CHAPTER 17: SOMETHING NICER

> Smash capitalism and replace it with something nicer
> (banner seen at anti-capitalist demonstration, Stockholm 2001)

The three premises I described in chapter 16 – the new thinking on efficiency and equality, the case for worker ownership and the inefficiency of managerial hierarchies – suggest a powerful case for redistributing wealth.

This redistribution, however, is very different from that favoured by either New or Old Labour, in three ways.

- Redistribution on these grounds is consistent with market economics. The co-ordination failures, externalities and rent-seeking that result from inequality are types of market failures. What's more, they are failures which cannot be redressed by the market itself, precisely because the poor lack the resources to buy out the rich and thus create a more efficient distribution. This generates an orthodox case for state intervention. As Bowles and Gintis put it: "There is no reason to expect that an observed distribution of property rights is economically efficient, since those who might make the socially most valuable use of a bundle of property rights often lack the wealth to acquire the rights"[1].
- The gradualism beloved of social democrats might do more harm than good. "It is generally a bad idea to improve marginally the channels through which the very poor can achieve power" say Rajan and Zingales[2]. Where big inequalities exist, more education may merely produce militant working class leaders who generate more instability than their stupider predecessors; welfare benefits may help prolong strikes; political power may create pressure for redistributive taxes; and higher incomes or shorter working hours may give workers the resources with which to fund de-stabilising radical political groups. These problems mean massive one-off redistribution might be more efficient than incremental redistribution.
- This does not justify social democratic tax-and-transfer policies. Such policies redistribute only income. But power must be redistributed too. What's more income redistribution can be precisely the mechanism through which inequality depresses growth – because anticipations of future taxes deter investment. Our arguments suggest a case not for continuous transfers of incomes, but for a one-off change in the distribution of assets.

The Case for Asset Redistribution

This sounds new and radical. But it isn't, at least in principle. As long ago as 1776, Thomas Jefferson's draft of the Virginia constitution provided for a grant of 50 acres to every adult male[3]. That's asset redistribution. On a smaller scale, every change in a host of regulations from utility pricing to health and safety at work can be seen as a redistribution of property rights. And, indeed, New Labour's stress upon education as a means of achieving greater equality can be seen as an attempt to redistribute one asset - human capital.

But why is it only human capital that should be distributed more equally? Why not physical capital too?

The question gains force from the second theorem of welfare economics. This says that, in theory, any Pareto-efficient distribution of resources can be achieved from any initial distribution of assets. Asset redistribution will of course affect who gets what, but it need not change the chances of achieving Pareto optimality. At this high level of abstraction, it is perplexing that social democrats should have paid so much attention to tax-and-transfer policies - which theory shows to be Pareto-inefficient - and so little to asset redistribution, which theory shows to be potentially consistent with Pareto optimality.

The question also gains force from the fact that, as we have seen, the clearest injustice that scars our economy lies not (merely) in the pattern of income distribution, but in the fact that there is no adequate defence for the existing structure of property rights. Capitalist property rights are typically justified on the grounds that they promote efficiency. But efficiency may require that assets be redistributed.

There is another way in which asset redistribution might combine justice and efficiency. It may be a necessary pre-condition for a well-functioning free market economy.

Consider the following proposals: introducing road pricing; using willingness to pay as a means for deciding whether projects that damage the environment, such as by-passes, should go ahead; charging students for attending university; and charging a price for visits to doctors.

To many economists, such proposals would increase efficiency by forcing people to pay for the consequences of their own choices. To others, they are unacceptable because they are unfair on the poor. Asset redistribution overcomes this objection by addressing the issue of fairness at source. If initial distributions of assets are fair, there can be nothing unfair about making people pay the full price for the burdens they impose onto others. Asset redistribution, then, would create the conditions in which efficient policies can be introduced.

There is, though, a drawback to asset redistribution – it will not lead to permanent equality. From an initial position of equality of assets, differences in skill and luck will lead to differences in income and wealth. And so they should, if market incentives are to work.

Whether egalitarians should worry about this is a moot point. Those, like Ronald Dworkin, who have been sceptical of “starting gate” equality will worry. Those who believe in some form of equality of opportunity will not.

However, the distinction between asset redistribution and income redistribution can be blurred. Assets can be annuitized, and so asset redistribution may give the poor higher incomes, as well as assets.

But what exactly do we mean by asset redistribution? One possibility, proposed by President Clinton in 2000, is to provide government top-ups to the savings schemes of the worst-off. Another possibility, introduced in the 2003 Budget, is the child’s trust fund, in which each new-born baby gets a grant to invest, which the child can spend when it reaches adulthood.

Other possibilities lie in a giveaway not of the assets of the wealthy, but those of the state. Many of these are woefully inefficiently exploited. Cash lies in low-yielding bank accounts; schools occupy valuable land in expensive residential areas; works of art fester in museum basements. All these could be sold off. So too might foreign exchange reserves - which are worth around £50 billion - and the many under-utilised government assets described in the National Asset Register.

There is, however, more to asset redistribution than this. What follows is an (incomplete) inventory of asset redistribution possibilities – and of other non-managerialist ways of reconciling equality and efficiency.

Readers will spot a howling contradiction here. Throughout the book I have criticised managerialist politics, and yet here I am providing rationalist blueprints.

Perhaps, therefore, these should not be seen as hard policy proposals. Instead, you can regard them in two other lights.

First, they’re intended as a refutation of New Labour’s idea that its policies are a necessary and inevitable response to “new times” and “modernity.” They are not. There are radical alternatives to New Labour which are also consistent with “modernity”. New Labour must show that its policies are superior to these. It’s not good enough to hide behind a rhetoric of historical inevitability. Politics is about choices.

Secondly, these proposals are a long way from anything that’s being proposed by the main political parties. This teaches an important lesson. Today’s political choices are only a tiny part of the menu that could and should be available to us.

So, let’s ignore the chef’s choice of the day, and see a fuller menu.

Market Socialism

The case for market socialism is straightforward - there is a much stronger argument for the existence of markets than there is for unequal private property. As David Miller puts it: "the claim for *market* socialism is that it provides people with a wider range of choices - in work, consumption and so forth - than statist forms of socialism; and the case for market *socialism* is that it provides these choices for everyone, not merely the privileged few"[4].

John Roemer suggests how we might combine markets with more equal ownership of capital. He proposes a system in which profits are distributed more or less equally among all adults. This can be done as follows[5].

First, a range of mutual funds is established. Each adult gets an equal endowment of coupons that can be only used to buy shares in these mutual funds. Only these coupons, and not cash, can buy shares in mutual funds. Then mutual funds and only mutual funds buy shares in firms by using these coupons. Firms can then exchange the coupons with the government to get investment funds. When a person dies, their mutual fund holdings revert to the government.

Roemer suggests two reasons why individuals should buy shares via mutual funds, rather than directly. One is paternalist. By forcing people to invest in mutual funds, one is forcing them to have diversified portfolios, which lessens the chances of squandering one's coupons on bad firms. Secondly, if people could own shares directly, some companies would turn themselves into cash cows, selling their assets and paying out big dividends. People with short time horizons would flock to these companies, thus offering them unusually cheap finance - and, by implication, raising financing costs for more efficient companies. To prevent this, mutual funds can be prevented from owning many such companies.

The fact that companies must exchange coupons for money with the government gives the state an important tool in investment planning - as different companies can be charged different exchange rates on coupons. Such planning is necessary because many investments entail external effects - adverse ones in the case of polluting firms, and positive ones in the case of companies whose research activity spills over to other companies. Different financing rates can subsidize the latter and penalize the former.

This scheme preserves the two virtues of stock markets. It allows firms to raise finance and it imposes discipline upon company managers - because poorly performing companies will suffer a share price fall, as mutual fund managers sell it, thus making it harder to raise finance and more vulnerable to takeover.

Where this differs from present arrangements is that profits are distributed roughly equally to all adults. They will not be exactly equally distributed, partly because mutual funds will have different performances, and partly because small unquoted companies will continue to exist. Nevertheless, the 20 per cent of GDP that consists of profits will be spread much more evenly. With UK-quoted companies paying out roughly £55bn to UK citizens now, this implies an income of £1200 a year for each adult. That's a big gain for the worst off.

It is, however, not only greater equality that is a virtue of this scheme. Roemer also claims market socialism will reduce the production of "public bads" such as pollution. This, he says, is because concentrated ownership gives a small group of people an incentive to increase profits even at the expense of imposing costs onto others, such as excess pollution. By eliminating this group, he says, the costs of pollution are, in effect, internalised. The upshot is that it is easier to achieve a socially optimum, lower, level of pollution.

Pollution might not be the only public bad that may be curbed in this way. Roemer suggests poor education might also be reduced, because market socialism eliminates a group for whom the benefits of low taxes exceed the costs of poor educational standards[6]. In a similar way, he says, racism, sexism and even militarism could be reduced by market socialism[7].

Roemer's proposals have been subject to considerable criticism. The complaints fall into two categories - about their technical feasibility and about their desirability.

The first technocratic criticism, surprisingly, is that it is the market part of market socialism that is objectionable, not the socialism bit. Joseph Stiglitz has argued that Roemer, like neoclassical economists, places too much faith in markets, as these alone cannot allocate resources efficiently[8].

Because agents lack perfect information, he says, markets are inherently imperfectly competitive. Lack of information is a major reason for important market failures such as the inability of wages to fall sufficiently to eliminate unemployment, or the fact that there is often an excess demand for credit, regardless of the level of interest rates; such an excess demand can often lead to credit cycles as banks lend too much in booms, and restrict credit too much in recessions. Market socialism does nothing to address these problems. For this reason, he says: "It is perhaps no accident that in the major successes in economic growth during the past quarter century - the "Asian miracle" - neither neoclassical economics nor market socialist ideas have played an important role"[9].

This criticism is less powerful than it seems, and not just because the "Asian miracle" lost a lot of its magic in the late 1990s. For one thing, market socialism does not rule out the use of non-price signals as allocation devices. Just as contemporary economies use these extensively, so too might a market socialist economy. And for another thing, Roemer's task can be seen as an attempt to show that there is no theoretical reason why market socialism should not work as well as neoclassical economics suggests free markets do. Stiglitz's criticisms suggest Roemer has succeeded in this task.

Other criticisms, however, suggest he might not have done so. Perhaps the biggest problem is whether market socialism would be as good as capitalism at investing and innovating - which are the keys to long-run productivity growth.

Two major sources of innovation will remain intact in market socialism. People will still be able to set up small companies - using bank finance - to exploit new ideas. Many of these would in due course be taken over, giving big gains to their founders, by larger mutually owned companies - in the same way as many successful small firms are taken over today. Also, existing firms should have an incentive to innovate - because companies that offer the prospect of successful products will be highly valued by the stock market, and will be able to raise cash cheaply.

However, there are two ways in which market socialism may be less good at innovating. One is that it will be harder for foreign firms to take over existing indigenous companies. This will reduce the possibility of technology transfers - though it will not eliminate it completely, as there will be no barrier to foreign companies setting up new entirely new plants.

The other is that payment in share options will no longer be possible, as this would violate the equal distribution of profits. This could deter the establishment of new but cash-poor companies who use share options to top up wages. It could also rule out one important route through which managers are today given incentives to maximize profits.

The latter could be an important problem. It means mature companies which do not need to raise external finance will have no incentive to maximise profits. The result will be chronic inefficiency.

This could be exacerbated by the fact that, as Roland and Sekkat complain, "there can be no effective managerial labour market under market socialism"[10]. Anyone wanting a career in management under market socialism will have to either work for a small private firm or for, in effect, the state. In the latter, however, they may have little incentive to work hard and reveal their true talents - because this would only raise their employers' expectations of what they are capable of, thus giving themselves a tougher job in the future. The only solutions to this problem are to either allow managers profit-sharing contracts, or to have a large private sector, from which mutually-owned companies could hire managers of proven ability on big salaries.

Exactly how big a problem all these criticisms are is debateable. The comparison that matters is not between market socialism and some ideal capitalism. It is between market socialism and actually existing, imperfect capitalism. And the problems of incentivizing management and promoting innovation apply to the latter as well as the former. Also, it's important to distinguish between two different conceptions of efficiency. Market socialism might reduce efficiency in the sense of reducing economic growth, but raise efficiency in the sense of internalizing external costs. Maybe the latter outweighs the former.

Even if it does, though, it is not obviously desirable. There are three particular problems.

- Wage inequality remains. There is a huge difference between market socialism and social democracy. Whereas the latter tried (but failed) to leave profits intact, but redistributed wages, market socialism does the exact opposite. It redistributes profits but leaves wages untouched. If you believe inequalities in wages result from inequalities of talent which are, in Rawls' phrase "arbitrary from a moral point of view", this will be unfortunate[11].
- Alienation continues. Many socialists believe Marx's main objection to capitalism was not that it bred inequality, but that it led to alienation. Under capitalism the cash nexus destroys genuine social relations between people; workers cannot relate to the complex products of their collective action; and the goods we produce become commoditised and dominant over us. These evils –if they are evils - will remain under market socialism. Indeed, by creating a nation of mutual fund investors, market socialism may actually intensify the individualistic ethos which many socialists dislike about capitalism.
- Managerialism remains intact. There is no role in Roemer's concept of market socialism for workplace democracy. Inequalities of power and status at the workplace are therefore unaffected. Not only does this undermine the egalitarian goal of equality of status, but it also fails to address the problem of illegitimate corporate hierarchies.

Co-operatives and Partnerships

This last argument suggests there is a good case for some form of workplace democracy or worker co-operatives.

These can take many forms. They range from mild forms of employee share ownership through to firms which are fully owned by its workers, where there are no external shareholders. The latter are more common than you might imagine. They include law or accountancy partnerships, thousands of small businesses and until relatively recently many investment banks - although of course the pure principle of co-ops is watered down whenever these take on conventional employees.

One interesting model of co-ops has been proposed by Marc Fleurbaey[12]. He suggests abolishing the stock market and vesting control of firms with workers, who raise finance through bank credit - although non-voting shares could also have a role. In such an economy, labour would hire capital, not vice versa. The domination and social inequality caused by the existence of a managerial class would diminish.

This does not mean income inequalities will disappear. Some co-ops will succeed and others fail. That will create inequality. It is even possible that wage inequalities between workers of different skills will increase, as different firms compete to hire skilled people.

One virtue of this system might be its effect upon incentives and efficiency.

To see this, recall a conventional defence of managerial capitalism. This says that equity holders are exposed to risk, because the value of shares can fluctuate, whilst workers are less vulnerable as wages are fixed. Shareholders are therefore the residual claimants in the firm, as they get the variable portion that's left after everyone else has gotten their fixed payments from the firm. Efficiency requires that residual claimants own assets, as they have the biggest incentives to maximise their value.

This argument is rubbish. It ignores the fact that equity holders can diversify away risk by other investments, whilst workers cannot so easily diversify the risks to their human capital; it's easier to own lots of shares than it is to have lots of jobs.

In this sense, workers might be the residual claimants. If so, efficiency requires that they control of the firm.

Three things suggest this argument is getting stronger.

- There is evidence that job insecurity has risen over time, especially in the sense that the costs of job loss has risen due to lower unemployment benefits and a reduced chance of getting a similarly-paid job[13]. Human capital risk has therefore increased.
- Correlations between individual equities have fallen over time, which suggests investors have more abundant opportunities to reduce stock-specific risk without taking control of the firm[14].
- There is a long list of instances where investors' control over company management has proved inefficient. Would Marconi or Cable and Wireless have fared as badly under worker control as they have under capitalist control? Would workers control really have permitted corporate scandals such as Enron, WorldCom, Hollinger or Maxwell[15]?

There are other ways in which co-ops might increase efficiency.

- They could reduce all the hidden inefficiencies that arise in all large organisations. Workers, being less alienated from management, will have a greater incentive to eliminate sloppy working practices.
- There may be more incremental innovation, if co-ops encourage better exploitation of workers' tacit knowledge of detailed work processes - knowledge which is often superior to management's.
- Co-ops may replace zero-sum ways of extracting effort with more co-operative ways. In capitalist firms managers may choose to monitor workers by installing closed-circuit TV or hiring many supervisors. These may be efficient from their point of view - as the gain in effort boosts profits by more than the cost of such devices - but they are inefficient from the point of view of the firm, if we defined this as the value-added by labour and capital combined. Co-ops may replace such devices with wage incentives and bonuses, which, from the point of view of labour and capital combined, internalize the costs of extracting effort.
- Co-ops would allow external obstacles to firms' optimal activities to be scrapped. Regulations such as minimum wages, working time directives and health and safety regulations would disappear. Workers, being their own bosses, won't need protecting from management.
- A major source of inefficiency in market economies arises from imperfect information. People do not hire builders as often as they might do in a world of perfect information for fear of getting a bad job at a high price. That means some mutually beneficial transactions do not take place. Worker co-ops, to a greater extent than capitalist firms, can overcome this inefficiency by using the very act of hiring as a signal. Take an example. I don't know how to identify a good vet. But the fact that a woman is a partner in a vets' practice sends me a signal that her fellow partners - who presumably do know a good vet when they see one - value her skills so highly that they are prepared to stake their reputation on giving her status. That encourages me to trust her competence to a greater extent than I would if she were employed by a large firm, for whom it merely suffices that she makes money for them. I am therefore more inclined to trust her with my cat's health. If you think the development of a knowledge-based economy will lead to more and more workers acquiring valuable skills which potential customers cannot assess easily, this argument should become increasingly important.

There is a natural reaction to these arguments. If worker co-ops are so efficient, why are there not more of them?

In one sense, the question rests on a false premise. In industries where capital requirements are low, but it is important to signal the quality of senior workers by making them partners - such as law, accountancy, stock-broking, medical and vets' firms - co-ops are common. There are far more co-ops or partnerships than there are firms quoted on the stock market.

As for why there are not even more of them, there are several possibilities. First, workers lack access to the capital necessary to set up co-ops; this will invariably be cheaper for existing firms than new ones. Second, co-ops' success may be due to superior use of workers' tacit knowledge. Such knowledge is often specific to the firms for which they work, and would be lost if workers left to set up their own businesses. Thirdly, some otherwise inferior capitalist firms may do better than potential co-op rivals, simply by virtue of having “first-mover” advantages, such as brand loyalty or economies of scale. And finally, say Elster and Moene, the lack of co-ops may be simply an historic accident[16]. Trades unions just happen to have been established before worker co-ops, and these employed intelligent and dynamic leaders of workers who might otherwise have established co-ops. It is, they say, no coincidence that some of the world’s most successful co-ops were set up in the Mondragon region of Spain when trades unions were banned by the Franco dictatorship.

If these arguments are valid, the absence of co-ops owes much to market failures, in which case there may be a valid argument on efficiency grounds alone for government action to encourage their creation.

Sadly, however, the arguments might not be valid. Maybe co-ops don't exist because they are inefficient.

Not least of the problems is that they may be less able to invest or innovate than their capitalist counterparts.

One reason for this is that co-op members’ time horizons last no longer than their expected employment with the firm. This will inhibit investment in projects with long payback periods.

Also, in co-ops the gains to innovations are spread more thinly - across whole work groups, rather than in the hands of a few company bosses. Individual workers therefore have less incentive to come up with profitable ideas. Indeed, they may have a positive disincentive to develop labour-saving techniques that put them out of jobs. This could be exacerbated if potential innovators are restricted from raising equity capital and hence acquiring outside owners.

There’s another problem. In capital-intensive industries, co-op members are exposed to big risks, as output (and hence their wages and profit shares) depends upon the contribution of the capital stock, which may be damaged by tiny mistakes. If a lawyer makes a small error, he will lose a client. But if the captain of an oil tanker makes a small error, he sinks a multi-million pound ship. For this reason, co-ops are more useful in industries with low capital-labour ratios. It is no coincidence that when investment banks earned most of their money from broking or corporate finance advice they operated as partnerships, but when they wanted to trade upon their own account – and so had to become more capital-intensive - they became quoted companies with outside shareholders.

This draws attention to a crucial difficulty. The corporate structure that maximizes efficiency will often not be the same one that creates the most desirable sharing of risks. “Incentive considerations typically conflict with efficient risk-sharing” says Jacques Dreze[17]. This is because efficiency requires that workers have plenty to lose if they fail to work hard, but risk-sharing requires that they have little to lose. As a result, worker co-ops might easily degenerate into capitalist firms, as workers - fearing a rising capital-labour ratio exposes them to too much risk - invite external shareholders to share their risks and rewards.

Yet another problem is that economic theory predicts co-ops will give perverse responses to price increases. The thinking here goes as follows. An efficient co-op will set employment and output at the point where the value of the product produced by the marginal member is equal to net income per member. If prices then rise, net income per member rises. But in the presence of diminishing marginal net product, this will imply that optimal employment and output shrinks. This is plainly inefficient for the economy as a whole, even if it is in the interests of most of the co-ops’ members.

In practice, things might not be so bad. In a co-op where all members had equal control rights (which is, admittedly, only one possible membership structure) no-one would vote to cut employment for fear it may be their job to go. What is more likely is that co-ops will maintain an excessive stability of employment if the face of rises and falls in demand. If you think creative destruction and high job re-allocation rates are necessary for a dynamically efficient economy, this is bad news.

As with market socialism, it is important not to exaggerate these potential inefficiencies by comparing co-ops with some idealized form of perfect capitalism. In particular, advocates of co-ops argue that capitalists' investment is often retarded by a lack of trust between capitalists and workers, which would be greatly reduced by co-ops.

Capital-Labour Partnerships

An important variant on traditional co-ops was proposed in the 1980s by Martin Weitzman and James Meade[18]. They propose that fixed-wage contracts be replaced with profit-sharing arrangements. To see the benefits of this, assume General Motors pays workers $24 per hour, and gets average revenue of $36 per hour - the extra $12 being used to cover profits and overheads. GM will hire workers up to the point where the marginal worker generates $24 of revenue per hour.

Now assume the wage contract is replaced with one giving workers a two-thirds share of GM's average revenue per worker. The marginal revenue of the extra worker is still $24 per hour. But the marginal cost of hiring him is just $16. GM will therefore want to hire more workers, for the same reason it will want to hire commission-only salesmen - because they have something to gain but nothing to lose.

But more workers mean more output, which means lower prices. The economy therefore moves towards full employment without inflation. What's more, if the economy should suffer a fall in demand, the response will not be a rise in unemployment, with massive losses of income and well-being for an unlucky few, but rather small losses of profit shares for many workers. This seems a better way of sharing risks.

Of course, it seems that senior workers may suffer from this. They have exchanged job security - which they may feel they had anyway - for greater income insecurity. But, says Weitzman, their loss is more apparent than real. If all companies introduce profit sharing, aggregate demand will rise as non-inflationary employment rises. This benefits everyone.

This argument seems compelling. And experience may suggest there is plenty in it. It might be no accident that the UK's natural rate of unemployment has fallen since the 1980s as more companies have introduced profit-sharing schemes.

There is, however, a drawback, as Philippe van Parijs points out[19]. If capital-labour partnerships really do eliminate unemployment, workers will feel emboldened to press for ever-increasing shares of profits. The result could be a severe deterrent to investment - because capitalists realise they must pay the costs of such projects whilst sharing any benefits. For this reason, widespread capital-labour partnerships might prove unstable. Either fixed-wage contracts will be reintroduced, or workers will eventually have to take control and responsibility for investment decisions.

Basic Income

A basic income is a government grant paid to all adults. For people in work, it would replace tax allowances. For others, it would replace welfare benefits.

But surely this is income redistribution. What has it to do with asset redistribution? The answer is that the key feature of a basic income is that it is a property right, to which everyone should be entitled unconditionally. This should give greater security than existing tax allowances and transfer payments which can be removed by the will of a handful of politicians. What's more, a basic income can be regarded as an annuity which is paid out from a capital asset.

Such a scheme has been proposed from the old left and right. It has many different justifications. Here are some of them.

First, it would promote full employment - if this is what workers want. Full employment may require that unskilled workers receive a wage which is too low to live on. If they are to get work, therefore, they need an in-work benefit. Of course, tax credits do this now. A basic income, however, would have three advantages over these. It is simpler to administer. Effective marginal tax rates might be lower than tax credit withdrawal rates. And a basic income could be accompanied by the scrapping of the national minimum wage. The result would be that wages would fall, to price people into work.

Second, a basic income would encourage life-long learning and training, by giving people an income whilst they take time off work to pursue education. It would also encourage the creation of new small businesses, by giving potential entrepreneurs an income whilst they establish their companies.

Third, it would acknowledge the fact of social capital - that our own individual incomes are inherently the result of society's actions as well as our own: I am immeasurably richer than a Sierra Leone peasant not because I am cleverer or more hard-working, but simply because I live in a rich country. Herbert Simon has estimated that social capital accounts for 90 per cent of the wealth in rich countries. On moral grounds, he says, there's a case for hugely redistributive taxes to recognize that social capital, rather than individual effort, is the main reason for our wealth[20].

Fourth, it might help rebuild community spirit. The welfare state has failed to do this, because it has divided us into scroungers, deserving claimants and contributors. A basic income, however, recognizes that none of us is a self-made man, that none of us has the right or the knowledge to say who is deserving or not, and that we all have a right to some stake in society's product.

Fifth, basic income, if accompanied by taxes on the ownership of natural resources, provides compensation for past unjust appropriations of land and mineral rights of the sort I described in chapter 15. Hillel Steiner has argued that the descendents of past appropriaters have benefited from the loss of freedom which the rest of us have suffered as a result of others' appropriations[21]. We are, therefore, entitled to compensation from them. Because we cannot identify precise losers from these unjust appropriations, the principle of insufficient reason suggests an equality of payment to everyone.

Sixth, a basic income would increase freedom. The liberty that matters, says Philippe van Parijs, is not the ability to choose between bundles of goods, but the ability to choose among the various lives we may wish to lead[22]. A basic income would do this, by allowing people to choose between leisure, child-rearing, education and work. Of course, the result might be that fewer people choose to work. But if people are willingly in or willingly out of work, aggregate welfare would be higher, even if GDP is lower.

Seventh, a basic income would attack the pseudo-rational managerialist hierarchy that has captured the welfare state for its own ends. It would remove what Tony Walter has called the "know-it-all paternalism of the professionals and bureaucrats who run welfare services"[23]. This is because by giving everyone the same entitlement, there would be no role for those who wish to stigmatise and harass recipients.

In a similar vein, Robert Goodin has argued for a basic income as a "minimally presumptuous" policy[24]. Traditional welfare states, he argues, have rested on a number of presumptions about society - for example that full employment is normal or that people live in stable and fair families. Such presumptions, like any others, may be wrong. Basic income avoids this problem. It also avoids the problem of having to identify deserving and undeserving claimants, and minimises the risk of the moderately well-off capturing the welfare state for itself by finding ways to fulfil means tests and masquerade as needy. He says:

> Let's give up trying to second-guess how people are going to lead their lives and crafting categorical responses to the problems they might encounter. Instead, simply give them the money and let them get on with it[25].

Eighthly, a basic income would reduce state intervention by taking equality off the agenda. "Many of the interventions of government have emerged precisely because of ambiguities in the definition of individual rights" said James Buchanan[26]. Not least of these ambiguities lies in what exactly the worst-off are entitled to. A basic income settles this question. This means many of the state interventions in the economy which are aimed at increasing equality can be removed - because the question of equality has been dealt with via the level of the basic income and the (simple) tax structure required to finance it. So, for example, minimum wages, working time directives and the like can be scrapped - because if workers were not content with the contract offered by employers, they could stay at home on the basic income. Similarly, there would be no need for heavy state subsidies to industry, agriculture or the arts, because all the necessary subsidies would be provided to individuals by a basic income.

These are impressive arguments. They are vulnerable, however, to one almighty charge - that a basic income is unaffordable.

There is one reply to this that is unacceptable. We cannot claim the scheme will be affordable in years to come, when we have become richer. As we have seen, our needs rise as our incomes rise. A basic income must therefore be affordable now, if it is to ever be.

It is. Table 1 shows that the abolition of welfare benefits, some tax allowances and subsidies would provide a basic income fund of over £200 billion. That would give around £100 a week to every adult. This is without considering the possibility of higher income, inheritance or consumption taxes, other spending cuts, the sale of unproductive state assets or the £1200 per person from market socialism.

Table 1: Paying for a Basic Income

	Savings (£bn)
Spending cuts	**114.5**
Social Security benefits	105.5
Scrap Common Agricultural Policy	2.6
Abolish Department of Trade and Industry	5.0
Abolish Department of Culture, Media and Sport	1.4
Abolition of tax expenditures/reliefs	**88.3**
Tax credits	9.8
Inheritance tax threshold	8.3
Income tax allowances	40.2
VAT zero-ratings/exemptions	30.0

Based on 2002-03 figures. Source: Financial Statement and Budget Report, HC500, April 2003, tables A3.1, A3.2, C11 and C12.

The precise details of these cuts need not worry us here – I'm not trying to set out a detailed blueprint. These figures are merely intended to show that the simple affordability of the scheme is not the issue.

There is, though, a more important question: would a basic income encourage lots of people to drop out of the workforce? If they do, tax revenue would fall so much that we couldn't afford a decent basic income.

It is hard to say so with great confidence, but the chances are it won't. An income of £100 a week is not a king's ransom. The only people likely to take it instead of working are those whose marginal product is so low that they would contribute little in taxes anyway. Indeed, it is even possible that the basic income would encourage more work, as it subsidises otherwise unattractive jobs and reduces the high benefit withdrawal rates that people receiving tax credits now face. What's more, if a basic income is accompanied by a dismantling of managerialist corporate hierarchies, working conditions and job satisfaction might increase enough to attract people into work.

A deeper problem is that the income would increase workers' bargaining power, by raising the pay they get whilst on strike. The result could be higher wages, lower productivity and a squeeze on profits and investment. This problem, however, would only exist if antagonistic capitalist relations remain in place – which needn't be the case.

Considerations such as these mean that even opponents of a basic income accept its feasibility. The arguments against the idea are, says John Gray, "ethical and political and not primarily economic or fiscal"[27]. In allowing people to drop out of the labour force, he complains, a basic income "strengthens the culture of liberty without responsibility, of individual choice without corresponding obligation."

But is this really a problem? In one sense it is - because the resentment workers feel towards shirkers could undermine the spirit of community which some believe a basic income should help promote.

In another sense, however, it is not. As we have seen, a major justification for redistribution is to correct for the injustices which result in some people not having property. To demand of these that they fulfil some unilaterally-imposed obligations in order that they get compensation merely piles insult onto injury.

Indeed, there is a good case for subsidising some voluntary unemployment. As Philippe van Parijs points out, in a world of less than full employment, there is nothing wrong with some people dropping out and leaving jobs for those who really want them. Indeed, he says, confining redistribution to the involuntarily unemployed "amounts to awarding a privilege to people with an expensive taste for a scarce asset"[28]. And, he adds, the taste for work can be very expensive. People who want to work impose externalities onto others, such as the congestion caused by travelling to work or the pollution and waste created at work. Shouldn't they pay compensation for doing this.

Macro Markets

How can we reconcile our natural need for security with the creative destruction of market forces? Old socialists and anti-globalization protesters say: abolish market forces. New Labour's managerialist rationalism says: use state intervention to restrain the destructive forces of the market whilst keeping its creative impulses, and use taxes and transfers to provide security.

There is, if you will excuse the phrase, a third way: use markets themselves to provide insurance against downturns.

Now of course, an individual cannot insure himself against losses of his own income; if he could do that, he would have no incentive to work hard enough to keep his job. There is, however, no reason why he should not be able to insure himself against fluctuations in macroeconomic activity which he cannot control. As Robert Shiller put it: "People ought to freely share that component of their incomes still unknown and still to be dictated by forces beyond their control"[29].

To allow them to do this, he proposes the creation of markets in a wholly new asset. This would be one that pays a dividend proportionate to the gap between domestic and overseas national income[30]. People who wished to insure against a domestic recession might take a short position in such a security. This means they would pay a dividend in good times, but receive one in bad times - from either foreigners who have taken a short position in the mirror-image security, or from speculators in the domestic security. Such securities - which are in effect perpetual claims on GDP - could then be traded.

This market would allow anyone who was seriously worried about a domestic recession to insure themselves against such a contingency. Shiller proposes similar assets to insure people against falls in incomes in particular regions, industries or occupations, or against falls in house prices.

Such assets are valuable because the risk of falls in GDP over very long horizons are bigger than you might think. Shiller and his colleagues have estimated that there is a roughly 44 per cent chance that one country will see its income fall by four-fifths, relative to that of the fastest-growing economy, over a 35-year time horizon - even controlling for the most obvious sources of differences in growth[31]. Such huge country-specific income risks mean there is a bigger place for macro markets than our recent prosperity might suggest.

This insurance function is not the only virtue of macro markets. Another is that they would relieve governments of the perceived duty to smooth out business cycles - because anyone who was seriously worried about such things could take out insurance against them. Governments will not therefore be distracted by the fruitless attempt to forecast and control economic fluctuations.

By the same token, the pressure on governments to provide subsidies to firms or regions in recession will be reduced. If US steel workers had had insurance against downturns in demand for steel, President Bush's cretinous decision to impose steel tariffs would never have been needed.

And on top of all this, macro markets would increase the ability of the Bank of England to maintain low inflation - because it will no longer be under pressure to hold interest rates down in order to stave off recession. And low inflation can increase aggregate welfare.

This last point suggests that macro markets might have a bias to depress economic activity, at least in the short-term. However, macro markets could increase growth in other ways. The absence of such hedging instruments today deters capital spending, as companies fear that otherwise profitable enterprises might come on-stream during recession. And fears that an occupation, industry or area might be in terminal decline discourage people from entering them, with the result that subsequent (temporary) labour shortages push up wage and price inflation. Hedging instruments remove these barriers to economic growth.

There are, however, problems with macro markets. One question is whether an asset which pays off in recessions really does offer individuals protection against falls in income which are beyond their control. As we have seen, tens of thousands of people lose their jobs through no fault of their own, even in booms.

There are several replies to this. Shiller and his colleagues deny the force of the premise. They estimate that over half of the variation in individuals' incomes over five-year time horizons can be explained by changes in GDP. "Most of people's income risk could therefore be managed through macro markets" they conclude[32].

But what if they are wrong? One solution would be to develop macro markets for regional- or industrial-level GDP. Another would be to institute asset redistribution to give people the resources with which to buy conventional assets which can act as a hedge against idiosyncratic income risk. For example, lorry drivers' jobs are at risk if oil prices rise sharply. They can insure against this by buying shares in oil companies or oil futures.

Another problem is that macro market securities may be prone to excessive volatility and speculative bubbles; much of Shiller's other work has been devoted to showing just how common is the mispricing of financial assets.

This though might not be a serious defect. It could even be an advantage. The excess volatility of macro securities might take the form of their prices falling too much in recession and rising too much in booms, if investors mistake temporary booms and slumps for permanent changes. In such a world, people who had taken short positions in the assets to hedge against recession would actually make more money than they should - albeit at the price of losing more in booms. In this case, the hedging virtues of macro securities would actually be greater than theory suggests.

A more worrying problem is an ethical one. Imagine the UK and, say, Peru both have macro markets. A UK individual, wishing to hedge against recession, takes a short position in the UK security and a long one in the Peruvian security, in the reasonable belief that GDP in the two countries is uncorrelated. The UK economy then suffers years of slow decline, whilst Peru booms. This would lead to a transfer of incomes out of Peru and into the UK - despite the fact that Peru is in absolute terms much poorer than the UK. Is this fair?

You might want to deny the force of the question. You might claim that poorer countries will not want such markets, or that, because success breeds success, the UK is more likely to outgrow Peru than vice versa.

These claims are mutually contradictory. The more likely it is that Peru suffers a long decline, the more its citizens would want macro markets. As Shiller and his colleagues say: "For the world's poorest countries, hedging national income risks may truly be a matter of life and death for some citizens"[34].

A more coherent reply is that macro markets should not be the only change to relations between rich and poor nations. There is also a strong case for greater transfers of wealth.

Whatever you believe about these merits and demerits of macro markets, one important question must be addressed. If these are so good, why haven't they been developed before?

It may simply be that people are so tolerant of risk that they simply do not want the security which macro markets offer. If this is the case, however, much of the fuss which surrounds recessions is merely misplaced hysteria. And New Labour's obsession with avoiding a return to boom and bust loses much of its justification.

Another reason is simply that people are unaware of the long-term uncertainty surrounding their income, perhaps because the egocentric attribution bias causes them to exaggerate the extent to which they are in control of their own income; could it be that one reason why recessions and unemployment cause so much unhappiness is that they remind us we are not in control of our own fate?

Yet another reason is a simple case of market failure. The costs of setting up macro markets could be very high for the few people who do so, whereas the benefits are spread across many millions.

Herein lies a case for government action to establish such markets. And herein also lies the connection of all this with asset redistribution. One of the problems with macro markets - which may help explain why they have not been developed by the free market - is that many of those who might need the assets most cannot afford them. For example, young or unskilled workers tend to suffer from more cyclical unemployment than others. These are exactly the sort of people who need macro markets most, and yet they are least able to afford such assets. This suggests a case for governments helping to develop such markets - which could eventually benefit everyone - by giving some macro market securities away to the young and low-paid.

Beyond Left and Right

All this suggests there is both a case and many ways for redistributing wealth and economic power.

Indeed, asset redistribution takes the best traditions from socialism and conservatism, whilst discarding the worst.

From socialism, it takes a concern to redress inequalities, but rejects big government managerialism.

From conservatism, it learns the lessons: that governments lack the rationality and knowledge to make incremental piecemeal reforms; that markets often work well; and that relying on discretionary state hand-outs is an undignified life for a human being, not to mention an imprudent one. But it rejects the unthinking prejudice in favour of existing hierarchies and inequalities.

All this merely raises the question. If asset redistribution is such a good idea, why has it not happened before?

In the case of the Labour party, it is because they are, in Keynes' words, the slaves of some defunct economist - the economist being Keynes himself. Until the 1930s, the dominant western model of socialism was indeed market socialism, as promulgated by economists such as Oskar Lange, Enrico Barone and H.D.Dickinson, and criticised by Freidrich Hayek and Ludwig von Mises. However, the great depression of the 1930s led socialists to become much more gloomy about the potential of markets to allocate resources efficiently. As a result, they were quick to adopt the managerialism of Keynes and Beveridge – a managerialism which infects social democracy to this day.

There is a more interesting question – why have conservatives not favoured asset redistribution? It was advocated in the early 1970s by James Buchanan, who suggested it was one way to reverse the trend for ever-increasing state intervention. He wrote:

> The rich man, who may sense the vulnerability of his nominal claims in the existing state of affairs and who may, at the same time, desire that the range of collective or state action be restricted, can potentially agree on a once-and-for-all or quasi-permanent transfer of wealth to the poor man, a transfer made in exchange for the latter's agreement to a genuinely new constitution that will overtly limit governmentally directed fiscal transfers[34].

Exactly why this suggestion fell on stony ground is unclear. One possibility is that the balance of class power shifted under Thatcher and Reagan so much that the rich no longer felt the need to pay off the poor – even though both failed in many ways to reduce the scope of the state.

Another possibility is that many of the rich stood to gain much less from a free market economy than either socialists or conservatives believed - because their wealth was the result not of the application of scarce talents but of past injustices and the ability to exploit the existence of a big state.

These might be the reasons why politicians have not seriously considered proper, systematic, asset redistribution. But you could argue that there is a justification for them not doing so. There are big problems with asset redistribution.

These are not that asset redistribution is "unrealistic". In truth, most policies of the last 30 years have been unrealistic. In the 1970s it was unrealistic to expect a government to attack trades union power and reduce inflation. And in the 1980s, it was unrealistic to expect there would be a Labour government with a massive parliamentary majority that would tolerate privatized utilities.

No. "Unrealistic" is just a mindless slogan. It means "I don't like it but I can't think of a good reason why." I might as well rebut the allegation of unrealism by claiming that asset redistribution is "inevitable." We can all throw silly words around.

Instead, the real problem with asset redistribution is: how should we redistribute wealth?

Imagine two people, Alan and Bill, who are identical in all ways except one. Alan has spent all his income as he got it, whilst Bill has saved to buy shares. Asset redistribution is then implemented when both are 60 years old. Alan benefits but Bill loses. This is both arbitrary and unjust. It is arbitrary because it has benefited someone with a high time discount rate but penalized someone with a low one, with no justification. It is unjust because it fails to recognise that differences in wealth which are the result of free and responsible choices are quite legitimate.

There is a solution to this - to implement asset redistribution gradually, via confiscatory inheritance and transfer taxes. Such taxes can be defended on both philosophical and economic grounds.

The philosophical case, argued by Hillel Steiner, is that no-one can truly be said to have a right of inheritance, simply because there is no corresponding duty of bequest - as anyone will discover if they try suing their dead father for leaving them out of his will[35]. This means the estates of dead person can be regarded as an unowned resource, which can be deemed to be common property. Also, allowing inheritance violates the most basic precepts of equality, by allowing some people advantages which others cannot have, through no fault of their own. Not for nothing has inheritance been described as "affirmative action for rich kids."

The economic case is that inheritance taxes may have less adverse effects upon economic activity than other taxes. Allegations that they deter savings and business formation assume that people have remarkably long time horizons - to be worried about a tax that may not be levied for another half-century - and ignore the fact that recipients of inheritances may reduce their savings and labour supply in anticipation of their receipts[36].

This solution, however, runs into another problem. If we acknowledge that the poor are poor because their rights are violated, how can we possibly justify delaying restitution for an entire lifetime? But if we require immediate restitution, how can we raise the cash without inflicting injustices upon others? We have a dilemma.

A further problem is that asset redistribution leaves us vulnerable to the charge that we are guilty of the same arrogant rationalism of which we have accused New and Old Labour.

Indeed, the accusation may have more even force against asset redistributors than against social democrats. For one thing, their projects are even more grandiose than those of social democrats - although this is merely the counterpart of their superior recognition of the sheer magnitude of the inadequacies of our existing arrangements.

Yet another problem is that the desirable features any economic system must have are so many, and so mutually contradictory, that it is impossible to achieve them simultaneously. We might reasonably ask the following of such a system. Does it provide for the possibility of full employment, if this is what workers want? Does it allow a Pareto optimal allocation of resources? Does it allow for an acceptable system of insuring ourselves against risks? Does it promote technical progress? Does it allow for self-realisation through satisfying and challenging work or leisure? Does it give people adequate control of their own lives, both in the workplace, the community and the state? Does it promote respect for oneself and others? Does it encourage the development of the better aspects of human nature whilst discouraging the worse ones? Does it promote individual liberty? Is it just? Is it stable?

Except for the last of these questions, we must ask these not only of the steady-state properties of the system, but also of the transition to the system. This give a total of 21 questions, even if we have agreed upon our definitions of liberty, justice and adequate control. And on almost all the questions, the evidence will be mixed, missing and ambiguous, except for those systems which are obviously undesirable.

Faced with this, only an idiot or a fanatic can possibly claim to have any clear answers.

None of this, however, makes our existing arrangements any more acceptable. Why should we accept the status quo just because we cannot agree upon an alternative - especially when that status quo arose through stupidity and injustice?

These are all tough questions. They mean the case for asset redistribution is doubtful.

Whatever your view, I would hope this chapter has established two things.

First, asset redistribution is not an idea confined to the "left" – James Buchanan and Thomas Jefferson are not left-wingers. It should appeal to anyone who wants an alternative to managerialism. The important political debates today should not be between left and right, but between the pro- and anti-managerialists.

Second, New Labour's belief that its policies are a necessary response to new times and globalization is a pure myth. There are many alternatives.

If this chapter has shown what these might be, and what form the debate about post-managerialist politics might take, it will have succeeded.

Notes

1. "Efficient redistribution: New rules for markets, states and communities", p58 in *Recasting Egalitarianiism*.
2."The Tyranny of Inequality", p24.
3. Bowles and Gintis, "Recasting egalitarianism", p362 in *Recasting Egalitarianism*.
4. *Market, State and Community*, p23.

5. What follows draws upon Roemer's discussions in *A Future for Socialism*, Roemer (ed) *Equal Shares* and Bardhan and Roemer (eds), *Market Socialism*.
6. "A future for socialism," p35 in Roemer (ed), *Equal Shares*.
7. *A Future for Socialism*, p111-12.
8 "Market socialism and neoclassical economics", in Bardhan and Roemer (eds), *Market Socialism*.
9. "Market socialism and neoclassical economics", p34.
10. "Market socialism and the managerial labour market", p205 in Bardhan and Roemer (eds), *Market Socialism*.
11. In practice, even a market socialist society will probably redistribute wages via a combination of taxes and transfer payments. It is just that there is nothing distinctively market socialist about doing this.
12. "Economic Democracy and Equality: A Proposal", in Bardhan and Roemer (eds), *Market Socialism*.
13. Gregg and Wadsworth, "A short history of labour turnover, job tenure and job security, 1975-93", *Oxford Review of Economic Policy*, 11, spring 1995, p73-90.
14. John Y. Campbell, Martin Lettau, Burton G. Malkiel and Yexiao Wu, "Have individual stocks become more volatile?", *NBER working paper no.7590*, March 2000.
15. We should not, of course, push this point too far. Managers are perfectly capable of destroying companies where there are no shareholders, as policy-holders in Equitable Life will testify. And it is inevitable, as well as desirable, that many worker co-ops will fail anyway.
16. "Introduction" p 25 in Elster and Moene (eds), *Alternatives to Capitalism*.
17. "Self-management and economic theory", p261 in Bardhan and Roemer (eds), *Market Socialism*.
18. What follows draws upon Meade, *Full Employment Regained?* and Weitzman, "Profit Sharing Capitalism" in Elster and Moene (eds), *Alternatives to Capitalism*.
19. *Real Freedom for All*, p207.
20. "UBI and the flat tax" p36, in Philippe van Parijs (ed), *What's Wrong With A Free Lunch?*.
21. "Three Just Taxes", p82 in Philippe van Parijs (ed), *Arguing for Basic Income*.
22. *Real Freedom for All*, p33.
23. Tony Walter, *Basic Income*, p12.
24. "Towards a minimally presumptuous social welfare policy", in Philippe van Parijs (ed), *Arguing for Basic Income*.
25. "Something for nothing?" p93, in Philippe van Parijs (ed), *What's Wrong With A Free Lunch?*.
26. *The Limits of Liberty*, p178.
27. *After Social Democracy*, p51.
28. *Real Freedom for All*, p109.
29. *Macro Markets*, p4.
30. Stefano Athanasoulis, Robert Shiller and Eric van Wincoop, "Macro Markets and Financial Security", *Federal Reserve Bank of New York Economic Policy Review*, April 1999, p23.
31. "Macro Markets and Financial Security", p27.
32. "Macro Markets and Financial Security", p29.
33. "Macro Markets and Financial Security", p28.
34. *The Limits of Liberty*, p178.
35. "Three just taxes", in Philippe van Parijs (ed), *Arguing for Basic Income*.
36. These issues are discussed in William Gale and Joel Slemrod, "We tax dead people", Brookings Institution Discussion Paper, June 2000.