore remain the dominant shareholders, and, as well, the rich turn out to be a force for lowering the level of the public bad. The net effect of these changes is not easy to predict in theory, but we have seen that, at least in one example, the poor and the middle end up better off in the market-socialist regime – and that regime is greener, to boot.

A final comment on these results is in order. One advantage of having a coupon stock market in real life would be to prevent the poor from selling their shares prematurely to the rich, something one fears might happen if, let us say, firms in a formerly Communist economy were denationalized by distributing shares to all citizens, after which a fully liberalized stock market were opened. Such premature liquidation of one's stock cannot occur in the coupon economy, since liquidation cannot occur. More specifically, this phenomenon could happen in the capitalist politico-economic mechanism if the poor had poorer information than the rich about the probabilities with which the various states of the world occur at date 2. It is important to mention that this does not happen in the model whose equilibria are reported in Table 1: there, all agents are equally knowledgeable and rational. So, in real life, one might expect that the difference between the utility of the poor under the two mechanisms would be even greater than it is in Table 1.

### **The Efficiency of Firms and the Rights of Capital Under Market Socialism<sup>15</sup>**

Earlier, I said that the issue for market socialism was whether a politico-economic mechanism could be created under which firms would behave competitively – in particular, in which they would innovate – and be sheltered from inefficient government interference. As Hayek pointed out,<sup>16</sup> and as Kornai ramified Hayek's point with the theory of the soft-budget constraint, when the state controls firms, firm managers are to a large extent absolved of responsibility with regard to errors in judgement; more generally, inefficient practices will not generally be weeded out as they are in a competitive market environment.<sup>17</sup> The model I've just presented does not address this issue at all. That model's purpose was to examine the general equilibrium welfare effects of the different financing mechanisms, under the assumption that the firm manager is a perfect agent of the firm's controlling group. Indeed, technological innovation was not an issue. The purpose of this section is to argue that there are institutions that would force firms to behave competitively in the coupon economy.

I intend that firms in the coupon economy be organized around a fairly small number of main banks, as in the Japanese *keiretsu*. A main bank would be primarily responsible for putting together loan consortia to finance the operations of the firms in its group; it would, correlatively, be responsible for monitoring these firms. The coupon stock market serves all three functions of a capitalist stock market: the movement in the coupon price of a firm's stock is a *signal* useful to banks and mutual funds which shall monitor the firms; it allows mutual funds to *construct portfolios with varying attributes* (e.g., *vis-à-vis* risk). It also permits firms to *raise capital*, by exchanging coupons for investment funds from the treasury. If the coupon price of a firm's stock falls, or more often, before that happens, the main bank would investigate how well the firm is being managed. It has an incentive to monitor the firms in its group effectively, because, by so doing, it keeps its firms profitable, and thereby able to pay back their loans. This gives the bank a good reputation, making it easier for it to continue to raise money to finance the operations of firms in its group. It may also be desirable to allow or require banks to purchase shares of firms in their *keiretsu*, as an incentive for their monitoring function.

But why should the bank perform its monitoring job well? Who, that is, would monitor the monitors? The principal question is whether the banks would operate with sufficient independence of the state, making decisions about firms using economic and not political criteria. Bardhan and I, who have written about this, do not believe that we have a definitive solution to the problem, although we view the following features of the economy as ones which would induce banks to do their job properly.<sup>18</sup> First, in the present proposal, banks would not be owned by the government, but by mutual funds and, finally, citizens. Bank managers would be hired on a managerial labour market, by a board of directors. Second, the reputational concerns of the main banks' managers should act as an antidote to susceptibility to political pressure. In Japan, even though banks have been closely regulated by the Ministry of Finance, managers exhibit keenness to preserve their reputation as good monitors, and banks compete in seeking the position of main bank for well-run firms. The managerial labour market will not forget if a bank manager forgives bad loans or non-performing firms too often. Third, incentive features would be a part of the salary structure of bank management. Fourth, the doors of international product competition must be kept open, which would act as a check on laxity of the institutional monitors. Fifth, as Raj Sah and Martin Weitzman have suggested, there should be well-publicized pre-commitments by banks before large investment projects begin, that promise liquidation should their performance at pre-specified dates not exceed pre-specified levels.<sup>19</sup> The

public nature of these pre-commitments would preclude the soft-budget constraint problems that Eric Maskin and Mathias Dewatripont have studied,<sup>20</sup> in which it is in the interest of public banks to renegotiate loans on poorly performing projects. Sixth, banks may perhaps own shares in the firms they monitor. To the extent that bankers' salaries are linked to the banks' profitability, this would further induce them to monitor firms well.

Many have argued, including Colin Mayer and his co-authors in Europe and Michael Porter in the United States,<sup>21</sup> that a system in which banks monitor firms is preferable to the takeover process as the mechanism guaranteeing firm performance in capitalist economies;<sup>22</sup> there seems ample reason to believe that a similar mechanism can be adapted to a market-socialist economy.

If banks monitor firms aggressively, if firms must depend on banks and the accumulation of coupons for finance, and if the doors to international trade are open, firms will innovate. Under capitalism, innovations are designed in the R&D departments of large firms, and also enter the economy through the formation of new, small firms. In the coupon economy, I envisage that many small private firms would form; those that grow would eventually be bought by large firms in the 'public' sector, as happens under capitalism. Or, the government might purchase the firm and auction it in the public sector. Perhaps joining the public sector would be a prerequisite to receiving loans from the main banks, or loans at preferential interest rates. I am undecided whether all firms that reach a given size should be nationalized in one of these ways, or if private large firms should continue to coexist with firms in the coupon sector, for the sake of competition, and perhaps, of incentive.

I must emphasize that I envisage the coupon proposal as a desirable model of market socialism only when the economy can support sophisticated financial institutions and regulation. (For economies at low levels of development, the Bardhan *keiretsu* model, is, I believe, superior.<sup>23</sup>) Without a monitoring organ like the US Securities and Exchange Commission, it would be difficult to control black-market transactions in which wealthy citizens purchased coupons from poor citizens with cash. Recall that one wishes to prevent such transactions in order to preserve the good effects on the level of the public bads consequent upon having a somewhat egalitarian distribution of profit income. With a national accounting system in which all coupon and stock transactions are registered, this would be possible. Contracts in which one citizen agreed effectively to transfer ownership of her coupon portfolio (or its stream of income) to another would not be enforceable in courts. It would, however, probably still be possible to arrange enforceable contracts of this type through the use of a

financial intermediary in another country. This kind of behaviour would probably have to be regulated.

### **Socialism and Democracy**

Almost all western socialists today are democrats; some, such as Samuel Bowles and Herbert Gintis,<sup>24</sup> are interested in socialism in large part only in so far as it is instrumental for bringing about democracy. I have defined what socialists want as including equal opportunity for political influence, and I shall here be conventional in assuming that democracy is a pre-condition for such equality, although this assumption is by no means obviously true. It may be more accurate to say that serious disagreements exist with respect to what form of democracy can deliver the desired equality.<sup>25</sup>

The insistence on democracy has important implications for the socialism of the future, which will involve a change in the language we use to describe it. In a democracy, socialism will be represented by one or several political parties, competing for power with other political parties, some of which will be 'bourgeois'. It may be the case, sometimes, that a regime could be described as socialist for many years, despite the occasional victories of bourgeois parties. We can say that the Scandinavian countries have remained social-democratic despite such occasional victories.

But the situation of the Sandinistas may be another pattern. A socialist party comes to power. For various reasons – its own errors, pressure from US imperialism – it loses the elections some years later, to be replaced by a bourgeois party or coalition that undoes a number of its accomplishments. Then perhaps some years later the socialists again win the elections. In this case, we must transform our language from 'countries being socialist' to 'socialist parties being in power'. Perhaps the Sandinistas would not have made some of the errors they did had they thought of themselves as being a socialist party in power, rather than thinking of Nicaragua as a socialist country.

Nevertheless, a regime of market socialism might well be characterized by its constitution, which would limit the permissible degree of accumulation of private property in productive assets, and perhaps explicitly describe other kinds of property that are (constitutionally) protected. One justification for a super-majoritarian requirement to reverse such provisions is that property relations will not engender long-term planning and, in particular, investment, if they are thought to be easily reversible; another is that large social costs would be sustained in any change in property relations.

I think it is incontrovertible that a key reform necessary to achieve the three desiderata of socialists is massively improved education for

the children of the poor and working class. Only through education can the difference in opportunities faced by them and the children of the well-off be eradicated; only when skills become less unequally distributed, because of education, will wage differentials narrow significantly. To devote the required amount of resources to this kind of education will require a massive change in outlook of the citizenry of every large, heterogeneous country. Majorities will have to overcome their racism, but, more than that, they will have to be won to the position, as John Donne (Devotion 17, 1623) wrote, that 'No man is an island entire of itself. Every man is a piece of the continent, a part of the main . . .' Thus, the implementation of a thoroughgoing socialism in a democracy will take a long time, if it must await such a feeling of community among people.

But I think that a number of the ills of capitalism would probably be cured more quickly, without the prerequisite of this feeling of community, because of the changed economic interests people would have under market-socialist property relations. I have outlined how the level of various public bads in a democratic society is the outcome of a political struggle in which different classes fight for their interests. If interests change, then so, in general, will the equilibrium level of public bads. Let me take as an example the Persian Gulf war of 1991. A case can be made that that war was fought to keep the price of oil low, and that the main interests that wanted the price of oil kept low were firms using oil as an input. Of course, consumers want a low price of oil, too: the question is, who was willing to go to war in January 1991 to keep the price of oil low, and who would have been content to apply a boycott for another year? As late as December 15, 1990, surveys taken in the United States showed that the great majority of people were opposed to starting a war. One can take this as evidence that they were willing to trade off the possibility of a somewhat higher price for oil and a somewhat higher rate of unemployment for not going to war. Yet President Bush decided to go to war, and he probably had support from 'important people' in doing so. These important people were ones who derive huge amounts of wealth from profits of firms; for them, the fall in profits that would ensue from higher oil prices made the alternative of war a preferable one. Now suppose, in a market-socialist economy, no one received more than roughly a per capita share of total profits. A rise in the price of oil would, of course, hurt profits and wages, but, arguably, no class of 'important people' would have such an overwhelming interest in keeping oil prices low. Almost everyone might prefer to take the chance of higher oil prices to avoid having to fight a war.

If many of the ills of capitalism are public bads of this kind – bads that increase profits – then, even if the preference orderings (for



non-economists: values) of individuals do not change, a change in the distribution of profit income would change the level of public bads that is engendered by a democratic process. We have seen this effect in the simulations offered earlier. I think that, to some extent, racism and sexism are public bads of this kind. An old Marxist argument maintains that divisions among the working class (created, for example, by racism and sexism) strengthen the bosses in the struggle against labour. To the extent that this is the case, capitalism may develop mechanisms to foment racism and sexism, for example, by the treatment of minorities and women in the capitalist media. Were profits equally distributed in the population, the public-bad argument given earlier implies that such capitalist-inspired fomenting of divisions in the working class would be reduced. I do not ignore the fact that people themselves have racist and sexist ideas, and so one cannot expect changes overnight with respect to these practices. But the change in property relations would dissolve one powerful class interest in the maintenance of discrimination.

A fundamental left-wing criticism of capitalist democracy has been that, as long as capital is in the hands of a small, wealthy class, politics must conform to the needs of that class. Under the coupon system I have outlined, the 'structural power of capital' over society would be broken.

It would be comforting to argue that, once a mechanism for redistributing profits, or for transforming firms into labour-managed ones, had been put in place, then a feeling of such community would develop that the well-to-do would be willing to sacrifice income in order to fund the kind of educational system necessary to raise massively the opportunities of the many. I do not think this is a realistic expectation. I do think, however, that preferences change, and that, if the income distribution becomes more egalitarian due to market-socialist property relations, and if the levels of public bads do fall, then preferences will also change in an egalitarian direction. My point is that institutions can be changed more rapidly than preferences.

Nevertheless, I remain agnostic on the question of the birth of the so-called socialist person, and prefer to put my faith in the design of institutions that will engender good results with ordinary people. With such agnosticism, are there nevertheless grounds for believing that market socialism would eventually increase the support for large increases in publicly supported education? Perhaps: again, I will invoke the public-bad argument. To a degree, education of the working class is a profit-increasing public good, and to this degree, it is rational for capitalists to support its financing. It is almost certainly the case that publicly supported education in the United States is at

present below this degree, and indeed significant sections of the capitalist class support increased educational funding: US workers would be more productive and could more easily acquire profit-enhancing skills if they could read detailed instruction manuals, as Japanese workers can.<sup>26</sup> What may well be the case, however, is that the optimal degree of working-class education for capitalists is less than the socially optimal degree – after a point, that is, increased public education may have a net negative effect on profits (when the profit taxes needed to finance the marginal educational increment for the working class are more than the profits the increment induces), while it continues to have a large positive marginal effect as a non-profit-inducing public good, via its effect on social culture (in which I include everything from improved television programming to public civility). It is this additional educational increment which, according to the public bad argument made earlier, a society in which profits are equally distributed is more likely to support through its political process.<sup>27</sup>

I have not thus far addressed in this essay what is the largest injustice in the world, the massive inequality between nations, conveniently described as North-South inequality. Furthermore, in the next fifty years, it may well be this inequality which becomes the focus of politics, as the South industrializes, and demands large transfers from the North to enable it to do so without destroying the global commons. I have no doubt that such transfers are required by justice, for where one is born is a morally arbitrary personal feature, and equality of opportunity mandates compensation to those born into societies with low standards of living. The question is whether a market-socialist society would be more prone to support such transfers than a capitalist one.

The practices of the Scandinavian countries suggest perhaps the answer is yes; foreign aid is a larger fraction of national income in Norway and Sweden than in any other country, and this appears to be due to the socialist-person effect.<sup>28</sup> The social-democratic parties in Scandinavia have advocated relatively large development aid on grounds of solidarity. Furthermore, many people in industrialized countries advocated divestment of corporate stock in South Africa: here is a case where people were willing to sacrifice a small amount of income (in the form of slightly higher wages, profits, and pensions that were possible with South African investment) for the sake of the freedom of people in a distant land. It is therefore not absurd to suggest that the low welfare of people in the South is a (profit-inducing) public bad, as far as many people in the North are concerned, and as such, foreign aid might well increase with a redistribution of profits.

## Conclusion

Democracy is the best political mechanism that we know of for rendering the state an agent of the people. It is not foolproof, and there are many alternative versions of democracy, in respect of the relationships between branches of government, the ways in which representatives are chosen, and the role of a constitution. Democracy and the use of markets, both of which I advocate, limit the feasible extent of income redistribution. In particular, since labour markets are necessary, there will be wage differentials, and perhaps efficiency requires about the degree of wage differentiation we see in capitalist economies, at least for a large interval of the wage distribution. Because citizens must choose tax systems, and because people tend to believe they deserve what they earn on the labour market, the degree of redistribution of wage income is necessarily limited. There is another element that determines the degree of democratically accessible redistribution through taxes on labour income: the capacity for empathy with other citizens. We have seen the highest degree of redistribution in the Nordic countries. It is not a coincidence, in my view, that these countries are small, and are linguistically, ethnically, racially, and religiously homogeneous. I doubt that large, heterogeneous societies will, in our lifetimes, vote to redistribute income as much through the tax system as the Nordic societies have. I would argue likewise in regard to redistribution through inheritance taxes: such redistribution is sharply limited in democratic, heterogeneous societies. From a philosophical viewpoint, I advocate a great deal of redistribution through taxation, but I think it would be utopian to base a blueprint for socialism on that category of instrument.

I believe, however, that there is a substantial degree of freedom in income distribution (in democratic market economies) due to the property relation a society can choose for ownership of its firms. Hayekians assert that a society is, indeed, not free to choose that relation either, on peril of rapid degeneration of its technological vitality. I believe that that assertion is false. It is, ironically, proved to be so by the relative success of large capitalist corporate enterprise. For the Hayekian arguments which deduce the inefficiency of public ownership should apply not only to state-owned firms, but to firms like General Motors, with 700 000 employees, approximately one-third of whom are in some managerial capacity. The agency problems between owners and operators in these firms are severe, yet capitalism has devised several quite different ways of solving them (principally represented by the American, German, and Japanese versions). There are, I believe, property relations for firms that can harness these techniques, and would implement a substantially more equal distribution of firm revenue among the population than capitalism does.

When Zhou Enlai was asked to comment on the consequences of the French revolution, he replied, 'It's too soon to tell'. I have argued that the prudent social scientist should likewise remain agnostic about what appears to be capitalism's trouncing defeat of socialism in the late twentieth century.

### NOTES

1. For a discussion of self-realization in Marx, see J. Elster, *Making Sense of Marx*, New York: Cambridge University Press, 1985, pp.82–92. For a more general discussion, see 'Self-Realization in Work and Politics: The Marxist Conception of the Good Life', *Social Philosophy and Policy*, 3, 1986, pp.97–126.
2. See John Rawls, *A Theory of Justice*, Cambridge, MA: Harvard University Press, 1971, p.426.
3. C.B. MacPherson defines democracy as equal self-realization among citizens (*Democratic Theory*, Oxford: Clarendon, 1973, p.4).
4. For an elaboration of the idea of equality of opportunity for welfare, see the following: Richard Arneson, 'Equality and Equal Opportunity for Welfare', *Philosophical Studies*, 56, 1989, pp.77–93; John Roemer, 'A Pragmatic Theory of Responsibility for the Egalitarian Planner', *Philosophy and Public Affairs*, 22, 1993, pp.146–166.
5. I ignore a fine point here, the distinction between equality and 'maximin'. With respect to opportunity for self-realization and welfare, I advocate choosing those social institutions which maximize the opportunity for their achievement for those who will have the minimum such opportunity. It is not obvious, however, whether one should advocate 'maximin' opportunity for political influence, or equalize political influence at a maximum level, because political influence should probably be defined largely, though not entirely, in relative terms. Social status is a good similar to political influence in this respect: if everyone has equal social status, is it meaningful to speak about the level of that status?
6. By which I mean private property subject to taxation and regulation of various kinds.
7. For a definition and discussion of social-republican property, see William Simon, 'Social-Republican Property', *UCLA Law Review*, 1991, pp.1335–1413.
8. See John Roemer, 'Can There Be Socialism After Communism?', *Politics and Society*, 20, 1992, pp.261–276.
9. This is so even if the rich cannot escape exposure to the public bad, as indeed they often can.
10. Several elements of the coupon economy, as described here, have been amended from my original presentation of it in *A Future for Socialism* (Cambridge, MA: Harvard University Press, 1994), due to suggestions made by participants at the Madison conference. I am grateful to William Simon for suggesting that coupons be exchangeable by firms for investment funds, and to Louis Putterman for suggesting the age-profile regulation of mutual funds as a way of precluding the cash cow phenomenon.
11. This section is based on John Roemer, 'Limited Privatization in the Presence of Public Bads', in J.E. Roemer (ed.), *Property Relations, Incentives and Welfare*, New York: Macmillan (in press).
12. In this section, citizens supply investment funds directly to firms. The issues of leverage and different forms of firm financing are not modelled here.
13. I have proposed and studied elsewhere models in which the rich can influence the outcome of elections in which they are in a small minority, through campaign spending and electoral propaganda. See John Roemer, 'The Strategic Role of Party Ideology When Voters are Uncertain About How the Economy Works', *American Political Science Review*, 88, 1994, pp.327–335.

14. All individuals have the same utility function whose arguments are consumption of the good at dates 0 and 2 and consumption of the public bad at date 2. The utility function exhibits decreasing absolute risk aversion in consumption. There is one firm; its production function differs in each of an infinite number of possible states of the world. There are three income classes, characterized by their initial endowment of the good (poor, middle and rich). There are two financial assets: the stock of the firm and a bond. The model is precisely described in J. Roemer, 'Limited Privatization'.
15. This section is based in part on P. Bardhan and J. Roemer, 'Market Socialism: A Case for Rejuvenation', *Journal of Economic Perspectives*, 6, 1992, pp. 101–116.
16. Friedrich A. Hayek, 'The Nature and History of the Problem', in F. A. Hayek (ed.), *Collectivist Economic Planning*, London: Routledge, 1935; 'Socialist Calculation: The Competitive "Solution"', *Economica*, 7, 1940, pp. 125–149.
17. Janos Kornai, *The Socialist System: The Political Economy of Communism*, Princeton, NJ: Princeton University Press, 1992; 'Market Socialism Revisited', in P. Bardhan and J. Roemer (eds), *Market Socialism: The Current Debate*, New York: Oxford University Press, 1993.
18. Bardhan and Roemer, 'Market Socialism: A Case for Rejuvenation'.
19. Raj Sah and Martin Weitzman, 'A Proposal for Using Incentive Pre-Commitments in Public Enterprise Funding', *World Development*, 19, 1991, pp. 595–603.
20. Eric Maskin and Mathias Dewatripont, 'Centralization of Credit and Long-Term Investment', in Bardhan and Roemer, *Market Socialism: The Current Debate*.
21. Michael Porter, *Capital Choices: Changing the Way America Invests in Industry*, Washington, DC: Council on Competitiveness, 1992.
22. See J. Corbett and Colin Mayer, 'Financial Reform in Eastern Europe: Progress with the Wrong Model', *Oxford Review of Economic Policy*, 7, 1991, pp. 55–75. See also J. Franks and C. Mayer, 'Corporate Ownership and Corporate Control: A Study of France, Germany, and the UK', *Economic Policy*, 1990, pp. 189–231.
23. P. Bardhan, 'On Tackling the Soft Budget Constraint in Market Socialism', in Bardhan and Roemer, *Market Socialism: The Current Debate*.
24. Samuel Bowles and Herbert Gintis, *Democracy and Capitalism*, New York: Basic Books, 1986.
25. For definitions of democracy, see P. Schmitter and T. L. Karl, 'What Democracy Is . . . And Is Not', *Journal of Democracy*, 2, 1991, pp. 75–88. For general scepticism concerning the feasibility of democracy, see W. H. Riker, *Liberalism Against Populism*, Prospect Heights, IL: Waveland, 1988. [First edition, 1982]
26. M. Hashimoto reports that, in Japan, the Honda training program for workers involves their studying manuals. When Honda set up its U.S. plant, it discovered that workers were unable to learn by reading manuals. See Hashimoto, 'Employment-Based Training in Japanese Firms in Japan and in the United States: Experiences of Automobile Manufacturers', Working Paper, Department of Economics, Ohio State University, 1992.
27. To put the argument in the language used earlier in the section entitled 'Public Bads and the Distribution of Profits', we would say that, after a point, the *lack* of public education is a profit-increasing public bad.
28. The four countries that contribute the greatest fraction of their GNP to official development assistance are Norway, Sweden, the Netherlands, and Denmark. Each of these contributes at least 0.94 per cent of its GNP. Among the 18 countries constituting the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD), the United States ranks last, contributing only 0.15 per cent of its GNP. See Organization for Economic Cooperation and Development, *Development Cooperation Efforts and Policies of Members of the Development Assistance Committee*, Paris: OECD, 1990.

# Capitalism, Capital Flight and Market Socialism

## Some Ethical and Economic Considerations

*David Schweickart*

In Chicago we have a free weekly newspaper, *The Reader*, that, along with a great number of ads for movies, music, theatre and phone sex, runs a syndicated weekly compilation, 'News of the Weird', by Chuck Shepherd. Here's an entry from January 14 of this year:

In November the city of Bombay, India, announced it had 70 job openings for rat catchers; it received 40 000 applicants – half from college graduates.

Two weeks later the United Nation's International Labor Organization released a report, stating that thirty per cent of the world's labour force, some 820 million people, are either unemployed or working at a job that does not pay a subsistence wage.<sup>1</sup>

Not many years ago reports such as these might have been greeted with yawns by most Americans – 'yes, yes, things are terrible in the Third World, but there's not much we can do about it' – but today the response is different. Far more Americans than ever before feel their stomachs clench at such news, not so much out of sympathy, but because they now feel threatened. That vast pool of unemployed labour – some of it very smart and highly skilled unemployed labour – is job competition.

The world has changed drastically over the past fifteen years or so. Social philosophers would do well to take notice. It's fashionable these days to parrot, 'communism is dead', 'socialism is dead' (even in the pages of *The Nation*, the Left intelligentsia's most revered weekly<sup>2</sup>), but it is not often observed that the political-economic structures of Eastern Europe and the Soviet Union were done in – or at least rendered highly vulnerable – by the very developments that now make American workers tremble: technical advances in communications, transport, production technologies and marketing techniques that render national boundaries exceedingly porous, and give fierce new meaning to the concept 'global economy'.

One might be inclined to think that there is nothing new in any of this. After all, Marx and Engels pointed out nearly 150 years ago:

The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country . . . All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilized nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones, industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes . . .<sup>3</sup>

In a sense it is right to say that there is nothing new in what we are now experiencing – the dislocation we are experiencing, others before us have also experienced. However, for those of us born during or after the Second World War and who have lived most of our lives in the United States or Western Europe, what we are experiencing is new *for us*. For most of our lives we have benefited from low labour-costs abroad. Such low wages translated into low-cost raw materials and mass-affordable coffee, tea, chocolate, bananas, etc. The name of the game was ‘unequal exchange’.<sup>4</sup> The workers of the Third World worked *for us*, not in competition *with us*. Now, for many in the West, times have changed.

Let me name what I take to be the driving force behind the dislocation so many now experience or fear. Let me call it the *hypermobility of capital*. The technological developments mentioned above now make it possible, not only for ‘fictitious capital’, i.e. investment funds, to flash almost instantaneously from one capital market to another, but for up-to-date real capital, e.g. factories and machinery embodying sophisticated technology, to implant itself almost anywhere. Plants now ‘move’. Shops ‘run away’.

This ‘hypermobility of capital’ has become so commonplace that it comes as a sort of shock to find the great apostle of comparative advantage and free trade, David Ricardo, treating it as contrary to human nature. In Ricardo’s view,

the fanciful or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connections and intrust himself . . . to a strange government and new laws . . . induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations.<sup>5</sup>

Clearly, we no longer live in Ricardo’s world – nor even in Marx’s. Marx, after all, although clear-eyed about the destructive

tendencies of capitalism's relentless march, was happy to see 'all nations, even the most barbarian, [drawn] into civilization', and happy to have 'a considerable part of the population [rescued] from the idiocy of rural life'.<sup>6</sup> For reasons I will get to shortly, I am far less sanguine about the ultimately beneficial effects of capital's international mobility than is Marx – or the hordes of contemporary economists who celebrate NAFTA and toast GATT.

Before moving to economic theory, let us pause for a moment and take the 'business ethical' point of view. To invoke the standard format: How does capital flight look from the point of view of a deontological ethic? From the point of view of utilitarianism?

If we assume that background institutions are reasonably just, it is hard to see any rights being violated if I decide to invest in the Hong Kong stock market, or even if I decide to move my toy factory from Chicago to Juarez. It is sometimes claimed that workers have developed certain employment rights with respect to the company that employs them – but it is hard to see how I can give these rights much weight, given the fact that honouring them will likely drive me out of business. To be sure, a true Kantian will die rather than violate a right, but what is the point of such heroism if my company's death takes my employees with it? Clearly such 'employment rights' conflict most fundamentally with the basic nature of capitalism. If capitalism is just, then employment rights are specious.

Utilitarianism would also seem to endorse capital flight. If we make the not implausible assumption that unemployment hurts more in poor Mexico than in the rich US, then shifting capital from where it is relatively plentiful to where it is less so would seem to be a good thing. Moreover, the long-range effect is in the direction of narrowing the wage-gap between rich and poor, and this narrowing – if we grant the diminishing marginal utility of money-income – should increase overall happiness. It is hard to see how I can be faulted on utilitarian grounds, if I provide employment to 300 Mexicans who would otherwise live in squalor, even if this comes at the expense of 300 Americans. The Americans, after all, can collect unemployment compensation and enrol in job-retraining programs, benefits unavailable to most Mexicans.

The fly in the ointment here becomes visible only through the lens of economic theory – theory that many economists who should know better seem to have forgotten. I am referring here to basic Keynesian macroeconomics. Let us think through the argument.

Nobody disputes the fact that capitalism is immensely effective at producing goods. Indeed, it would seem capable of producing far more goods than it is presently producing, since many plants have excess capacity, and many workers are out of work. Nor is this an



historical anomaly. Excess capacity and unemployment are basic features of real-world capitalism. Equilibrium full employment of workers and resources (except during wartime) is pretty much a textbook fantasy.

As John Maynard Keynes pointed out more than half a century ago, the key to capitalist production is *effective demand*. If the demand is there, goods will be produced. If demand is not there, the economy will slump.

Effective demand, that is to say, demand backed up by purchasing power, comes from three sources: from private consumers with money in their pockets, from private investment, and from government expenditures. The variable here upon which Keynes focused his attention is the second: private investment. The health of the economy depends on 'investor confidence', the 'animal spirits' of the investors. Thus we get Keynes's famous policy prescription: when investor confidence flags, the government should step in and make up the difference. The government should spend more than it takes in, so as to provide the requisite stimulus to the economy.

It is my contention that recent developments leading to what I am calling 'the hypermobility of capital' give new – and ominous – importance to the *first* of the three variables just mentioned, i.e. to consumer demand. To the extent that the capital is now seeking, much more than before, *to cut costs* (rather than to develop new products or to expand markets), the effect will be to *depress* effective demand. This means a stagnating world economy and rising unemployment.

The logic here is straightforward. If aggregate demand declines, which it will if average wages decline, which they will if the search for low wages dominates the movement of capital, then production – and hence employment – will decline. That is to say, if the search for lower wages comes to dominate the movement of capital, the result will be, *not only* a lowering of worldwide wage disparities (the good to which the utilitarians point), but *also* increasing unemployment and a lowering of total global income (straightout utilitarian 'bads').

There is an important countervailing consideration. If the reduction in barriers to trade and capital flow sufficiently enhance the animal spirits of investors so that *in anticipation of* greater sales, real investments are made, then aggregate demand goes up – since new people are put to work (in construction, in supplying the increased demand for machinery and raw materials), and these new people have new wages to spend. This, of course, is exactly what the economists have in mind when they claim that lowering trade barriers will stimulate the world economy.

But notice: for overall global demand to rise, this stimulus must be sufficient to offset, not only the previously-described declining

demand occasioned by capital *shifts* from high-wage regions to lower-wage regions, but also the negative effect on demand that occurs if the products of the new enterprises succeed in driving older enterprises out of business. (How many Mexican shopkeepers will go under as Walmarts spring up, now that NAFTA has been approved, how many peasants and small farmers will be driven off the land, unable to compete with the US grain that flows south, remains to be seen.) It is perfectly possible that the net effect on aggregate demand from these various movements will be negative. Indeed, this outcome is more likely, the faster new production comes on line, since the countervailing stimulus of construction is less prolonged, and has less time to multiply throughout the economy.

The bottom line here is this: we have no way of knowing in advance whether lowering trade barriers and allowing for greater capital flow will enhance or reduce overall global demand. What we can say is that insofar as new technological developments encourage the search for low wages and make 'more efficient' the introduction of new productive capacity, the likelihood of net reduction increases.

This uncertainty has one clear 'business ethic' effect. This uncertainty removes the moral burden from the shoulders of the utilitarian investor thinking of moving his plant to a lower-wage part of the world, who might have been troubled by my initial argument that lowering wages lowers demand. He can hardly be expected to forgo the short-term gain in happiness to himself and to the new low-wage workers he employs, given the impossibility of predicting, since there are countervailing conditions, the long-range consequences of this move.

So what does all this have to do with *market socialism*? Given that this is a symposium on market socialism, it would seem appropriate that I bring market socialism into the picture. You will recall that I have argued that if the background structures of capitalism are just, then there doesn't seem to be much room for an ethic of a deontological or utilitarian nature to block the flow of capital from high wage regions to low wage regions.

Now, I happen to think that capitalism is anything but a just social system, but I will not invoke that thesis here, since it is hardly non-controversial. Rather, I will assume the Rawlsian position that certain forms of capitalism may be just, and certain forms of market socialism also.<sup>7</sup> My claim is this: under market socialism the problems associated with the hypermobility of capital do not arise. Hence, *ceteris paribus*, market socialism is preferable to capitalism – even if both are just.

Capital will not be hypermobile under market socialism, not because it is somehow hemmed in by liberty-infringing restrictions,

but because the mechanisms by which capital is generated and distributed are qualitatively different under market socialism from what they are under capitalism.

This case could be made for virtually all forms of market socialism now under serious consideration in the literature, but let me confine my argument here to one form of market socialism – the one I call Economic Democracy. (I have argued elsewhere that Economic Democracy is the optimal form of market socialism.<sup>8</sup>)

As in all forms of market socialism, the firms in Economic Democracy compete with one another in a market largely free of price controls. As in all forms of market socialism, banks are public, not private, institutions.

In Economic Democracy (but not in all forms of market socialism) firms themselves are controlled democratically by those who work there, on the basis of one-person, one-vote. (I am speaking here of legal control; most firms will elect worker-councils that appoint and oversee management.) I have made the case elsewhere that worker-self-managed firms can be expected to be at least as efficient as capitalist firms in organizing production and meeting consumer demands.<sup>9</sup>

Capital allocation proceeds quite differently in Economic Democracy than it does under capitalism. Under capitalism, funds for new investment come from private individuals, who are enticed – by the lure of interest payments or stock dividends – to save rather than consume. These funds are then allocated by the market. Under Economic Democracy, capital funds are generated by taxation. Each enterprise pays a use-tax on the value of its capital assets. (These assets, the collective property of society, are in effect rented by the enterprises from society.) The use-taxes collected constitute society's investment fund. Each community is then allocated its per-capita share of the investment fund, which is then distributed, via a network of public banks, to new and existing enterprises in the community. Double criteria are employed in this distribution: profitability and employment creation. (I am oversimplifying here somewhat so as to keep the outline clear.)

Now consider: under these arrangements, cross-border capital flows will be minimal. This will be true even if all the other countries of the world are capitalist. (Socialism in one country is possible.) First of all, existing firms will not relocate to low-wage parts of the world. Workers at a toy factory on the west side of Chicago are not going to vote to relocate to Mexico. Even if they were so inclined to relocate – which hardly seems likely – they could not take the capital assets with them, since these assets do not belong to them. The problem of run-away shops disappears instantly.

Secondly, fictitious capital (i.e. money capital) will not flow abroad either, since that capital is generated by taxation and returned to communities as a matter of law. Communities' banks could invest some of these funds abroad. Such investments are not prohibited. But since employment creation is one of the criteria against which a bank's performance is measured, and since local firms will clamour loudly if their own needs are not met, such investments will be minimal.

Certain *individuals* may want to invest their savings abroad. This need not be prohibited. Since Economic Democracy is structured so as to eliminate property income, it will be vastly more egalitarian than capitalist societies, so one would not anticipate large quantities of foreign investment. In any event, these investments do not detract from domestic investment, since domestic investment is financed, as I have indicated, by taxation.

It should be noted that capital will not flow *into* the country either, since there are no capital assets for sale. A country structured along the lines of Economic Democracy need not fear that its productive assets will be taken over by outside investors. This is not to say that local firms cannot contract with foreign firms for access to new technology, nor do these arrangements preclude the voluntary transfer of funds and know-how from rich countries to poorer ones. But these funds would derive from private contributions and from general tax revenues. They would not come from the investment fund, i.e. not at the expense of domestic investment.

What I have said so far applies only to the issue of capital flows – not to trade in goods and services. Economic Democracy is free to adopt whatever trade policy it wishes. It is quite possible that in the absence of capital flows, the social disruption caused by unrestricted trade would be sufficiently mitigated that protectionist measures would be unnecessary. However, it should be noted that there are no good ethical or economic reasons not to impose tariffs on goods so as to bring their prices into line with what they would be *if* the workers in the low-wage country were paid levels comparable to those in the importing country.

'Protectionism' of this sort is by no means evil. It is important to realize that various forms of competition have different valences. In general, competition based on product quality and competition based on employing the most effective technologies tend to promote the overall well-being of society. Not in all instances, but more often than not. In contrast, competition based on lowering wages rarely has beneficial consequences. For the Keynesian reasons outlined above, international wage competition can – and likely will, if present trends continue – raise, not lower, the amount of economic misery in the world.

To conclude: social philosophers, if we are to have any claim to relevancy, must take far more seriously than we have been inclined to, the new and ominous developments in the global order. This means looking more carefully at economic trends and economic theories than we are wont to do. It also means thinking carefully about alternatives to the existing order. Horkheimer and Adorno, in their terrifying book, *Dialectic of Enlightenment*, described (foretold?) the rise of a social order that, while capable technically of realizing the dream of human emancipation, would at one and the same time be capable of extinguishing the memory of that dream. Their book makes chilling reading now, some fifty years later. It is important now, perhaps as never before, to insist that there *are* alternatives to capitalism, economically viable alternatives that are morally preferable – which is why such discussions as we are having now, about market socialism, are important.

#### NOTES

1. *Chicago Sun-Times*, 3 February 1994.
2. See Norman Rush, 'What Was Socialism and Why We Will All Miss It So Much', *The Nation*, 24 January 1994, pp. 91–4.
3. Karl Marx & Friedrich Engels, *The Communist Manifesto*, International Publishers, 1948, p. 12.
4. The classic text on this subject is Arghiri Emmanuel's *Unequal Exchange*, NLB, 1972. See also my 'The Politics and Morality of Unequal Exchange: Roemer and Emmanuel, Analysis and Synthesis', *Economics and Philosophy*, 7, 1991, pp. 13–36.
5. David Ricardo, *On Foreign Trade*. Cited by Doug Henwood, 'Impeccable Logic: Trade, Development and Free Markets in the Clinton Era', *NACLA Report on the Americas*, May 1993, p. 26.
6. *Communist Manifesto*, p. 13.
7. John Rawls, *A Theory of Justice*, Harvard University Press, 1971, p. 280.
8. *Against Capitalism*, Cambridge University Press, 1993, pp. 319–28.
9. *Against Capitalism*, chapter 3.

# Equilibrium Notions in Macroeconomics

## An Historical Perspective

*Ben J. Heijdra and Anton D. Lowenberg*

### History

Keynes referred to Malthus as ‘the first of the Cambridge economists’ (1963:81), although it is unlikely that Malthus really was responsible for initiating the belief that economies may be trapped in ‘under-consumptionist’ equilibria. Several mercantilist writers of the seventeenth and eighteenth centuries had already hinted at the supposedly salutary effects of government expenditure and monetary expansion on the level of economic activity.<sup>1</sup> Nevertheless, Malthus should probably be credited with casting the first serious post-Smithian doubt upon the efficacy of the invisible hand as guarantor of full employment equilibrium.<sup>2</sup>

The debate between Malthus and Ricardo over the Corn Laws represents an important beacon in the history of economic thought because it is one of the earliest and clearest crystallizations of the ongoing ideological split that has divided economists ever since. Ricardo argued that the Corn Laws should be repealed because the consequent decline in food prices would effectively lower land rents (the margin of cultivation would move to more fertile land, thus increasing labour productivity) and increase profits and growth.<sup>3</sup> Malthus argued in favour of retaining tariffs on imported grain on the grounds that more expensive corn would boost aggregate demand.<sup>4</sup> Malthus’ policy recommendations, which seem incongruous in the face of the classical orthodoxy of Smith and Ricardo, can only be interpreted as an attack on the veracity of Say’s Law. Indeed, Malthus did not disguise his lack of faith in the ability of a decentralized capitalist economy to generate an equilibrium consistent with full employment of all resources.<sup>5</sup>

If we were to crudely classify all economists into two schools of thought – one comprising those who believe that decentralized market economies are most fruitfully analysed as if continually in (or moving toward) a unique classical full employment equilibrium; and one comprising those who believe that other kinds of equilibria (not necessarily consistent with classical full employment) are possible and, in fact, likely – then the Malthus-Ricardo debate can be viewed as the opening up of a veritable Pandora’s box. Certainly Keynes is

correct in his view that Malthus unleashed a strong ‘Cambridge tradition’. This tradition is characterized by a single underlying ‘presupposition’<sup>6</sup> – namely, that market forces, left to themselves, may not produce optimal resource allocations. This idea has appeared historically in different guises, ranging from Mill’s Benthamite preoccupation with externalities (Mill 1965:947–971) and the development of theories of imperfect competition by Marshall’s students, to Kaldor’s conviction that the existence of increasing returns invalidates the very method of competitive equilibrium analysis (Kaldor 1972), and, finally, Keynes’ *General Theory* itself. *Pari passu* with, but independently of, this clearly defined trend, the pristine Smithian invisible hand was largely preserved by the Austrians and finally restored to its full status as an alternative anti-utilitarian view of the world by the Chicago school in the 1950s and 1960s.<sup>7</sup>

The purpose of the present essay is to suggest that there may be grounds for believing that this long-standing methodological and ideological rift is finally closing, at least in the realm of macro-economic modelling, as a result of careful work undertaken by both ‘equilibrium’ and ‘disequilibrium’ theorists on the choice-theoretic underpinnings of their models.

### **Rational Expectations and the ‘Keynesians’**

Keynes did not frame his theory in Walrasian general equilibrium terms, but rather in the Marshallian structure with which he was more familiar (Leijonhufvud 1976:93–94). According to some of his modern interpreters, this is the reason why most economists who are well-versed in the Samuelsonian ‘synthesis’ of Keynesian and neoclassical economics do not understand what Keynes ‘really meant’. Specifically, we have been told by Leijonhufvud and Clower, *inter alia*, that what Keynes really meant is that unemployment exists not because money wages are sticky, but because of a fundamental lack of coordination between decentralized markets. Regardless of whether or not we live in a monetary economy (Hahn 1977:31), economic agents cannot buy until they have sold, and Say’s Law collapses if agents are in fact constrained in their ability to sell. If Keynes’ theory is reformulated in Walrasian mathematics, we are left with reduced-form demand and supply functions that contain quantity as well as price arguments.<sup>8</sup> A ‘non-Walrasian’ equilibrium is thereby shown to exist – in the sense of positive involuntary unemployment at a supply price less than the going wage, with other markets continuing to clear. Such ‘disequilibrium’ models were initially of the ‘fix-price’ variety (in the sense that at least some prices or wages were taken as exogenously given). A classic example of the fix-price

method is the general disequilibrium model developed by Barro and Grossman (1971).

While the modern Keynesians busied themselves with the task of rescuing Keynes from the oblivion of Samuelson's synthesis, neoclassical macroeconomists embarked upon an ambitious project of incorporating risk à la Knight into the formal structure of Walrasian models. If we recognize that the auctioneer is a mere useful fiction, then the standard Walrasian model requires the assumption of full information on the part of all agents about current and future trading opportunities, in order to yield a vector of prices that simultaneously clears all markets. It is not surprising, therefore, that economists began to reflect upon how individual agents come to know about relative prices and, specifically, how they form beliefs about future prices. This amounts essentially to a concern with modelling the *outcome* of the expectations formation process, by appealing to the existence of a (unique) expectational equilibrium.<sup>9</sup> The route followed in this endeavor is too well known to document here. It will suffice to say that future prices are postulated to depend either on the past history of prices (in the case of Friedman-Phelps adaptive expectations models) or on some objectively known probability distribution coinciding with that of the 'true model' (in the case of Lucas' application of Muthian rational expectations).

Rational expectations models, or 'new classical' macroeconomics, became, in the 1970s, the new, improved, high-performance vehicles of Say's Law. On the other side of the ideological fence, the new Keynesians unabashedly placed quantity constraints in their reduced-form demand and supply equations. This, in turn, required that they postulate rigid wages or prices, which they tentatively justified (Barro 1979:54) on the grounds of diverse institutional realities that purportedly make instantaneous price changes prohibitively expensive.<sup>10</sup> Rational expectations models came under fire from the Keynesians not only because they ignored the transaction costs associated with precipitate price revisions, but also because they could only generate autocorrelated real output fluctuations either by assuming *ad hoc* informational asymmetries between rational economic agents and monetary authorities, or by appending an *ad hoc* lagged output term to the Lucas supply function.<sup>11</sup> The rational expectations theorists, in turn, attacked the Keynesians for relying on equally *ad hoc* assumptions about conventional business behaviour in order to rationalize fixed prices (Mankiw 1990:23). Macroeconomics was stuck in the age-old impasse between classical optimism about the prospects of market-clearing on the one hand, and underconsumptionist pessimism about persistent unemployment on the other hand (Lowenberg 1982).



### Toward a New Consensus?

Fortunately, our story does not have to end with a stalemate. Instead, an interesting phenomenon has been taking place – namely, an unintended, unacknowledged, but nevertheless perceptible drawing together of the new rational expectations and ‘non-Walrasian’ strands of the literature. A new generation of rational expectations or new classical models is emerging alongside a new generation of non-Walrasian/Keynesian models, and, despite their different intellectual ancestries, they are beginning to look remarkably similar. Both the non-Walrasian and the new classical approaches are based on attempts to build macroeconomics on rigorous microeconomic foundations (Mankiw 1990:8). As a result, theorists of both persuasions are moving toward explicit acceptance of *multiple* equilibria (or equilibrium paths) as a likely outcome of most plausible types of assumptions about expectations formation.

The non-Walrasian approach, which, in its new guise, has abandoned fixed prices (Hahn 1978:7), starts with Arrow’s (1959) well-known insight that if trading is to take place out of equilibrium, then the assumption of perfect competition no longer can be valid. If economic agents are constantly revising prices in order to be able to sell all that they wish to sell, then they must be groping blindly along some downward-sloping demand schedule, in an attempt to learn its shape. Thus, to analyse how prices adjust, it becomes necessary to explicitly incorporate price-setting agents (Mankiw 1990:25), in which case any number of feasible equilibria may emerge and none of these will have anything in common (except by accident) with the Walrasian full employment equilibrium. This is because the equilibrium that does ultimately prevail depends crucially on how agents form guesses or ‘conjectures’ about the demand curves that they face (Hahn 1978:1–2; Negishi 1961; Benassy 1976).<sup>12</sup> The resulting set of prices and quantities represents a stable equilibrium in the sense that no single agent perceives any incentive to change his behavior. The conjectures of each agent turn out to be vindicated, not because they are ‘correct’, but because they have so-called ‘bootstrap’ properties (i.e. they are essentially self-fulfilling prophecies).<sup>13</sup>

For instance, suppose a worker would like to sell six hours of labour at a given market wage, but conjectures that he can only sell four. He adjusts his consumption plans in accordance with what he believes to be his constrained wage earnings, and thus brings to the product market an effective demand that is conditioned by the conjectured labour demand schedule. Firms adjust their output and their demand for labour according to the effective demand for goods perceived by them in the product market. The worker ends up only being able to sell

four hours of labour, as he had expected. This is a crude example of Hahn's bootstrap equilibrium, where the guesses of agents turn out to be 'right for the wrong reason'. Notice that it was not necessary to impose price or wage fixity in order to arrive at a quantity-constrained equilibrium with involuntary unemployment (in the sense that the agent would like to supply more labour at going wages and prices). Individually rational actions, that are mutually compatible, have given rise to a non-Walrasian unemployment equilibrium. In Hahn's words: 'The invisible hand has ceased before its job is accomplished' (1977:34). It should be noted that Hahn's purpose is to prove the possibility of the existence of non-Walrasian equilibria when Walrasian ones are *also* available.<sup>14</sup> In order to do this, it is necessary to assume that an agent will not consider trading at a price other than the prevailing market price even if he observes that *other* agents are constrained – or, perhaps he is unable to observe the constraints on others (Hahn 1978:8). (In the scenario described here, where workers are constrained but employers are not, the obvious question to ask is why employers do not respond by lowering prices.)

Meanwhile, in some of the rational expectations literature, there has been an attempt to explore the slippery question of how agents actually make rational forecasts (Frydman & Phelps 1983). Of course, it is traditionally assumed that agents use some equilibrium forecast function which depends either on an objective probability distribution of outcomes or on a 'relevant economic theory'. Each agent then proceeds to learn the parameters of this forecast function by running regressions of endogenous variables on exogenous variables. He will thus form an expectation of future prices that is contingent on the belief that all other agents have used an identically specified forecast function in arriving at their estimates. Either we must assume that all agents know and *believe* the same 'relevant economic theory', or, equivalently, that there is some 'average opinion' about the probability distribution of the parameters of the forecast function that is universally shared (Frydman & Phelps 1983:6). Crudely put, expectations depend not only on objectively perceived data regarding aggregate and relative price changes, but also on expectations of other agents' expectations.<sup>15</sup> This qualification of the standard rational expectations result becomes important when considering the real effects of announced policy changes. A rational agent may know and believe the government announcement, but he does not know whether other agents also know and believe the change in policy. Thus, it has been demonstrated<sup>16</sup> that, if individual agents misperceive the expectations of other agents during a period of transition from one monetary growth rule to another, real output effects may occur. The standard rational expectations neutrality result will emerge only in the

special case where we assume the existence of 'perceived and actual unanimity of beliefs across all agents' (Frydman & Phelps 1983:7).<sup>17</sup>

Furthermore, if it is admitted that the rational expectations equilibrium depends crucially on the assumptions we make about how agents form expectations about others' expectations, then (1) there is no longer a *unique* rational expectations equilibrium, and (2) individual expectations may be self-fulfilling prophecies in the same sense as Hahn's conjectures. Both of these points are made explicit by Neary and Stiglitz (1983), who use a two-period temporary equilibrium model with rationing in order to demonstrate the distinctive roles played by the assumptions of rational expectations and perfectly flexible prices. In the Neary-Stiglitz model, agents' current behavior is dependent on the expectations that they form today about the nature of the quantity constraints they are likely to face tomorrow. Thus, for example, agents' current consumption plans when a Walrasian equilibrium is expected in the future are quite different from their current consumption plans when Keynesian unemployment is expected. Hence, in addition to the traditional intermarket spillovers, there are now also *intertemporal* spillovers working through quantity expectations.

The first case considered by Neary and Stiglitz is that of 'arbitrary constraint expectations' (ACE), where the quantity constraints that agents expect to prevail in the future are exogenously given. They show that, under ACE, there is no unique Walrasian equilibrium, and there is a Hahn-type bootstrap effect in operation (Neary & Stiglitz 1983:214–215). This bootstrap effect implies, for example, that households' expectations of future constraints on the sale of labour make it more likely that there will be a constraint on their ability to sell labour currently (1983:210). Neary and Stiglitz then proceed to examine the case of 'rational constraint expectations' (RCE). Under RCE, households and firms have full information concerning one another's intended future actions, so that, for example, the income constraint that households expect to face in the future period is exactly equal to the output that firms currently plan to produce in that period. It is shown that such expectations will actually increase the probability that Keynesian unemployment will prevail today (1983:218). The Neary-Stiglitz results depend, of course, on the fixity of (some) prices. Nevertheless, an important implication of their analysis is that '. . . rational expectations are consistent both with full employment and underemployment equilibria . . .' (Neary & Stiglitz 1983:201). Not only is there a non-uniqueness of equilibrium (a result that is common to all general equilibrium models), but some equilibria are preferred to others on Paretian welfare grounds. Evidently, given price stickiness, it is entirely possible to generate Keynesian results despite the presence of rational expectations (Mankiw 1990:11).

However, even if we abstract from the possibility of sticky prices and resulting 'non-Walrasian expectations' in the sense of Neary and Stiglitz, it has been shown by Azariadis (1981) that multiple equilibria (including some consistent with a permanently 'low' level of economic activity) are fully compatible with a neoclassical model of equilibrium in which prices are flexible and expectations are rational. Azariadis points to the well-documented existence of speculatively induced price movements in order to prove that, quite often, prices will change only because they are expected to. Suppose that an oracle predicts a particular set of future prices, and that each agent believes that all other agents believe the oracle's prediction. In this case, the prediction will be self-fulfilling. Expectations are formed rationally, but there exists an economy-wide condition which Azariadis calls 'extraneous uncertainty', i.e. the rational expectations held by agents are influenced by extraneous random variables. This problem is obviated only by the existence of sufficiently widespread contingent claims markets such that the effects of extraneous uncertainty can be arbitrated away. Otherwise, this kind of uncertainty 'considerably enlarges the set of equilibrium prices that arise under perfect foresight, by adding in certain cases an infinity of self-replicating equilibria' (Azariadis 1981:384–385). It should be pointed out, however, that although there exist equilibria with a low level of exchange under extraneous uncertainty, these are not Pareto-dominated by any alternative equilibrium in the Azariadis model, except for that equilibrium which would exist in the absence of such uncertainty.

In a similar context, Calvo (1978) has used an infinite-horizon overlapping generations competitive model to show that, even with perfect foresight, there exists a continuum of possible equilibrium paths, so that knowledge of the 'relevant economic theory' by each agent is not necessarily sufficient information to enable the agent to figure out the future course of events (Calvo 1978:322). Calvo does not interpret this as 'bad news' for rational expectations. On the contrary, the existence of multiple rational expectations equilibria forces the theorist to spell out carefully the conditions for local uniqueness of a particular equilibrium, which implies that rational expectations is by no means an 'empty hypothesis'. Rather it is endowed with a certain theoretical richness deriving from its ability to yield more than one self-fulfilling perfect foresight path to equilibrium (Calvo 1978:335).<sup>18</sup>

The foregoing brief review of some of the non-Walrasian and rational expectations literature is intended to illustrate the convergence of both approaches to a common conclusion – namely, that the standard competitive Walrasian equilibrium is just one among many

conceivable equilibria consistent with individual rationality and price flexibility.<sup>19</sup> The particular set of equilibrium prices produced by the model depends on how individuals are assumed to form expectations (that turn out to be self-fulfilling) about the structure and content of 'average opinion'. As Hahn (1986:280) points out, there are many market equilibrium concepts fully consistent with agents who act optimally in the light of their information. Even the Lucas (1972) model has been shown to contain a continuum of rational expectations equilibria sustained by theories of the economy held by all agents, a result which is not inconsistent with Keynesian ideas about the non-neutrality of stabilization policy (Hahn 1986:276).

It remains true, of course, that the nature of the equilibrium which emerges from a Walrasian model such as that of Azariadis is different from that which is produced by Hahn's non-Walrasian model. In the former case, markets clear through a *tatonnement* involving relative price adjustment, and agents use price signals only. In the case of Hahn, the essence of the equilibrium is such that both quantity and price signalling occur. Moreover, from a policy point of view, it is obviously important to distinguish between a world in which all equilibria are Pareto-optimal and differ only in terms of their distributional characteristics, and a world in which some equilibria are ranked above others on welfare grounds.

### **Conclusion: A Matter of Transaction Costs**

There is no dispute about the basic assumption of rationality.<sup>20</sup> Walrasians and non-Walrasians alike define equilibrium as a situation in which all (relevant) gains from trade have been fully exhausted. Yet we have also shown that there is a surprising amount of agreement among theorists of diverse ideological colours that such an equilibrium may logically entail resource unemployment caused by transaction costs. Output could be increased by moving to a different vector of prices. The fact that this movement does not occur only makes sense if we posit the existence of positive transaction costs, or, more precisely, information costs. The agents in Hahn's model need to form conjectures about the demand schedules they face because they are in the dark about the actual slopes and positions of these schedules. Likewise, the contributors to the Frydman and Phelps volume are all concerned to show the dependence of individual forecasts on expectations of others' expectations.<sup>21</sup> If agents possessed full information about the processes whereby their fellow agents arrive at their guesses about the world, then the basis for Azariadis' 'extraneous uncertainty' would disappear. Some recent new classical models emphasize costly adjustment of labour among

sectors due to search unemployment, which is yet another manifestation of imperfect information (Mankiw 1990:21–22).

Positive transaction costs exist in an economy where the auctioneer has been removed and problems of communication and coordination between markets arise. This basic theme has inspired much of Leijonhufvud's work (see Howitt 1984). A resource is defined as 'illiquid', in Leijonhufvud's terms, if it is saleable only at high cost.<sup>22</sup> The most important cost in this regard is that of communicating one's willingness to buy or sell. If all factors were perfectly liquid *à la* Leijonhufvud, then persistent involuntary unemployment could not exist. Similarly, Lucas concedes that it is precisely the inability of agents to obtain information about past prices that leads to deviations of output from its natural level (Lucas 1975:1113–1114; Maddock 1984:301–302), and Lucas' (1972) rational expectations model generates a monetary business cycle only by assuming imperfect information regarding prices (Mankiw 1990:18). It is interesting also to note that, before Hahn's attention was drawn to the task of developing Negishi's (1961) notion of conjectural equilibrium, he had already produced a version of a Debreu exchange model in which positive transaction costs can result in 'inefficient' equilibria (Hahn 1971:434). Hahn was thus able to reject Kaldor's critique of the concept of general equilibrium by developing a set of models in which 'equilibrium' has a richer meaning than that contained in the standard Arrow-Debreu Walrasian models (Weintraub 1985:127).

If supposedly 'Keynesian' theorists such as Leijonhufvud and Hahn are able to arrive at underemployment equilibria as outcomes of informational problems in much the same way as Lucas and his followers have achieved the same result, then it becomes difficult to separate the one from the other. As Howitt has aptly pointed out: '... the differences between the two approaches have more to do with their respective advocates' states of mind than with any inherent substantive differences in analysis' (1984:432). In the case of both types of models, it is incomplete information that yields the result of possible unemployment equilibria. A literature initiated by Stiglitz (1979), Woglom (1982), Diamond (1984) and Howitt (1985) addresses itself more formally to the issue of modelling transaction costs in a macroeconomic context. These models show that positive costs of communication and coordination between agents can lead to such phenomena as price dispersions, kinked demand curves and multiple equilibria, including equilibrium levels of employment below that which would prevail if there were zero search costs. Stiglitz (1985) describes how imperfect information can lead to low levels of activity in numerous different types of markets.

In the Diamond (1984) and Howitt (1985) models, for example, the

cost of transacting depends directly on the size of the market; with a high volume of trade the cost of finding a trading partner is reduced for all traders. As a result, a trading externality exists which leads to multiple Pareto-rankable equilibria. Similarly, in the Stiglitz (1979) analysis the externality is caused by the fact that information has some public good attributes. In all of these models, the notion of externalities once again occupies a central position in the explanation of market failure, albeit now in a macroeconomic sense. A more recent approach focuses on a particular class of information costs, namely the 'menu costs' associated with price changes in the case of monopolistically competitive firms (Ball, Mankiw & Romer 1988). When added to efficiency wage models, in which wage reductions are assumed to reduce labour productivity, menu costs provide an explanation for persistent unemployment (Ball & Romer 1990; Mankiw 1990:29, 31–32).

Generally, the microfoundations of non-clearing markets must rest upon some conception of positive transaction or information costs, whether these are formulated as Hahnian 'conjectures' or Phelpsian 'model theoretic expectations'.<sup>23</sup> But information is, at least partly, a public good, which means that the quantity of information acquired by rational agents will not be the Pareto-optimal quantity and markets will not necessarily clear at the same price and quantity which would prevail in a world of zero information costs. In a survey article dealing with the economics of information, Stiglitz points out that the challenge of modern general equilibrium theory is 'to look for more primitive, more fundamental notions of equilibrium', according to which the Arrow-Debreu results would hold true as the *special case* of perfect information (Stiglitz 1985:28).

Hahn would have us believe that his 'conjectural equilibrium' prevails because the invisible hand 'has ceased before its job is accomplished'. The foregoing discussion implies that this is not true. The invisible hand is doing its job in a world in which rational agents cannot costlessly look into one another's minds. Therefore each agent must guess about the reactions of all other agents. Economists do not know how agents actually go about forming their guesses, and depending on how we model the guessing procedure, we can produce different sets of equilibrium prices, none of which will necessarily coincide with that set which would prevail if information were free. The only sense in which these equilibria would differ is their Pareto-rankability. In the new classical case all equilibria are Pareto-optimal, whereas in the non-Walrasian case some equilibria dominate others.

An examination of the development of microfoundations in both the non-Walrasian literature and the Walrasian rational expectations

literature has revealed a considerable degree of consensus about the dependence of equilibrium on expectational assumptions and the self-fulfilling nature of expectations. It appears that this consensus is obscured only by differences in language and ideological heritage.

### NOTES

(We are grateful to Michael Brooks, Peter Earl, William Kaempfer, and Jitka Vavra for helpful comments, although all errors remain our responsibility alone.)

1. Thomas Mun, for example, advises Princes to spend their 'treasure' (the revenues of state) on public works and other programs designed to employ and enrich their subjects. 'Neither are all the advances of Princes strictly tied to be massed up in treasure, for they have other no less necessary and profitable wayes to make them rich and powerfull, by issuing out continually a great part of the mony of their yearly Incomes to their subjects from whom it was first taken . . .' (1954:34). A recurrent issue throughout the mercantilist period was the role of money and monetary policy in maintaining a desirable level of economic activity. John Law wrote in 1720: 'A greater quantity (of money) employs more people than a lesser quantity. A limited sum can only set a number of people to work proportioned to it, and 'tis with little success laws are made for employing the poor or idle in countries where money is scarce . . .' (cited in Vickers 1959:113).
2. Malthus' forebodings about inadequate aggregate demand are evident throughout his work. For example: '. . . if production be in a great excess above consumption, the motive to accumulate and produce must cease from the want of an effectual demand in those who have the principal means of purchasing' (1964:7). Rutherford (1987) discusses the literature on Malthus as a Keynesian and argues that it is the Keynes of the *Treatise on Money* that is closest to Malthus.
3. In a letter to Malthus, Ricardo writes: 'You will agree that the monopoly of the home market is eventually of no great advantage to the trade on which it is conferred. It is true that it raises the price of the commodity by shutting out foreign competition but this is equally injurious to all consumers, and presses no more on the farmer than on other trades' (1962:169–170). Ricardo contends that: '. . . rents are always withdrawn from the profits of stock' (1962:173), so that any decrease in rent due to a decrease in the corn price would result in an increase in profits, with resultant beneficial effects on output and growth.
4. Thus Malthus writes to Ricardo, imploring him: 'Pray think once more on the effect of a rise in the relative price of corn, upon the whole surplus derived from land already in cultivation. It appears to me I confess, as clear as possible that it must be increased. The expences estimated in Corn will be less, owing to the power of purchasing with a less quantity of corn, the same quantity of fixed capital, and of the circulating capital . . . for the labourers; and consequently more clear surplus will remain in the shape of rent and profits together, . . . for home demand' (Ricardo 1962:185).
5. In a letter to Ricardo, Malthus writes: '. . . I by no means think that the power to purchase necessarily involves a proportionate will to purchase, and I cannot agree . . . that in reference to a nation, supply can never exceed demand. A nation must certainly have the power of purchasing all that it produces, but I can easily conceive it not to have the will . . .' (Ricardo 1962:132). Ricardo, in turn, writes to Malthus: 'it appears to me that one great cause of our difference in opinion . . . is that you have always in your mind the immediate and temporary effects of particular changes – whereas I put these immediate and temporary effects quite aside, and fix my whole attention on the permanent state of things which will result from them' (cited in Patinkin 1965:648). Thus, interestingly, the difference between Malthus and Ricardo appears to hinge, to some extent, on the perennial problem of how long the short run really is.



6. This term is used by Leijonhufvud to refer to those fundamental ideological convictions or Schumpeterian 'visions' that pertain to economic research programs. 'They may be apparently quite woolly "grand generalities" somewhat in the nature of cosmological beliefs' (Leijonhufvud 1976:72). See Heijdra and Lowenberg (1986) for further discussion of the methodological status of ideological presuppositions.
7. Posner demonstrates the inherent antagonism between the classical utilitarianism of Bentham, Edgeworth and Mill, on the one hand, and the positive economic concept of efficiency as the product of unrestricted voluntary exchange on the other. Bentham's utility principle can be used, according to Posner, to justify 'intrusive, moralistic, and frequently paternalistic governmental interventions' (Posner 1981:33). In contrast to this, there is a certain implied intellectual continuity between Adam Smith's discussion of the economic effects of mercantilist regulation and the 'new institutional economics' initiated by (*inter alia*) Ronald Coase and Guido Calabresi (Posner 1981:3-4; Coase 1984).
8. See for example Hahn (1977:30).
9. A start has been made with the much more difficult task of modelling the *process* by which rational expectations emerge as the relevant equilibrium. See Blume et al. (1982). A logical extension of some of these efforts is the Frydman-Phelps approach discussed below.
10. A classic example is Okun's (1975) conception of 'customer' and 'career' characteristics of goods and labour markets respectively. In these markets, there are implicit contractual arrangements between buyers and sellers, designed to economize on information costs, which tend to produce price and wage stickiness. Likewise, Modigliani (1977) attributes wage rigidity to heterogeneity of labour and imperfect competition: oligopolistic firms may respond to a reduction in demand by laying off workers with firm-specific human capital rather than by cutting wages, in order to avoid the costs of a high quit rate among experienced workers. Akerlof (1979) points to a whole range of similar 'standard business practices' that are upheld because disobedience to them is regarded as costly. Adherence to these practices may be sufficient to ensure that non-market clearing wages and prices are not necessarily inconsistent with profit maximization. Azariadis and Stiglitz (1983) discuss the possibilities of integrating implicit contract theory and fix-price models. They are optimistic about an implicit contract-based theory of nominal wage stickiness, but find that this approach may be less successful in explaining price rigidity in goods markets (1983:18).
11. Thus Ando (1983:50-53) shows that the lagged output term in the so-called Lucas supply function cannot be derived logically from the original Lucas (1972) model, but nevertheless plays a central role in new classical economics. See also Bull and Frydman (1983). Some rational expectations theorists, however, set out to avoid the 'ad hocery' of informational asymmetries. Cukierman (1979), for example, succeeds in endogenizing the level of information in a Barro-type multimarket rational expectations model. Cukierman's economic agents are allowed to choose the number of current relative prices (in markets other than the one in which they are trading) about which to obtain information. This information is costly, but it is also costly to produce a level of output different from the full-information level. The optimal amount of information is that which minimizes the sum of the costs of information collection and the costs of being off the full-information demand and supply curves (Cukierman 1979:214-215).
12. See Drazen (1980) for an excellent critical survey of the non-Walrasian literature.
13. Hahn draws an analogy between his 'Keynesian' conjectural equilibrium and certain propositions in game theory: '. . . we are all familiar with the possibility of many Nash equilibria and of some of them being Pareto inefficient . . . (A)gents have chosen their best strategy given the strategies of others. Keynes at least partly was after such situations when he talked of "bootstrap" equilibria' (1984:16).
14. The compatibility of multiple equilibria with rationality, and the ensuing implications for stabilization policy, are favorite themes of the non-Walrasian literature. See Hahn (1984:15-16, 122).
15. That equilibrium requires coordination of plans on the part of decentralized individual decision makers has long been understood by the Austrians. Thus Hayek has shown that, in order for such an equilibrium to exist, '. . . the plans of different individuals must in a special sense be compatible if it is to be even conceivable that they should be able to carry all of them out. Or, to put the same thing in different

- words, since some of the data on which any one person will base his plans will be the expectation that other people will act in a particular way, it is essential for the compatibility of the different plans that the plans of the one contain exactly those actions which form the data for the plans of the other' (1948:38).
16. See, for example, Di Tata (1983).
  17. Interestingly, one of the main exponents of the new classical school, Thomas Sargent, subsequently appeared to dismiss the neutrality result as a non-essential part of new classical thought (Klamer 1983:70).
  18. McCallum, however, interprets this multiplicity of equilibria as 'an analytical paralysis' and suggests that 'it is often desirable to focus attention on the single "minimal state variable" solution that is free of bootstrap effects' (1983a:15–16; 1983b). In other words, McCallum would prefer to assume that agents use a minimal set of 'state variables' in their forecasting rules, but he also admits that this 'minimal information hypothesis' has no obvious choice-theoretic foundation (1983b:161) and therefore does not save rational expectations from the theoretical embarrassment of non-uniqueness. Azariadis and Guesnerie (1984) and Grandmont (1985) have shown that the non-uniqueness of rational expectations (or perfect foresight) equilibria can be utilized in a much more constructive manner. Both these papers demonstrate that intrinsic uncertainty can give rise to cycles that are purely endogenous to the model. These cycles are caused by (1) the 'oracle' effect, and (2) the dynamic overlapping-generations (OG) structure of the model. The use of an OG model has been defended by McCallum (1983a:10) as an easy and understandable way to introduce friction into the trading mechanism of the economy: agents alive today cannot possibly trade with unborn generations of the future. Thus the OG structure can be interpreted as a specific kind of transaction cost.
  19. See, for example, Diamond (1984).
  20. At least this is true for all economists who adhere to what may be called the 'neoclassical research program' – to borrow a term from the literature on Imre Lakatos' methodology of science. See Latsis (1976) and Heijdra & Lowenberg (1986).
  21. An interesting parallel springs to mind. Just as Arrow (1959) showed that price taking behaviour on the part of economic agents is untenable outside of competitive equilibrium, so the Frydman-Phelps analysis shows that 'expectation taking' behaviour is invalid outside the traditional rational expectations equilibrium.
  22. Again, this idea has Austrian roots. Menger (1892) argued that commodities can be distinguished by different degrees of saleableness (*Absatzfähigkeit*), and built his monetary theory on this concept.
  23. Under 'model theoretic expectations' as defined by Phelps, each agent employs the 'model of the modeler' to calculate the conditional expectation of the average price, which in turn depends on the agent's forecast of the *average expectation* of the money supply and the average price held by *other agents* (Phelps 1983:34).

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# Unemployment and Citizenship

## Post-Industrial and Social-Democratic Approaches to Citizenship Rights

*Erika Kvapilova*

### Introduction

During the past decade citizenship rights have become one of the most discussed topics among social and political scientists, especially in Western European countries. The ongoing discussions could be seen as a 'logical' continuation of the debates on 'welfare state crisis', generated by the return of phenomena such as mass unemployment, poverty, marginalisation and the social exclusion of significant numbers of people from participation in the life of society. Hence arguments nowadays revolve around the problems of social inclusion/exclusion, civic competence/incompetence and the reciprocity of rights and duties (van der Veen 1993). The importance of theoretical as well as practical issues connected with 'citizenship' has increased notably during the process of 'Europeanisation'. Recent political and economic changes in Central and Eastern Europe have posed the serious question of whether there can ever be 'European citizenship' and, if so, in what the rights and obligations of a 'European citizen' might consist?

Deliberations on citizenship rights within Europe have, however, developed in diverse directions so far: in the former Soviet-bloc countries the introduction of civil and political rights became of paramount importance after the fall of Communism, while the future of social rights, in general, remained at the bottom of both the theoretical and political agendas; in most Western European countries, on the contrary, social rights have been at the core of many controversies in both the theoretical and political spheres, while civil and political rights have been taken for granted. A specific view has come to be associated with Scandinavian countries, in particular Sweden, where social rights are often seen as a precondition of both civil and political rights and of the full participation of an individual in society.<sup>1</sup>

Despite a rather extensive literature on different facets of citizenship rights, there still exists only a small number of contributions that focus *explicitly* on the relationship between work (employment), social rights and the 'full membership of an individual in society'

(T.H. Marshall).<sup>2</sup> In this article I shall summarize, analyse and compare some aspects of recent views on this relationship. In particular, I shall pay close attention to what I call post-industrial and social-democratic views<sup>3</sup> on the role of work (un/employment) in achieving the status of full citizenship in modern capitalist societies.

There are several reasons why I have chosen this topic, and this comparison, for the issue of *Theoria* that deals with 'Markets, States and Justice'.

- (1) The main reason is that the core of the debate I present below has to do with the problem of *distributive justice* within advanced capitalist *market economies*.
- (2) From a theoretical point of view it seems to be rather fruitful to distinguish among more than just a few 'traditional' approaches (such as liberal, conservative and social-democratic) to the relationship of citizenship to work (employment). It appears that what I shall call the post-industrial view might, in the future, become something more than a merely under-theorized mixture of different elements of existing approaches. It might, rather, constitute a new theoretical basis for analysing the development of modern capitalism. Moreover, some particular post-industrial proposals which we shall discuss – such as the introduction of a basic income and the re-definition of work – might serve as a new ideological basis for political arguments, or even specific civic movements, in Western Europe; they might thus significantly influence and redirect the public perception of economic, social, political and other problems that capitalism faces nowadays. Hence, in the long run, post-industrial thought could impose noticeable changes on the existing value system of western capitalist societies.<sup>4</sup>
- (3) Both post-industrial and social-democratic views offer diverse though partial grounds for possible political solutions to the problem of how to balance formal equality in citizenship with existing social and economic inequalities (that are at present increasing as a result of mass unemployment and social exclusion).<sup>5</sup> In this respect the ongoing debates between post-industrialists and social democrats are relevant also for those transitional countries that wish to build up 'socially just' market economies.<sup>6</sup>

### **Citizenship Rights**

Nearly all deliberations on citizenship rights begin with T.H. Marshall's well-known definition of citizenship as:

a status bestowed on those who are full members of a community. All who possess the status are equal with respect to the rights and duties with which the status is endowed. (Marshall 1973:84)

According to Marshall three sets of citizenship rights have historically developed within modern capitalist societies: civil, political and social rights that, at the same time, define the domains of a citizen's participation in society.<sup>7</sup> Marshall's interpretations of social rights, however, include some 'abstract' elements such as 'the right to share to the full in the social heritage and to live the life of a civilized being according to the standards prevailing in the society' (Marshall 1994:9). This is reflected also in the fact that many social rights are not substantive ones, that is they are not formally institutionalized, legislated, arranged, sanctioned and guaranteed by the state (as are political and civil rights). Thus their (direct) impact on the development of citizenship, as well as their future, poses a number of questions. Korpi (1994) calls these informally institutionalized rights *proto-rights* and stresses their importance in the process of the development of full membership of an individual in society.

There exist different views on what has been the chief force behind the development of citizenship rights. Proponents of the so-called power resource approach identify the conflict of interests (as an expression of the distribution of different power resources among the main social collectivities) as the driving force behind the extension of citizenship rights (Korpi 1985). Other writers argue that to see citizenship rights essentially as the outcome of class struggle is too narrow an approach. According to Habermas (1992) other types of social movements,<sup>8</sup> above all wars and migrations, should be taken into account in analysing the forces behind the advancement of a fully-fledged status of citizenship. All, however, agree that the expansion of social rights such as social insurance, health care, old-age pensions and social services in this century has significantly modified market mechanisms and capitalist class structure (Marshall 1973) and has contributed importantly to the decrease of social inequalities.

Thus most authors have accepted Marshall's approach to analysing the development of capitalist *class structure* and social stratification as methodologically fruitful. Nevertheless, there are theorists who criticize his framework for being too narrow to cover all aspects of *modern citizenship* and thus call for a broader conception. The 'broader conception' goes beyond class-conflict-based approaches and productivist social rights (Offe 1993), and grasps citizenship more comprehensively as 'involvement of people in the community in which they live' (Held 1989:173).<sup>9</sup> Such perspectives, however, call



for a more detailed conceptualization of ‘citizenship’ and social rights in particular, as well as a re-thinking of some basic notions, among which *work* is probably the most important.

### **Work as a Citizenship Right**

Today millions of people in Europe are out of a job and a significant number of these are gradually losing the prospect of re-employment due to little or no work experience (young people), age, disability, long-term unemployment, etc. Although economic growth has in recent years increased in most Western European countries it has not been followed by decreasing unemployment rates (as it should be according to economic theory). Probably the most negative outcome of the present crisis is intensifying social insecurity, increasing social tensions (including racial conflicts), the marginalisation of some segments of the population and the exclusion of large numbers of people from effective participation in society. All this in the long run might lead to fundamental changes in the social stratification of capitalist societies and to the widening of inequality among social groups and classes. That is why we fully agree with those authors who fear that development in this direction could constitute a serious threat to the relatively developed democracies in the West (see *A Programme for Full Employment in the 1990s* [Report of the Kreisky Commission on Employment Issues in Europe]), and, what is even worse, jeopardize the young and weak democracies in the Eastern and Central European post-Communist countries.

Recent unfavourable socio-economic trends in Europe have contributed to the fact that many scholars have started to investigate more seriously the theoretical and practical problems connected with social rights and, in particular, the right to work. A right to work has been usually interpreted as a right to fairly paid work (employment) in a freely chosen occupation on the basis of certain necessary skills. This right, however, is not a substantive one and is thus seriously threatened by the recent economic recession accompanied as it has been by (structural) unemployment, the crisis of some welfare state institutions, and the predominant liberal economic ideology in both the more and less economically and socially advanced parts of Europe.

In consequence of socio-economic and political developments in Europe, different theoretical proposals on how to prevent a restriction of the right to work – and thus safeguard a citizen’s opportunity to ‘more fully’ participate in the life of society – have been advanced. It is worth stressing that these proposals are usually nothing but specific facets of diverse and more complex views on the future of modern

welfare states. As mentioned above, we have chosen post-industrial and social-democratic approaches for both, in our view, represent progressive (in terms of extension of citizenship rights) though, in a sense opposite, social strategies for shaping the future of capitalist societies.

### **Post-Industrialists and Their Social-Democratic Opponents**

Some theoreticians believe that the present 'crisis' of Western capitalist societies will, in the end, lead to a profound modification of the nature and social structure of capitalism. According to their views current welfare states are outdated institutions that are not able to face the new challenges brought about by the turbulent progress in technology, by the division of labour, as well as by other spheres of the life of society. They either criticize the welfare state as a 'whole system', or criticize some of its particular institutions. Above all, they criticize its 'core' – the idea of full employment<sup>10</sup> and the corresponding social security system based on 'productivist' foundations. This group of post-industrial, mostly left-oriented libertarians is, however, rather diverse and presents an 'under-theorised bundle of strategic proposals' (Offe 1993) for the future development of capitalist societies. Nevertheless, they share a commitment to certain common values such as (social) *security* and *autonomy* that constitute the core of the 'modern understanding' of citizenship.

Social security and autonomy, in their opinion, are not sufficiently guaranteed by the existing structure of welfare benefits because those are conditional; they depend, to different degrees, on the cash/work nexus – that is, on paid work or employment. Post-industrialists assume that permanent unemployment, along with fundamental changes in the nature of the employment relationship that might be described as an 'erosion of the normal working relationship' (Offe & Heinze 1992), are the most salient and irreversible features of modern capitalist societies. The equilibrium between labour market and social security has significantly weakened, and some authors conclude that a serious conflict between these two dimensions of the welfare state causes a welfare state backlash (Offe 1993). The corollary is a dualised society divided into wage-earners and salaried tax-payers and the 'others', who gradually constitute a permanent underclass. Full employment is thus an illusory goal. It is time to abandon this illusion and to attempt to define and institutionalize alternatives to paid work. This would ensure a degree of social equality between those who are employed and those who are not, and would thus prevent the marginalisation and social exclusion of many people.<sup>11</sup> Social security and autonomy can be realized only if the cash/work

nexus stops being of decisive importance for the full membership of an individual in society and the only *criterion* becomes an individual's *need*:

. . . full citizenship is only possible when the link with the labour market is not a condition. (Vilroks 1993:205)

It is worth noting that the post-industrial criticism of the modern welfare state is not directed to a specific 'model', but rather to the welfare state and its limits 'in general' (Offe 1984). There exist, however, considerable differences among Western European welfare state regimes as far as the scope of citizenship, and in particular social rights, is concerned (Titmuss 1974, Esping-Andersen 1990; Korpi & Palme 1994). In this article we will pay close attention to some facets of the particular social-democratic welfare state model<sup>12</sup> that has developed over time in Scandinavian countries, especially in Sweden. The main reason for this choice is that, in opposing the post-industrial view, social-democratic theoreticians argue that the social-democratic welfare state is itself an important agent of social change and that it considerably modifies the functioning of modern capitalism. Scandinavian social-democratic regimes have achieved the highest degree of decommodification of individuals and have significantly extended their citizenship rights (Therborn 1986). Our intention is to analyse the different ways in which post-industrialists and social democrats have in effect chosen to pursue the same goal: to build up a socially just society of equal *citizens*.

In his recent work Esping-Andersen calls the social-democratic welfare state regime a 'peculiar fusion of liberalism and socialism' (1990:28). This model both endorses individual independence and fosters the overall dependence of each individual on a system which provides the means for him or her to enjoy a decent standard of living. A *gradual* extension of universalistic social rights that decommodify individuals is essential to the social-democratic welfare state (Esping-Andersen 1990).

In a sense, post-industrialists and social democrats have a lot in common. Both groups agree on the need to decommodify individuals and to set up (some kind of) universalistic social security scheme which would make possible a decent standard of living for all, irrespective of their position in the labour market. Both groups thus protect the same values: autonomy and security. They differ considerably, however, on how to accomplish these goals.

Some post-industrialists believe that contemporary advanced capitalist societies have already accumulated, and still produce (even without utilizing their manpower potential to the full) sufficient

wealth to enable (mass) exit from the wage-labour system. Thus they can ensure a decent standard of living for all citizens without setting any particular conditions, or imposing special demands on them. Hence to avoid rising social inequalities and to prevent social exclusion resulting from unemployment requires not only redefining the existing social security system based on 'productivist' assumptions but, first of all, redefining the *initial criteria* under which an individual is entitled to use his or her social rights. We will discuss this point in more detail in the next section.

Social democrats, generally, disagree with this radical approach for several reasons. The main objection is based on the existing internal interdependence of paid work and the extension of social rights. Paid work (via taxation) is not only the main financial source of welfare benefits but at the same time limits an individual's dependence on the state and offers more autonomy and greater income security. Korpi and Palme (1994) in their preliminary analysis of different strategies of equality within the OECD countries, moreover, show that the so-called 'encompassing model' – which has developed in Finland, Norway and Sweden<sup>13</sup> and which consists of universal coverage and basic security for all citizens and on which income related benefits for the economically active part of the population are based – tends to be highly efficient both in *reducing inequality* and in creating social cohesion. The authors hold that 'by offering income related benefits to all economically active individuals, this model has the potential of encompassing all citizens and bringing them together within the same social insurance institutions' (Korpi & Palme 1994). Thus this model does not maintain a state guarantee of minimum rights reduced to subsistence level, but rather a universalistic system of social security which provides equal status for all citizens at the highest possible standard level. It thus has the potential to maintain a measure of mass loyalty to the (social-democratic) welfare state.

Another important argument in favour of paid work and maintaining (full) employment is that for social democrats participation (not dependence) in the labour market (employment) is also a significant form of social participation. It is the social basis and political precondition for negotiations, and is hence a meaningful factor (power resource) that can notably influence the distributive processes and functioning of the capitalist market system (Korpi 1985).

In the next section we will pay closer attention to some theoretical attempts from both post-industrial and social-democratic positions to cope with the concepts of work and employment in order to redefine the 'traditional' ties between work/paid work and citizenship within the existing welfare states.

### **Breaking the Cash/Work Nexus: Alternatives of Paid Work vs. Active Manpower Policy and the Re-definition of Full Employment**

Post-industrialists agree with social democrats that *work* is an important form of participation and self-fulfilment for an individual in society, an important force behind social cohesion and the reproduction of social relations and a significant means of creating social networks. Hence, each citizen should have a recognized and guaranteed *right to work* (Coenen & Leisink 1993). Nevertheless, most proponents of post-industrial ideas refuse to equate work with employment for such an equation leads to increasing social inequalities between those who have paid jobs and those who are either voluntarily or involuntarily out of the formal labour market. Moreover, the recognition of a distinction between 'work' and 'employment' results in the problem of dignity deprivation for the unemployed. The advancement of technology has made this difference obsolete and it is time to reflect this change in the value system (Handy 1984). The redefinition and institutionalization of *alternatives to paid work*, Coenen & Leisink suggest, is needed as an important challenge to the old work values and existing political and social security systems in modern capitalist societies. What, then, does this post-industrial understanding of 'work' involve?

It would be wrong to conclude that post-industrialists deny that employment is a socially important form of work. Rather, they extend the notion of 'work'. The concept 'work' encompasses house-work, farming, do-it-yourself activities, self-help activities, hobbies, paid occasional work below the tax threshold and similar 'useful activities'. Post-industrialists, in general, believe that less paid work enables an individual to participate more actively in the life of a community as well as in the political life of society. Thus those who do not participate in mainstream (paid) work have the possibility (and obligation) to participate in other socially useful activities. And they cannot complain about being marginalised as their work is both acceptable and valued. On the other hand those participating in the labour market (employed tax-payers) cannot complain that their taxes finance the 'idleness' of the former group.

The concept 'work' is not, however, frontierless. Offe and Heinze (1992) qualify as 'work' only those activities outside of gainful employment that are:

. . . both premeditated and also regarded as useful not only by the worker but also by others, and accomplished with a reasonable degree of efficiency and technical productivity. (Offe & Heinze 1992:67)<sup>14</sup>

The redefinition of 'work' is thus a part of the 'bundle' of strategic proposals to reform existing capitalist systems so as to prevent and decrease existing economic and social inequalities. Along with other elements such as the introduction of a basic or citizenship income and/or the general shortening of working hours, it represents an attempt to find an effective way out of the 'modernization trap' (Offe & Heinze 1992).<sup>15</sup>

It is obvious that one of the main goals of such deliberations is to redefine those conditions of full membership of an individual in society which are based on his or her participation in the labour market. Post-industrialists suggest that 'useful work' for a community rather than employment should be the moral basis for full membership entitlements. What practical outcomes does this approach induce?

- (1) Work for a community should be given the same recognition as employment.
- (2) People who are engaged in non-mainstream work for a community should not be harassed by the obligation to search for a job actively and, at short notice, to forfeit his or her entitlements to social rights (Coenen & Leisink 1993).<sup>16</sup>
- (3) Work for a community should be institutionally supported by the state.
- (4) Institutional support in the form of a universal *basic income* or *citizenship income* should be given to each citizen irrespective of his or her participation in the labour market, position in the class structure, sex, marital status, etc. The only criterion for entitlement is *need*, and the *moral basis* is useful work for a community (Offe 1993).
- (5) From the above list it follows that there is a need to break the cash/work nexus. The separation of income from employment (labour market) is basic to the full membership of an individual in society. It breaks not only conditional ties between the labour market and (social) security but also opens the space for each citizen for larger participation within a community.

Many social democrats criticize the post-industrial premise, saying that those out of the labour market will more actively participate in the life of society and, using their political rights, will impose substantial changes on contemporary political and value systems. Authors who belong to this stream of critics hold that the opposite is true: house-work and work for the community, though useful, do not offer the same quality of social contacts, status, or participation in

collective purposes as does employment. Exclusion from labour markets leads to a factual restriction of social contacts, is one of the chief causes of social isolation, causes political passivity and results in marginalisation and exclusion (Pixley 1993).

Social democrats are generally reluctant to accept post-industrial proposals to prevent marginalisation and social exclusion. The expanded understanding of 'work' and the search for alternatives to paid work do not solve the core of the problem. On the contrary, such an approach indicates resignation, the acceptance of permanent unemployment and the growing dualisation of society as irreversible phenomena and as characteristic features of modern capitalism. The post-industrial search for alternatives to paid work does not lead at all to a 'socially just society of equal citizens'. It is nothing but a contribution to the further division of the labour market where capital and organized labour remain advantaged *vis-à-vis* marginalised groups, and the whole society is constantly dualised (Pixley 1993). This does not, however, mean that social-democratic writers defend paid work as the only condition for full citizenship. As Pixley pinpoints the problem here, it is rather that exclusion from the labour market restricts the possibility of developing a fully-fledged, active citizenry.

Rather than extending the concept 'work', some defenders of the social-democratic welfare state put forward proposals to redefine 'full employment'. They realize that full employment defined as '8 hours a day, 5 days a week, and 45 years in a lifetime' jobs (mainly for male breadwinners) is, in restructuring advanced market economies, an outdated and utopian goal. Thus the attempt to modernize the concept as follows:

. . . if we qualify 'full employment' by saying: Let our orientation be, for example, an average working time of 30 hours per week both for men and women, but let our concrete working time vary around this standard according to economic conditions and circumstances of our life cycle, then full employment is not only possible but also a future oriented goal which corresponds to the values of equal opportunities for men and women, and to the values of our young generation. (Schmidt 1994:1)

Schmidt's understanding of the modernized term 'full employment' is closely connected with the idea of 'transitional labour markets' and 'transitional unemployment' which he defines as 'phases in the life cycle in which the working time deviates substantially from this standard' (1994:2). This includes short-time work, temporary part-time work, training, sabbaticals, parental leaves, etc. – all forms of work that are socially more acceptable than unemployment.

It is obvious that the concept 'transitional labour markets' represents different forms of combination of gainful employment and other socially useful work (for a community), which should be legally regulated or negotiated between social partners, and be financed partly through wages or salaries and partly from payroll taxes or tax credits. Thus rather than breaking the cash/work nexus, social democrats call for its *weakening* through social policy.<sup>17</sup> Paid work or gainful employment is often understood as a fundamental social right and cannot be equated with other forms of useful work for a community. The equation of employment and other forms of socially useful work outside the labour market is nothing but the institutionalization of long-term unemployment, thus creating the direct dependence of an individual on the state or a community.

In analysing the importance of paid work in relation to citizenship, Korpi (as already mentioned) makes an important methodological distinction between formally established *de jure* (social) rights and informal proto-rights. In his view, a right to employment as an opportunity to compete for rewards in the labour market is understood as one of the most important proto-rights. The institutional reflection of the proto-right to a gainful job is 'employment and economic policies increasing citizens' chances to participate in labour market competition' (Korpi 1994:5).<sup>18</sup>

To sum up: the chief incentives behind social-democratic efforts to protect and maintain the modernized idea of full employment, rather than redefine the notion 'work', flow from the following concerns:

- (1) To safeguard social cohesion and prevent the increase of inequalities and dualisation of society through the protection and extension of the (social) proto-right to a gainful job.
- (2) To preserve the social basis of the labour movement as an important political agent that can significantly affect the conditions for, and the outcomes of, distributive processes on the markets (Korpi 1989).
- (3) To protect and fulfil the right of each individual, via a gainful job, to achieve a certain level of independence from the state in terms both of income and a broader participation in social life.

These are fundamental goals, and at the same time basic prerequisites for the further development of the social-democratic welfare state recognized as a crucial agent for imposing substantial changes (in the direction of equalization) on both the functioning and social stratification of capitalist societies.



### Citizenship Income vs. the Extension of Citizenship Rights

The chief argument behind post-industrialist efforts to replace the current social security system with a universalistic basic income scheme is the need to change the conditional character of social rights entitlements that stigmatize, penalize, and in the end marginalise those who do not participate in the labour market. This is apparent especially in the case of unemployment benefits that depend directly on the previous participation of an individual in the labour market and are provided only for a specified period. In the present context of mass unemployment more and more people are dependent on welfare provisions and many of them are also morally deprived and socially marginalised. Moreover, the *full-time job* and *full-time employment* centred pattern is, from the post-industrialist point of view, not only an unrealistic goal, but at the same time gradually loses its attractiveness as a lifestyle pattern for some sections of the population (Offe & Heinze 1992). A universalistic, unconditional citizenship income scheme in the form of a basic or citizenship income could be the answer to this 'welfare state backlash'.

There exist a number of more or less elaborated definitions of a basic or citizenship income as an institutionalized form of a social right that is to different degrees dependent or independent of an obligation to work. To the more general belong, for example, Vilroxx's and Offe's following conception:

... we understand by basic income: a generalised citizen's right attributed to every natural person throughout his or her complete life and which consists of a guaranteed income established along decent subsistence criteria regardless of any possible participation in the labour market or/and quaternary sector. (Vilroxx 1993:205)

I believe that the universal and adequate basic income could be designed to become a synthesis of the more desirable features of universalism and selectivity. Such synthesis would have to consist of several components. The most important one is an unconditional subsistence level, tax-financed right to income based upon citizenship rather than labour market participation. (Offe 1993:227)

A more specific definition is offered by the document *A Programme for Full Employment in the 1990s*:

The principle is that all or most benefits (including indirect benefits handed out in the form of tax relief) should be replaced by a single transfer income (given as a tax credit to income earners, or as a cash payment to others), with supplements to cover specific needs, such as disability, that imply a higher cost of living for particular individuals. The citizenship income would be paid to all individuals, regardless of age (though lower for

children below the age of 16), sex, marital status, and duration of past work or tax-paying. All earned income above the citizenship income would be taxable, with a comprehensive income tax replacing the existing income tax and social security contributions. (1989:156)<sup>19</sup>

Generally speaking, a citizenship or basic income scheme is supposed to solve, in principle, several problems at the same time: to reduce direct dependence of marginalised groups such as the poor, the unemployed, etc. on the welfare state which restricts their full membership (participation in society) both formally and substantially.<sup>20</sup> The biggest benefit from introducing the citizenship income is the protection 'against socio-economic exclusion of large categories of people now being marginalised' (Vilroxx 1993). It would further contribute to more flexible forms of employment that would 'optimally' combine different activities, improve sexual equality in the labour market, and enable those who wish to devote their time to further education, family etc. to choose between citizenship income and employment and thus to create the space for more autonomy and a broader participation in social life. The final goal is not to reach 'absolute security' for all citizens but rather a 'sustainable level of risk and maintenance of autonomous options' (Offe 1993).

The idea of a basic or citizenship income is, however, still underdeveloped and poses a number of questions. For example: What should be the 'adequate' level of basic income or 'decent subsistence criteria'? Should the basic income cover only 'the basics' or should it be higher, let us say at the average level of the standard of living in the country in question? Is it possible to introduce such a scheme in one country only, or is it necessary to introduce it in several countries at the same time? How is consensus among countries to be achieved? The introduction of citizenship income would probably be financially very demanding and would substantially raise taxation. How might the political and moral incentives to launch the scheme be defined and implemented? Would the basic income scheme not create even more serious social tensions – between employed tax-payers and those out of the labour market? Should there be any obligations or duties imposed on those out of the labour market in order to be entitled to a basic income? If so, of what kind? Is it possible to estimate the short and long term advantages and disadvantages of such steps for the economic, social and moral fabric of society? What advantages has the scheme and what implications would it have, for example, for social equality, the extension of democracy, etc.?<sup>21</sup>

The main argument of social democrats against an *unconditional* citizenship income is based on the internal interdependence between paid work as a social (proto) right and welfare (entitlements and

benefits). Moreover, exclusion from the labour market restricts social contacts and leads to 'social alienation' and isolation and, therefore, in a sense, suppresses an individual's autonomy and independence. There are also some other specific strictures against post-industrial arguments to introduce a basic/citizenship income.

First of all, it is far from certain that the introduction of a basic income would solve the problem of the dependence of an individual on the state. Quite the contrary; it could create a new form of direct long-term dependence and a 'basic income trap'. Hence, it is too optimistic to state that a basic or citizenship income would guard against the socio-economic exclusion of those now being marginalised. Marginalisation and exclusion have to do with the ability and opportunity to participate in social life. An important part of this is the labour market as a specific expression of social relations within capitalist societies.

Also, the assumption that citizenship income would enable the more flexible and optimal combination of different activities in and out of the labour market is inadequate. This would be possible only if the basic income were high enough – that is, each citizen would be guaranteed the 'standard consumption' of goods and services – and if there were a sufficient number of flexible job opportunities in the labour market. If this were the case, however, another problem might occur: people might refuse to take low-paid jobs.

Here we should interrupt the list of different arguments for and against basic/citizenship income for the discussion is only nascent, and post-industrialists and social democrats can, theoretically, identify certain trade-offs as far as the need to establish a kind of universalistic income scheme for all citizens is concerned. Our assumption is based on analysing some proposals concerning the income transfer issues in the theory of social-democratic welfare state regimes. For example, Rehn's blueprint of the new system of social insurance from the late 1970s entails, at first glance, some similarities with post-industrial attempts to establish a basic/citizenship income.

Rehn has proposed

a single comprehensive system of financing all periods of voluntary or age-determined non-work which would replace the present system for youth education, adult studies, vacations, other leisure periods (sabbaticals, long-service leave, temporary retirement) and old age retirement. A system of that kind, a general insurance with individual access to drawing rights for partially free utilisation, would make it possible for the individual to use his rights in the various respects interchangeably, to a greater extent than he can today. (Rehn 1977:124)

Rehn holds that such a system would be conducive to the greater

flexibility and autonomy of an individual in a manner that corresponds with the almost forgotten term 'self-determination'. The fundamental differences between Rehn's and the recent post-industrialist proposals are:

- (1) Rehn proposes to create economic incentives to promote socially desirable behaviour. This includes the obligation to be employed rather than to work in a broad post-industrial sense.
- (2) With his proposal Rehn integrates a policy for flexibility with a policy for full employment within a balanced economy while post-industrialists try to find solutions for an unbalanced economy with permanent unemployment rates.

Thus we can conclude, from these debates, that social democrats will not necessarily agree with post-industrialists on the *criteria* for such a scheme, and that there exist significant differences in their views on the *role of the state* in the future development of citizenship rights.

### **The Role of the State**

We defined the general approach of a diversified group of post-industrial theoreticians to the present welfare state 'crisis' as efforts to maximize the scope of civil society on one hand, and to mitigate the state interventions into social and economic spheres on the other. Despite a commonly shared antipathy to welfare state institutions that 'reduce autonomy of an individual', post-industrialists are, however, very much aware of the fact that the introduction of a basic (citizenship) income needs certain active state actions. Nevertheless, they refuse an 'authoritarian welfare state' policy aimed at achieving 'an illusory goal' – full employment – in which welfare benefits are based on 'productivist assumptions'. Instead, a shift in the role of the state from authoritarian and 'prohibited state action to mandated state action' should occur, which would enable the development of an active citizenship (Offe 1993).<sup>22</sup>

The 'technical' preconditions of positive state action aimed at introducing the basic or citizenship income is the fulfilment of a normative requirement to break the cash/work nexus. In advanced democratic states this could not be achieved without a social consensus on some particular issues which could be summarized as follows:

- (1) The recognition of equal citizenship status for each individual person irrespective of his or her age, sex, marital status, religion,

class, position in/out of the labour market, etc. In other words: the need to get rid of labelling and dividing people into different categories according to some demographic, religious, economic, social or other attributes such as women vs. men, children vs. adults, employed vs. unemployed, married vs. single, etc. Offe (1993) calls this ‘moral universalism’.

- (2) Consensus has to be achieved on the question of the legitimacy of the claims (social rights) of individuals based on citizenship. That means, in particular, no differences as far as entitlements and obligations concerning (the same) citizenship income is concerned.
- (3) Concordance between individual and public interests must be secured. It is necessary to reach a consensus that the introduction of citizenship income is an advantage for all, or at least does not disadvantage anybody.
- (4) Consensus must be established that this solution does not threaten economic, political, and moral development in a particular society.<sup>23</sup>

Achieving the above-mentioned preconditions can be more or less accepted as a certain ‘futuristic’ goal also by the social democrats. However, in the present context of mass unemployment and increasing poverty, the idea of a citizenship income can be ideologically misused and in the end can lead to results quite the opposite of those it was intended to achieve – to the strengthening of an autonomous and authoritarian state rather than to the extension of civil society. What are the most common specific provisos against the idea of unconditional citizenship income?

First of all, such an approach re-directs the public perception of unemployment. Unemployment is not understood as an economic but rather as an ‘exclusively’ social problem that should be solved or mitigated through social policy arrangements – the introduction of a basic income being best. Hence the role of the state (and specifically the social policy of the state) is restricted to solving ‘social problems’ via the redistribution of income and not by interference in the labour market. This, in fact, is nothing but the re-introduction of the ‘residual’ welfare state on a ‘qualitative new’ level.

Second, within this conception permanent unemployment is politically accepted as a typical feature of modern capitalism. From a social-democratic point of view, however, that means the factual restriction of a fundamental social proto-right – the right to a gainful job – that has been won by the labour movement over time, and which plays a crucial role in achieving full citizenship.

Third, the often used post-industrial argument that a basic income would enable those outside the labour market to be more politically active, and thus more autonomous and independent of the state, is misleading. No such empirical evidence exists. On the contrary, the corollaries could well be political apathy or even the exclusion of a huge number of people from political participation, increased dependence on the state and, ultimately, a threat to one of the main achievements of modern capitalism – democracy.

Post-industrial proposals to introduce a basic/citizenship income can be interpreted as a *radical* solution to welfare state limits. Social democrats, however, hold to the idea of *evolutionary* changes that can lead to ‘revolutionary outcomes’ (Esping-Andersen 1985) *within* the modern welfare state. Modern welfare states fulfil several functions: they redistribute the wealth from the haves to the have-nots, guarantee certain social rights (education, social insurance, medical care, etc.) and enforce rights and duties (social control). The goal of social-democratic movements is to protect the existing (*de jure*) rights and gradually institutionalize the achieved proto-rights (via a consensus of the main political actors). They are at the same time a precondition for a cohesive community based on nation-wide rather than ‘class’ solidarity where the principle of universalism is combined with the *quality* of social rights.<sup>24</sup> Present mass unemployment along with marginalisation and social exclusion have seriously threatened the crucial integrative function of welfare states. While the post-industrial response to this is the redistribution of income (in the form of a basic/citizenship income) where the only criterion for entitlement is need, social democrats, rather, propose a distribution of employment (van der Veen 1993) that would enable citizens to be more autonomous, and more independent of the welfare state (in terms of income) and to enjoy a wider participation in social life. Consequently the state, as a provider for citizens’ needs and as a guarantor of their citizenship rights, should be responsible for maintaining appropriate job opportunities (encouraging also different private efforts) for all those who are able and willing to participate in the labour market.

### Summary and Conclusions

The recent deep economic recession in Europe, accompanied by high levels of unemployment, has posed, among other things, a serious question about the future of citizenship rights in general, and social rights in particular, in advanced capitalist societies. Diverse responses to this problem on the scale liberalism (the re-introduction of means-tested programs) through to post-industrialism (the introduction of basic/citizenship income) have been articulated.<sup>25</sup>

In this article we have tried to summarize some facets of the ongoing debates on those strategies that stress the need to protect and to extend existing (social) rights, to maintain social cohesion and certain levels of equality, to prevent marginalisation and social exclusion, and to develop the autonomy and independence of citizens from the welfare state and in the labour market. We have also tried to show how different are the strategies for pursuing these goals, both in their understanding of the main concepts and in defining ways to accomplish desirable outcomes.

Although there does not usually exist a direct connection between theoretical debates, political choices, and decision making processes, one can hardly ignore the *ideological* impact of the ongoing discourse on unemployment, citizenship, and the role of the state in modern societies. In this sense debates on the future of citizenship rights are of paramount importance not only for the advanced Western European countries but also for the post-Communist countries in Europe that have recently undergone enormous changes in civic, political and social rights and in which the role of the state in society as well as the relationship between citizens and the state is changing. Unemployment is still a new phenomenon and an immense portion of the population who have grown up under the paternalistic 'communist' state are far from being confident citizens aware of their citizenship rights and obligations.

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### NOTES

1. Social security (social rights) along with individual freedom (especially a right to private ownership) are often considered as a legal basis for the social independence that is necessary for an effective exercise of political rights.
2. See for example: H. Coenen & P. Leisink (eds), *Work and Citizenship in the New Europe*, Edward Elgar Publ., 1993; or J. Pixley, *Citizenship and Employment*, Cambridge: Cambridge University Press, 1993.

3. Here we make only a very rough distinction between the above-mentioned groups of views. While post-industrialists do not connect the positive development of citizenship within modern capitalist societies with the development of the welfare state, and are highly critical of the welfare state as a whole system, pinpointing its limits, social democrats believe in gradual extension of citizenship rights *within* the welfare state. This general distinction encompasses a number of more detailed differences and some of them are discussed in this article. We would like to stress that the term 'social democrat' used in this paper cannot be equated with membership in any political party which bears that name.
4. This is, in fact, what most post-industrialists expect to happen.
5. While post-industrialists defend the idea of distribution of income as the basis for equal citizenship, social democrats stress the need to distribute jobs.
6. This applies, first of all, to most Eastern European post-Communist countries – and this is one of the 'personal' reasons for my interest in the problem.
7. One should, however, bear in mind that Marshall's analysis applies to the development of citizenship in Great Britain.
8. The term 'social movement' is here used in a very broad sense.
9. Held criticizes Marshall's framework as too tied to class and the capitalist production system. He states: 'If citizenship entails membership in the community and membership implies forms of participation, then it is misleading to think of citizenship primarily in relation to class or the capitalist relations of production' (Held 1989:173). He also proposes to extend citizenship rights to so-called reproductive and economic rights – which means all the rights which have been won by the labour movement so far (such as industrial democracy, collective bargaining, participation at work), etc. There are some other authors who agree with this position (Coenen & Leisink 1993).
10. Full employment is understood as full-time jobs especially in the industrial sphere (mainly of men who have dependent wives and children) with a governmental guarantee of income security during the (short) period of unemployment.
11. The post-industrial theoreticians of the 1990s differ significantly from the first generation of post-industrial thinkers represented by Daniel Bell or Alvin Toffler, for the latter were rather optimistic about the future of paid work, particularly in the tertiary sector.
12. We chose Esping-Andersen's classification of welfare state regimes (Esping-Andersen 1990) where social-democratic welfare state regimes are characterized as regimes where universalism and de-commodification of social rights have been extended to the new middle class; hence the goal is to maintain social equality at the highest standard and not merely with respect to minimum needs.
13. The model can be understood as an integral part of social-democratic welfare state regimes.
14. Those activities would, according to the authors, be exchanged within a community on a money-less basis, where the exchange currency is time. Time currency would be exchangeable only for services measured by the time extended to them. Each participant to the exchange could freely decide how much work he or she would offer, of what kind, and on which consumer goods or services he or she wished to spend the time certificates received in return for the work. Time would thus be treated like money, 'yet without being traded for money' (Offe & Heinze 1992:51).  
Such a system of non-monetary communal use of time is nothing but an attempt to exploit existing unused activity potentials outside the cash/work nexus, and at the same time above the private exchanges within households and families. Offe and Heinze believe that an economic money-less exchange system would significantly contribute not only to the use of work potential lying outside the labour market but also to a more suitable structure of the distribution of life opportunities and to more social equality. There is, however, the need to formalize such alternatives to paid work and to set up institutional structures that would guarantee legal conditions for money-less exchange within a community.
15. In short, authors describe the 'modernization trap' as the radical changes imposed on the functioning of the market system. According to this theory traditional development patterns of industrial capitalism have reached an impasse and at the same time have resulted in the blocking of production potentials within society.
16. While some authors stress a right to work (Durkheim 1984), Coenen and Leisink (1993) emphasize that to be a full member of society includes also an obligation to



- work. This is, in their view, also the way to prevent a free rider problem. Similarly, the 'conditional' character of basic income entitlements for a 'transitional period' supports Offe and Heinze (1992). They stress that the conditional disposition of basic income entitlements should not be based on 'preparedness to take up paid employment but on preparedness to take part in co-operation circles [money-less exchange – E. K.] and similar exchange systems' (Offe & Heinz 1992:220).
17. There exist certain 'logical' constraints on the complete division between paid work and income. Entirely breaking the cash/work nexus would be possible only if the whole population has sufficient income without entering employment (Pixl y 1993).
  18. This corresponds with labour market policies where so-called active employment (manpower) policy plays an important role. The term 'active employment (manpower) policy' is not a completely new one. It is closely connected with such names as G sta Rehn and Rudolf Meidner who originated the so-called Swedish model. Active manpower policy along with aggressive wage-solidarity bargaining are parts of active labour market policy that can be translated into direct intervention into the labour market aimed at maintaining full employment. The original concept of active manpower policy relied on the retraining of workers co-ordinated at the central level, local creation of jobs, different forms of further education, etc. – all forms which should have prevented massive lay-offs and adjusted the skill requirements to structural changes. Thus 'by helping shift manpower to more efficient and profitable firms the policy enhanced the economy's competitive potential under full employment and high wages, while at the same time removing the need to subsidise weak firms in the interest of maintaining jobs' (Esping-Andersen 1985:230).  
Active manpower policy that has developed in Sweden has also generated some bottlenecks such as the concentration of capital (as a result of solidaristic wage policy) or inadequate rates of new investment. Thus at present a new problem appears: how to supplement active manpower policy with active investment.
- Some authors state that 'labour market policy became a Swedish speciality without comparison anywhere else' (Therborn 1986:104) In fact, already during the 1950s through Rehn's senior position in the OECD Secretariat it was, to different degrees, exported to Western European countries. Today, the term 'active manpower policy' is used broadly, for example, in the EU documents though one can hardly state that it has the same meaning everywhere.
19. It is worth stressing that the Kreisky Commission is not a typical representative of post-industrial views. Quite the contrary; most of their work corresponds with what we call the social-democratic approach. For this is an open forum where the issues of the future development of capitalism are discussed; thus they could not have avoided dealing with citizenship (basic) income as an element of the discussion.
  20. Coenen and Leisink (1993) pinpoint the flexible nature of social rights that differ from country to country and are not of a substantial character (they are not, for example a part of the Constitution). Contrary to political and civic rights, social rights are dependent on certain conditions such as maternity, disability, unemployment, etc.; particular welfare benefits are very often means-tested and derived from officially recognized subsistence levels. For a great portion of welfare benefit recipients this means the minimization of their expenses and hence minimization of their social contacts. Moreover, the existence of private social services, very often supported by the state, disadvantages those who cannot afford to pay for them.
  21. Some post-industrialists do realize that basic income is not a panacea and that the idea is still far from being mature. Offe, who is very much aware of the importance of political and moral incentives in decision-making processes, therefore proposes to supplement the political requirements to introduce a basic/citizenship income with the idea of so-called co-operative circles that are based on the obligation to work for a community (Offe & Heinze 1992). This, however, still does not answer the questions listed above.
  22. In particular that means the creation of positive legal obligations and entitlements. This approach results from experience of the functioning of welfare state institutions which have developed within different types of welfare states over time and have been arranged to protect social rights of citizens. However, in the name of protection of a citizen's social rights, they have created (dependent) social clients. Such a paternalistic welfare state apparatus significantly threatens the autonomy and activity of citizens and turns them into passive 'consumers' who enjoy (social) rights

bestowed in terms of the paternalistic authority of the state. Habermas (1992:351) calls such an understanding of citizenship 'the aggregation of pre-political individual interests' and stresses that citizenship can be more than that only when decision-making bodies are open for, and sensitive to, the influx of issues, values, programmes, etc. originating from their informal environments.

23. For more elaborated information, see Offe (1993).

24. Here we mean the level of income replacement as well as a scale of eligibility.

25. As far as the eligibility of claims is concerned.

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# Markets, Private Property and the Possibility of Democracy

*David Held*

This essay focuses on a much debated theme in political thought: the relationship of democracy to the 'free market' and private property. While the essay rehearses a number of familiar positions in this debate, it develops a distinctive position by arguing that, if different kinds of markets are to flourish within the constraints of democratic processes and outcomes, democratic rules and procedures must be entrenched in market mechanisms and relationships. In presenting this case, the democratic justification for political intervention in the economy, at national, regional and global levels, is also set out.<sup>1</sup>

The backdrop of the essay is the neo-liberal argument which claims that only individuals can judge what they want and, therefore, the less the state interferes in their lives the more freedom they will have to set their own objectives. Part I of the essay explores this argument, under the heading 'the framework of utopia', as it is unfolded in the work of Robert Nozick and Friedrich Hayek. In the second part of the essay, I assess this argument critically by examining whether there are economic limits to freedom and democracy. After showing that there are distinctive tensions between democracy and capitalism, I emphasize that the implications of these – in the context of the end of the Cold War and the collapse of Soviet Communism – are by no means straightforward. The terms of this analysis are explored further in the third section of the paper where the rationale of democratic political intervention in the economy is examined. In the fourth and fifth parts, I turn to how, and at what levels, democracy might be 'deepened' and more extensively entrenched in economic life. Different forms and types of political intervention are discussed and I make the case for what I call 're-framing' the market. Finally, I offer a few concluding reflections on a democratic programme for the regulation of the economy.

## **The Framework for Utopia: Neo-liberalism?**

The least intrusive form of public power commensurate with the defence of individual rights, it has been argued, is the 'framework for utopia'. The author of this view, Nozick, holds that we must get away

from the idea that utopia represents a single conception of the best of all social and political arrangements (1974). There is no one type of community that will serve as an ideal for all people, because a wide range of conceptions of utopia exists. Provocatively, he wrote:

Wittgenstein, Elizabeth Taylor, Bertrand Russell, Thomas Merton, Yogi Berra, Allen Ginsburg, Harry Wolfson, Thoreau, Casey Stengel, The Lubavitcher Rebbe, Picasso, Moses, Einstein, Hugh Hefner, Socrates, Henry Ford, Lenny Bruce, Bab Ram Dass . . . Emma Goldman, Peter Kropotkin, you, and your parents. Is there really one kind of life which is best for each of these people? (Nozick 1974:310)

A society in which utopian *experimentation* can be tried should be thought of as utopia. Or, to put the point another way, utopia is the framework for liberty and experimentation (Nozick 1974:333–4).

There is much to recommend this view; since individuals and peoples are extraordinarily diverse, no one kind of life seems best for all of them. An institutional arrangement which creates maximum space for initiative and autonomy, and minimum space for restriction and coercion, is, *prima facie*, highly appealing. But the questions are: how can radically different aspirations be both articulated and reconciled? How can self-determination be achieved without a framework of mutual accommodation? If people are to be self-determining, do they not require a common structure of action to protect themselves as agents with an equal entitlement to self-determination? According to Nozick, the grounds for any such suggestion are deeply suspect; the framework for utopia is properly conceived as ‘libertarian and *laissez-faire*’. The framework is inconsistent with ‘planning in detail’ and the active redistribution of resources.

Developing a parallel theme, Hayek insists that a free society is incompatible with the enactment of rules which specify how people should use the means at their disposal (1960:231–2). The value of individuals’ services can only be determined justly by their fellows in and through a decision-making system which does not interfere with their knowledge, choices and decisions. And there is only one sufficiently sensitive mechanism for determining ‘collective’ choice on an individual basis – the free market.

The free market does not always operate perfectly; but, Hayek insists, its benefits radically outweigh its disadvantages (1960, 1976; and see Rutland 1985). The market system is the basis for a genuinely free order; for economic freedom is ‘an essential requisite for political freedom’ (Friedman 1980:21). Thus, ‘politics’ or ‘state action’ should be kept to a minimum – to the sphere of an ‘ultra-liberal’ state (Hayek

1976:172). An 'oppressive bureaucratic government' is the almost inevitable result of deviation from this prescription. By contrast, a public authority which acts within this framework – preserving the rule of law, providing a 'safety net' for the clearly destitute, and maintaining collective security against internal or external threats – will not only be a 'limited government' but a 'decent government' as well (1982: Vol.II:102; cf. 1982: Vol.III:102–27). The framework for utopia is limited and decent government; it can be referred to as a 'legal democracy' – a democracy circumscribed by the rule of law which prohibits the making of general, i.e. redistributive, rules.

### **The Economic Limits to Democracy?**

The above arguments include a number of elements which are important to consider. Those of particular note include the stress on protecting individual autonomy against coercive political power in all its forms; and limiting the scope and form of state action by means of the rule of law. However, there are many reasons for pausing before equating the framework for utopia with 'legal democracy'. The idea that modern society approximates, or could progressively approximate, a world where producers and consumers meet on an equal basis seems implausible, to say the least. Hayek in particular, and neo-liberalism in general, project an image of markets as 'powerless' mechanisms of co-ordination and in so doing neglect the distorting nature of economic power in relation to democracy (see Vajda 1978).

These general reflections can be broken down further into a number of different elements. First, there are significant areas of market failure, recognized by many conventional economists, which need to be borne in mind when analysing the relationship of democracy to market forces, including: the problem of externalities (for example, the environmental externalities produced by economic growth); the persistent dependence of market economies on *non*-market social factors which alone can provide an effective balance between 'competition' and 'co-operation' (and, thus, ensure an adequate supply of necessary 'public goods' such as education, trained labour and market information); the tendency to the 'concentration' and 'centralization' of economic life (marked by patterns of oligopoly and monopoly); the propensity to 'short-termism' in investment strategy as fund holders and fund corporations operate policies aimed at maximizing immediate income return and dividend results; and the underemployment or unemployment of productive resources in the context of the demonstrable existence of urgent and unmet need (see Miller 1989; Cohen 1991; Hirst 1993; Pierson 1993; Evans 1992).

Second, some of the main threats to democracy and political

freedom in the contemporary world can be related not to demands for equality or the ambitions of the majority to level social difference, as thinkers from Tocqueville to Hayek have feared, but to inequality, inequality of such magnitude as to create significant violations of political liberty and democratic politics (Held 1987:90ff; 1993c: part 2; and see Dahl 1985:50,60). Nozick and Hayek, and neo-liberalism in general, neglect to inquire into the extent to which market relations are themselves power relations that can constrain the democratic process. They do not ask whether systematic asymmetries in income, wealth and opportunity may be the outcome of the existing form of market relations, and whether one particular form of autonomy – the autonomy to accumulate unlimited economic resources and to organize productive activity into hierarchically governed enterprises and highly mobile units – poses a fundamental challenge to the extent to which autonomy can be enjoyed by all citizens; that is, the extent to which citizens can act as equals in the political process. Economic organizations are co-operative ventures governed by rules, policies and strategies but they remain ventures in which most employees have no democratic stake, despite the fact that each employee is expected to operate for the mutual advantage of all others, and that the decisions, policies and strategies of these ventures have a major influence on other sites of power, from health and welfare to politics (see Cohen 1988).

Third, the stratification of democratic systems produced by modern corporate capitalism goes beyond the immediate impact of economic inequalities. For the very capacity of governments to act in ways that interest groups may legitimately desire is constrained. Lindblom has explained the point simply:

Because public functions in the market system rest in the hands of businessmen, it follows that jobs, prices, production, growth, the standard of living, and the economic security of everyone all rest in their hands. Consequently government officials cannot be indifferent to how well business performs its functions. Depression, inflation, or other economic disasters can bring down a government. A major function of government, therefore, is to see to it that businessmen perform their tasks. (Lindblom 1977:122–3)

The constraints on governments and state institutions systematically limit policy options. The system of private property and investment creates objective exigencies that must be met if economic growth and development are to be sustained. Accordingly, governments must take action to help secure the profitability and prosperity of the private sector: they are dependent upon the process of capital accumulation which they have for their own stability to maintain, which means, at

the minimum, ensuring the compatibility of economic policies with the imperatives of the corporate sector and/or with the imperatives of the international capital markets.

Another way to put this is to note that the possibility of managing a national economy and of 'bucking' international economic trends has become more difficult. In an international economic system which fosters vast, instantaneous movements of short-term capital – about a trillion dollars a day is dispatched across borders – a government's capacity to reflate its economy at a time of its own choosing has become problematic, although it retains deflationary options in order to bring its economy into line with wider market trends – options, however, with high social costs measured in terms of unemployment and crime (see Hutton 1993).

Government legitimacy, furthermore, is thoroughly bound up with the success of its economic measures. For governments are also dependent upon the private sector to meet the demands of their consumers (see Evans 1992). If governments fail in this regard, their electoral support can quickly melt away. A government's policies must, thereby, follow a political agenda that is at least favourable to, i.e. biased towards, the development of the system of private enterprise and corporate power, national and international.

Democratic theory and practice is, thus, faced with a major challenge; the business corporation or multinational bank enjoys a disproportionate 'structural influence' over the polity and, therefore, over the nature of democratic outcomes. Political representatives would find it extremely difficult to carry out the wishes of an electorate committed to reducing the adverse effects on democracy and political equality of corporate capitalism. (For an account of some past attempts, see Coates 1980; Ross, Hoffmann & Malzacher 1987; cf. Hall 1986). Democracy is embedded in a socioeconomic system that grants a 'privileged position' to certain interests.

If a state or set of regulative agencies is separate from the associations and practices of everyday life, then it is plausible to see it as a special kind of apparatus – a 'protective knight', 'umpire' or 'judge' – which the citizen ought to respect and obey. But if states and governing agencies are enmeshed in these associations and practices, then the claim that they constitute 'independent authorities' or 'circumscribed impartial powers' is compromised, as thinkers on the left of the political spectrum have traditionally maintained. This is unsettling for a whole range of questions concerning the nature of public power, the relation between the 'public' and the 'private', the proper scope of politics and the appropriate reach of democratic governments (see Pateman 1985:172ff).

Furthermore, if states are, as a matter of routine, neither 'separate'



nor 'impartial' with respect to society, then citizens will not be treated as equally free. If the 'public' and 'private' are interlocked in complex ways, then formal elections will always be insufficient as mechanisms to ensure the accountability of the forces actually involved in the 'governing' process. Moreover, since the 'meshing' of state and civil society leaves few, if any, realms of 'private life' untouched by 'politics', and vice versa, the question of the proper form of the state, law and democratic regulation is posed acutely. *Pace* Nozick and Hayek, if the rule of law does not involve a central concern with distributional questions and matters of social justice, it cannot be satisfactorily entrenched, and democratic accountability cannot be adequately realized.

The above arguments stress a number of sources of tension between democracy and capitalism. Even when taken together, however, they by no means amount to a straightforward critique of the latter. While granting priority to the right to self-determination entails recognizing the importance of introducing limits on the right to, and on the rights of, productive and financial property, the exact implications of this viewpoint remain obscure. It would be quite foolish to suggest that there are simple alternatives, which are both feasible and desirable, to the existing system of corporate capitalism. For instance, the notion that the tensions between democracy and capitalism can be overcome by the introduction of a planned economy, as classical Marxists have traditionally argued, suffers from two decisive problems that render it implausible and, for most people, unappealing. To begin with, in its technocratic-elitist form, expressed most clearly in the Soviet conception of a Command Economy, the planned economy has failed as a political and economic project. This is so for many of the reasons Hayek proffered; these include, an arrogant and misplaced presumption of knowledge about people's needs and wants, a crisis of 'excessive information' which could not be properly evaluated in the absence of market prices and costs, and the pursuit of coercive political programmes in diverse domains, from economic management to cultural life (1960, 1976 & 1978). The Command Economy was the epitome of the 'oppressive bureaucratic state'. Secondly, all those who have sought to articulate the notion of a planned economy with democracy – defending the idea of a self-managed economic system, for instance – have so far failed to elaborate a fully convincing alternative political economy to capitalism (cf. Callinicos 1993; Held 1993a and 1993b). At the present juncture, there does not seem to be a viable alternative economics to capitalism but this does not mean, of course, that one might not be forthcoming. Nor does it mean that the question of 'alternatives' is an insignificant matter.

But the whole question of capitalism and its alternatives is wholly

misstated by putting the issue as one between capitalism or something different in all fundamental respects. Just as there is more than one socialism, there is more than one capitalism. Capitalism is not a single, homogeneous system the world over; there are different capitalisms with different capacities for reform and adaptation. The United States, Japan and Sweden, for instance, embody quite different models of economic development, production, labour market regulation and welfare regimes (see Esping-Andersen 1990; Allen 1992). In addition, capitalism, in the context of democratic constitutional societies, has strengths as well as weaknesses – strengths that need to be recognized and defended as well as extended and developed (cf. Habermas 1992).

Accordingly, if the implications of the arguments about the tensions between democracy and capitalism are to be pursued, it needs to be on terms which break with the simple and crude juxtaposition of capitalism with planning, or capitalism with systems of collective ownership and control, and in terms which are more cautious and, I should add, experimental. In order to consider these matters further, it is necessary to relate them to a broader and more systematic framework of assessment – that provided by the arguments for democracy and what I call ‘democratic autonomy’. By democratic autonomy I mean the capacity of all persons as citizens to, in principle, enjoy autonomy in equal measure. I take a commitment to democratic autonomy to be at the core of democracy. More formally stated, I take such a commitment to mean

that persons should enjoy equal rights (and, accordingly, equal obligations) in the specification of the framework which generates and limits the opportunities available to them; that is, they should be free and equal in the determination of the conditions of their own lives, so long as they do not deploy this framework to negate the rights of others.

Any power system that systematically violates or undermines this principle can be regarded as an illegitimate restriction on democracy’s proper form and scope (see Held 1995, forthcoming, part 3, where this issue is explored in some depth).

### **The Rationale of Political Intervention in the Economy**

To create a framework for utopia demands not an abdication of politics in the name of liberty and experimentation, but – on the contrary – a distinctive logic of political intervention. The rationale for this logic does not derive, first and foremost, from the domain of political control; that is, from a desire to plan and regulate economic and social affairs. Rather, the rationale derives from the requirement

to ensure that the conditions are met for the democratic regulation of sites of power in all their forms. The requirement of democratic autonomy provides a direction for public policy and for its proper form and limits. Political intervention is justified when it upholds and furthers this objective.

A 'legal democracy', therefore, can never simply be a minimum national state or a federation of minimal states. For the rationale of political intervention lays upon the polity – at local, national, regional and global levels – the responsibility to promote and defend democratic autonomy. Within the economy, thus, political intervention is warranted when it is driven by the objective of overcoming those consequences of economic interaction, whether intended or unintended, which generate damaging externalities such as environmental pollution threatening to citizens. And it is warranted when it is driven by the need to ensure that the basic requirements of autonomy are met for each and all both within and outside of the firm. None of this is a case for abandoning the market system. The latter has distinct advantages, as Hayek has emphasized, over all known alternative economic systems as an effective mechanism to co-ordinate the knowledgeable decisions of producers and consumers over extended territories. But it is an argument for 're-framing' the market.

### **The Entrenchment of Democracy in Economic Life: Re-framing the Market**

Democracy is challenged by powerful sets of economic relations and organizations which can – by virtue of the bases of their operations – systematically distort democratic processes and outcomes. Accordingly, there is a case that, if democracy is to prevail, the key groups and associations of the economy will have to be re-articulated with political institutions so that they become part of the democratic process – adopting, within their very *modus operandi*, a structure of rules, principles and practices compatible with democracy. The possibility of such a structure depends upon groups and economic associations functioning within agreed and delimited frameworks. Companies may be conceived as real entities or 'legal persons' with legitimate purposes of their own, without surrendering the idea of a shared framework of political action (cf. Hirst 1990:75–78). What is at issue is the inscription of the principles, rules and procedures of democracy and democratic autonomy into the organizational rules and procedures of companies, and of all other forms of economic association.

If democratic processes and relations are to be sustained, corporations will have to uphold, *de jure* and *de facto*, a commitment to the

requirements of democratic autonomy. What this entails is that companies, while pursuing strategic objectives and profit goals, must operate within a framework which does not violate the requirement to treat their employees and customers as free and equal persons. Within their sphere of competence, that is to say, companies would have to pursue working conditions and practices which sustained health and safety, learning and welfare, the ability to engage in discussion and criticism (including criticism of the company and its staff), the capacity to join independent associations (in this case, trade unions and professional organizations), and the capacity for economic independence and involvement in decision-making, i.e. most of the basic requirements of democratic citizenship. I do not have the opportunity in this paper to justify the inclusion of all these elements in economic associations, but I would like to dwell on a few ingredients of democratic autonomy in the sphere of work. These include rights to a 'basic income' and 'access avenues' to productive and financial property.

A commitment to a basic income is a commitment to the conditions for each employee's economic independence; that is, the conditions which are commensurate with an individual's need for material security and the independence of mind which follows from it (see Rousseau 1968:96; Connolly 1981: ch. 7). Without a resource base of this kind, people remain highly vulnerable, dependent on others and unable to exercise fully their capacity to pursue different courses of action. The requirements of economic independence include a firm policy of 'minimum wages' at work, politically determined intervention to uphold such levels and a wider collective provision for those who, for whatever reason, fall outside the income generating mechanisms of the market (see Jordan 1985; and Rogers & Streeck 1994). However, even more important for the form and character of economic associations is the commitment to 'access avenues' to the decision-making apparatus of productive and financial property; that is, to the creation of participative opportunities in firms and in other types of economic organization. Such opportunities do not translate straightforwardly into a right to social or collective ownership. For what is centrally at issue is an opportunity for involvement in the determination of the regulative rules of work organizations, the broad allocation of resources within them, and the relations of economic enterprises to other sites of power (cf. Pierson 1995). The question of particular forms of property right is not in itself the primary consideration (see below).

Furthermore, the transaction of all business would, within this conception, have to be conducted in a manner which respects each and every person's right to lawful political relations and upholds a wider

framework of international law. This means that companies ought not to engage in activities, openly or covertly, which undermine the political choices of peoples as, for instance, some North American companies did in Chile in 1973 when they colluded in the downfall of the Allende regime, or as many companies do when they fund (typically Centre-Right) political parties in order to ensure electoral outcomes favourable to their interests. The private determination of election results, whether by force, fraud or funding, should be ruled out by the requirements of democracy, with its insistence, in principle, on free and equal participative opportunities for all parties in the democratic process.

The entrenchment of democratic rights and obligations within economic organizations represents an extension of an established idea of using legislation to alter the background conditions of firms in the market place. The Social Chapter of the European Maastricht Agreement, for example, embodies principles and rules which are compatible with the notion of generating elements of a common framework of democratic action. If operationalized, the Social Chapter could, in principle, alter the structure and functioning of market processes in a number of distinct ways (Lebrun 1990; Addison & Siebert 1993). However, its provisions fall far short of the determination of what is necessary to secure a democratic framework of economic action (see Hepple 1993). In addition, the intensive arguments about the Social Chapter in Europe highlight a legitimate concern about a *European* attempt to address the social conditions of the market. It has rightly been objected that if some nation-states opt out of the Chapter, as Britain did prior to the ratification of the Agreement, it could force increased costs and regulations on some enterprises while leaving others – those in the opt-out nations – free of these, with the consequence that the latter become potentially a more attractive investment location for companies seeking to minimize their costs and responsibilities. It has also rightly been argued that a European social initiative of this kind which did not lead to parallel reforms and developments elsewhere might disadvantage European capital in competition with other regional economic zones and/or so weaken the European initiative that it would become either ineffective or unenforceable over time (See Addison & Siebert 1993:29ff; cf. Balls 1994).

It is desirable, therefore, that markets are framed by a democratic law, particularly an *international democratic law*, which could entrench and enforce its provisions – concerning rights and obligations with respect to health, welfare, learning, participation and a basic income – across economic life, nationally, regionally and globally. What is required, in essence, is the introduction of new

clauses into the ground rules or basic laws of the free market and trade system. Ultimately, this necessitates the stipulation of new democratic terms of economic organization and trade. While the advocacy of such a position would clearly raise enormous political, diplomatic and technical difficulties, and would need a substantial period to pursue and, of course, implement, this is a challenge that cannot be avoided if people's equal interest in self-determination is to be nurtured and fulfilled. Only by introducing new terms of empowerment and accountability throughout the global economic system, as a supplement and complement to collective agreements and welfare measures in national and regional contexts, can a new settlement be created between economic power and democracy (cf. Lipietz 1992:119–24).

A new agreement of this kind – a new 'Bretton Woods' as it were – would seek not only to entrench the general conditions that are necessary for a common structure of democratic life, but also the conditions necessary for the pursuit of policies aimed at alleviating, in the short and medium term, the most pressing cases of avoidable economic suffering and harm. For a common structure of democratic life cannot be achieved without the transformation of the conditions of 'the disadvantaged'; that is, those whose very *political agency* is impaired by need. Without such a transformation, these people's equal interest in democracy – their equal entitlement as a citizen to self-determination – cannot be protected. Therefore, at a minimum, a democratic process of change would involve negotiation to reduce the economic vulnerability of many developing countries by reducing debt, decreasing the outflow of net capital assets from the South to the North,<sup>2</sup> and creating new economic facilities at organizations like the World Bank and the IMF for development purposes (see Lipietz 1992:116ff; and Falk 1995: ch. 6). In addition, if such measures were combined with a consumption tax on energy usage and/or a shift of priorities from military expenditure to the alleviation of severe need, then the developmental context of Western and Northern nation-states could begin to be accommodated to those nations struggling for survival and minimum welfare.<sup>3</sup>

Moreover, 'zones of development', areas defined by the extensiveness of cases of urgent need (typically found in the South but also in parts of the North), could be established and formally demarcated. In such zones, the responsibility for the nurturing and enforcement of urgent levels of autonomy would not be left to the countries alone in which the zones were located, especially if particular democratic rights clusters – for example, aspects of safety, welfare and a basic income – were demonstrably unfundable by those countries. If this were the case, urgent levels of autonomy would have to be treated as targets for attainment by developing areas, rather than obligations

which were legally binding and capable of immediate enforcement. However, such a limited suspension of the enforcement of certain rights would need to be linked directly to the provision of additional resources by the international community to help promote local forms of industry and work. Such a 'double-sided' strategy could be expected to provide a significant impetus to self-generative activities; thus, hard-pressed nations or regions could find support from a policy context oriented toward mutual responsibility for democracy and autonomy, in the short and long run.

Entrepreneurs and executives appear to object less to regulation or reform *per se* than to the intrusion of regulatory mechanisms that upset 'the rules of the game' in some particular places or countries only. High direct-tax levels or tough equal-opportunities legislation, for example, are objectionable to companies if it handicaps their competitive edge with other companies from areas not subject to similar regulations. Under such circumstances, companies will do what they can to resist regulation or depart for more 'hospitable shores'. Accordingly, the rules of the game have, in principle, to be altered *tout court*, at regional and global levels, if capitalism is to be democratized and entrenched in a set of mechanisms and procedures that allow different kinds of markets to flourish within the constraints of democratic processes. A democratic political economy can be envisaged as part of a 'democratic alternative' to both state socialism and liberal democratic capitalist economies.

### **Forms and Levels of Intervention**

Against this background, international organizations would be given new responsibilities to oversee the process of democratic entrenchment. Among their objectives would be to reduce the role of economic forces in delimiting democratic conditions and outcomes, while not eroding the role of market exchange, that is, the orientation of enterprises toward the effective use of their capacity to meet market demand (see Devine 1991:211). To enhance the prospects of attaining this result, levels of public expenditure and public investment would need to be subject to public deliberation and decision, as would the broad aims of such investment. For example, the amount currently spent on the world's military exceeds the combined incomes of the poorest half of humanity (see UNICEF 1992). With a re-allocation of 10% of the military expenditure in the developing world and 1% in the industrialized world there could be drastic reductions in malnutrition and disease and major strides toward the provision of a basic education for all. Accordingly, less investment in the arms industry and more spent directly on human capital would be a significant shift

in the direction of the widespread development of some of the key conditions of human autonomy. Trade-offs such as these could be publicized and debated.<sup>4</sup> In the context of public decision-making orientated to the democratic good, priorities might be re-negotiated and changed.

Furthermore, decisions could be implemented by fixing the areas in which capital could be encouraged to deploy, and the terms on which it could be 'rented' (see Cohen 1988:16–17). The management of interest rate levels to induce capital to invest in certain areas is clearly more justifiable in the case of social investment projects – or in what I would prefer to call 'social framework investments in the conditions of autonomy' – than in the case of particular economic sectors or industrial areas where the track record of political bodies for second guessing economic and technical change has generally been unimpressive. The management of social and public investment in the infrastructure of autonomy is rightly undertaken publicly, whereas private investment in economic sectors is, as a working rule, best left to those in those sectors with the practical knowledge to make such decisions. Of course, it is likely that there would be strong differences of view as to the scope and direction of public investment but, in a political system that welcomes open debate, these differences could be discussed and examined. If pressing cases of need or autonomy are to be addressed, the scope and direction of such investment must be brought into the centre of democratic processes. In the absence of this, democracy is fundamentally handicapped.

It is hard to imagine how public expenditure and investment co-ordination could take place without a new high level, co-operative organization operating as a complement to, but reaching beyond, existing economic structures. New forms of economic co-ordination would be indispensable to overcome the fragmentation of policy-making which emerges in the context of organizations like the IMF, the World Bank, the Bank for European Construction and Development, the OECD and the Group of Seven – all operating with separate briefs. Where exactly a new economic coordinator should be located (whether it should be some form of Economic Security Council working at the U.N., for instance) would need to be debated (see UNDP 1992). But this debate is of secondary importance. The primary issue is to recognize the need for a new transnational authority capable of deliberation about the broad balance of public investment priorities, expenditure patterns and emergency economic situations. The brief of such a body would be to fill a vacuum; that is, to become the coordinator for economic policy which is either set at global or regional levels or is not set at all. It could, thereby, help establish targets for the deployment of funds in various policy areas,



as well as create policies for economic domains which escape the jurisdiction of existing regulatory spheres, for instance, short-term international capital markets. Its task, therefore, would be to lay out broad policy frameworks which could act as points of orientation for those working at other levels of governance.

Nonetheless, even with widespread support for a set of public investment priorities, it would be foolish to presuppose that major capital markets would simply accept and go along with these priorities. There has been many a reaction – including the flight of capital to ‘safe havens’ – against governments seeking to pursue social priorities for investment, sometimes despite clear mandates for such programmes. Further, in the era of the twilight of communism, it would also be unwise to think that there would not be clear and popular instances of resistance to programmes of public investment, especially if they involved a requirement to raise additional revenue. It is essential, therefore, that strategies of economic democratization, if they are to be feasible strategies, work, wherever possible, ‘with the grain of private property rather than against it’ (Beetham 1993:69). Examples of such strategies include, for instance, the formulation of a general incomes policy which allows profits to rise while using increased taxation on a percentage of these to create social investment funds on a local, national or regional basis (Korpi 1978); and/or the creation of special representative bodies at local, national and regional levels to control the investment of pension funds; and/or the alteration of company dividend policy to allow a proportion of profits to be set aside as shares or income for the collective control and future benefit of employees (Beetham 1993; see Dahl 1985; cf. Adamson 1990:56–71). Individually or together, such proposals would increase the possibility of the social determination of investment by creating further ‘access avenues’ to productive and financial resources.

Within the context of national, sub-national and local markets, to the extent that they retain their separate identities, the erosion and break-up of coercive economic structures could be encouraged further by the development of the non-market factors which impinge directly on the dynamics of market forces (see Reich 1993). Such factors include the provision of public goods like education, the training of labour and market information.<sup>5</sup> In addition, the nurturing of sub-national and local institutional contexts for the organization of economic activity, including the development of community-based mutual financial institutions (savings banks, local pension funds and industrial credit unions), provides a positive background for small- and medium-sized firms to develop (see Piore & Sabel 1984; Best 1990). Combined with effective local regulation, these firms can, individually and in combination, help generate the means of economic

autonomy (see Hirst 1993:125–30). In short, co-operation to enhance supply-side economic performance (nationally, sub-nationally and locally), commitment to policies which allow the adequate provision of public goods and investment in human capital (alongside strategies of restraint in wage bargaining linked to investment in local areas), can all aid the development of the economic capacities of communities in an age in which national economic regulation and national demand management are increasingly ineffective alone. Along with the pursuit of greater political equity within companies and other forms of economic association, economies might be rebuilt or expanded neither simply from ‘above’ or from ‘below’, but from within the framework of democratic law. Although none of this amounts, of course, to an economic policy *per se*, it does amount to the specification of certain parameters for economic activity, if the latter is to become part of the sphere of the political; that is, embedded in a framework for public deliberation and decision about the conditions of economic prosperity.

### **Concluding Reflections**

The programme of bringing the economy into the ‘sphere of democracy’ creates new possible avenues of political participation, but it also raises a number of new risks for political life. Joseph Schumpeter rightly warned that an ‘unbounded’ concept of politics provides no clear-cut barrier between the polity, on the one hand, and the everyday life of citizens, on the other (1976:296–302). Broad concepts of politics, he suggested, may become connected for many, in practice, to a diminution of freedom. But real though this risk is, the preference for democracy contains within itself obstacles to political hierarchy and unwarranted intrusion. It does so by the insistence that decisions be debated and taken by those who are immediately affected by them, and by the insistence that this process is compatible with respect for the rights and obligations of others. Accordingly, issues and problems ought only to be pursued within and beyond particular associations if, by so doing, they deepen the entrenchment of democratic rights and obligations. Thus, the framework for utopia is the rule of democratic public spheres, shaped by democratic rights and obligations (democratic public law), and enhanced through their extension to the agencies and organizations of economic life; through deliberation over and co-ordination of public investment priorities; through the pursuit of non-market policies to aid fair outcomes in market exchange, and – it should be added – through experimentation with different forms of the ownership and control of capital to facilitate the attainment of equal opportunities for all citizens in the governance of their common affairs – the ultimate purpose of democracy.

## NOTES

1. The themes presented here are explored at greater length in my *Democracy and the Global Order: From the Modern State to Cosmopolitan Governance*, Cambridge: Polity Press, forthcoming, 1995.
2. North/South patterns of indebtedness have produced a net outflow of capital from South to North of an estimated annual \$50 billion; that is to say, the cost of servicing the debts of the South exceeds direct development assistance by that amount each year (see Falk 1995: ch 6; and UNDP 1992:89).
3. It has been estimated, for example, that a consumption tax 'of a dollar per barrel of oil, collected at source, would yield around \$24 billion a year (73% from the industrial nations). An equivalent tax on coal would yield around \$16 billion' (UNDP 1992:90). These are clearly substantial sums, reinforcing the view that development assistance is more a question of political will and judgement than of monetary resources *per se*.
4. In 1993 UNICEF estimated that an additional \$25 billion per annum for a decade would be enough to bring to an end 'the age-old evils of child malnutrition, preventable disease, and widespread illiteracy' (1993:1). Commenting on the sum of \$25 billion, UNICEF noted that 'it is considerably less than the amount the Japanese Government has allocated this year to the building of a new highway from Tokyo to Kobe; it is two or three times as much as the cost of the tunnel soon to be opened between the United Kingdom and France; it is less than the cost of the Ataturk Dam complex now being constructed in eastern Turkey; it is a little more than Hong Kong proposes to spend on a new airport; it is about the same as the support package that the Group of Seven has agreed on in 1992 for Russia alone; and it is significantly less than Europeans will spend this year for wine or Americans on beer' (1993:1-2).
5. The operation of corporate management in an economic environment preoccupied increasingly with short-term results and dividend performance, means that governments alone can sustain the socioeconomic conditions of economic prosperity. It is one of the paradoxes of modern capitalism that it depends on an institutional system, including education and long-term research, which can only survive with the aid of strong government (Evans 1992:7).

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# *Homo Democraticus*

## A Counter Catallactic Perspective\*

Frank Cunningham

Few deny that the failure of the recently fallen socialist governments resulted in large part from a combination of anti-democratic political structures and their economic 'plannification'. Debates continue about the relative importance of these factors and about appropriate alternatives. Also debated, though with less precision, is the relation in general terms between markets and democracy. Are competitive markets prerequisites or even guarantees for political democracy, as pro-capitalist rhetoric often has it? Or are markets an economic matter, democracy a political one, the relations between which are problematic, as socialists have traditionally, if not unanimously, argued? On the latter perspective democracy is regarded as a form of collective action counterposed to market behaviour, which is individualistic. In this article I shall elaborate an alternative to this opposition.

Though I wish this viewpoint to be compatible with the larger project of retrieving socialism, I nonetheless share with many anti-socialists the opinion that democracy and markets are in the same genus. Let me begin by considering a radical version of this opinion which, far from counterposing markets and collective action, sees market behaviour as the prototypical form of the latter. This 'catallactic' approach originates with the school of Austrian economists in the 1930s of Joseph Schumpeter and Friedrich von Hayek. In the 1950s and 1960s it was forcefully deployed in the United States, especially by the political theorists Anthony Downs, Gordon Tullock and James Buchanan. 'Our main thesis', writes Downs in *An Economic Theory of Democracy*, 'is that parties in a democratic politics are analogous to entrepreneurs in a profit-seeking economy'.<sup>1</sup> Democracy is nothing but competition among political parties for the popular vote. To this Schumpeterian conception, Downs applies

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classic economic analysis. Citizens, each motivated by self interest, calculate anticipated balances of costs and benefits in casting votes. Political parties, for their part, are modelled on the image of a self-interested individual. To the extent that a party is rational, it formulates policies exclusively to gain sufficient votes to win elections. When a party espouses a distinctive political principle, or 'ideology', this is only for the advertising purpose of persuading voters that its product (a government led by it) is superior to that of competing parties.<sup>2</sup>

In *The Calculus of Consent*, Buchanan and Tullock employ similar models to address specifically constitutional dimensions of democratic politics. Individual citizens join forces for the purpose of mutual advantage: 'In a very real sense they "exchange" inputs in the securing of the commonly shared output'.<sup>3</sup> Constitutions in a democracy are viewed as if they were the product of a contract among such citizens to select the rules for subsequent decision making. Rational and self-interested individuals will each of them see costs and benefits to rules requiring unanimous consent, on the one hand, or any alternative (such as majority vote), on the other. Given the far reaching effects of a constitution each will insist on veto power over its content and hence unanimity will be required. For all other rules the benefits of having a personal veto must be weighed against the costs of trying to achieve unanimous consent or of deadlock.

These works have served as *loci classici* for an enormous body of subsequent literature, whose authors, like Downs, Buchanan, and Tullock, display great ingenuity in applying their analyses of voting and political party behaviour to democratic decision-making procedures under a variety of real and imagined circumstances. As in the case of economic theory, the aim is largely predictive, but to the extent that the approach warns against what are taken as the unrealistically moralistic injunctions of traditional democratic theory – for instance for supposing a spirit of public service on the part of political leaders or of civic virtue in citizen voting behaviour – the catallactic approach also has prescriptive force.

Thus Downs notes that individuals or groups with the capacity to influence public opinion will often solicit preferential governmental treatment in exchange for using their influence to sway undecided voters to a political party. Since no party can be sure of gaining undecided voters without such aid it will only be rational to purchase the services of these 'favour buyers' with preferential treatment. This, however, challenges a cherished value of traditional democratic theory: 'In an uncertain world, it is always irrational for a democratic government to treat all men as though they were politically equal'.<sup>4</sup> Buchanan and Tullock note that democratic decision procedures incur

the cost of persuading others to vote with one and that the magnitude of this cost depends on the number of people making decisions. The rationality of unanimity or any decision rule short of it will depend on the balance of these costs and desired benefits. A result is that: 'there is nothing in the analysis that points to any uniqueness in the rule that requires a simple majority to be decisive'.<sup>5</sup>

This article largely abstracts from specific analyses to focus on the general character of the approach motivating them (although I shall return to these examples later in explicating a counter-catalactic, alternative perspective). Criticisms of the catalactic approach, often and well argued by socialist and participatory-democratic theorists, among others, address both its descriptive and its prescriptive dimensions. The catalactic approach follows economic theory in proposing its models as ideal types, recognizing the existence of such things as altruism (or malevolence), party loyalty, civic virtue, and other motivations of political culture, but discounting them for the purpose of entry level explanation as irrationalities or externalities. Critics maintain that this leaves out too much or, worse, that the ideal-typical model is a Hobbesian distortion of human nature.<sup>6</sup> It is further charged that the approach is largely ideological, since it serves to mask economic inequalities and class conflict (from which it also abstracts) and to justify citizen apathy by restricting democracy to considerations of voting strategies in the face of unquestioned options.<sup>7</sup>

In articulating these and related criticisms of economic approaches to democratic theory, C.B. Macpherson suggested that such approaches depend for their popularity and plausibility on certain historically specific situations, namely when there is relative prosperity, class divisions are submerged, and competitive markets dominate an economy and promote a political culture of possessive individualism.<sup>8</sup> Macpherson was aware of the danger accompanying historicist analyses which assume that the historic fit of a theory is sufficient to justify it, but he thought that in liberal-democratic societies capitalist markets and their concomitant possessive individualist cultures coexisted with antimarket social practices and a culture favouring cooperation and the development of non-competitive human potentials. This provided a ground for criticizing the market models of democracy even within market societies, which Macpherson thought could and should be superseded.

The failure of command economies, however, casts doubt on the dispensability of economic markets, which look to be with us for a very long time. This makes the concern of Macpherson and other democratic critics of catalaxy that it promotes a market culture of competitiveness, selfishness, and consumerism both all the more

important and all the more problematic. Central to this very criticism is recognition that the catallactic approach ‘fits’ societies with market cultures. This point is emphasized by Buchanan and Tullock themselves, who note that ‘constitutional democracy in its modern sense was born as a twin of the market economy’ and insist that ‘a shift of activity from the market sector [to the political arena] cannot in itself change the nature of man, the actor in both processes’.<sup>9</sup>

Historicist defences always work to more than one conclusion. The catallactic opinion that democratic theory and practice must accommodate to *homo economicus* gains strength from the dominance of modern society by competitive economic markets. However, this sort of support is less strong than an ahistorical one which claims that market values are inscribed in the fabric of human nature *per se*. Historical exceptions cast doubt on such sweeping assertions. Even within modern society not all economic behaviour is market dominated (thus the persistent complaints by advocates of free trade about constraints on markets), and not all extra-economic human behaviour is governed, at least obviously, by possessive individualist values, as attempts to explain the daily interactions of people with their families and friends in neo-Hobbesian terms are strained at best.

Assuming at least complexity of ‘human nature’ even in a market society, but faced with the fact of continuing markets as a major medium of economic interaction, a crucial question must be how to accommodate economic markets in a theory of democracy that does not capitulate to possessive individualism. The catallactic theorists typically see as alternatives to their approach either philosophical theories of ethics or what they call psychological or sociological approaches to democracy.<sup>10</sup> In the remainder of this article I shall suggest a specifically *political* alternative, which proceeds by inverting catallaxy to subsume economic behaviour under democracy.

### **A Concept of Popular Sovereignty**

For this purpose democracy is here conceived in terms of popular sovereignty. Of course, this marks a major departure from the catallactic theorists who were at great pains to recommend abandoning any such notion as unrealistic or as mystifying in favour of definitions in terms of competition among élites for the vote. I submit, however, that a notion of popular sovereignty immune from these charges can be defended. This is facilitated by adopting two stances toward the definitional question about which not all champions of popular sovereignty are in accord. Democracy, as I shall employ the term, is in the first place a matter of degree. Popular sovereignists



who view democracy as the presence or absence, for instance, of a general will or of rule by the majority, open themselves to the criticism that such notions are unrealistically stringent. If, however, democracy is thought to admit of degree, then it can be allowed that a situation is (more or less) democratic, while recognizing democratic shortcomings.

The general will interpretation of democracy invites the further charge of obscurity, which has prompted some democratic theorists who otherwise defend a popular sovereigntist interpretation to agree with the catallactic view that democracy should be thought of as a matter of decision making. According to this viewpoint something is democratic when there are procedures for making collective decisions open to everyone in a relevant collectivity. On the contrasting view employed here (to announce the second stance), democracy is measured in terms of the actual success of people in making a shared situation conform to their wishes, rather than in terms only of having a chance to do this. Like the notion of a general will, this conception retains the idea set aside in the economic approach that democracy has to do with people participating in their own governance, but in keeping with the empirical orientation of the catallactic theorists, it provides an alternative to the vague and potentially politically pernicious concept of a general will.

On the conception employed here democracy pertains to a country, a city, a region of the world, a school, a neighbourhood, a family, a voluntary association, or any other situation where people's activities are mutually affecting in an ongoing way. Such a situation, 'X', is more democratic than an alternative, 'Y' (typically X itself at a different time) to the extent that: proportionally more people in X have control over a shared social environment than do people in Y; and/or they have control over more aspects of the environment; and/or the aspects over which they have control are more democratically important than those over which people in Y have control. Someone has 'control' over something when that thing conforms to his or her preferences regarding it, partly in virtue of actions taken by the person to this end. Ranking the three conditions for shared control and determining what is democratically 'important' is done on a case-by-case basis by estimating what would best contribute to progress toward an ideal, fully democratic situation. An ideal democratic situation is one in which either consensus has been achieved among all members or a mutually acceptable compromise has been negotiated, *provided that* neither outcome jeopardizes pursuit of either consensus building or negotiation in the future.<sup>11</sup>

The catallactic approach regards democracy as a matter of voting and makes its analyses of voting behaviour on the basis of

hypothetical decisions of imaginary voters or vote seekers in abstraction from the historically inherited political institutions, distributions of wealth, cultural values and other circumstances within which voting takes place. On the counter-cataclastic approach, democracy need not involve voting, since jointly approved actions could result from discussions leading to consensus or even acceptance of decisions made by traditionally designated authorities, provided some analogue of 'recall' were available. Also, this approach does not abstract from any features of a shared social environment that affect or might affect its degree of democracy. In a superficial way this popular sovereigntist view agrees with the claim of Buchanan and Tullock that majority vote is not necessary for democracy, since sometimes unanimity or weighted voting is appropriate, but the grounds for such a judgement are different.

One exception to majority rule for Buchanan and Tullock is unanimity, which self-interested citizens will require in order to have a veto power over others in matters considered vital. On the counter-cataclastic approach such power may sometimes be democratically justified. However, another and more important reason to require unanimity is to encourage people sharing a social environment to try reaching a positive consensus. The valuable element of general will interpretations of popular sovereignty is that they highlight the democratic nature of a society where people non-instrumentally value agreeing with one another. This aspect of consensus is absent from the exclusively negative orientation of the cataclastic theorists.

Something short of majority rule is also sanctioned for Buchanan and Tullock when rationality justifies relative political apathy, that is, when one's gains from devoting time to extrapolitical activities are judged more important than gains to be had through democratic politics. Contrary to some participationist conceptions of democracy, the version of popular sovereignty endorsed in this article does not see democracy as an end in itself and therefore recognizes that there are more important goals than engaging in democratic politics. However, departures from majority rule that enhance a minority's ability to control a shared environment will, by the definition of democracy above, constitute a democratically inferior situation to majority rule, and the departures need to be justified by showing how they would contribute to democratic progress. Situations when people reasonably prefer to shelve or abandon democratic politics are taken as an indication of deficiencies in democracy – for instance, excessively clumsy decision-making procedures or insufficient accountability of elected officials. They call for imaginative rectification, rather than acquiescence in apathy, which usually contributes to a downward democratic spiral.

Governments for Downs favour opinion moulders for the same reason that opinion moulders are able to influence a public, namely because they possess information lacking to both government officials and most citizens. The point is a general one for Downs having to do with unavoidable uncertainty. Like everyone else in an uncertain world, government leaders need access to informed advice. Possession of information depends on having both the resources and the incentive to acquire it. Because producers, according to Downs, possess more of each than do consumers, they are bound to be more politically influential than the consumers. Moreover, this is neither a function of anti-democratic greed for political power nor of stupidity on the part of those with less information, but it results from the division of labour which generates special incentives and provides needed resources for information acquisition in any society.<sup>12</sup>

Since the counter-catalytic conception of democracy sketched above holds that democratic control results in part from efforts of those affected without specifying how much of a part these efforts play, it can be agreed that not all inputs to government decision-making must be equal for it to be democratically responsive. This becomes democratically problematic when differential input yields differential output, thus giving special privilege to those with a corner on 'information' or any other resource that commands governmental respect, such as election fund pools or the facility to offer bribes of money or post-government service positions (to mention examples absent from Downs' analysis). These circumstances clearly constitute democratic defects. They, too, call for remedial measures, including not only guarantees that special inputs do not purchase preferential treatment, but also concerted educational efforts to narrow disparities of information.

### **Markets and Democracy**

Notwithstanding these basic points of difference between the catalytic and the counter-catalytic conceptions, they agree (though for different reasons) that market transactions represent an exercise in some measure of democratic control. In a society with an elementary barter economy where people exchange goods produced in accord with a traditionally defined and generally accepted division of labour, control of their environment with respect to access to such goods may approach the ideal of democratic consensus. In more sophisticated economies, where exchange takes place in an anonymous market place, an ideal of democracy to some degree approximating negotiation is appropriate.<sup>13</sup> My wish to have unlimited and free access to desired goods and services is compromised by the need to purchase

them, typically with money gained from rent of my ability to work. The result is acceptable to me to the extent that I am able satisfactorily to negotiate the outcome. Negotiation in this context may be direct, as in face-to-face interaction with a seller, or indirect, when I seek the best available value on an impersonal market, counting on others to do the same. Negotiation is both proximate, at the point of a market transaction, and remote, in whatever process generates my purchasing power.

From the point of view of *homo democraticus* two categories of question regarding markets thus conceived pose themselves: (1) How democratic are market exchanges regarding the goods and services they are meant to distribute? and (2) How do market relations affect the degree of democracy in other domains of life? Responses to these two questions – society by society and circumstance by circumstance – will establish what I shall call the ‘democratic efficiency’ of a market. Macpherson’s concern about markets and possessive individualist culture relates to the second question just posed. I shall return to his concern after examining the democratic efficiency of markets as ways to distribute goods and services.

Though elementary barter economies might sometimes approximate ideal democracy of the consensus variety, there are limitations. While both the catallactic approach to democracy and many classical ones conceive of democracy as appropriate just to the distribution of goods, on the model of democracy recommended here limitations in their quantity and variety will sometimes constitute democratic limitations.<sup>14</sup> Thus poverty is, among other things, an appropriate subject of democratic concern. Moreover, in a society of elementary barter where divisions of labour are conventionally determined, ideal democracy will be limited when the conventions are too rigid to admit of challenge or to be supplemented by negotiation.<sup>15</sup>

Democratic efficiency in more sophisticated markets is impeded to the extent that transactions are forced. Monopoly control of an economy is an obvious example and so is a forced labour market, where fear of uncompensated unemployment obliges people to take insufficiently remunerative or insecure jobs. As in more elementary economies, resource adjusted preferences or, to take an example unique to advanced economies, preferences manipulated by advertising also contribute to democratic inefficiency. I do not think that a problematic theory of false consciousness is required to address these circumstances.<sup>16</sup> Rather, democratization of a market requires (in addition to prohibitions of false advertising) general education about available options and about the techniques and effects of manipulative advertising. Just as a traditional barter society may inhibit negotiation, so a modern market society will be democratically inefficient when

competition for profits hinders the regulation of economic affairs by consensus, for instance in participatory consumer or housing co-operatives or in worker self-managed firms.

A consequence of granting that market transactions are a species of democratic activity is that one must grant the abstract possibility that a fully self-regulating market of the sort favoured by libertarians would be a perfect democracy. Depending on just how such an ideal is conceptualized, and assuming that it could accommodate such things as cooperatives (perhaps by conceiving of them as individual consumers or producers, whose internal cooperative relations are irrelevant to their behaviour in a broader market), it might be granted that such a market would count as democratically efficient to a very high degree regarding the distribution of goods and services.

A limitation of democracy even in such an idealized world is that effective competitive activity in a free market takes an enormous amount of one's time and energy. So even imagining that a society could do without state intervention from a purely economic point of view, people would likely want state regulation of unbridled competition and even state-run industries and services to free them for non-economic life pursuits. Of course, a sufficiently radical catallactic theorist could proudly endorse a possessive individualist model of humanity and maintain that there are no such pursuits, since everything can be priced. However, this would still not accommodate those individuals (however misguided from such a catallactic point of view) who did not *want* all of their interpersonal relations to be monetarily governed.

The argument of this part of the article has been that democracy as defined above is well served in some important respects by economic markets. The point should not be surprising in light of the collapse of the socialist economies, which strove for more or less thoroughgoing plannification. In addition to the invitation this offered to bureaucratic and authoritarian abuse, plannification proved to be ill-suited to ascertaining consumer preferences, which had to be guessed at or forced by the economic planners. However, from this democratic point of view it would be misleading to see the debate between free marketeers and champions of state planning as a primitive opposition. Of primary concern is to estimate those conditions, economic and extra-economic, market-related or state-related, which are conducive to or which detract from progress in democracy, given the circumstances of a specific society.

In this respect the democracy-oriented approach prescribed in this article differs from a methodology taking *homo economicus* as its model where a distinction is made between a core domain – a world of individuals matching this model – and subsidiary domains where

'externalities' are either discounted or seen as deviations from predictions and prescriptions of the core. Downs' view of political parties illustrates how this disjunction functions. For him the alternative to seeing political parties as if they were self-interested individuals who 'formulate policies in order to win elections, rather than win elections in order to formulate policies'<sup>17</sup> is to see them as motivated by altruistic or visionary concerns. Given ample evidence of opportunistic behaviour by political parties, and constrained to posit one or the other of these 'models' as capturing the essential nature of parties, the self-interested model is bound to win out, and exceptions to behaviour in accord with it are seen as aberrant. On the alternative, democracy-oriented, methodology there is no natural state of political parties, which sometimes and in some respects comport themselves in democratically efficient ways, while sometimes and in other respects they are democratically inefficient.

*Homo democraticus* is not a model of human nature in the same way as is *homo economicus*. This does not mean that a democracy-oriented approach should or can avoid considerations of human motivation. One criticism justly levelled at libertarian advocates of total marketization is that this involves faith in a magical power of the market. I have the impression that the catallactic theorists carried this same optimism with them to the political realm. Their sparse view of what democracy could at best accomplish – namely, peacefully to regulate élite competition – was supposed to have the advantage that the right political institutional arrangements would guarantee success.

In one respect the catallactic approach is similar to that of theorists with more robust conceptions of democracy who seek guarantees in such things as appropriately complex constitutions or, alternatively, in the devolution of political power into pockets of local self government. Missing from such assumptions is the point – laboured in the sociological approaches to democracy from which catallaxy distanced itself – that a populace of people with 'democratic personalities' is required for democracy or, as I prefer to put it, is conducive to democratic progress. *Homo democraticus*, then, is a person whose values are compatible with democratic progress or at least which do not facilitate regress.

This brings us back to Macpherson's concern. He identified values of selfishness and insatiable consumerism – possessive individualism – as incompatible with democratic progress and counterposed them to values favouring the development, in cooperation with others, of human potentials for such things as scientific and artistic creativity, friendship, and the pursuit of knowledge. He feared that market economies produced 'market societies' where possessive individualist values are dominant. Meanwhile, the catallactic theorists criticized

the sociological approach to democracy for failing to recognize what they saw as the ineradicably self-centred nature of human values in political, as well as in economic realms. These contrasting opinions confront the democratic orientation with an apparent dilemma: If markets necessarily create possessive individualist values, then it is not enough just to counter a general neo-Hobbesian theory of human nature, but to show how markets can and should be dispensed with; however, if there are *democratic* advantages to markets, then their abolition would carry a democratic cost, even if abolition were a realistic option.

On a purely abstract level it is not difficult to escape this dilemma. This is done by holding that market economies only tend to promote possessive individualist values and need not inevitably result in market societies. Such a stance, however, creates the burden of showing how possessive-individualist tendencies can be counter-acted. It is questionable how far philosophical or social/psychological debate about human nature can go toward meeting this challenge given the highly contested claims about what this nature is or even if there is such a thing. An alternative is to avoid this debate and instead to interrogate actual situations of live options to identify those of their aspects that are or would be conducive to democratic progress and those counter to it.

Successful interrogation of this kind would at the very least illustrate that when, contrary to the catallactic perspective, the whole person (*homo democraticus*) is taken into account, the cultural dimension of market-related behaviour is complex and subject to a variety of dominant forms. To the extent that such interrogation suggests practical measures that might be taken to encourage anti-possessive individualist values, it would also contribute to the actual promotion of democratic progress thus providing evidence against its impossibility. I conclude this article by offering three examples of subjects for such interrogations, each related to market dominated economics.

### **Prohibition and Emission Controls**

The first example pertains to constraints on a market by state regulations. As is well known the effort of the US government to prohibit the sale or consumption of alcoholic beverages in the 1920s and 1930s was a dismal failure. Not only did it fail to prevent consumption and sale, but it spawned criminal organizations that continue their activities even today. A contrasting example is the recent imposition of anti-pollution emission controls on motor vehicles in some jurisdictions and most stringently in the state of

California. Despite the added cost in purchase price and comfort of automobiles, both consumers and producers have accommodated themselves to this regulation, and nothing analogous to the underground economy in alcohol during Prohibition seems to have emerged.

The success of the emission control laws shows that sometimes markets can be effectively constrained. This invites questioning why regulation succeeded in the one case and failed in the other. The evident answer is that emission controls, unlike Prohibition, enjoyed general popular support, which in turn raises the question as to why this should be the case. As an hypothesis, I suggest as one important factor that the emission control laws were enacted after protracted public debate carried out in the media, in schools, in election campaigns and other public spaces about the crisis proportions of air pollution and the contribution of motor vehicles to it. This marshalled sufficient public support for acceptance of the controls which would not have resulted from their imposition by something like the political machinations of committed environmentalists in a state legislature. I shall return to the significance of this example after sketching two more.

### **Flowers in Moscow and Chocolates in Lyon**

I beg readers' indulgence to offer some personal experiences in presenting this example and the next.<sup>18</sup> During the 1993 World Congress of Philosophy held in the recently marketized Moscow, I wished to purchase some flowers to take to a family that had invited me to dinner. At one of a block of kiosks selling flowers I asked, through a student who was interpreting for me, how much a bouquet of roses would cost and was told by the vendor that it would be the rouble equivalent at that time of about two French francs. When, however, the vendor saw that it was I, a foreigner, making the purchase, the price was raised to 25 ff. Still prepared to pay, I took out my wallet, whereupon the price was again increased, this time to 50 ff. Angered at this treatment I said that this was too much, to which the vendor replied: 'That's your problem'.

Some years earlier my wife and I were passing through Lyon where we wished to purchase some chocolates to take to Paris. As we were leaving the store we mentioned to the vendors that our friends in Paris would surely enjoy the chocolates. The alarmed vendors asked whether we were travelling by car, and when informed that we were demanded return of the chocolates, which they feared would be damaged in the hot August temperature. After some pleading on our part, they agreed to sell us some chocolates, but of a variety that would



not be as affected by the heat. Though neither 'exchange' was the only sort encountered in either country, I could not help recalling the Lyon experience while in the Moscow flower kiosk.

### **Aristotelian Engineers**

Until recently I taught a course on ethics and social philosophy each year to some 300 students of Engineering, in which I put a hypothetical option to them. Following Aristotle, I asked them to envisage two possible professional lives. In life 'A' they would be employed to help design ingenious but frivolous luxury items for which they would gain fame in the popular media and great wealth, which wealth they could also use to secure political power. In life 'B' they would make an indispensable contribution to an extraordinarily challenging and vital project, such as harnessing the sun's power affordably. On the second option, though they would earn enough for a comfortable life for themselves and their families, the engineers would not achieve fortune or political power, and since the project would not be completed until after their deaths, they would also not attain fame. These students are well-known for being outspoken and, far from trying to please their professors on the political left, like to disagree with them. Hence, I am confident that the majority choice of life 'B' was sincere (though it was a larger majority in the pre-Reagan/Thatcher years than subsequently).

From these examples I draw three lessons. First, on the assumption that what is actual is possible, the examples show how market-related cultural impediments to democracy might be overcome. In the case of emission controls democracy is immediately implicated if part of the explanation for success of this government regulation is that it resulted from democratic processes. The other cases illustrate how pride in one's product and professional skills can counteract possessive individualism in respect of daily consumer transactions, in the one case, and of entrepreneurship, in the other.

A second lesson is that democracy and democracy-related values need not be antithetical to effective market behaviour. The 'problem' at the Moscow flower kiosk was, in fact, not mine but the vendor's, since I could, and did, simply go to the next kiosk to purchase my flowers. Though we had the impression that the people selling us chocolates were primarily motivated by sincere concern that we not be disappointed, in the long run it could only help the reputation of their establishment to avoid sending out damaged products and to convey a sense of professional concern. While emission controls have increased the price of cars, they have also spawned industrial opportunities, as in the development of electrically powered vehicles

and exploration of ways to make the much less expensive public transit more accessible. An engineering firm that actually did make progress toward harnessing the sun's energy would realize considerable profits.

Finally, the examples illustrate how a perspective counterposing markets and democracy might be replaced with the practical task of democratizing market behaviour. *Homo democraticus*, now conceived of as a methodological construct, refers to collectivities of humanity, spread out in time and space and jointly shaping their shared world ideally in such a way as to make democratic progress. This goal is sometimes best served by large-scale, society-wide measures and sometimes locally, sometimes by parliamentary institutional activity and sometimes in participatory forums, and typically by combinations of such things. Similarly, in some circumstances democracy is best served by more or less free markets (in one or more of several possible domains: consumer goods, industry, finance, land, etc.), in some by state regulation (again recognizing many varieties), and in most if not all circumstances probably by appropriate blends.

Professional theorists can contribute to the project of enhancing democracy by bringing tools specific to their trades to it. At the conference for which this paper was originally prepared, several fruitful suggestions in the service of democracy were made regarding political and economic institutions. A task appropriate for philosophers and social theorists who concern themselves with human values is to interrogate examples of situations where values of possessive individualism have been overcome with the aim of understanding and nurturing alternative cultural preconditions for making progress in democracy.

#### NOTES

1. Anthony Downs, *An Economic Theory of Democracy*, New York: Harper and Row, 1957, p. 295.
2. Downs, p. 96ff.
3. James M. Buchanan & Gordon Tullock, *The Calculus of Consent*, Ann Arbor: University of Michigan Press, 1965, p. 19.
4. Downs, p. 83.
5. Buchanan & Tullock, p. 81.
6. This is a principal claim of C.B. Macpherson in *Democratic Theory: Essays in Retrieval*, Oxford: Oxford University Press, 1973; see essay X: 'Market Concepts in Political Theory'.
7. See for example, Peter Bachrach, *The Theory of Democratic Elitism*, Boston: Little and Brown, 1967.

8. Macpherson's classic treatment of possessive individualism is in *The Political Theory of Possessive Individualism*, Oxford: Oxford University Press, 1962. It is applied to the 'entrepreneurial' model of democracy in *The Life and Times of Liberal Democracy*, Oxford: Oxford University Press, 1977, chapter IV.
9. Buchanan & Tullock, p.306.
10. For instance, Downs, p. 7.
11. This definition is elaborated and defended in chapter 3 of my *Democratic Theory and Socialism*, Cambridge: Cambridge University Press, 1987.
12. Downs, pp.255–59.
13. An interesting thought experiment showing that this is not necessary is by Joseph H. Carens, who produces a model of a sophisticated market economy based on an egalitarian consensus; see *Equality, Moral Incentives, and the Market*, Chicago: University of Chicago Press, 1981.
14. In order to avoid paternalism, democratic 'control' is defined by reference to subjective preferences. This leaves open the possibility that a society could be democratic when the preferences of people in it have been accommodated to scarce or available resources or have been deliberately manipulated. To minimize this democratically paradoxical situation, I allow constraints on people's abilities to pursue *potential* aims to count as democratic constraints, but only if a realistic path can be drawn from their actual preferences to those they would have with appropriate knowledge of alternatives.
15. This approach is, therefore, not anti-traditional, though, in keeping with the thought of pro-democratic communitarian theorists, it requires that the potentially critical dimensions of traditions be nurtured. I discuss this possibility in my *The Real World of Democracy Revisited*, Atlantic Highlands, NJ: Humanities Press, 1994, Essay 6.
16. Chapter 10 of my *Democratic Theory* pursues the topic of false consciousness and defends the position sketched in note 14 above.
17. Downs, p. 28.
18. I adopt the method of interrogation of actual experiences, including personal ones, from feminist methodology, which challenges what it correctly sees as male abstractionism for its inability to connect theory with life. Among the many works by feminist theorists that bear on the topic of this article are Zillah Eisenstein, *The Radical Future of Liberal Feminism*, New York: Longman, 1981, and Anne Phillips, *Engendering Democracy*, University Park, Penn.: University of Pennsylvania Press, 1991.

# The Ontology of Individualism

Andrew Vincent

I have founded my affair on nothing.

(Max Stirner)<sup>1</sup>

The central argument of this essay is that both contemporary liberal and postmodern political philosophy are underpinned by the theme of individualism. Postmodernism is *not*, in fact, a dynamic shift in Western thought at all, but rather a more intense focus upon individualism. Postmodernism is thus a plausible outcome of themes present within liberal individualism. My discussion is divided into two main sections. First, the idea of individualism is unpacked and then used to examine some anxieties in contemporary liberal theory; and second, the discussion then shifts to postmodernism, using the same linking theme of individualism. The essay concludes with some critical reflections.

## Unpacking Individualism

The concept of the individual is a comparatively late historical idea in Western thought.<sup>2</sup> It is an immensely complex term and should be initially distinguished into a number of types.<sup>3</sup> However, there are also marked overlappings between these types. Thus it is only a half truth that methodological, epistemological, religious, ethical, political and economic individualism are distinct. There are intricate interweavings between them. The origin of the formal idea of individualism lies in seventeenth century thought. The only exception to this is the slightly older notion of religious individualism, in its Reformation incarnation, namely, where the individual believer requires no priestly intermediaries between herself and God. The individual has the primary responsibility for her own spiritual destiny.

One initial impetus to individualism derives from Cartesian epistemology which asserts that the source of knowledge lies in the rational individual cognizing the world. The first and crucial certainty is the *cogito ergo sum*. The individual is conceived as a disengaged rationality (*res cogitans*), perceiving the external world (*res extensa*). It is incumbent upon each individual to think self-responsibly for herself. As Lukes notes, this process of focusing knowledge and perception on the individual was carried through, with much greater

vigour, by the empiricist tradition, where all knowledge is seen as arising from the individual perceiving mind. This was carried to its extreme idealist format in Berkeley's *esse is percipi*.<sup>4</sup> There is also a subtle connection here between the epistemological theme and ethical egoism. In its barest early format, ethical egoism asserts that the sole object of an individual's action is his or her own benefit or good. Hobbes and Mandeville are prime examples of this ethical egoism. The concern of individuals with their own good is reinforced by the epistemological theme, where all knowledge is legitimately focused upon the individual. Only individuals *know* their own good. In John Locke's moral thought a stronger moral individualism arises. The concept of the 'individual person' is seen by Locke as a 'forensic' term. Individual personality belongs to 'intelligent agents, capable of a law, and happiness, and misery'.<sup>5</sup> Individual persons possess self-consciousness and are *responsible* and *accountable* beings. This idea of individual accountability can be also found as a central leitmotiv in Kant's *Introduction to the Metaphysics of Morals*.<sup>6</sup> This variant of moral individualism, in Locke and Kant, identifies a richer inner source of moral authenticity within the individual than that found in ethical egoism. The important points here are: the centrality of the individual to knowledge of the world; it is only individuals who can be moral, accountable and responsible; and such individuals form the key units out of which society is constructed.<sup>7</sup>

Moral and epistemological individualism established foundations for additional senses of individualism and continually cross-referenced with them. With the firm belief in individuals being the irreducible atoms of knowledge, conscience and moral obligation, we see the ascension of self-conscious 'ontological individualism'. This asserts that only individual wants, interests and preferences exist. Collectivities cannot act or have any being in the world, unless they are disaggregated into their atomic parts (the preferences, desires and interests of individuals). An overlapping idea to the ontological claim is methodological individualism. Methodological individualism is largely a doctrine about explanation, not a sociological observation. At its simplest it asserts that all attempts to explain social phenomena must be couched wholly in terms of facts about individuals. The only genuine propositions about society are those which are reducible to propositions about individual actions and volitions. In a slightly different context, this is a doctrine also beloved of orthodox neo-classical economics, and liberal thinkers (like Hayek) would not wish to see economic individualism drawn apart from other variants, like methodological or moral individualism. In fact in neo-classical economics, and Hayek's work in particular, methodological individualism is intimately linked to economic individualism.

The above conceptions establish a platform for political individualism. Lockian individuals, for example, own themselves – ‘every man has property in his own person’. This argument is too well known to rehearse it in any detail. It forms the root to natural rights argumentation, property theory, contractualism, and the consent basis to government. Formally, political individualism is a doctrine which extols the self-ownership and value of the individual human being as crucial for understanding the character of all societies. It maintains that a society is constituted by separate human units with their own distinct plans of life, interests, rights and liberties. The individual human being is usually understood as a moral agent. The agent is irreducible or indivisible, self-aware and possessing the capacity for rational thought. A society is understood to be built out of such atomic individuals. The individual is, in this sense, prior to society. Authority is rooted in individuals whose consent is essential for the legitimacy of political or legal rule. The privacy and autonomy of individuals are protected by rights. Individuals, though, are bounded by law, laws which allow each to pursue their own interest, as long as no harm is caused to others.

Individualism, as outlined above, is a central motif of liberal thought. Ontological individualism is, however, the crucial background theme, linking together the other senses (apart from aspects of methodological individualism). Liberalism, together with individualism, forms a dominant strain within modernity. In addition, not many would doubt the claim that certainly for the last century, the Anglophone world of political theory has been dominated, with varying degrees of intensity, by liberal language. Today the modes of theorizing present in contractarianism, rights argument, libertarianism, social democratic theory, consequentialism, decision theory, game theory, public-choice and social-choice analysis, and so forth, are all underpinned by the paradigm of individualism (and usually some qualified commitment to a form of liberalism).<sup>8</sup>

### **The Liberal Achievement and Individualism**

The next stage of the argument is to suggest that one central facet of this ontological core of individualism is the complex notion of ‘self-choice’. Simply put, this asserts that the content of an individual’s life, her values and liberty, are ‘ideally’ self chosen and not imposed from any external sources. This idea links up with fruitful veins of thought in liberalism – consent to government; the legitimacy of authority being dependent upon choice; freedom as choosing one’s own plan of life; the necessary separation between the public and private realm (self and other-regarding actions); and the demand

for governmental neutrality over the good. Values are chosen by individuals for themselves, which, in turn, gives rise to the claim of moral and political relativism within some liberal thought.

However, the situation here is more complex than at first sight. The present idea of self-choice is the outcome of an intricate history. The notions of self-discovery and self-choice were given a tremendous impetus by romanticism.<sup>9</sup> Our moral sense, our relation to God or nature, were to be sought internally within our feelings or inner sense. Initially this romantic preoccupation with moral standards – being identified with inner feelings and intuitions – regarded the epistemological individualism and atomism of empiricism as alien materialistic territory. While romantic individualism was linked to a wider spiritual ontology (self-discovery being discovery of God, pantheism, nature or *Geist* within the self), the opposition to epistemological (and early liberal) individualism remained firm. Epistemological individualism was associated with Cartesianism, mechanism and materialism, and was consequently dismissed as a spiritually bankrupt view of reality.

The crucial turning point in the above debate was due to a subtle displacement, partly caused by the gradual ‘sloughing off’ of macrocosmic ontologies and also, partly, by taking self-choice and self-creation in *complete* earnestness. The displacement can be obscurely observed (to my mind) in Hegel’s comments in ‘Absolute Freedom and Terror’ in *The Phenomenology of Spirit* on the destiny of Kantian (and Rousseauian) self-legislating will.<sup>10</sup> Once the self *really* chooses outside of any horizon, then all hell can literally break loose. In this sense it was not without significance that theorists like Robert P. Wolff used a form of Kantianism in defence of anarchy.<sup>11</sup> The transition from absolute external standards to romantic inner-directed self-choice was considerably smoother in writers like Rousseau, Kant, Hegel and Marx.<sup>12</sup> However in these writers the still small voice of God was not lost, but veiled behind *amour propre*, self-interested inclinations, the ‘understanding’ [*Verstand*] and ‘capitalism’, and had to be worked for. Emancipation and discovery of the true self came via the general will, reason and the holy will, absolute knowing or communism. The ‘displacement’ referred to gave priority to self-choice, self-legislation, self-determination and self-realization increasingly without God or a God substitute.

It is at this point that a fortuitous alliance developed between romantic self-choice (*Bildung*) and the traditions of both epistemological individualism and classical liberalism.<sup>13</sup> Once the romantic self-creation theme had progressively lost its content (other than self-chosen), then self-choice alone became the crucial dynamic. Fortuitously, this linked up with the epistemological concerns of

knowledge and moral conduct being rooted in the atomistic individual. This latter, more directly materialistic and empiricist individualism, was already becoming socially and politically entrenched in the late eighteenth and early nineteenth centuries. Late romantic self-choice arguments blended subtly with this doctrine. Liberal individualist ideas had initially been pitted in a struggle against fixed hierarchies. Locke and Adam Smith, in their own day, looked like radical liberators of individuals. Such theorists symbolized the challenge to patriarchalism, absolutism, mercantilism and the *ancien regime* in the name of individual rights and liberties. This was a period when theorists like Smith could look confidently to the 'spirit of commerce' and the natural system of individual liberty replacing the 'spirit of war'. As Marx observed, on many occasions, liberal capitalism was, at first blush, liberationist, by breaking feudal ties and undermining traditional property (despite the fact that in the final analysis this related to establishing free mobile labour, more impersonal economic relationships, and individual tradeable property). With the relative triumph of liberal individualism in the nineteenth century, ideas on atomism, instrumental reason, and self-choice became entrenched. The romantic consumer could now wallow in the endless imagined pleasures of the supermarket. Once politically and economically entrenched, individualism, although still associated with radical self-choosing, looked less appetizing, particularly in its economic guise. Individualism had come partially into its own in the isolated secular subject choosing its own content. Self-choice became the crucial motif. This might be called the culture of subjectivism and narcissism.

### Liberal Difficulties

It might be argued immediately against the above that the liberalism of the nineteenth and twentieth centuries does not correspond with this view. There are many fine expositions of liberal thought which make a point of rising above the isolated narcissistic individual. However, if the themes and preoccupations of contemporary liberalism are examined, they still reveal a deep anxiety over the cult of narcissism. They also try within their theories, to a greater or lesser degree, to counter the logic of narcissism and subjectivism. Liberalism does not have to proceed down this road of radical subjectivism, but it is always in imminent danger of doing so. Three issues in contemporary liberalism will be examined which reveal this anxiety: the historicization of liberalism; neo-neutral neutrality; and radical subjective freedom.

Liberalism is at present caught in a dilemma which may indeed be



irresolvable. If we take Rawls as an example, his very reputation as a thinker and probably his greatest achievement is to have given a philosophical grounding or foundation to liberalism. He has managed with great skill to separate clearly issues of justice from those of the moral beliefs and personal aspirations of individuals. His theory, with deceptive ease, apparently solves the problem of uniting a diversity of distinct individuals within a coherent public system of justice. This unity in diversity is one that liberals have always aimed at. *Reasonable* individuals within a veil of ignorance make decisions which carry them forward to the principles of a just order. This is, of course, until a swathe of critics asked the question: what is 'reasonable', and are not moral and political beliefs prebuilt into Rawlsian 'reasonableness'? Rawls has gradually responded to this criticism, up to his most recent book, *Political Liberalism*, by suggesting that what he was really doing was not claiming any abstract foundational truths. He was not offering a comprehensive or metaphysical liberalism, but rather looking at what a reasonable liberal democratic individual, living in a political liberal democratic state, would tend to think.<sup>14</sup> A dominant practical, if still purportedly free-standing, reason therefore found an overlapping consensus in the embeddedness of liberal values of freedom and equality within the basic institutions of an actual liberal democratic society. Thus the reasonable person of such a historical and political state still would not carry over her private desires into the public realm. The creed of liberalism is preserved. Individuality is still held in check. The public realm is still an area of overlapping consensus, but a crucial move has been made. All this takes place within a *political* and *historical* state (at least within the abstract world of Rawlsian theory. Whether American public life does manifest overlapping consensus is not a question Rawls really raises).

Rawls, it should be noted, is certainly not alone in this historicization (and politicization) of liberalism. From all sides of the liberal spectrum the historical/cultural/political card is now being played with greater intensity. The historical character of liberalism had already been pointed out by socialist critics.<sup>15</sup> However, more recently, liberals have been rushing to cash in the same argument. Even an originally unreconstructed Hayekian, John Gray, in one of his more recent apologias, *Post-Liberalism* (1993), has played the historical card incessantly. His abandonment of foundational liberalism has not led him to speak so much of a political or historical liberalism, but rather 'civil society'. This is, in fact, a political liberalism by another name (although he does insist grandiosely that the political philosophy of liberalism is 'dead' and thus calls himself post-liberal). Admittedly Gray's position looks increasingly more like a somewhat pre-liberal shrunken Hobbesian autocratic state holding

down a market order with greater public force and intolerance, rather than a developed political liberalism. However, as he remarks: ‘all we need is the historical inheritance’ [of liberalism].<sup>16</sup> Gray gives this whole move a world historical gloss, commenting on what he calls Santayana’s great insight that ‘the preservation of the liberal inheritance has as its most necessary condition a comprehensive disenchantment with liberal theory. Unless we shake off the hubristic illusions of liberalism, the spiralling decline in our civilization is unlikely to be arrested’.<sup>17</sup> All this gives Gray his Crocean theme of what is living and what is dead in liberalism. The next thing one might expect here is a sympathetic reference to Spengler and the decline of the West; however one has to wait another three hundred pages for it – but it is there in the context of his attack on Fukuyama’s ‘panglossian fantasies’.<sup>18</sup> The important theme that runs through all these essays is the historicization of liberal values – particularly negative liberty – enshrined in a particular historical civil society. Individualism must also be historicized. As Gray notes: ‘To deny the historical reality of liberal individuality is . . . absurd, but to turn it into a universal theory – after the fashion of the Enlightenment, to appoint it the *telos* of history – is to traffic in illusions’.<sup>19</sup> A similar qualified historical *mea culpa* can be seen to arise from a great deal of recent liberal theory, even from slightly unexpected quarters like Bruce Ackerman in *The Future of Liberal Revolution*.<sup>20</sup> Effectively what happens in these arguments is that individualism is no longer regarded as a universalist foundation. Such a view is regarded as having too many problems, not least of enshrining the abstract Kantian self-chooser. However, individualism can still exist (in a controlled and situated format) within a historically-based liberal political community or as a convention of civil association. The historical liberal can thus have the cake and eat it.

There is one small difficulty with this argument. As Ackerman remarks in the above book: it is not altogether clear, practically and historically, whether liberalism has been or is necessarily the concrete doctrine of the Western societies.<sup>21</sup> Judith Shklar, for example, although admitting, as one might expect now, that liberalism is a political doctrine rather than a foundationalist philosophy of life, nonetheless sees liberalism as a very rare phenomenon over the past two hundred years. She notes that ‘to speak of a liberal era is not to refer to anything that actually happened, except possibly by comparison to what came after 1914’.<sup>22</sup> This point could be a problem for historicist liberals since if they link their liberalism to historical and political practice and the historical and political practice does not bear them out, then the argument looks dangerously flawed.

Moving rapidly to ‘non-neutral neutrality’. Neutrality ties in with

individualism in its historical or foundationalist senses, namely, that where there is a diversity of competing moral goods of individuals and groups then the liberal state must adhere to a neutral position. Equal concern, consideration and respect should broadly be shown to all. Liberalism, in this sense, claims to be anti-perfectionist. There is no way of rationally assessing preferential ways of life and, in addition, such diverse ways of life are simply a fact of existence. Even if such moral knowledge did exist it would be a breach of individual autonomy to interfere.<sup>23</sup> Most commentators usually distinguish different types of neutrality: for example, neutrality of aim (where the state does not promote any conception of the good life); neutrality of procedure (where policy is decided without recourse to the superiority of any one conception of the good); neutrality of outcomes or consequences (where social and political institutions will not favour any one outcome over another); and neutrality of grounds (such that all persons will be treated with equal respect).<sup>24</sup> However, only the general question of neutrality will be examined in the present discussion.

It is now contended, even within liberal argumentation, that neutrality is, in fact, far from neutral. William Galston, for example, claiming to be a committed liberal, goes out of his way to deny the neutrality claim, asserting vigorously that liberals should unashamedly affirm a good or body of goods and thus minimal perfectionism. Liberalism does circumscribe diversity and should not be worried about this. Adopting the thick and thin metaphor favoured in political theory: if Rawls has thickened out slightly with political liberalism, then Galston is positively fat. Galston bewails Rawls' abandonment of metaphysical resources and accuses him of still being caught in scepticism and a dangerously one-sided view of the liberal tradition. The root of Galston's substantive good(s) is interestingly, what he disarmingly calls, 'a native element of American culture' [I am sure he cannot mean *the* native element of America – which is an enlightening linguistic slip in some ways, given that he later asserts that every political culture has 'its own distinctive core'].<sup>25</sup>

The fact that there could be a diversity of moral codes which could somehow be held together by neutrality appears deeply problematic; in fact, quite strictly, it is unbelievable. For many commentators there appears to be an implicitly non-neutral commitment to a more than formal conception of the good within this whole argument. The assertion of neutrality not only cannot be theoretically sustained, but it also strips humans of their particularities and in fact depoliticizes them (and one might refer here to the enormous literature of what is 'stripped away' or 'degendered' in the context of the feminist critique of neutrality).<sup>26</sup> Yet does neutrality actually solve anything regarding

the diverse and often conflicting individual goods? Moving outside the realms of theory for a brief glance at the world, how would neutrality really solve problems of actual moral dissent within liberalism? Does it solve the abortion issue; questions of sexual preference; religious minorities demanding their own schools; or religious Fatwas issuing death commands? Does it provide any resources to address such messy issues? One suspects not – individualism as self-choice potentially runs riot in such questions. Neutrality cannot provide any satisfactory answers to such dilemmas of individualism and pluralism.

Many liberal sympathisers have seen this problem and have sought alternatives to curtail individual choice. Thus we have Gray's rummagings in history (and conservative thought for that matter); Rawls' appeal to overlapping consensus and William Galston concerning open acceptance of one's own political order. Galston repudiates neutrality for the sake of a thickened up ethical liberalism, asserting its own perfectionism within the educational curriculum. Gray repudiates foundational neutrality for the sake of a historicized civil society embodying liberty, where some scraps of humanity can be preserved against the tides of statist barbarism. Michael Walzer, representing the liberal communitarian strand, repudiates neutrality because humans are interpretative creatures who find their moral and political resources *within* pre-existent, non-neutral plural communities. However Walzer also still believes that, in the final analysis, there is a universalist, if somewhat emasculated 'minimal code' to which we all adhere.<sup>27</sup>

Finally, for some liberal theorists, liberty is of primary significance.<sup>28</sup> If free choice is an ultimate foundation though, on what *principle* could one condemn others' choices, unless one builds a substantive content into liberty to indicate 'when' one can be free or 'what' actions are really free, a path classical liberals have tended to resist? The problems of individualism and neutralism blend here with the problem of liberty. Liberalism, having placed such a strong emphasis historically upon liberty in freeing individuals from religious, political and absolutist moral constraints, has found it had entrenched negative freedom deeply within political culture and tradition – something that appears to cause certain theorists deep gratification. However, perhaps there should be more cautions here. Liberty has now become a form of 'reactive negativity', often profoundly adversarial and atomistic in character. As Barber has put it: modern individuals 'live in an era after virtue, after God, after nature, an era offering neither comfort nor certainty. Freedom has been won by a ruthless severing of ties'.<sup>29</sup>

The problem comes back to the ontology of individualism and the

issue of self-creation. Liberalism has wished to accommodate a diversity of selves, moral beliefs within a neutral and objective public framework. Behind this is an often unwritten moral *esperanto*. On being challenged over its *esperanto* it has claimed that it is really a historical or situated *esperanto*, but still (paradoxically) an *esperanto*. After all, it is what ‘reasonable’ individuals would choose – wouldn’t they? Despite its headlong rush for politics and historicism there is still a need or yearning for an objectivity which will curtail self-choice. Even if transhistorical truths have been abandoned, Kantian ‘reasonableness’ still calls us with a sonorous voice. Barber remarks: ‘Rawls today is a philosopher torn. Willing to acknowledge the historicity of the theory of justice itself – he characterizes it as “embedded in the political institutions of a constitutional democratic regime” – he nonetheless hankers for the objectivity and neutrality of some Archimedean point’.<sup>30</sup> Yet can individualism have a base or foundation and can it be provided by individualists? Can they ground value judgements? It is intrinsically difficult to answer questions about subjective individualism within a subjectivist framework. Individualism appears to logically entail (as, for example, the early Herbert Spencer and his disciple Auberon Herbert argued, under the rubric of the Law of Equal Freedom) that one could opt out of virtually anything – even government. One can even opt for authoritarian government – as Hobbes and Gray indicate.

One final word on this issue of liberal difficulties. Communitarianism is occasionally seen as the most active contemporary critique of individualism, although in the final analysis this is an elusive point. The central theses of communitarianism are: first, a belief that political and moral goods cannot be determined by abstract reasoning; they arise out of historical communities. In this sense it is sceptical about aspects of the Enlightenment project. Secondly, the community forms the basis to practical reason, value and political judgement. The particularity of historical communities is set against the claims of liberal deontic universality. Thirdly, the self or person is constituted through the community. There are no ‘unencumbered selves’ (to use Sandel’s phrase). Fourthly, there are no external universal rational foundations to draw upon.<sup>31</sup> In addition, we do not need theoretical foundations for a practical life; rather we draw upon the interpretations of a tradition or form of life. Philosophy cannot provide such externalized foundations. Praxis in a community is distinct from the arguments of philosophy.<sup>32</sup>

However, despite the subtlety and richness of some communitarian analyses, communitarianism, in much of its output, has been not so much a critique of liberalism as its partial salvation. In fact, the historicization of political liberalism and the liberal concerns at the

heart of much communitarianism find a common *heimat* at the present. The opposition between the doctrines is misleading. Sandel's self is constituted within a liberal community. Taylor is essentially trying to save true moral individualism (authenticity) or a modern identity from misrepresentation. Michael Walzer's defence of spheres of good (and his injunctions not to invade each other's good and self-understandings) is a more complex argument for a pluralist left liberal society.<sup>33</sup>

### From Anarchism to the Postmodern

This brief excursus on liberalism (neutralist, historicist and communitarian) has indicated that the ontology of individualism is both a perennial burden and blessing to liberalism. It is not very surprising, from what has been discussed on individualism and liberty, and by implication on authority and consent, to find that many within the history of liberal thought have been deeply attracted to anarchy. Benjamin Barber remarks that: 'The pure liberal state was in fact an oxymoronic conundrum of Anarchy – the absence of all government was liberalism's purest expression'.<sup>34</sup> The case is quite obvious in some of the Spencerians (Auberon Herbert and Wordsworth Donisthorpe, for example, at the close of the nineteenth century, who argued for the voluntary state and voluntary taxation). Their reading of Spencer's Law of Equal Freedom was quite consistent. Max Stirner utilized the same logic with his central notion of *Eigenheit*, although in his case he did not come to anarchy via liberalism (except in its more muted and oblique form in the young Hegelians). Stirner settled upon the centrality of the self-choosing ego by way of a critique of Hegelian, Feuerbachian and Marxian ontology, taking the Feuerbachian 'transformative criticism' to its final denouement, summarized in his motto: 'I have founded my affair upon nothing'. This line of thought can be found reflected in the more recent efflorescence of extreme liberalism (or libertarianism) which, of course, finds its natural domicile in anarchy. Thus N.P. Barry (no enemy to liberalism) remarked: 'anarcho-capitalism . . . takes the argument of classical liberalism to its logical conclusion and recommends the abolition of the state.'<sup>35</sup>

The argument can now move one step beyond anarchy. Postmodern political theory, despite the anti-subjectivist claims made for it, can be seen as an extension of the ontology of liberal individualism. Returning to the 'displacement' point made earlier, namely, where self-choice comes to the fore gradually without any horizon of significance; the nub of my argument is that what postmodernism represents is ontological individualism as self-creation (as a form of

hangover of romantic *Bildung*, blended with aspects of epistemological individualism and moral individualism). What characterizes this form of individualism is self-creation and self-choice, where even the content or horizon is seen self-referentially. The groundwork for this is fully present in more extreme adherents of liberal individualism – postmodernists are thus covert liberals who, taking hold of the ontology, have moved beyond even the metanarrative of anarchy into the untrammelled fields of self-creativity. They have grasped private narcissism with a will (to power). In this sense the argument is that postmodernism is really a part of high modernism. However, it is important to make a distinction between forms of postmodern political theory: basically between the continental variant (Foucault, Derrida) and the North American variant (Rorty, Connolly). The focus of the present discussion will be mainly on the latter.<sup>36</sup>

Both Connolly and Rorty resist Enlightenment reason and epistemology. For Connolly, in *Identity/Difference*, Enlightenment reason entails closure and fixed identities. His main thesis is that all identity entails difference and exclusion – difference is built into all identity. Connolly suggests, for example, that the liberal individualist, the collectivist and communitarian visions are all located in the same exclusionary Enlightenment frame: ‘A matrix, in which the categories across the horizontal axis are mastery and attunement and on the vertical axis are the individual and the collectivity’.<sup>37</sup> For Connolly a postmodern position embraces difference and otherness and rejects closure, or as Rorty maintains, postmodern openmindedness undermines liberal foundationalism.<sup>38</sup> Critics of postmodernism who accuse it of making truth claims itself are brushed aside by Connolly. He contends that postmodernists are more interested in the way the accusation is framed. It presupposes an either/or mentality and therefore seeks closure and exclusion of postmodernism as ‘other’. As Connolly observes, the postmodernist is thus more interested in the ‘subterranean rhetorical configuration’ behind the accusation.<sup>39</sup> Such critics are afraid of what Connolly calls the ‘infinite openness’ of postmodernism. The critic of postmodernism is thus always trying to convert the ‘code of paradox’ back into the ‘code of coherence’.

Rorty’s answer to this ‘truth query’ is more subtle and less derivative than Connolly’s. Rorty contends that ‘To say we should drop the idea of truth as out there waiting to be discovered is not to say that we discovered that, out there, there is no truth’.<sup>40</sup> This would be claiming to know what has already been claimed cannot be known. Language for Rorty is non-representational. There is nothing intrinsic about it. Thus the task of the theorists, for both Connolly and Rorty, is to counterpose irony against all forms of transcendental piety.<sup>41</sup> This leads to an acceptance of radical contingency amongst postmoderns.

Contingency forms Rorty's main theme in his more recent work *Contingency, Irony and Solidarity*. The idea of contingency rests on the argument that truth is *made* and not *discovered*. This echoes the themes of his earlier book, *Philosophy as the Mirror of Nature*. Theory never represents or mirrors the real. There is only the text and nothing outside it.<sup>42</sup> Connolly also, employing Heideggerian terminology, describes such attempts at mirroring, representation and closure, as 'ontotheology'. Rawls, for example, becomes in Connolly's terms an ontotheologist trying to escape into a liberal hermeneutic in his later work.<sup>43</sup> Thus all we have are interpretations. They are essential to life; however, interpretations often congeal and masquerade as reality and need to be deconstructed. Both Connolly and Rorty therefore seek a theory which recognizes its own contingency. Rorty, for example, notes favourably Kierkegaard's observation that if Hegel had prefaced his *Science of Logic* by remarking that this was just another thought experiment he would have been the greatest philosopher ever.<sup>44</sup>

Made truth has for Rorty a comparatively recent history, part of which is reliant on the idea of the romantic poet's notion of self-creation. In philosophy the German Idealists were the first to grasp the nettle. However, the Idealists, although seeing much of the construction of the world as tied to the mind, still insisted that mind or spirit had an essential nature.<sup>45</sup> For Rorty, however, nothing has an essential nature. He therefore draws a distinction between the claims that 'the world is out there' and 'the truth is out there'. To say that truth is not out there is 'simply to say that where there are no sentences there is no truth, that sentences are elements of human language, and that human languages are human creations'.<sup>46</sup> There are, in other words, no sentence shaped chunks in the world. The idea that truth is 'out there' waiting to be discovered or mirrored, for example, in the natural sciences, is for Rorty a legacy of the contention that God is out there waiting to be discovered. If we change our views, it is not forced upon us by the world, rather we get out of the habit of using certain words and we adopt others. Nothing actually 'fits' the world. There is no real self, no natural law, no natural rights, no essence of the state. Nothing is essential to self any more than sensitive genitals are essential to the body.<sup>47</sup> There are only different vocabularies which make claims to finality. As Rorty contends, 'if we could ever become reconciled to the idea that most of reality is indifferent to our descriptions of it . . . then we should at last have assimilated what was true in the Romantic idea that truth is made rather than found'.<sup>48</sup> Vocabularies are not representational jigsaws which fit over the world, rather they are pragmatic tools made by human beings.<sup>49</sup> Truth, as Nietzsche emphasized, is metaphor – or more precisely what are called truths



are worn out metaphors.<sup>50</sup> Scientific revolutions are metaphoric redescriptions. Human history is a succession of grand metaphors. Rather than speak of literal and metaphorical speech we should alternatively speak of old and new vocabularies. To see the world this way is to dedivinize it. In short, viewed as a historical sequence: love of God was replaced by love of truth; love of truth by love of science; love of science was replaced by love of self (in romantics); and now love of self has been replaced by love of nothing (or whatever comes along). In future, for Rorty, we should aim for 'tingles' rather than 'truths'.<sup>51</sup>

This leads to another theme: if we *make* rather than *discover* truth, then imagination, aesthetics and creativity take on a crucial role in cognition. In Rorty's terms the poet and aesthete take priority. The origin of this idea lay (as I stated earlier) in the Kantian divinization of the self-legislating noumenal self, which so affected the Romantics – much to Kant's disgust. The self, if created, is essentially an imaginative construction. The self becomes a work of art. Given that the self and its vocabulary construct the world, there is nothing intrinsic to represent. Values are not found, but created. It follows therefore that the self is also a poetic or creative construction. The heroization of the isolated artist as shaman in the nineteenth and twentieth centuries (indeed some argue that art has replaced religion as a key system of values and worship in the late twentieth century) is symptomatic of the same movement. However, the crucial difference within self-creation is the displacement issue again. Twentieth century art has certainly moved beyond a pressing concern with representation (*mimesis*). Self-creation (*poesis*) has come to the fore. However *poesis* still remains rooted if there is 'something' for the self to create with – namely, if there is something elusive beyond the self. The subtle displacement occurs when the self is all that there is, with no horizon, no order beyond the self. This is self-creativity at its wits' end. This is the individual of modern liberal culture for Rorty. Such a liberal individual should be a strong ironic poet, unafraid of relativism, irrationalism and loss of foundations. Rorty takes figures like Proust, Nietzsche and Derrida as exemplars. He comments that: 'To see one's language, one's conscience, one's morality, and one's highest hopes as contingent products, as . . . metaphors, is to adopt a self-identity which suits one for citizenship in such an ideally liberal state'.<sup>52</sup>

Connolly's vision of society is an 'agonistic democracy', containing decentralization and local democracy. It is a form of radicalized, dedivinized and federalized liberalism. Where neutralist liberals try to shield society from strong identities, Connolly wants a future society to encompass them. The crisis of society is not fragmentation but

rather the attempt to fix and close identities. Connolly, following Nietzsche and Foucault, favours a 'cultivation ethics' over a 'command ethics'; the former celebrates difference, exposes paradox rather than suppresses it and accepts self-creation. There are no either/ors in agonistic democracy. Connolly makes ethical hay here while the deconstruction sun shines. Derrida's *différance* becomes a support for a cultivation ethic of care.<sup>53</sup> Connolly takes the refusal of closure as a prime mark of postmodernism. The 'either/or' mentality is taken by Connolly to be 'masculinist'. Connolly appears to be arguing here for a strong pluralism.<sup>54</sup>

Rorty's and Connolly's visions of a postmodern ironic dedivinized liberalism are not fortuitous. They express precisely the ontological destiny of individualism. Rorty values bourgeois liberalism but without foundations, without an Enlightenment vocabulary and without any future possibility of foundation; it would be non-universalist, non-rationalist, and accepting 'the claims that there is no standpoint outside the particular historically conditioned and temporary vocabulary we are presently using'.<sup>55</sup> It is a liberalism which affirms the need for a private narcissism of self creativity together with a public solidarity and loathing for cruelty. Rorty claims that this does justice to both self-creationists and community rationalists.<sup>56</sup>

Liberalism does not need a new foundation; rather it needs to be poeticized.<sup>57</sup> Liberalism cannot be justified. Yet Rorty also wishes self-creation to be privatized. Liberalism he takes to be about the avoidance or diminishment of cruelty. This links up with the third major component of his argument – solidarity. The language of liberalism is tied to place, circumstance and history. We must accept this contingency, but we can still loathe cruelty. Even if our language is detheologized and there is no metalanguage to justify it, we can still affirm solidarity with our fellow human beings. Even if we have 'made' the solidarity we can still die for it; although this is still an amazingly tenuous notion of solidarity. There are undoubtedly individuals who would die for such ideas, but they are rare. Not many of us have the capacity to say 'this principle is something I made up and it has no universality whatsoever, but I will still sacrifice my life for it'. In Rorty solidarity sounds more like a plea. We have here though a precise formulation of [what I would call] *a contingent political liberalism*. It is not surprising that Rorty has expressed satisfaction at Rawls' recent moves, although he would obviously like him to go a few steps further.<sup>58</sup>

If we extract the themes from these theorists we find: truth as 'made up' metaphors and not discovered in the world; poetic creativity set over representation; aesthetics prioritized over ethics (ethics is, in fact, created by aesthetics); irony and gaming over knowledge;

revolution against foundational moral and political conventions; an acceptance of difference set against claims for strict identity; the uprootedness of the isolated narcissistic and self-referential ego set against claims to communal or historical rootedness. What we have here is self-creation without any apparent horizon – the ontology of individualism virtually at its wits' end.<sup>59</sup> It is hardly surprising that Rorty particularly sees this as the destiny of liberalism. The movement has been from foundational liberalism to political or historical liberalism and finally to contingent (postmodern) political or historical liberalism. The motor for this movement has been the ontology of individualism.

### Critical Reflections

Certain important criticisms can be made of my argument. Firstly, and most importantly, it is surely liberalism and modernity which present the individual subject as an isolated mind and will. Postmodernists claim, however, to have decentred the individual subject.<sup>60</sup> For Michel Foucault, particularly, the human subject is scripted by the disciplinary agencies of medicine, education, prisons and so forth. The crucial need is to interrogate the discourses and agencies which *produce* the modern subject.<sup>61</sup> Foucault was not therefore improving political conversations, but rather distancing us from the various linguistic practices that give rise to subjects. How could my argument therefore make individuality so central to postmodernity? Secondly, can one compare Foucault and Derrida to Rorty and Connolly? Surely the former are relatively apolitical and show little inclination to a postmodern liberalism.

On the first point, Connolly argues that liberal individualism *per se* crushes individuality. He remarks that individualists 'insinuate a dense set of standards, conventions, and expectations into the identity of the normal self by failing to identify or contest a constellation of normal/abnormal dualities already inscribed in the culture they idealize'. Liberal individualism, in short, evades the paradox of difference. It is 'not merely a benign perspective that does not go far enough. It is an anachronism'. The real threat is normalization and surveillance. Thus 'A mere *ethic* of individuality evades an encounter with the Foucaultian world of discipline and normalization'. Liberal individualism treats 'an ethic of individuality as if it were a political theory of identity/difference'.<sup>62</sup> Connolly's case is that the liberal individual is only established by exclusion. Power plays a role here, since the definition of the self and otherness allows the individual to be disciplined and manipulated.

The postmodernists have therefore decentred the individual by

cutting off all possibility for anchorage. However, is this actually a decentring of the individual subject? My response would be this: postmodernists like Connolly presumably would not deny that the self is an invention. This is a central theme in postmodern discourse. As Foucault remarked 'Modern man . . . is not the man who goes out to discover himself . . .; he is the man who tries to invent himself'.<sup>63</sup> Humans have no hidden essence; the self is invented or self-created, like a work of art. Yet what is doing the inventing and creating or writing about genealogy of the self? Postmodernists fail to explain the agency or individual self which is the essential presupposition of the very creativity and invention that they value. In this sense they have not decentred the self in the slightest degree. Postmodernists are in fact extreme voluntarists and radical individualists. They have isolated the manner in which much of the *content* of the self is assimilated, such that the individual can become self-conscious about it. In this sense postmodern theory is potentially emancipatory and therapeutic. That is certainly how many feminists have read Foucault and Derrida. But it also steps into the vacuum of sceptical instability, that Hegel had pointed out long before. Some postmodernists, like Alain Touraine and Pierre Bourdieu, have in fact recognized this issue and have looked for a conception of postmodern individuality.<sup>64</sup> However none of this entails a loss or decentring of the individual self at all, but rather a far more intensive self-referential focus on the individual subject. Postmodernists have not abandoned the individual self. It is still there, hard, translucent and impervious, but also, at the same time, unanchored and untrammelled in what it can choose.

Further, are not Foucault's or Connolly's uses of genealogy an exercise of the very type of individual critical self-consciousness which is characteristic of the modern self? In addition, does not the strategy of genealogy draw upon the very norms of rationality that postmodernists are trying to deconstruct? They employ the very principles of reason and truth which exemplify the limitations of the thought they are trying to reveal. Thus what, for example, is the status of Foucault's discourses on power and knowledge – are they true and rational? It takes an individual author and subject to argue self-consciously for the death and loss of the author and subject. All this reflexive argumentation exemplifies the same ontology of individualism as self-choice. The jargon of decentring and the attack on liberal individualism is thus largely bogus.

This leads on to the second criticism. Rorty's view is quite enlightening here. He maintains that Foucault is an ironist who is unwilling to admit his liberalism. Derrida and Foucault are so consumed by this sceptical irony that they even doubt their own and others' subjectivity. They are, as Rorty states, 'a *reductio ad*

*absurdum* of the philosophy of subjectivity'.<sup>65</sup> They carry the effort against foundationalism and deconstructive scepticism to the point of perpetually deconstructing themselves and permanently postponing meaning. Foucault in fact intimates in one of his last essays, 'What is Enlightenment?', that this is the mark of the postmodern mind. His interpretation of the Kantian argument is to suggest that there is a new type of philosophical investigation implicit in Kant's original essay. It is 'one that simultaneously problematizes man's relation to the present, man's historical mode of being, and the constitution of the self as an autonomous subject'. Critique, for Foucault, involves a permanent reactivation of criticism. He suggests here that this form of criticism involves the rejection of metaphysics and transcendence and giving up 'hope of our ever acceding to any complete and definitive knowledge of what may constitute our historical limits'.<sup>66</sup> This total critique of value still, however, leaves the self present but with no content, no world to confer standards, no ontotheology, no logocentrism, only the total ever-present possibility to criticize, create or will their own standards – a will to power. This is not the abandonment of the ontology of individualism. It is a more pristine form of the ontology of individual self-creation.

## Conclusion

Rorty and Connolly have, in appearance, comparatively gentle postmodern liberal visions. It is more difficult to make out the precise political shape of Foucault or Derrida, although some form of extreme liberal pluralist association is almost inevitable. All such postmodern theories are premised on a radical reading of the ontology of individualism. However Rorty's, Connolly's and Foucault's work seem to end just where politics begins. Messy political or cultural conflict does not impinge on their substantive theories. Rorty's appeal to solidarity, Connolly's to maintain identity and difference, or Foucault's concern to unpack the genealogy of the modern self and make us critical of the techniques of discipline, cut very little actual ice in the political world. They do not actually face (except rhetorically) any of the problems which would inevitably affect such an extreme liberal society. In this sense they are very weak-minded liberals, specifically on the institutional setting of such a society.

My fear is that such theories in the end feed on nihilism, which is implicitly present in the ontology of individualism. Such nihilism can provide the groundwork for a return to extremes of nationalistic fervour, fundamentalism and appeals for charismatic leadership. Postmodern political theory looks therefore increasingly like the lid over the rubble of human metanarratives and achievements. If we take

Rorty: what glue could possibly hold his ironic liberalism together? In addition, can one really abhor cruelty (as Rorty suggests) and not be a metaphysician? Rorty's answers here, in short, are that we are already half way to ironic liberalism within our own societies, but this has not been fatal; and secondly, solidarity against cruelty does not necessarily have to be metaphysically based. One can still die for a contingent principle. However this sounds dangerously like 'whistling in the wind'. What evidence does Rorty adduce for such views? The answer is none. Virtually anything can be done narcissistically by the privatized individual – although nothing has meaning. Postmodernism is a lid with all the hallmarks of *fin de siècle*, but it is nonetheless just a lid. It closes over social inequalities, injustice, unequal powers and social decay; all are given, paradoxically a neo-conservative, if nihilistic, imprimatur. The undue focus on the individual in the name of freedom has led to the severing of all ties except those which realistically retain some form of civil life or perhaps make small social movements cohere. To maintain this civil life, however, may require more force than previously anticipated by liberalism in the past and postmodernism will have been the handmaiden to such developments.

My argument, in sum, is that there has been a shift in Western thought, over the last three hundred years, towards individualism, which is a central part of the problematic of modernity. There are a number of modes of individualism, although ontological individualism forms a linchpin. Although a number of ideologies embody strong concerns with individualism, individualism has been most forcefully expressed in liberalism – in fact, it forms its ontological core. Liberal individualism could be said to be a summation of modernity. Postmodernism, as a product of high modernity, is also the outcome of themes within liberal individualism. However, postmodernism takes the ontology of individualism to the point of virtual absurdity and thus shares similar grounds with the traditions of individualistic anarchy and libertarianism.

#### NOTES

1. Max Stirner, preface to *The Ego and his Own*, edited by John Carroll, London: Cape, 1971, p. 39.
2. On a general level I take it that the idea of the individual person is a comparatively late product of European culture. However, this is a contestable idea. For Colin Morris the twelfth century is the point of origin (Colin Morris, *The Discovery of the Individual 1050–1200*, New York: Harper and Row, 1972). Others have identified facets of individualism even earlier, in the ninth century; see Jack Goody, *The Development of the Family and Marriage in Europe*, Cambridge: Cambridge

- University Press, 1983. Ian Macfarlane in his *Origins of English Individualism*, Cambridge: Cambridge University Press, 1978, concentrated on the fourteenth century, just after the Black Death. Jacob Burckhardt saw the Renaissance as the point of origin; for Otto Gierke it was the age of the great contractarian thinkers (Grotius, Hobbes and Locke). Max Weber focused on Puritanism and Ernst Troeltsch on the Enlightenment. There is obviously little consensus on this issue.
3. S. Lukes, *Individualism*. Oxford: Blackwell, 1973. Lukes argues, however, that there are unit ideas within individualism: dignity, autonomy, privacy and self-development. These unit ideas are weighted differently within the various formulations of individualism.
  4. Lukes, pp.107–8. There is an immediate and subtle connection here between 'empiricist epistemology' and 'political individualism'; see also R. Flathman, *Towards a Liberalism*, Ithaca & London: Cornell University Press, 1989, p. 18.
  5. John Locke, *An Essay on Human Understanding*, 5th edition, London: Collins, 1969, p. 220.
  6. 'A person is the subject whose actions are susceptible to imputation. Accordingly, moral personality is nothing but the freedom of a rational being under moral laws' – Immanuel Kant, 'The Metaphysical Elements of Justice', part 1 of *The Metaphysics of Morals*, transl. by John Ladd, New York: Bobbs-Merrill, 1965, p. 24.
  7. As Peter French comments: 'Almost all Western moral philosophers have approached the subject of responsibility armed with the assumption that the only interesting and important things to be said on that topic must be said about individual human beings'; in *Collective and Corporate Responsibility*, New York: Columbia University Press, 1984, p. vii.
  8. Admittedly, again, there are different forms of individualism, and liberalism for that matter; see Andrew Vincent, *Modern Political Ideologies*, Oxford: Blackwell, 1992, chapter 2.
  9. See the discussion of the 'cult of the ego' and 'self-creation' in romantic thought in H.G. Schenk, *The Mind of the European Romantics*, London: Constable, 1966, pp. 16ff & 125ff.
  10. For example, Hegel's remarks: 'Spirit thus comes before us as *absolute freedom*. It is self-consciousness which grasps the fact that its certainty of itself is the essence of all the spiritual "masses", or spheres, of the real as well as of the supersensible world, or conversely, that essence and actuality are consciousness's knowledge of *itself*. It is conscious of its pure personality and therein of all spiritual reality, and all reality is solely spiritual; the world is for it simply its own will' (Section 584, pp. 356–7). Hegel's concluding paragraph in this discussion contains a comment which might almost sum up the thrust of Foucault's and Derrida's negative methods, although their destruction is only the terror exercised on the text: 'Universal freedom, therefore, can produce neither a positive work nor a deed; there is left for it only *negative* action; it is merely the *fury* of destruction' (Section 589, p. 359); G.W.F. Hegel, *The Phenomenology of Spirit*, transl. by A.V. Miller, Oxford: Clarendon Press, 1977.
  11. In the sense that once the notion of self-legislation is taken with due seriousness and uncoupled from the categorical imperative then all authority literally devolves to the individual (R.P. Wolff, *In Defense of Anarchism*, New York: Harper and Row, 1970).
  12. These writers self-consciously link the choices of the individual self with the inner purposes of the moral community; thus the individual remains self-choosing but the inner purposes of the self are already at one with the purposes of the community. This accommodates the new sense of individuality with community by immediately controlling choice within a universalist framework. This argument thus smooths the entry of self-choosing individuality into the moral and political world.
  13. This can be seen in J.S. Mill's use of Humboldt's romantic idea of *Bildung* in his essay *On Liberty*.
  14. John Rawls, *Political Liberalism*, New York: Columbia University Press, 1993.
  15. More recently the most obvious example is the writings of C.B. Macpherson, although it is a longstanding tradition going back to Marx and Engels.
  16. John Gray, *Post-Liberalism: Studies in Political Thought*, London & New York: Routledge, 1993, p. vii. Despite emphasizing the inheritance notion, he does argue in another essay in the book that we should be cautious 'against seeking too much

- continuity or coherence even in a liberal intellectual tradition' (p.286). The caveat here is that he is talking about Mill (plus Rawls and Dworkin) and Gray is still obviously nostalgic for the usual new right reluctance to accord them the title liberal.
17. Gray, p.31.
  18. Gray, pp.327–8.
  19. Gray, p.259.
  20. Earlier in the text Ackerman comments: 'Whatever neo-Kantians may say, most people simply do not think of themselves as Abstract choosers whose dignity consists in the possession of Equal Rights. Ordinary humans gain their identity by sharing in the pre-existing community' (p.21). Ackerman continues in an autobiographical tone: 'I myself have never been a member of the Kantian party. Indeed most liberals of the past have rejected the Kantian image of an abstract and isolated ego. They have emphasised the profound ways that human identity is bound up with the body, the senses and each individual's experience of society' (p.21). Yet it is worth noting that in a comment later in the text he criticizes Gray for drifting into relativism. He argues, interestingly, that liberalism and its values have not been the preeminent doctrine, even historically, of the West to the present day. He contends that some form of universalist overlapping consensus can be achieved, but it has to be worked for through listening, conversation and persuasion (p.134, n.31); see Ackerman, *The Future of Liberal Revolution*, New Haven & London: Yale University Press, 1992. Richard Flathman also confesses that, despite a strong commitment to liberal individualism, 'Neither the individuals nor the individualism presented here is "atomic" or "atomistic"'. Thus for important purposes the unity on or about which my theorizing occurs is not the individual but the culture or the society' (Flathman, p.8).
  21. Ackerman, p.134, n.31.
  22. Judith Shklar, 'The Liberalism of Fear', in N. Rosenblum (ed.), *Liberalism and the Moral Life*, Harvard University Press, p.22.
  23. 'Neutrality turns out to be dependent on a more constitutive liberal moral belief such as autonomy and the existence of a reasonably homogenous moral community'; R. Bellamy, *Liberalism and Modern Society*, Oxford: Polity Press, 1992, p.240. Bellamy concludes, I think correctly, that there is very little division here between liberalism and communitarianism.
  24. Another way of dividing these and potentially constructing a matrix would be to suggest that: there are assertions of neutrality which simply demand negative inaction; there are assertions which demand that all individuals should be positively enabled to pursue any conception of the good they wish; and there are assertions that neutrality is about the state not doing anything that makes it more likely that individuals will pursue one conception rather than another unless it compensates those who are disadvantaged by such a policy. The first is more libertarian, the second more socialist and the last more social democratic in texture. See Bellamy, p.219.
  25. W. A. Galston, *Liberal Purposes: Goods, Virtues, and Diversity in the Liberal State*, Cambridge: Cambridge University Press, 1991, pp.8 & 17.
  26. See, for example, Susan Moller Okin, 'Humanist Liberalism', in Rosenblum (ed.), p.39ff.
  27. Gray, chapter 20; Galston, p.296; Michael Walzer, *Interpretation and Social Criticism*, Cambridge, MA: Harvard University Press, p.25.
  28. 'Once we cease to be liberal political philosophers, we are free to become theorists of liberty – and to return to a great tradition of such theorizing', Gray, p.321.
  29. B. Barber, 'Liberal Democracy and the Costs of Consent', in Rosenblum (ed.), p.56.
  30. B. Barber, *Conquest of Politics: Liberal Philosophy in Democratic Times*, New Jersey: Princeton University Press, 1988, p.89.
  31. Although this particular idea is problematic. It is questionable how far communitarians accept the total abandonment of some minimal universalism. Most communitarians want their cake of historical particularity, but they also want to eat it with the icing (if you will forgive the metaphor) of some universality.
  32. It is important to grasp that there are different forms of this communitarianism. There are anti-individualistically inclined communitarians, liberal communitarians, and rationalist communitarians. The anti-individualist stance is possibly best identified with Alasdair MacIntyre's works *After Virtue*, London: Duckworth, 1981; *Whose Justice? Which Rationality?*, London: Duckworth, 1988; *Three Rival Versions of*



- Moral Enquiry*, London: Duckworth, 1990. The liberal communitarian stance I would identify with Michael Walzer's *Spheres of Justice and Interpretation and Social Criticism*, Michael Sandel's *Liberalism and the Limits of Justice*, Cambridge: Cambridge University Press, 1982, and to some degree Charles Taylor's *Ethics of Authenticity*, Cambridge, MA: Harvard University Press, 1991. For the rationalist communitarian (also liberal) stance, see Joseph Raz, *The Morality of Freedom*, Oxford: Oxford University Press, 1986.
33. MacIntyre is a slight fly in the ointment, however; his appeal is based upon uncritical nostalgia for ancient groups, and a yearning for small group solidarity in the present, premised upon Pope Leo XIII's *Aeterni Patris* – not exactly a work with widespread appeal.
  34. Barber, 'Liberal Democracy', in Rosenblum (ed.), p. 55.
  35. N. P. Barry, *Classical Liberalism and Libertarianism*, London: Macmillan, 1986, p. 18. H. B. Acton also comments on Hayek that his [Hayek's] conception of freedom tends towards 'the nihilism that is the Achilles' heel of liberalism'. In a virtual Straussian tone, Acton notes that 'a liberal who begins to doubt Natural law is on the way to becoming something else'; see H. B. Acton, *The Morals of Markets*, ed. by David Gordon & Jeremy Shearmur, Indianapolis: Liberty Fund, 1993, pp. 212 & 187.
  36. For similar kinds of distinction, see R. Boyne & A. Rattansi (eds), *Postmodernism and Society*, London: Macmillan, 1990; P. Rosenau, *Postmodernism and the Social Sciences: Insights, Inroads and Intrusions*, New Jersey: Princeton University Press, 1991, p. 15; and N. Rengger, 'No Time like the Present? Postmodernism and Political Theory', *Political Studies*, XL, 1992, p. 563.
  37. William E. Connolly, *Identity/Difference: Democratic Negotiations of Political Paradox*, Ithaca: Cornell University Press, 1991, p. 29.
  38. R. Rorty, *Contingency, Irony and Solidarity*, Cambridge: Cambridge University Press, 1989, p. 52.
  39. Connolly, pp. 59–61.
  40. Rorty, p. 8.
  41. Connolly, p. 61.
  42. Although I do take the point made forcibly by Kenneth Wain that there is a marked movement in Rorty's thought from his early hermeneutic position in *Philosophy and the Mirror of Nature* (Oxford: Blackwell, 1980) toward a more poststructuralist and deconstructionist viewpoint in *Contingency, Irony and Solidarity*; see K. Wain, 'Strong Poets and Utopia: Rorty's Liberalism, Dewey and Democracy', *Political Studies*, XLI, no. 3, 1993, pp. 394–407.
  43. Connolly, p. 73.
  44. Rorty, *Contingency*, p. 104.
  45. Rorty, p. 4; see also 'Nineteenth Century Idealism and Twentieth Century Textualism', in R. Rorty, *Consequences of Pragmatism*, London & New York: Harvester Wheatsheaf, 1982.
  46. Rorty, *Contingency*, p. 5.
  47. Rorty, p. 188.
  48. Rorty, p. 7.
  49. '... truth is a property of sentences, since sentences are dependent for their existence upon vocabularies, and since vocabularies are made by human beings, so are truths', Rorty, p. 21.
  50. As Nietzsche stated: 'What therefore is truth? A mobile army of metaphors, metonymies, anthropomorphisms; in short a sum of human relations which became poetically and rhetorically intensified, metamorphosed, adorned, and after long usage seem fixed, canonic and binding; truths are illusions of which one has forgotten that they are illusions; worn-out metaphors which have become powerless to affect the senses, coins which have their obverse effaced and now are no longer of account as coins but merely as metal'; from 'Truth and Falsity in their Ultra-Moral Sense' [1873], in N. Languilli (ed.), *The Existentialist Tradition*, New York: Anchor, 1971, p. 80.
  51. Rorty, p. 152.
  52. Rorty, p. 61.
  53. See Connolly, p. 50; see also Stephen K. White, *Political Theory and Postmodernism*, Cambridge: Cambridge University Press, 1991, p. 96ff.
  54. Connolly, p. 53.

55. He continues: 'a critical vocabulary which revolves around notions like "rational", "criteria", "argument" and "foundation" and "absolute" is badly suited to describe the relation between the old and the new', Rorty, p. 49. There are some peculiar parallels here with Gray's recent project; for example, Gray's comment that 'In coming to understand liberal individuality as an appropriate rendition of our experience as moderns . . . we abandon the distinctively modern (or Enlightenment) project of grounding liberalism on universal maxims of autonomous reason. That in so recognizing the time-bound modernity of the liberal individual we do not . . . deconstruct the individual, but rather initiate a form of post-modern individualism that is fully conscious of its own historical particularity', Gray, p. 259.
56. Rorty, p. xiv.
57. Rorty, p. 53.
58. Rorty, p. 78ff.
59. The only slight alleviation and glimmering of a thin horizon (or thin esperanto) in Rorty's work is a background 'connotation' that sensible ironic poets, even if they accept truth as made, will *tend* to reach a unanimity on not being cruel and thus achieve some degree of overlapping consensus (solidarity) in the public sphere.
60. See White, p. 3; Calvin O. Schrag, 'Rationality Between Modernity and Postmodernity', in S.K. White (ed.), *Life-World and Politics: Between Modernity and Postmodernity*, Indiana: Notre Dame University Press, 1989, pp.83-4.
61. This forms the key theme in much of Foucault's work, particularly books like *Discipline and Punish*, *The Birth of the Clinic*, and *The History of Sexuality*.
62. Connolly, pp.74, 85, 86 and 87.
63. Michel Foucault, 'What is Enlightenment?', in Paul Rabinow (ed.), *The Foucault Reader*, Harmondsworth: Penguin, 1984, p. 42.
64. See Rosenau, pp.53-8.
65. Rorty, p. 62.
66. Foucault, pp. 42 & 47.

# **Contradictions in the Allocation of National Resources to Health Services and Higher Education**

*Robert Paul Wolff*

In every modern industrial state, health services and education are far and away the two largest categories of expenditure for human or social services. In the United States, for example, roughly 14% of Gross Domestic Product is spent on health services, and 6.5% is spent on education at all levels, something more than a third of that on tertiary education. The United States is, of course, notorious for the exorbitance of its health expenditures; in the United Kingdom, health consumes only about a quarter to a third more than education. Nevertheless, the generalization stands: Health and education are the two largest categories of social service expenditure.

In some countries, there is a complex mix of private and public expenditures for health and education; in others, the expenditures are virtually all public. But no matter how the allocations are determined, expenditures of this magnitude cry out for some systemic analysis and justification.

In this paper, I should like to focus on tertiary education, and ask two questions: To what principles of distribution do the providers of tertiary educational services appeal, either implicitly or explicitly? and What justification, if any, is there for those principles? I will suggest that with no good or compelling reason, the providers of tertiary education, in South Africa as in the United States, adopt a principle of distribution that is the exact opposite of the principle that governs, or it is acknowledged should govern, the allocation of health services.

There is little or no point in trying to argue for a change in this irrational situation in the United States. At the present time, the United States is rushing as fast as it can back in time, and the major political debate is between those who want to stop at the nineteenth century, those who hold out the dream of turning back the clock to the eighteenth century, and those who consider even that goal a compromise with principle. South Africa, on the other hand, is actually engaged in a serious effort to transform itself into a twenty-first century nation, and this is therefore a very good time to confront contradictions and try to resolve them.

In order to make the contradiction to which I refer concrete, let us for a moment imagine the Emergency Ward of a first-rate modern hospital and the Admissions Office of a first-rate modern university. Coming, as I do, from Massachusetts, I see in my mind the Emergency Ward of Massachusetts General Hospital in Boston, one of the best hospitals in the United States, and the Admissions Office of Harvard University, also a leading university. The reader can make appropriate South African substitutions. I do not believe the central argument of this essay will suffer.

Suppose that one night, two people enter the Emergency Ward of the hospital. The first is a sixty-year old man who staggers in, visibly in the throes of a heart attack. He stumbles toward the admitting desk and collapses on the floor. The second is a vigorous, handsome, healthy young man who comes in complaining of a small pimple on the side of his nose that mars the perfection of his features. What do we imagine would be the response of the hospital staff to these two prospective patients?

Or rather, what response do health care providers, in their idealizing and self-congratulatory moments, assume would be the response? I put the question this way because, as we all know, if the heart attack victim is indigent, and the healthy young man is rich, then (at least in the United States) certain distortions, shall we say, in the delivery of health care may creep in. But I am, for the moment, interested in the principles of allocation to which modern societies appeal, not the realities that they instantiate.

The answer is obvious: The Emergency Ward personnel will immediately rush to the aid of the heart attack victim, giving him oxygen, trying to stabilize his condition, even trying to restart his heart with electric shock, drugs, or massage if it has stopped beating. The full resources of the Ward will be put at the disposal of the doctors trying to save the patient's life, and even if he comes through the attack in a much diminished physical condition, the hospital will continue to treat him in an attempt to prolong his life and give him the best chance for some sort of recovery.

Meanwhile, the young man with the pimple will be told to wait until more seriously ill patients have been treated. Eventually, he may receive cursory attention, but it is more likely that he will be sent on his way with some tart advice about not wasting the time of a busy Emergency Ward with problems more properly dealt with by commercial over-the-counter creams and gels.

I don't suppose the administrators of the hospital would spend much time justifying this pair of decisions. They worry a good deal more about how heroically they should continue to work on a patient whose vital signs are flat. But if we asked them, they would no doubt

reply that the justification is obvious: The heart attack patient had a greater need for health services than the young man with the pimple. The heart attack patient was dying; the young man with the pimple was merely troubled about the perfection of his profile. In an American setting, the young man would be able to buy extravagant medical attention to his pimple if he had the money and was willing to forgo insurance coverage. In other settings, he might not be able to command medical resources even if he were willing and able to pay. But leaving aside special cases (as, for example, if the pimple sufferer is the Chief of State), it is universally true that providers of health care conceive themselves bound by the principle that the seriously ill shall be attended to before the cosmetically disadvantaged.

Now let us shift our imagination to the Admissions Office of the university. Once again, two persons enter seeking admission. The first, we may suppose, is a young woman – intelligent, coherent, forceful, pulled-together. She introduces herself as a theoretical physicist who has already, during her secondary education, managed to make several published contributions to the field. She is, she indicates, an accomplished pianist, an active participant in community service, a budding novelist, a serious student of philosophy, and a church leader in the African-American (or African) community where she lives.

The second applicant is a dishevelled, unfocused, poorly spoken young man who has done rather badly in high school, reads with difficulty, has considerable trouble writing coherent sentences, and has very little in the way of facility with numbers. A few moments of conversation with him reveal that he has only the sketchiest notion of what he wants to do with his life, and little or no notion of how a university education is going to help him.

What will the decision of the Admissions Committee be? Leaving aside, once again, the fact that the financial condition of the families of the two applicants may in the real world have some impact on the Committee, particularly if it is located at an American-style private university, the question is a no-brainer. The Committee will welcome the young woman with open arms, and summarily reject the young man.

If we ask the Committee how it justifies its decision (and once again, they are likely to be startled that we have even asked), they will no doubt say that the woman is supremely well prepared for university education, that she is manifestly ready to benefit fully from all that the university has to offer, and that she is indeed so well qualified that she can be expected to make a valuable contribution to the intellectual and cultural life of the university during her student years. The young man, on the other hand, lacks the minimal qualifications for

satisfactory work. The probability of his completing an undergraduate education is small. If he were admitted, the faculty would have to undertake the most extensive remedial work merely to bring him up to the minimal standards of acceptable performance. Barring any evidences of a large undeveloped intellectual potential, which, we may suppose, are not present in this case, the Committee believes it would be a waste of scarce educational resources, and utterly unfair to the young man himself, to offer him admission.

To sum up: The hospital gives priority to the physically sickest patients, regardless of their prospects for a successful recovery, simply because they have the greatest need for the hospital's services. The university gives priority to the intellectually healthiest patients, regardless of their need for the university's services, simply because they have the best prospects for a successful education. Is there anyone, besides me, who sees a slight contradiction here?

In American medicine (I cannot presume to speak for the South African profession), the doctors who do tummy tucks, liposuction, nose jobs, and breast enlargements on healthy patients are held in genial contempt, for all that they may make lots of money. The doctors who do heroic heart transplants and search for a cure for AIDS are admired and respected. In American universities, by contrast, the teachers who carry out minor cosmetic adjustments in the almost perfect intellectual profiles of overqualified students are the stars of the profession. The teachers who make heroic efforts to save the minds of young men and women whose intellectual life signs are almost flat are looked down on as second-class citizens.

To put the point as forcefully as I can: No self-respecting doctor would run a hospital in the way that the senior management run Wits.

Well, there is the contradiction of which I spoke at the outset. Fortunately, I am ten thousand miles from South Africa as I write this, and I therefore cannot hear the snorts of derision, cries of outrage, and incredulous laughs with which these remarks are no doubt being greeted. Still, I think I can imagine most of the objections readers will raise, once they get over the feeling that I cannot be serious. I have, after all, spent forty years teaching in institutions that guide themselves by the principles I am calling into question, and for most of that time, I thought those principles made transparently good sense. So let me address those objections *seriatim*. At the end of this essay, I will insert my e-mail address, so that anyone who thinks I have missed his or her crushing retort will have a chance to lay it on me. I promise to answer all messages.

Let me begin by stating explicitly the principle of distribution for which I am arguing. The scarce resources of higher education, I claim,

should to a considerable extent be allocated on the basis of *need*, as are scarce medical resources. Only those who are unable to make any good use of those resources should be denied them, just as those who are beyond medical help should not be the recipients of expensive, fruitless, heroic treatment. The justification for this distribution principle is utilitarian. Considerably greater good will result for society as a whole by conforming to it.

I say 'to a considerable extent' because there are indeed situations in which it makes allocative sense to commit some measure of resources to the already well-educated, in order to produce marginal improvements. Determining when, where, and to what extent the situation calls for that choice would require some rough estimates of consequences of a sort familiar to bureaucracies involved in the allocations of scarce resources.

How would the application of this principle alter what is now done in universities? Here are a few obvious consequences:

- (1) Admissions committees would evaluate applicants to university by weighing the educational needs of the applicants and their ability to achieve some measurable educational improvement, rather than by weighing the prior achievement of applicants and their ability to meet the standards of performance of the university. A committee would consider itself to have failed if it admitted many superbly educated young applicants who, during their years at university, made only slight advances over their already very high level of performance. It would consider itself to have succeeded if it admitted large numbers of poorly performing applicants, some at least of whom exhibited dramatic improvement during their time at university.
- (2) Resources that are now distributed on the principle that 'to them that hath shall be given', would instead be distributed, as are medical resources, to the neediest. The ablest professors would teach small groups of the least well prepared students in the most modern classrooms with the most advanced equipment. The mediocre professors would be assigned to teach large groups of superbly prepared students in second-rate settings with inexpensive equipment.
- (3) Instead of judging the success of a university by the performance of its students, who, for all any one ever bothers to ask, might be quite capable of achieving passing grades without any instruction at all, we would measure a university's performance by the amount of improvement its students show as a direct result of the efforts of the university. This 'value added', as economists call it,

would then be compared with the cost of achieving it, in order to determine whether an efficient use is being made of the scarce resources.

- (4) In preparing future generations of university instructors, post-graduate programs would be adjusted to the national need for men and women well-trained in techniques of educational remediation (or, as South Africans euphemistically like to call it, academic development.) Just as students of health delivery systems agree that it is unwise to overproduce refined specialists and under-produce general practitioners (for all that the medical profession, at least in the United States, does precisely the opposite), so it would be understood that it is socially irrational to lavish spending on the educational equivalent of plastic surgeons.
- (5) At the very least, and speaking merely of marginal adjustments, the present funding formulae for tertiary education in South Africa would be completely reversed, with the Gang of Four and their Afrikaner brethren suffering a dramatic cutback in resources – the Historically Black Universities being the beneficiaries. The rationale for this would not be restitution or social justice or racial rectification, but a simple readjustment of poorly allocated resources. So long as Wits takes the best students, it should get the lowest level of support per student. So long as Durban-Westville, Fort Hare, and the University of the North are teaching the least well prepared students, they should get the highest level of support per student.

Immediately, objections spring unbidden to mind.

The first set goes like this: (1) It is pointless and wasteful to ask a brilliant university faculty of sophisticated scholars and scientists to undertake remedial education for the utterly unprepared. They aren't trained to do that sort of work and will therefore do it badly. (2) What is more, the time they spend trying to teach illiterate students to read and write will be taken from their extremely difficult and valuable research, by means of which they push back the frontiers of knowledge. (3) Indeed, since these experts, who are to be consigned by this ill-conceived social experiment to the lowest levels of pedagogy, are the brightest, ablest, most gifted minds of their generation, they will collectively take a walk and find more congenial employment elsewhere.

What response do I have to this first set of objections?

To the first, I say that it is of course quite true, as things now stand, that the faculties of universities are ill-prepared to provide education to those most in need of it. That is a direct consequence of the long



history during which university faculty have been trained to provide education to those least in need of it. If a hospital for fifty years staffs itself with plastic surgeons, consigning its handful of oncologists and cardiologists to basement offices with antique laboratories, it will hardly be ready to receive and treat a flood of heart and cancer patients. There will have to be some transition period during which the tummy tuckers and liposuckers are replaced by doctors who can actually save lives and cure patients of serious diseases. So too, it will take a while to replace the present cadre of university faculty with men and women trained to address the mind-threatening deficiencies of their neediest students.

But surely, this critic will continue, it makes more sense to fix up the elementary and secondary educational systems of the country, so that young people arrive at university age in good intellectual health.

Again, quite true. So too will money spent on pre-natal care, public health, and preventive care have a much larger pay-off than an equal amount spent on heroic efforts to counteract the consequences of rampant poverty, poor nutrition, smoking, drug and alcohol use, obesity, and unprotected sex. But just as no one suggests that the virtues of preventive medicine justify refusing medical care to those who are desperately sick now, so the virtues of good elementary and secondary education do not justify squandering resources on the educationally healthy – if I may put it that way. We all look forward to the time when adequate social resources are committed to preventive medicine and also to primary and secondary education. When that time comes, doctors will be able to turn their attention to the removal of disfiguring pimples, and professors will be able to spend their time happily teaching those who need no teaching.

The second objection is that consigning professors to the tasks of remediation will take them away from their original research, and deprive the nation of the benefits therefrom.

This is a rather important point, and needs to be examined with care. Let us try not to overstate it. Teaching remedial writing, reading, and arithmetic is time-consuming and tedious, but it is not utterly incompatible with original research. There will be some loss of research, no doubt, but not a total cessation. At the very least, let us remind ourselves, universities are in session only eight or so months a year. So our research faculty has four months a year to do whatever it wishes, without constraint.

But there will, indeed, be some loss, and we must ask how to evaluate that fact. The obvious method is to weigh the value of the research lost against the value of the education gained. What will it mean, to the students themselves and to the society in which they will

live, that they have improved their intellectual skills, raised their capacity for productive work, and prepared themselves to be thoughtful participants in the public life of the polity? Reverting once again to the language of economics, what are the opportunity costs of the research?

We don't know, because to the best of my knowledge, no one has ever tried to measure these two quantities and compare them. Has anyone even *asked* the question? How many semi-educated students must lose their chance to become functionally literate so that one superbly prepared young man or woman can be stroked, petted, and groomed for excellence? What *additional* contribution to society will that top student then make, over and above what he or she would have contributed anyway? And what *additional* contributions to society would those ill-prepared students be able to make, were they to receive the educational ministrations of the faculty now occupied with the outstanding few? Until we carry out at least a very rough estimation of these alternative consequences, we cannot possibly justify the present allocation of resources.

The third objection in the first set is this: Won't a policy of the sort I am proposing simply drive the best scholars and researchers away from the university? Won't it therefore be completely counterproductive, even according to the unconventional criteria of evaluation I am employing?

This raises what is, to me, the most interesting consideration in this entire argument. The simple fact is that the very best doctors positively *enjoy* treating the physically sickest patients, whereas the very best university teachers hate to teach the educationally sickest students. Ask a plastic surgeon what he or she finds most rewarding (as I did, many years ago, during a visit to Mass. General Hospital), and the answer *won't* be 'doing a nose job on a handsome youth'. Instead, the answer I actually got was, 'Working at the Shriner Burn Center with children who are burned over seventy or eighty per cent of their bodies'.

Contrast that actual answer with a famous story told in Cambridge, Mass. about the Nobel laureate economist Paul Samuelson. According to legend, when Samuelson appeared before a committee of the Harvard Economics Department to take his post-graduate oral examination, he performed brilliantly for two hours. At the conclusion of the examination, he left the room, and the great economist Wassily Leontieff turned to his colleagues and said, 'Well, did we pass?' The notion of a student so brilliant that there is nothing we can teach him, so gifted that he can teach us, is a part of the self-congratulatory folklore of academe. But looked at another way, the story is a sorry tale of wasted resources. How badly did Samuelson

need the lavish individual attention of a committee that had nothing to teach him? And what lesser students were ignored so that Samuelson might be polished and petted? When millionaire patrons eat gourmet dinners in four star restaurants, while homeless men and women grub in garbage pails for scraps, we all recognize that society's allocative priorities are badly out of whack. But how else can we describe the current state of play in the world of higher education?

Why do even the most morally reprehensible of doctors enjoy treating terribly ill patients, while decent, committed academics hate getting involved in 'academic development'? There are a number of reasons, some of which I will consider in connection with the next set of objections, but speaking for myself (and I *share* the attitude I have just described), at least part of the reason is that I can never really tell whether I have taught any of my students anything. When my best students write brilliant papers, I enjoy reading them, though I more than suspect I had nothing to do with their production. But as I struggle with the severe writing deficiencies of my worst students, I lack any measure of partial success. I think I would take a good deal more pride in those efforts, and hence enjoy them more, if I were sure that I was saving minds, just as doctors can be sure they are saving lives. More of that below.

A second set of objections focuses on the analogy I have drawn between medicine and tertiary education (notice, by the way, that the position I am taking actually has considerable support with regard to primary or secondary education, a fact that ought at least to give us pause.) Treating a physically ill patient is not really analogous to teaching an ignorant student, it will be said, and a patient with a life-threatening disease is not really analogous to an illiterate student. This is true for at least three associated reasons: (1) The acquisition of knowledge, unlike that of physical health, necessarily involves an element of self-awareness that makes it conditional upon the active participation of the learner. A patient dying of a heart attack can be treated whether she understands the nature of the treatment or not, indeed whether she is conscious or not. But a student cannot be taught successfully unless she chooses actively to participate in the educational process. (2) Tertiary education works by a combination of communication between the teacher and student and identification of the student with the teacher (as well, perhaps, as a touch of counter-transference), whereas medicine requires neither (this is actually very much the same point, put somewhat differently). And (3) The activity that gifted scientists and scholars engage in is intrinsically valuable – discovering the secrets of nature, recovering and recreating the past, explicating great literature, all have a value in and of themselves, as the supreme products of the human mind –

whereas the efforts of doctors are restorative or compensatory only. If there were no students left to teach, it would still be worthwhile to analyse a poem, construct a mathematical proof, or demystify a social ritual. But if everyone were healthy, there would be no point in performing heart transplants and mastectomies.

I actually agree with all three of these objections, and freely grant that they weaken the analogy between tertiary education and medicine. But I do not think any of them undermines the conclusion I draw from the analogy, which is that the order of priority in the allocation of tertiary educational resources should be reversed.

Once again, let us take up the objections seriatim.

The first two objections are quite important, and perhaps go to the heart of the resistance to my proposal. Let me elaborate them, and give them the best possible run for their money.

Education is, centrally if not exclusively, a process of communication between two minds. Successful education involves an exchange, a dialogue, a sharing of ideas by teacher and student. That is not an accidental by-product of education, but its very essence. Each party to the shared communication must bring to the process an adequately developed capacity to grasp ideas, express them, understand what is being communicated and what in turn one is attempting to communicate.

Unfortunately, as any university teacher will acknowledge, if he or she is being honest, unprepared students, regardless of their personal commitment to the education process, lack this developed capacity (as do some university teachers, of course, but that is another matter entirely). They are therefore unable genuinely to participate in the sort of education universities offer.

In the United States, a number of publishers put out little paperback summaries of major literary texts. They are called trots, or ponies, or chap-books, or – in one case – Cliff Notes. A plot summary of *Midsummer Night's Dream*, canned analyses of characters, and an outline of the leading critical interpretations, for the student too busy or lazy actually to read the play and attend class. *Das Kapital* in thirty boiled-down pages. As much of *War and Peace* as you are ever likely to want, in fifty pages. That sort of thing.

Now, many of my students, and I imagine many South African students as well, are literally incapable of differentiating between the language of the trot and the language of the original. It is not that they are uninterested in engaging with the original; they couldn't recognize it if it were offered to them! When such students – this objection goes – enrol in a university-level literature, sociology, or philosophy course of study, they are simply wasting scarce resources. They cannot truly be compared to desperately ill patients in an emergency

ward, because in a philosophically strict sense, they do not even inhabit the same intellectual world as that in which the university education is occurring. Their bodies are present, but their minds are not.

This is a serious objection, and one, I suspect, that finds considerable resonance in the souls of many university instructors. If I thought it were true, I would have to give up much of my thesis, for though I might still be able plausibly to argue for a shift of resources from tertiary to secondary or even primary education, I would have no grounds for claiming that there is an appropriate *university-level* contribution to the education of the ill-prepared that can be made by scholars and teachers like myself.

The objection is essentially anecdotal in nature, despite its epistemological patina, and my response will be of the same character. There is no question that some young people have been so badly educated by the elementary and secondary components of the public educational system, either in the United States or in South Africa, that they are unable to benefit from a university experience, no matter how supportive, developmental, or remedial. If we wish to pursue the medical analogy, we can consider these students fit subjects for educational triage. But over and over again, in the quarter century that I have been teaching at a big, public, second-rate American State University, I have encountered young men and women with serious deficits in basic literacy skills who are quite intelligent, capable of engaging with serious questions of philosophy, social theory, or literature, and startled into the life of the mind by an encounter with committed teachers and fellow students.

I am not sure how many of them I have succeeded in teaching, but I am quite sure that as they left their undergraduate years, they were dramatically more thoughtful, more critical, more open to ideas and curious about the world than when they began. In some cases, the transformation is extraordinary. I have seen students drawn into the humanities or social sciences by the experience of a required distribution course (this is the American system, of course, not the South African), and then suddenly possessed of a hunger for theory that brooks no denial. I have also seen privileged students so sated with sophisticated educational presentations that they are quite unable to glean even a marginal benefit from their expensive university educations.

These latter frequently suffer from what I like to think of as a public health, or immunization, educational syndrome. Mention Marx, or Shakespeare, or Frantz Fanon to one of these delicate glitterati and he or she will reply languidly, 'Oh, I had that', in much the same way that one might say that one had had a case of some childhood disease. The

implication is that having caught a mild case of Marxism in secondary school, one has built up antibodies to it, and hence is immune to its intellectual appeal for the rest of one's life.

Speaking, as I indicated, purely anecdotally, I can attest that there are countless young men and women whose educational deficits do not preclude their making dramatic intellectual gains when challenged by a university education. Though they need remediation in basic literacy and numeracy skills, they are quite ready as maturing young adults to engage with the moral, political, aesthetic, social, and scientific issues that are the proper substance of university education.

Finally, a word about the third objection of this set, concerning the intrinsic value of the activities engaged in by university scholars and scientists. I certainly cherish them as much as any man or woman, for all my doubts about the concept of intrinsic value. I am, after all, a philosopher who has spent a lifetime studying the texts of Immanuel Kant. Anyone who drives a car with the license plate 'I KANT', as I do, had better not try to deny the delights of the mind!

But the issue before us is whether it makes sense to allocate a major portion of society's resources to the support of these activities, in the face of the desperate educational needs of so many. And I am afraid I cannot think of any good reason why hard-working men and women of modest means should pay taxes so that university teachers can comfortably, with great freedom and no heavy lifting, spend their time wandering about in the Realm of Ideas. Society allocates its resources to education for three purposes, I should imagine: To advance socially useful knowledge, to educate the citizenry of a free polity, and to prepare skilled professionals who will make a contribution at least equal to the cost of their preparation.

We come finally to a matter to which I have several times alluded, namely the measurement of the effects of university education. At every point in my discussion, I have assumed that it makes sense to ask how *much* a student improves during the course of a university education, how *much* a lecturer succeeds in teaching.

I find that, lacking formal techniques of measurement, it is very difficult for me to estimate whether and how much I have taught a student. No doubt there are simple matters of fact or computation that a student can be shown to have learned during the course of a university education. Before taking a course on linear algebra, a student cannot invert a simple  $3 \times 3$  matrix. Afterward, she can. Before studying the *Meditations* of Descartes, a student cannot prove the existence of God. Afterward, he can. (Though a lifetime of experience convinces me that the proof never actually converts the student.)

But for all I can tell, the student would have learned these things on

his or her own, and I certainly cannot make out whether the extra money spent on education at the best funded universities corresponds to any extra quantum of intellectual improvement.

When universities select only the best prepared applicants, they virtually guarantee that their students will graduate, even that they will do well. But, as I have several times noted, such success is nothing more than an indication that the selection process has rejected all the students who really need education.

What we need, clearly, are techniques for measuring student skills before and after a course of study, complete with control groups, so that we can ascertain the relationship between the cost of education and the level of preparation of its recipients on the one hand, and the degree of improvement on the other. I anticipate (though this is only a guess) that such a measurement, were it to be carried out, would reveal that the marginal improvement per dollar or Rand spent on poorly prepared students is dramatically greater than the marginal improvement per dollar or Rand spent on well prepared students, over quite a broad range.

Finally, we need some way of estimating the *additional* social contribution per dollar or Rand spent on the brightest and the best, over and above what they would have contributed anyway, as compared with the *additional* social contribution per dollar or Rand spent on the educationally neediest. Once again, my guess is that the social gain will prove to be vastly greater from putting the money into the education of the least well prepared, again over some wide range.

To conclude: the social allocation of scarce resources to tertiary education looks to be irrationally skewed both in the United States and in South Africa. Both societies should consider adopting something much closer to a medical model of allocation, on the grounds both of need and distributive justice, and of social returns to investment.

Now, as promised, my e-mail address. Those sufficiently outraged to need some outlet may contact:

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