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The Property-Ownning Democracy vesus the Welfare State*

Abstract: The political theory of the property-owning democracy can be seen as a way of overcoming the ideological conflict between individualism and collectivism. Rawls offers the contemporary reference-point for this theory. Rawls contrasted the ideal-type of the property-owning democracy with the ideal-type of a capitalist welfare state. However, the terms of that contrast are not well drawn and raise a number of questions, in particular regarding Rawls's *a priori* specification of the welfare state. An inductively derived specification of ideal-typical welfare states suggests that horizontal redistribution, in line with the principle of social savings, is more important than vertical redistribution. Rawls's preference for a social dividend or negative income tax scheme can be contrasted with the use of social insurance, but the latter has a claim to instantiate Rawlsian ideals better than a social dividend. There is a potential problem with the pre-emption of private savings in the welfare state, but this turns out not to be troublesome empirically or conceptually. The irony of the discussion is that those who have interpreted Rawlsian theory as justifying the welfare state have the better of the argument, despite Rawls's own views.

1. Introduction

Contemporary discussions of the political theory of the property-owning democracy (see O'Neill/Williamson 2012 (eds.)) take their cue from John Rawls's (1999; 2001) invocation of the idea. In the Preface to the revised edition of *A Theory of Justice* Rawls (1999, xiv–xvi) famously says that one of the two main changes he would want to make from the first edition would be to distinguish more sharply the idea of a property-owning democracy from the idea of a welfare state. According to Rawls, a property-owning democracy seeks to disperse the ownership of wealth and capital thus preventing a small part of society from controlling the economy 'and indirectly political life itself'. "The idea is not sim-

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ply to assist those who lose out through accident or misfortune (although this must be done), but instead to put all citizens in a position to manage their own affairs and to take part in social cooperation on a footing of mutual respect under appropriately equal conditions.” (Rawls 1999, xv) Within a property-owning democracy, there is no redistribution ‘at the end of each period’ but widespread ownership ‘at the beginning of each period’. Thus, a fundamental principle of a property-owning democracy is that all citizens should be placed in a position where they can interact with one another from a position of independence and equality rather than their being the recipients of transfers determined by a political elite exercising political and economic control. A striking aspect of Rawls’s discussion is his joining the notion of self-respect, associated with a sense of personal responsibility that those on the ideological right have traditionally identified as arising from property ownership, with the egalitarian ambition to ensure fair equality of opportunity with the compression of differences in income and wealth, an ambition that has formed the mainstay of those on the ideological left.

Rawls’s contrast between a welfare state and a property-owning democracy has been variously assessed. O’Neill and Williamson (2012, 5) wonder whether Rawls’s account might not serve as a vision of a society that would constitute an alternative both to the welfare state and what they term “the predominant neoliberal paradigm”. Krouse and McPherson (1988) argue that Rawls’s account of the property-owning democracy is both more radical than often assumed, although its institutions would need to be supplemented by redistributive welfare programmes. Jackson (2012) suggests that Rawls’s contrast is overdrawn, not least because there is a tradition deriving from Thomas Paine in which redistributive policies, plausibly to be regarded as forerunners of the welfare state, are seen as the means to establish political and economic independence.

The purpose of this article is to evaluate the plausibility of the Rawlsian contrast between a property-owning democracy and the welfare state in the light of Rawls’s own principle that society should be regarded as a fair system of cooperation over time among citizens who are free and equal and for whom reciprocity or mutuality is central. *Section 2* offers an interpretation of Rawls’s own views, seeking to pinpoint in detail what he sees as the differences between a property-owning democracy and what he calls a capitalist welfare state. *Section 3* identifies the distinctive features of welfare states inductively derived from the empirical literature, interpreting those features in terms of the idea of shared savings, entailing that even in a well-functioning property-owning democracy welfare state institutions would be needed. The distinctive principles that characterise a property-owning democracy operate, broadly speaking, in public policy domains quite distinct from those of the welfare state. However, *Section 4* identifies two issues where the respective domains of policy principles of the welfare state and a Rawlsian property-owning democracy intersect and thus where their respective principles might be thought in tension. Where that occurs, I argue, welfare state institutions have the edge over those of a property-owning democracy, in terms of the conception of society that Rawls himself advanced (and which I endorse). Hence, the *final*, brief, *section* notes an irony.

2. Interpreting Rawls

In a property-owning democracy, according to Rawls, “the aim is to carry out the idea of society as a fair system of cooperation over time among citizens as free and equal persons” (Rawls 1999, xv). Its basic institutions should put into the hands of citizens generally the productive means for them to be full cooperating members of society. The laws of inheritance and bequest disperse resources. Education and training provide for equality of opportunity. The fundamental principle is that of reciprocity as expressed in the difference principle. Thus Rawls writes: “To see the full force of the difference principle it should be taken in the context of property-owning democracy (or of a liberal socialist regime) and not a welfare state; it is a principle of reciprocity, or mutuality, for society seen as a fair system of cooperation among free and equal citizens from one generation to the next.” (Rawls 1999, xv) By contrast, according to Rawls, in a welfare state the aim is that no one should fall below a decent standard of life, and all should receive protection against misfortunes, for example ill health and unemployment. Those who need assistance are identified at ‘the end of each period’. Rawls also thinks that a welfare state allows large and inheritable inequalities of wealth incompatible with the fair value of the political liberties, together with large disparities in income that violate the difference principle. The same disparities also undermine the principle of fair equality of opportunity.

In *Justice as Fairness* Rawls provides an expansion of this contrast. In particular, he suggests that to make a comparative institutional evaluation we need to specify ideal-types of different regimes and see how they would be assessed by the principles of justice (Rawls 2001, 136–8). Thus, laissez-faire capitalism (the system of natural liberty) considered as an ideal-type secures only formal equality and rejects the fair value of equal liberties and fair equality of opportunity. Its principles of efficiency and growth are constrained by only a low social minimum. State-socialism, another ideal-type, with its command economy supervised by one-party regime, violates equal basic rights and it makes little use of democratic procedures or markets.

Using the same method, the capitalist welfare state and the property-owning democracy are said to embody “two very different conceptions of the aim of the background adjustments over time” (Rawls 2001, 139–40). In welfare-state capitalism the aim is that none should fall below a decent minimum, basic needs are met, and there is protection against accident and misfortune. This is achieved when those who need assistance can be identified at the end of each period. But given the lack of background justice and inequalities in income and wealth, an underclass may develop that is dependent upon welfare. Such a class feels left out and does not participate in the public political culture. Welfare-state capitalism thereby rejects the fair value of political liberties, and, while it is concerned with equality of opportunity, the necessary policies to realise that ideal are not followed. There are large inequalities in the holding of real property and control of the economy, and hence politics rests in a few hands. Though there is a decent social minimum, a principle of reciprocity is not realised.

In a property-owning democracy, by contrast, the aim is to realise a fair system of cooperation. Each person must have sufficient productive means put into their hands. Human as well as real capital is included in these means, transmitting procedural justice from one generation to the next. If we turn to Chapter V of *Theory*, the institutions associated with this conception of society are spelt out. Political institutions are to take the form of a constitutional democracy, in which the fair value of political liberties is guaranteed. Education and training are to be provided so that all have access to productive opportunity as well as culture. Firms are to be regulated in respect of equality of employment opportunity. The government is to guarantee a social minimum in accordance with the difference principle, allowing that at the legislative stage people will rationally wish to insure themselves against misfortune. An expenditure tax is ideally to be preferred over an income tax, since it taxes what people take out of the economy not what they put in. And inheritance and bequest are to be controlled using an instrument like an accessions tax (Rawls 1999, 234–51). Drawing together these discussions, *table 1* summarises Rawls's contrast between the two regimes in respect of their supposed distinctive characteristics.

There are at least three puzzling features of the contrast that Rawls draws between a welfare state and a property-owning democracy. The first may seem a relatively minor matter of exposition, but it can be argued that it has some significance. The puzzle is that it is hard to know what is meant by Rawls's claim that there is a difference in the process of redistribution in the welfare state that takes place 'at the end of each period' by contrast with the allocation of resources in the property-owning democracy that takes place 'at the beginning' of each period. So far as I am aware, Rawls never specifies what exactly he has in mind with this contrast. One might be tempted to say that what Rawls had in mind was simply an arbitrary accounting period. However, this is not plausible. If one imagines that allocation takes place at the beginning of each (arbitrary) period, then the resources for that allocation will have to be drawn from what is produced at the end of the previous period, and the contrast between 'before' and 'after' would simply lose its force. Rawls must have had something more substantial in mind.

In this context O'Neill (2012, 90) offers the useful thought that the temporal language is metaphorical, and we should simply think of the distinction as one between the productive resources that individuals bring to the market on the one hand and the redistribution that gives individuals stream of income for private consumption, once market transactions have taken place, on the other. One way of buttressing this interpretation is to place Rawls's view in the context of the two fundamental theorems of welfare economics. The first theorem says that, provided certain conditions are met, a market equilibrium is Pareto optimal. The second theorem says that there is always some initial endowment of resources that will lead to a particular point on the Pareto frontier. So, Rawls's idea of distribution at the beginning of the period could be thought of as constituted by the

	Welfare State	Property-Ownning Democracy
Basic Conception	None should fall below a decent standard of life.	Carry out idea of society as a fair system of cooperation over time
Underlying Principle	Compassion or charity, leading to protection against misfortunes like sickness and unemployment.	Reciprocity of citizens engaged in cooperation with one another.
Process of Distribution	At end of period.	At beginning of period.
Income	Large inequalities violate the difference principle.	Reciprocity and mutuality of property-owning democracy will support the difference principle
Wealth	Allows for inequalities, including those that arise through inheritance.	Disperses wealth through measures on bequest and inheritance.
Wealth and Politics	Such inequalities affect the political liberties and fair equality of opportunity.	Institutions support the fair value of political liberties.
Equality of Opportunity	Compromised by inequalities of wealth.	Supported by education and training.

Table 1: Comparison of Property-Ownning Democracy and Welfare State according to Rawls

initial endowment. The end of each period would then be the result of trades that are allowed to take place given the initial endowment. Rawls (1999, 61–2) sees the difference principle as picking out a point on the Pareto frontier. We might then think that the difference between the welfare state and the property-owning democracy is a difference between a production and exchange process in which principles of justice determined the initial allocation of resources before trading, as in a property-owning democracy, and a process in which adjustments are made after trading, as in Rawls's putative welfare state. On Rawls's view, any initial allocation of resources not guided by a principle of justice would result from pure happenstance and so be arbitrary from the moral point of view. In consequence, even fair processes of production and exchange would also be arbitrary from the moral point of view, by virtue of its taking the morally arbitrary distribution of endowments as their starting-point. The preference for a property-owning democracy over a welfare state would then be a preference for making the rectification of endowments that would otherwise occur as a result of happenstance *ex ante* rather than *ex post*. In short, it is a way of thinking about a society in which productive resources, including human capital, are allocated in such a way as to secure equality of opportunity for each generation.

The second puzzle is why Rawls contrasts the welfare state with the property-owning democracy (Jackson 2012). His description of the supposed distinctive features of the welfare state does not match those political economies that are usually labelled as such, in which income security, high quality health care and educational opportunity are taken as central institutions (see, *inter alia*, Barr 2001; Esping-Andersen 1990; and Marmor/Mashaw/Harvey 1990). Indeed some institutions that Rawls sees as distinctive of the property-owning democracy, most notably public educational provision based on merit and equality of opportunity, are usually taken to be central features of developed welfare states. Rawls's description of the 'capitalist welfare state' resembles what are sometimes called residual welfare states on the Anglo-Saxon model (see Esping-Andersen 1990), but these are not typical of the class of welfare states as a whole. It is possible that Rawls understood the term 'welfare state' by reference to what in the US is called 'welfare' but which in Europe is more normally called 'public assistance'. If so, it is a rather extreme example of the mistakes into which ordinary language philosophy can lead. Krouse and McPherson (1988), on which Rawls relies, are hardly more enlightening. They define the capitalist welfare state as a political economy in which there is a division between a class of property-holders and a property-less class with an arrangement that seeks to mitigate the disparities through redistributive tax and transfer programmes, but they provide no empirical examples (Krouse/McPherson 1988, 80–4). They may be presupposing Moon's (1988) excellent characterisation of the principles of the welfare state in the same volume, but, if so, the conversational implicature is at best oblique.

The difficulty of interpreting how Rawls could have drawn such a sharp contrast has led some commentators to say that, rather than see the welfare state as being antithetical to the property-owning democracy, we should really see its institutions as being complementary. This line of reasoning leads to Krouse and McPherson's (1988) claim that the institutions of a property-owning democracy

would need to be supplemented by redistributive welfare programmes, a view that is also supported by O'Neill (2012). From this point of view, although the institutions of the welfare state might be required for social justice, they are not sufficient by themselves, and widespread capital ownership is also essential, perhaps even necessary to make the institutions of the welfare state work well. Clearly, this is a possible logical move, but it makes it obscure why Rawls thought that the contrast was so important. Moreover, it also neglects the fact that Rawls presents the contrast of property-owning democracy and welfare state as a contrast of ideal-types.

This leads to the third puzzle. Why does Rawls think that the welfare state, on his interpretation, allows large and inheritable inequities of wealth that are incompatible with the fair value of the political liberties? The claim is clearly central his argument. One way of understanding this claim is to place it in the context of Rawls's use of an ideal-type methodology and to see him as constructing his ideal-types according to an internalist logic in which each element of the type coheres with all other elements (compare Wilesmith 2013). On this interpretation, each ideal-typical political economy is to be thought of as a 'practice' close to the Wittgensteinian sense of the term that Rawls employed in his early work, most notably *Two Concepts of Rules* and *Justice as Fairness* (Rawls 1999[1955]; 1999[1958]). Such practices are characterised by sets of internal relations that specify what the practice is and which define "offices, roles, moves, penalties, defenses, and so on", examples being "games and rituals, trials and parliaments, markets and systems of property" (Rawls 1999[1958], 47). On this understanding, a capitalist welfare state is an ideal-type political economy *defined* as consisting of a practice or form of social life combining the principles of minimum welfare and inequality of wealth, the combination undermining political equality. By contrast, a property-owning democracy is defined as a practice in which the rules of wealth holding and principles of constitutional democracy have an internal relation to one another in the specification of an ideal-type. The methodology here is a legacy of philosophical idealism: Hegel's owl of Minerva not only spreads its wings at the falling of the dusk, but also casts a long shadow forward. (I conjecture that the method is picked up through Royce, whom Rawls quotes, as much as Wittgenstein. What better description is there of Rawls's method than Royce's (1969, 952) remark that the training of the American people involves "educating the self-estranged spirit of our nation to know itself better"?)

Such an interpretation can, thus, be located in the development of Rawls's own thought and matches his announced method of comparing institutional forms by means of an ideal-typical analysis. O'Neill (2012, 91) suggests that because Rawls is simply offering ideal-types, he is immune to criticism that his account of the welfare state is a straw man. However, such a defence prompts the question as to whether one is entitled to undertake comparative institutional evaluation by means of ideal-types constructed in such an *a priori* and internalist way. One danger is that the approach risks becoming merely an exercise in persuasive definition, rather than offering analytical categories that enable us to understand different types of political economies. Moreover, detaching the defi-

nition of the welfare state in a Rawlsian internalist ideal-type from the features of welfare states as they are found in the real world gives us no guidance on how to evaluate existing institutions, even in outline form. This is not to say that an empirically derived ideal-typical characterisation of existing welfare state can substitute for normative analysis; it is to say that we cannot have a normative analysis of existing institutions unless we characterise those institutions in an empirically informed way.

An alternative—and I suggest more plausible strategy—is to derive the characteristics of welfare states inductively from paradigmatic instances, before seeing how well or badly they performed with respect to a given set of evaluative criteria. On this approach the relationship between the core institutions of the welfare state and other institutions within society, including the political and constitutional system and the distribution of wealth and productive assets is an empirical one, dependent upon conditions that determine the relationship. Such a relationship would be akin to the relationship Rawls supposed could exist in a market economy with respect to public goods. According to Rawls (1999, 235), an economy with private ownership of the means of production may devote a high or a low proportion of its income to public goods, depending upon the political choices that citizens make. Similarly, on an empirical approach, an ideal-typical welfare state might coexist alongside either large or small inequalities of wealth and power depending upon political contingencies. Of course if there are welfare state institutions sitting alongside weak policies regarding inequalities of wealth and power, someone can always argue that this reveals an inconsistency within the political culture of such states. Providing high levels of social security and education for all on an equal footing, whilst also permitting highly unequal distributions of wealth or political influence, would seem to embody conflicting values. However, that is a different matter from saying that welfare state provision is conceptually tied to inequalities of wealth and unequal political influence.

If one adopts an approach to the construction of ideal-typical welfare states, what characteristics of actually existing welfare states would one identify as central?

3. The Ideal-Typical Welfare State

The countries from which I shall abstract an account of the principal features of the welfare state are those of the longer-standing post-war democracies of Europe, Australasia, Japan and North America including both Canada and the USA (those surprised by the inclusion of the home of the brave and the land of the free in this list might consult Marmor/Mashaw/Harvey 1990). Incipient welfare state institutions can be found outside of these countries, for example in central and eastern Europe or in Asia, the latter particularly with reforms in health insurance in South Korea and Thailand. However, if we are looking for paradigms that will help us determine defining characteristics, then it makes

sense to look at core countries. There is, in any case, sufficient variation with respect to those core countries to make the task of analysis quite tricky.

The principal feature of these political economies is that for the bulk of the population they make the right to enjoy certain benefits and goods independent of current market earnings. In particular, the financial risks associated with ill health, old age, disability or unemployment are covered by what White (1995) calls 'shared savings'. White's analysis is based on the sharing of the financial risks of ill health, but the point generalises to other forms of social security. In some systems these goods are primarily provided through specially designated social insurance funds financed by levies on employees and employers and supplemented by revenue from taxes; in other systems the principal method of finance is taxation (and in most systems it is some mixture of the two). In addition to these health and social security risks, there is also public financing of education up to and beyond secondary level and special arrangements are made in respect of housing in order to ensure access for those unable to rent or purchase in the open market. The volume of transfers is high typically exceeding more than fifty per cent of public expenditure in well-developed welfare states.

Savings can be regarded as shared, because the bulk of the population is blanketed in to the system of benefits in a way that detaches contribution from a precise actuarial calculation of personal risk. In this way the institutions of the welfare state embody a principle of social equality, understood as the claim that all citizens should have the same standing and status within a political community (Miller 1999, 239–44). Detaching access to important goods from current market or income position gives expression of this value. To provide security for all, even if the security provided is at different levels of economic well-being, is an important social and political goal. In the same vein a public education system in which children from all social groups are educated together also expresses the value of social equality. Thus, although the institutions of the welfare state should primarily be thought of in terms of their savings function, they also produce some redistribution of resources from the well-off to those less well-off through their shared character. Those who would be bad risks in a commercial insurance market are covered by the social system of shared savings. As T. H. Marshall pointed out, such welfare states do not secure general economic equality, but achieve for all "the concrete substance civilised life" and the associated "general reduction of risk and insecurity" (Marshall 1950, 56).

This logic is best exemplified in the case of well-developed systems of publicly-assured health care. Thus, a common goal of health policy is to ensure access for all citizens to high quality, comprehensive care without financial barriers to access (Weale 1998). Comprehensiveness means that all care that is within the bounds of technical and economic feasibility is provided to all without distinction. High quality means that the provision is not to be rationalised in terms of providing a 'decent minimum' to those who cannot afford health care out of their own resources. Without financial barriers to access means what it says. Of course, in practice there is an inconsistent policy triad between these goals with different states striking the required trade-offs in different ways (is dentistry in or out of coverage, what out of pocket payments are required of patients and

so on). Nonetheless comprehensiveness, quality and universal access are three requirements that define the animating principles of policy. In respect of health, the principle of the welfare state is that the same quality of treatment should be given to all once they are inside the hospital or surgery, whatever their standing outside.

Given these characteristics, the welfare state should be principally understood as a device of horizontal rather than vertical redistribution and the empirical evidence supports this interpretation (Barr 2001; Falkingham/Hills 1995). That is to say, the welfare state functions to redistribute income across the life-cycle rather than between income classes. Income is shifted from periods in one's life when one is economically independent—the prime age of working—to periods in one's life when one is economically dependent—during retirement, disability or unemployment—or when financial demands cannot be met out of regular income, as happens most notably in the case of medical treatment. Seen in this way, the public funding of education or child benefits can be understood either as support to parents at a time of increased household expenditure or as a benefit to the child drawn down in advance of payment later. Thus, inductive evidence would suggest that the welfare state is an instrument of social and economic security for those who are assumed to be able otherwise to fend for themselves. One way in which this principle is made manifest in many, if not all, welfare states, is via the contributions principle, by which the benefits of the welfare state are made conditional upon having paid contributions into a social insurance fund. The contributions principle is not applied in all welfare states. Yet, where it is applied, it underlines the extent to which the welfare state is not 'something for nothing', but 'something for something' even if the relation is not actuarially precise.

Why are such institutions associated with the state? After all, before the welfare state, they were mutual associations as well as commercial actors who provided the same services. If justice in terms of equality is not the underlying rationale for the welfare state, why should the state have a role to play? The short answer to this question is that state involvement is related in various forms to market failure over and above any concern for the basic distribution of income. Such failure means that there is a collective interest in ensuring the supply of these goods. The form of failure is not the same in each case. Thus, in the case of education, one reason for public provision is the inability to organise functioning markets in improved human capital: it is effectively impossible to borrow against future gains in earnings arising from increased education. In the case of health, one well-known problem is the asymmetry of information between patient and doctor, which makes it hard for patients to act as rational consumers. Moreover, this problem is not easily solved through private insurance markets, since those are still compatible with an over-use of resources if such things as reimbursable diagnostic tests are run unnecessarily or relatively cost-ineffective pharmaceuticals are used. In the case of social security, markets would have to provide much better coordination than they do with fluctuations in the trade cycle for any purely private scheme to be reliable on the part for the bulk of individuals.

Suppose, then, a functioning property-owning democracy, in which wealth and access to capital are widely dispersed, the inter-generational transmission of inequalities is reduced so far as possible, the education system provides each person with a high level of skills, the state ensures an appropriate provision of public goods (however that is judged) and a high minimum income guarantee is in place. Citizens in such a society would still be vulnerable to unjustified cost-escalation in health care in the absence of public provision or regulation, they would still find it hard rationally to plan for their retirement income because they could not insure themselves against economy-wide recessions and there is no functioning market in insurance against mental illness or disability. In such a situation, the citizens of a property-owning democracy would find it collectively prudent to institutionalise some form of welfare state. As Barr (2001, 1) elegantly put it, “even if the entire population were middle class, there would still be a need for institutions for people to insure themselves and redistribute income over the life cycle”. Moreover, since the welfare state collectivises the reciprocal support that was a feature of mutual funds among workers before state intervention, there is a good case for saying that it functions so as to embody the principles of reciprocity and mutuality that Rawls took to be an expression of a fair system of cooperation among free and equal citizens from one generation to the next. Rather than being antithetical, the welfare state and the property-owning democracy are thus complementary, but by virtue of the fact that the welfare state has the function of providing economic and social security rather than a general redistribution of income. Or are they?

4. Potential Incompatibilities

So far the burden of my argument has been that, understood by inductive abstraction from those societies normally thought of as welfare states, the conflict that Rawls identified between the welfare state and the property-owning democracy is more apparent than real. The terms of contrast and comparison have not properly been drawn up. In some respects, both share a commitment to certain institutions, in particular public education on an egalitarian basis and a functioning property-owning democracy would need to create a system of shared savings if such shared savings did not already exist. Does this mean that we should no longer contrast the ideal-typical welfare state with the ideal-typical Rawlsian property-owning democracy? Not quite: my proposed reconciliation still leaves some issues of institutional arrangement where there is a potential tension between the principles of a property-owning democracy, as they are defined in a Rawlsian way, and the principles of a welfare state. Moreover, this tension in some ways goes to the heart of the conception of society on which Rawls’s account of the property-owning democracy rests as a fair system of cooperation among citizens based on reciprocity to mutual advantage.

Two potential points of tension can be identified between the programmatic ambitions of theorists of the property-owning democracy and the practices of the welfare state. They are: (a) the conflict between the contributory principle

of social insurance characteristic of many welfare states and the use of negative income tax or social dividend approaches to income support, as advocated by theorists of the property-owning democracy; and (b) the possible threat that a high volume of social security contributions makes to the distribution of productive wealth, pre-empting private savings otherwise available for investment in the means of production, not only creating economic inefficiency but also weakening one instrument for equalising within society the control of economic power.

(a) *The Contributory Principle and Income Support.* If the goal of the welfare state is horizontal redistribution across the life-cycle, then its distinctive instrument, characteristic of many welfare states, is that of contributions paid during working life paid into a social insurance fund to finance an income stream during periods of sickness, unemployment or retirement. In other words, income security rests upon a principle of contribution. This was Beveridge's conception and it goes back, of course, to the principles of the Bismarck reforms. However, within the tradition of thinking of the property-owning democracy, James Meade (1948) was critical of Beveridge social insurance and argued consistently for a social dividend scheme in which an income sufficient to take people out of poverty was financed by taxes on all incomes above the minimum. For example, in *Planning and the Price Mechanism*, he argued that the apparatus of National Insurance "is really designed for the single purpose of taking money away from the rich, or relatively rich, and giving back some part of it to the poor, or relatively poor" and he favoured the social dividend scheme of scheme of Lady Rhys Williams over social insurance (Meade 1948, 42–6). This was a consistent theme of Meade's work (see, for example, Meade 1972) and of course Rawls also favoured such a scheme (Rawls 1999, 243).

However, if the aim behind the property-owning democracy is "to carry out the idea of society as a fair system of cooperation over time among citizens as free and equal persons" (Rawls 1999, xv), then the contributory principle has much to commend it as a way of embodying this aim. Contributions are made to schemes of shared savings, but there is no presumption that some members of society have claims upon the labour of others. This would be in line with Rawls's principle that

"[...] the more advantaged have a right to their natural assets, as does everyone else; this right is covered by the first principle under the basic liberty protecting the integrity of the person. And so the more advantaged are entitled to whatever they can acquire in accordance with the rules of a fair system of social cooperation." (Rawls 1999, 89)

Such contributory schemes can be understood as providing a public alternative to the systems of mutual insurance that developed among workers in industrial society and which foundered, partly in the face of the mass and prolonged unemployment in the inter-war years and partly in the face of the difficulty that the workers in such associations found it difficult to police the eligibility conditions for benefits (for the latter issue, see de Swaan 1988, 145–6). That social insurance can also be seen as a generalisation of workers' self-insurance would

also be compatible with Rawls's scepticism about an unconditional basic income, which guaranteed income independent of the willingness to work (Freeman 2007, 229–30). Some advocates of social dividend schemes favour them over social insurance, because they are a form of unconditional income in which no work test is applied. (Meade himself fell into this category.) However, the principles of the Rawlsian property-owning democracy suggest that a work-test is required to qualify for receipt of benefit. If the conception of society is that of free and equal persons contributing to a scheme of mutual gain, then it would be unfair for some people to accept the gain without incurring the burdens required for that gain to be secured. Social insurance is a way of dealing with this problem, and in that respect exhibits clearly the principle of reciprocity that underlies Rawls's account of the property-owning democracy.

Historically, social insurance schemes have relied upon a traditional model of the family, in which the male breadwinner supplies the contributions, with other family members being covered by those contributions. Feminist scholars have highlighted the tacit assumptions that have been built into this model, but those criticisms do not undermine the contributory principle. Insofar as women suffer economic disadvantage from disproportionate child and other caring responsibilities, that should be taken into account in any life-cycle theory of well-being, and since the principle of social savings is a form of life-cycle theory, the periods of caring ought properly to be included within its scope. Obviously, in practical terms there are many complexities involved in designing a suitable battery of policy instruments (the individualising of social security contributions, paid child care leave, allowances for caring, requirements for flexible employment, as well as family benefits), but the point of principle is that whatever the historic deficiencies of social insurance have been, the principle upon which they rest is compatible with an extension of benefits to deal with changing family models.

Social insurance cannot deal with the problem of poverty arising from low productivity in the market place, which is both a problem in itself and lessens the ability to make a contribution to social savings. In the long term, the solution, in line with Rawlsian principles, is training and education to raise productivity. Such an approach would hold either under a social dividend scheme or with social insurance provision and so as such does not distinguish between them. Moreover, if the problem is low skills because of poor education, then there is an issue of injustice, since on principles of equal opportunity in the welfare state, it is wrong for individuals to have inadequate education. Again, there is no distinction to be made between the way that injustice might arise under either a social insurance regime or a social dividend regime.

(b) *The Pre-emption of Private Savings.* A distinctive and in principle attractive element in the programme associated with the political theory of the property-owning democracy is the insistence that access to the means of production be widespread in society. All citizens should have access to productive assets and reductions in inequalities of wealth would restrict the extent to which the rich controlled the institutions of political life. Such policy proposals are an expression of a conception of society in which all citizens participate in a fair scheme of cooperation as free and equal persons. Suppose, then, a property-owning

democracy with the type of institutional set-up that Rawls supposes. The high minimum income provided by the social dividend scheme or negative income tax would protect against destitution. Redistribution across the life-cycle might then be a matter for private decision, with individuals investing their assets in productive resources. Widespread ownership of the means of production would not only have the purpose of preventing a particular class from controlling political life but would also provide a way for individuals to ensure their own economic security. I have argued that market imperfections would make this type of scheme inefficient, but let us abstract away from that argument for the moment. Might there not be inefficiencies in a politically enforced system of shared savings (see 46–7)?

A policy regime in which citizens smooth their incomes, over and above the social minimum, by means of private investment promises a double benefit, namely that of income smoothing and the ownership that comes with investment in productive assets. Such a regime presupposes widespread share ownership in the means of production. Widespread share ownership implies high rates of private saving, (although the converse does not hold since those who save a lot may simply put the money under the mattress). By contrast modern welfare states built on the principle of shared savings provide economic security over the life-cycle through such devices as compulsory pension contributions that give an entitlement to income for citizens to draw in retirement. Moreover, typically within such schemes, present contributions are used to finance present benefits, the so called pay-as-you-go principle by which current workers finance the retirement incomes of current pensioners. In a famous paper Feldstein (1974) urged that this pay-as-you-go feature of US Social Security reduced the capital stock by 38 per cent from what it would have been in the absence of such a social security system, with money being diverted from investment into transfers. If such an effect were general, then there would be a significant conflict of principle between welfare states and property-owning democracies, assuming that the latter used invested funds to finance pension benefits. Given an assumption that the widespread ownership of productive assets was a necessary condition for rectifying inequalities of political power in society, as well as their embodying the principle of citizens as free and equal cooperating with one another, the pay-as-you-go element in modern welfare states seems to make their operation at odds with some of the attractive features of a property-owning democracy.

In evaluating this line of argument, there are both empirical and normative issues. Subsequent empirical work to that of Feldstein—summarised in the excellent discussion in Barr (2001, 102)—has found it difficult to establish a consistent displacement of private savings by social security contributions across different countries. In practice, there are many decision links in the chain between social security provision and private savings, not least that any increase in savings by people before retirement will be balanced by decreases in savings as people draw down their assets after retirement. Thus, there is no reliable basis upon which one could say that switching from welfare state pay-as-you-go schemes to funded schemes would increase savings. If the theory of the property-owning democracy is committed to pensions funded out of savings rather than state administered

transfers, the argument for that policy regime needs to be phrased in terms other than those of collective economic prudence or greater economic efficiency.

However, whatever the empirical relationships, there is an issue of principle implicit in the view that welfare state social security programmes might displace private savings. The practices of the property-owning democracy are supposed to be the institutional embodiment of the ideal of free and equal citizens cooperating with one another to mutual advantage. So, even if net saving and investment are unaffected by the form in which retirement provision is made, with social security pay-as-you-go schemes and private savings invested in productive resources having equivalent implications for growth and development, it could still be argued that provision through investment in productive resources was superior in terms of justice to pay-as-you-go social security. Rather than the authority of the state being used to compel social insurance contributions as in current welfare state regimes, citizens would be freely cooperating with one another to provide for themselves through their investments. In a Rawlsian property-owning democracy the ideal would presumably be that each person has sufficient by way of capital assets, as well as the income from the social dividend or negative income tax, to retain their independence and to live off their own savings at points in the life-cycle when income was low. Making everyone a capitalist both counteracts inequalities of economic control and meets their needs over the life-cycle.

In assessing this claim, it is important to remember that all retirement schemes, whether they operate on a pay-as-you-go principle or are fully funded through investment, involve a transfer of income from the currently economically active to the currently economically inactive. The difference is not in the fact of this relation but in how it is specified. In social security schemes it is legally specified in terms of contribution and benefit rules. In privately funded schemes, it is specified through the relevant contractual agreements. An implication is that any normative difference between the two approaches, given that their respective economic effects are variable and uncertain, will turn on the question of whether the principles of the property-owning democracy favour a dispersed market-based solution to the problem of pension provision or a collectively organised and mandated one. In other words, it turns on the question of whether the freedom and equality of citizens is best expressed through private contractual relations or through their participation in political determined collective arrangements. On this question, there seems to be no reason to interpret the principle of fair cooperation among citizens over time decisive either way. To do so would be to stress the 'property' element of the idea of a property-owning democracy compared to the 'democracy' element. It is not difficult to see how the citizens of one country might favour a decentralised as against a collectively organised solution or vice versa. Alternative institutional specifications could appeal to reasonable minds.

However, there is one reason why some element of collective regulation, if not of organisation or provision, will properly enter into the design of pension schemes. A minimal principle of inter-generational justice would require that *in the aggregate* one generation does not pass on to subsequent generations the

costs of its own consumption (without at least corresponding benefits). This aggregate rule does not mean that individuals within a generation achieve an exact balance between their contributions and the payments they receive. Those who die early, whether enrolled in social insurance schemes or having made an annuity purchase, help finance the consumption of the more fortunate who live longer. However, the aggregate constraint means that the contribution rules may need to be adjusted as life-expectancy increases in order to avoid one generation's burden from being passed on to subsequent generations. In dealing with this type of issue there is a coordination problem. Individuals subscribing to a scheme of benefits cannot solve such a problem independently, but will require some control and guidance by the state. For example, if privately negotiated contractual arrangements on pensions are likely to cause a short-fall in income when people retire in the future, then in pursuit of inter-generational justice the state would have a role in mandating higher contributions, even in a society that otherwise interpreted the principles of the property-owning democracy as requiring decentralised arrangements. (In fact, as Hayek (1960, 285–6) pointed out, the same type of argument can apply within generations as well as between them, since, as he noted, it is “an obvious corollary” of the state’s role that it is right to compel individuals to insure or otherwise provide against the common hazards of life because “by neglecting to make such provision, they would become a charge to the public”.)

A similar coordination argument applies when considering system-wide shocks to a pension system rather than the allocation of insurance to particular individuals. Consider for example how changes in the demographic balance between those who are working and those in retirement are likely to have general effects beyond the gains and losses to individuals. If there is an increase in retirees relative to workers, then retirement benefits either have to be reduced or effort from workers increased either in greater productivity or in increased contributions. Some planning in respect of such changes is inevitable if there are not be untoward effects. In short, we are not confronted by a choice between planning or the price mechanism, but between planning and the price mechanism.

Bringing together the discussion of these two issues, the institutions of the welfare state, properly understood, generally have the edge over the institutions of a property-owning democracy as Rawls envisages such a system, and where they do not, the case is moot. A contributory social insurance scheme surely has as much of a claim to embodying the idea of society as a fair system of cooperation over time among citizens as free and equal persons as does a social dividend scheme financed by general tax revenues. To be sure where people fall through the social insurance net, special anti-poverty measures need to be taken, but I see no reason to think that the stigma arising from being in receipt of such measures need be greater than the stigma of being a net recipient under a social dividend scheme. Privacy and dignity are more likely to be preserved in the way the schemes are administered than in their principles of financing. Contributions to social insurance schemes may pre-empt private savings, but whether private savings are the most efficient way to smooth income over the life-time is at best doubtful. In short, if life without shared savings would not be nasty, brutish and

short in a Rawlsian property-owning democracy, it would certainly fall short of the prudent arrangements for dealing with the vicissitudes of life that the civic partners to a social contract could rationally agree.

5. Conclusion

One of the interesting results of the recent interest in the political theory of the property-owning democracy is to highlight the extent to which those who interpreted Rawls as offering a political theory of the welfare state mis-read Rawls's intentions (O'Neill 2009). (I plead guilty as charged, see Weale 1978.) However, the mis-reading is only a fault to the extent to which Rawls's own insistence on the distinction between the political theory of the property-owning democracy and the political theory of the welfare state can be made good. I hope that I have shown in this article that this distinction raises more problems than it solves. Even a well-functioning property-owning democracy would need welfare state type institutions in the domains of policy for which they are relevant. Free and equal citizens require a system of shared savings in which the fluctuations of the life-cycle can be evened out if they are to fulfil a rational plan of life over time. Free and equal citizens require a welfare state.

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