I. Introduction

The purpose of this paper is to examine the recent contributions of Rawls and Nozick to the theory of justice. I shall focus on social interaction and the role of the State in both of these theories. Both works by these authors represent, to some degree, an extension and modification of the principles of classical utilitarian philosophy, the dominant theory in moral and political philosophy. Since the moral foundations of classical political economy were essentially utilitarian in nature, and became modern economic science contains vestiges of utilitarian philosophy, both the works of Rawls and Nozick should be of interest to economists. Indeed, the extensive references to the economic literature in both works suggest that, although economists may have lost interest in moral philosophy, utilitarian-oriented moral philosophers have not lost interest in economics. This circumstance is not surprising; utilitarian philosophy grew out of a period of great interest in the material well-being of mankind (as well as political freedom), and modern utilitarian philosophy continues to remain preoccupied with economic (or material) matters.2

Both works to be examined are extremely complex, and the combined texts of about one thousand pages are difficult to follow. It is not my purpose to present a detailed study of both works. Instead, I shall deal with two major aspects: the nature of social action and the role of the State. I am aware of the pitfalls of generalizations for those who have not read both works and who would rely solely on my overview. Nevertheless, it seems to me that what is needed most is a theoretical framework for analyzing both theories, rather than a detailed and complex discussion of the theories themselves which are there for anyone to read.

I shall begin with a brief description of Rawls' and Nozick's theories, then proceed to develop the theoretical framework to examine both theories. The theories will then be analyzed within the context of the theoretical framework, and finally both theories will be compared from the point of view of that framework.

II. Rawls’ Theory of Justice

Throughout his book, Rawls uses utilitarianism as a frame of reference for his theory of justice.
justice. Essentially, his criticism of utilitarianism stems from its alleged undifferentiated basis for social decision making. According to utilitarian principles, a social action is permissible (and socially beneficial) if it results in a net positive increment to the aggregate of individual utilities, even though such action may make some individuals worse off. Apparentiy, Rawls interprets this to mean that some individuals may be denied "justice" if social action is based solely on utilitarian principles. In particular, the denial of basic individual liberties is a matter of concern expressed in his "first principle of justice," a sort of "Bill of Rights," which protects individuals against the tyranny of the majority: "each person is to have an equal right to the most extensive basic liberty compatible with a similar liberty of others."

Rawls recognizes the inevitable (and even desirable) existence of social and economic inequality. Whereas the utilitarian norm is utility maximization, Rawls is concerned with the distributional aspects of income and wealth, and differences in authority and responsibilities. In other words, his interest is in the "disadvantaged" with respect to the former and the misuse of power in the latter case. His concern leads to his "second principle of justice," a two-part principle: "social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be to everyone's advantage, and (b) attached to positions and offices open to all." What is important for my purposes is that his concern for welfare and income inequality results in a socio-economic stratification in his theory—"advantaged" versus "disadvantaged" persons. More specifically, his "difference principle" requires that inequality of income distribution be permitted unless it can be shown to be to the advantage of the last advantaged. Rawls' difference principle is a much more restrictive requirement for socio-economic action than the classical utilitarian principle of utility maximization; the latter permits any social action which results in a net positive gain in social utility (it allows for some to be made better off at the expense of others). Over 500 pages are devoted to the elucidation of Rawls' two major principles of justice. A system based on such principles requires cooperation and rules. He recognizes that self-interest may cause difficulty in reaching a necessary consensus for the structuring of a system based on his two principles of justice. He treats with individuals against the tyranny, theoretically, by introducing the concept of a "veil of ignorance," that is to say, in the "original state" (or when a constitutional convention is called) no individual is aware of his social or economic position. What emerges is a convention of ignorant (not disinterested) persons who would act in a selfless-like manner because of their ignorance regarding their own positions in the on-going society.

All the above is a gross simplification of Rawls' very detailed arguments, but one which captures the fundamental propositions of his theory.5

5I am concerned only with classical utilitarianism at this point, as is Rawls. The principles of classical utilitarianism should not be confused with Pareto's modification, which came later and which is familiar to economists as the Pareto optimality criterion. The "compensation principle" on economic growth of the attempt to bypass the more restrictive Pareto criterion, the latter requiring actual compensation rather than potential compensation.

As long as Rawls remains at the general level of abstraction, i.e., at the Principles level, there is little difficulty. But in Part II of his book, when he comes to specifics, all sorts of rules are introduced to deal with specific cases. These rules and others tend to a principle of justice to ensure liberty and equality for individuals leads to more and more individual constraints. This result is not surprising because at some level of analysis it is necessary to step down from the nebulous regions of pure speculation, if theory is to have any empirical content, and then one individual heterogeneity, although both recognize the relationship between the individual and the social in their works. Whereas Rawls sees individual and social (and economic) heterogeneity as a basis for possible injustice (resulting from inequality), Nozick sees in such heterogeneity the only basis for justice. In contrast to Rawls, Nozick argues that social heterogeneity results in social cooperation, a viewpoint reminiscent of the Harmony economists.

The works of Rawls and Nozick may be viewed as being in opposition to each other. Rawls' work can be interpreted as a statement of current liberal norms, while Nozick's work might be characterized as a modern restatement of eighteenth-century liberalism. Both are concerned with justice within the context of individual liberty, both works are exercises in normative theory. Neither pretends to describe the values and institutions existing in modern society, but values and institutions as they should or might be. Although both theories are normative (moral philosophy) in nature, rather than scientific, they can be examined objectively. In other words, when removed from their focus on justice, they are essentially theories dealing with impersonal and interpersonal interaction. Therefore they can be examined as theories of interaction. I shall now take up this task.

IV. A Pareto Utilitarian Approach to Rawls' Theory of Justice

Although Rawls finds utilitarianism lacking in several respects as a theory of justice, or at least his version of utilitarianism, it is possible to examine his system in a utilitarian framework. Such a framework is not too great a departure from the spirit of Rawlsian thought because, as mentioned above, his ideas represent a modification and not a rejection of utilitarian theory. Nozick's system is essentially utilitarian, as we shall see.

Nozick is in fact critical of Rawls in his book.
The framework developed below follows Pareto and my elaboration of his work. Suppose that each individual in the social system possesses certain precepts regarding what is "just" for himself and for others. That is to say each individual in the social system has a subjective social welfare function:

$$w_i = f(x_1, x_2, \ldots, x_n)$$

In the above expression the $w_i$ are the utilities of the individuals in the social system as the $i$th individual imagines them. The term "utilitarian" here is used in a broader sense than economic satisfaction; it designates satisfactions deriving from all sources, economic, political, religious, ethical, moral, etc. Suppose for the $i$th individual an ideal ("just") social state is one which satisfies the following condition:

$$0 = a_{i1}u_{11} + a_{i2}u_{12} + \ldots + a_{in}u_{1n}$$

The $a_{ij}$ represent the $i$th individual's subjective interpersonal comparison of the $u_{ij}$ and the $u_{ij}$ are indexes of changes in the $u_{ij}$. Expression (2) is quite general and it allows heterogenous types of individuals. For example if the $i$th individual is a pure egoist, then all the $a_{ij}$ will be zero, except $a_{ii}$, which would have a high positive value. In other words such an individual pays attention only to his own interests. For an altruist, the $a_{ij}$ would be near or equal to zero, while the remaining $a_{ij}$ would have a higher positive value. A misanthrope would place a high negative value on the $a_{ij}$ so that a positive increase in the $u_{ij}$ would result in a decrease in social welfare (and vice versa) as he imagines it. For the lover of mankind, the $a_{ij}$ would have high positive values. For the martyr egoist the $a_{ij}$ would be negative, reflecting his belief that his sacrifices (negative $du_{ij}$) are a benefit to society. For the egalitarian the $a_i$ would be equal, whereas for the lover of inequality they would not be so. In reality, one would expect that the $a_i$ will be positive (but not equal), and we shall assume that that situation best defines the representative case. Since the $a_i$ are positive some of the $a_i$'s must be negative and some positive in order that condition (2) be satisfied. In other words they cannot be all positive or all negative. This result, due to Pareto, is important as we shall see, since it calls attention to the differential effects of social action or policy.

If individuals' precepts regarding justice are influenced by their class positions, interests, etc., we have heterogeneous individuals and heterogeneous conceptions of justice. More formally, for $n$ individuals we have:

$$0 = a_{11}u_{11} + a_{12}u_{12} + \ldots + a_{1n}u_{1n}$$

$$0 = a_{21}u_{21} + a_{22}u_{22} + \ldots + a_{2n}u_{2n}$$

$$0 = a_{ni}u_{ni} + a_{n2}u_{n2} + \ldots + a_{nn}u_{nn}$$. (3)

Since individuals' subjective views of what is just for themselves and others are heterogeneous, then in many cases $a_{ij} = a_{ji} \neq a_{il} \neq a_{li}$, etc. The question of the existence of a solution for system (3) is not as simple, since no individual in the social system possesses the data for solving the problem objectively.

Let us now turn to Rawls. Rawls seems to argue that a system defined in terms of (3) is unjust because heterogeneity and self-interest prevail. The problem is to mitigate the effects of self-interest in the original position. What is needed is a concept which would lead to weights which approximate those based on the assessments of disinterested persons of non-ill-will. This approximation is defined in terms of the "original position" of society where every-one participates equally in the formation of principles of justice based on selfishness. How can self-interested persons be made to act selflessly? He assumes that everyone is clothed in a "veil of ignorance" about his own position, and, therefore each person being so situated, would favor principles which favor everyone. This is essentially Rawls' idea of "justice as fairness." What justice as fairness means in terms of system (3) is that the $a_i$ now becomes $a_{i1} = a_{i2} = \ldots, a_{in} = a_{i1} = \ldots = a_{in}$, etc. However, this does not imply $a_{ij} = a_{ji} = a_{il} = \ldots = a_{li}$, etc. Therefore, even though each individual will assign weights to everyone else equal to his own under a "veil of ignorance," each individual's own conception of justice will be different from those of others. Contrary to Rawls, the heterogeneity problem is not eliminated in "justice as fairness." What justice as fairness accomplishes is the highest positive values of $a_i$ consistent with the identical values of the remaining $(n-1)$ persons, since each self-interested individual is assigning weights equal to his own to others in the system. A reduction of heterogeneity occurs because the $a^*$ possibly unequal $a_i$'s are now reduced to $n$ possibly unequal weights.

Rawls appears to lack his first principle to the task of establishing a constitutional basis for government. Therefore this principle is beyond legislation. The function of government is to enforce this principle, as well as the second principle which becomes the basis for legislative action. Nevertheless, each principle should stand on its own regarding the determinancy and solution of the Rawlsian system. For simplicity, I shall confine myself to the first principle and then go on to the second principle, although they could be treated simultaneously.
possessing police powers, and ruling on matters related to individual liberties only. 

Let us now turn to the second principle of justice, which involves legislative action. The first part of the second principle of justice requires that all individuals share equally in the opportunities of this world. In terms of our framework the requirement that all individuals be treated equally, regarding opportunities, results again in equal weighting by government:

\[ M_1 = M_2 = \ldots = M_n = \ldots \]  

Again a social principle optimizes when condition (6) is satisfied.

The "difference principle" requires that social and economic inequalities be arranged "so that they are both (a) reasonably expected to be to everyone's advantage, and (b) attached to positions and offices open to all." The distribution of wealth and income, "while it need not be equal, it must be to everyone's advantage." Suppose a certain action (production, exchange, etc.) results in a distribution of income which does not satisfy the "difference principle." Then in order for the "difference principle" to obtain, it will be necessary to make some persons worse off by reducing somewhat their gain resulting from that action in order to make everyone else who did not gain from that action better off. The government is the sole agency for redistribution. This amounts to saying that redistribution will take place until condition (6) holds. In the case of redistribution, individuals are grouped according to those advantaged and disadvantaged, the latter being assigned higher IQ values. Some of the IQ's will be negative and others positive, indicating the redistribution necessary to achieve the second part of the second principle.

Redistribution according to the second principle results in a higher level of aggregate (political) welfare because of the higher IQ weights assigned to the disadvantaged, who gain from the redistribution relative to the advantaged. It is precisely this differential weighting scheme which distinguishes the Rawlsian theory of justice from classical utilitarianism. Regarding individual liberties and equality of opportunity, Rawls and the classical utilitarians are at one. On the other hand, the economic concept of welfare is tied to a market framework which implies certain conditions (free competition) and ignores distributional effects or involves interpersonal comparisons of utilities. Hence the economic concept of welfare is more restrictive in scope. What is important for my purposes, in a non-market context, is that government has a central role to play with respect to both the determinacy and optimum of a social system. I shall return to this point later.

V. Nozick's Theory of Justice

Central to Nozick's theory of justice is the importance of individual freedom of choice and individual heterogeneity. In order to examine the relationship between choice and heterogeneity, let us begin the analysis with the absence of the latter. If there exists a community of identical individuals then \( M_1 = M_2 = \ldots = M_n = \ldots \) and \( W = W_0 \) since there exists heterogeneity of individuals. A social optimum exists when conditions in system (3) above are satisfied. Further, there is no need for any kind of state, minimal or otherwise. For if there existed a state, the \( M_0 \) would be equal to 1, and the \( M_n \) in system (4) would be redundant. Also the expression for the maximization of political (social) welfare:

\[ W = M_0 \cdot d_1 + M_1 \cdot d_2 + \ldots + M_n \cdot d_n \]  

would be the same as all of the identical individual expressions in system (3), rendering the state redundant. All the above seems rather obvious and perhaps trivial. But in the words of Rawls and Nozick the falsification for the existence of the state remains tied to moral issues, whereas in fact it derives from something quite different, namely the heterogeneity of individuals. 

Once the problem of individual heterogeneity is added to freedom of individual choice, there develops the potential for social conflict, which must be resolved. Nozick approaches the problem of conflict by proceeding from states of anarchy to association to a minimal state to examine how individuals would protect themselves against the freedom of choice consequences of other individuals. Collective action is given so much attention that individual interaction remains obscure. It is not clear whether such action is impersonal or interpersonal. This obscurity leads to the temptation to categorize Nozick's theory as both an economic (or market) theory of impersonal interaction and an interpersonal interaction theory. In fact, it is both, depending on whether or not a party to any social act (one involving another person) feels that he has suffered a damage, subjectively. Hence a damage to another party circumscribes the limit of individual freedom of choice. Up to that limit, freedom of choice is purely a private matter, and, hence, the analogy with economic theories of choice.

Although harmony reflected in private exchanges between heterogeneous individuals is the most common case in Nozick's systems, it receives the least attention since it is the least troublesome from the point of view of justice. Hence, the preoccupation with damages and compensation imposed by a protective association. The function of the dominant protective agency (or the minimal state) is to act as an agent in exacting compensation (and/or punishment) for injured parties. Presumably, justice requires that all persons be treated equally in matters affecting damages and compensation. Therefore, \( M_1 = M_2 = \ldots = M_n = M_0 \) since compensation (and punishment) is at the heart of Nozick's approach to conflict, I shall focus on this issue. The problem of compensation can be viewed both from a micro level. Suppose individual 1 gains at the expense of individual 2, and both individuals perceive the gains and losses subjectively the same i.e., \( I_{1}(W_1) = I_{2}(W_2) = I_{1}(W_2) = I_{2}(W_1) \). For individual 1, \( \alpha_1 > \alpha_2 \) and from his point of view his action is justified since it results in a gain in his
subjective social welfare function, $v_i = f(r_i, a_{01}, a_{02}, \ldots, a_{10}, a_{20})$. Individual 2 may not see things in the same way. Suppose at best that for him $a_{02} = a_{12}$; he will argue that then there has occurred no increase in his subjective social welfare function, and he is worse off individually. Both individuals disagree regarding the consequences of individual 1's action.

Enter the state. Justice requires that all individuals are to be treated equally where the state becomes a party to the dispute. So by multiplying the $a_{ij}$ by $\theta_{ij}$ the following result is obtained:

$$v_{02} = v_{12} = v_{01} = v_{20}$$

In other words, the state imposes its own political (ethical) welfare function, $W = G(a_{ij}, \theta_{ij})$ upon the subjective welfare functions of both individuals, from which it derives a political optimum.

In this case since $M_1 = M_2$ (from (9) above), individual 1 is made worse off while individual 2 is made better off, through compensation: the equal justice principle, in this case, rejects individual 1's basis for his action, and returns conditions to the original state. The above is extensible to punishment for crimes. If the state has weighed each individual equally, so that $M_1 = M_2$, then it would mean that it disregarded with both individuals' $a_{ij}$'s, and the resulting compensation (if any) would reflect its own weighting.

It is important to recall that in Nozick's minimal state, the state is a passive agent in matters of individual interaction. It waits for claims to be brought to it. All other actions among individuals, which are settled satisfactorily by individuals are outside of its jurisdiction. Almost any agreement between individuals is permissible, from the point of view of justice, even if the result is inequality. As concerns distributive justice, the distribution of income resulting from such voluntary agreements is also just. Patterened principles of distribution such as "to each according to his moral merits, or needs, or marginal product, or how hard he tries, or the weighted sum of the foregoing, and so on" are rejected because no "distribution or patterned principle of justice can be continuously realized without continuous interference with people's lives." Instead Nozick advocates the principles of entitlement, which more or less corresponds to my description of absolute freedom of individual choice, including agreements and contracts.

VI. Rawls and Nozick

Heterogeneity of individuals is the basis for the existence of the state. The issue, at least for Nozick, is the limits of state power which are consistent with individual freedom of choice and justice. Indeed, this is the crucial difference between the systems of Rawls and Nozick. In the Rawlsian system the state is an active force which intercedes in almost every individual or social action possessing distributive implication. Rawls seems to suggest that the state rule in ex-ante, not merely ex-post; it prevents or permits actions depending on whether or not they conform to distributive justice. Rawls system can be re-interpreted as an ex-post redistribution role for government, an interpretation which is more consistent with an environment of uncertainty of outcome of individual or social action.

For Nozick, the role of the state is confined to ex-post compensation and punishment (except for preventive detention). Essentially then the contention between both works concerning governments ex-ante or ex-post redistribution (depending on how one wishes to modify Rawls in order to take account of uncertainty) versus ex-post compensatory.

Each implies differences in degrees of government interference in individual and social action. Neither presents anything like a theory of the limits of state power, based on different circumstances of individual heterogeneity. Instead, both reflect in their works, a received doctrine. Rawls presents little more than a cohesive and rigorous statement—one is tempted to say rationalization—of current American liberalism, while Nozick's is a restatement of nineteenth century liberalism. Is it surprising then that Rawls stresses interventionism and Nozick laissez-faire, views reflected in the climate of opinion of both periods? Both are quick to point to the flaws of the theories they examine, but cannot explain why one should expect their own theories to do better, although they are based on the same stuff—moral sentiments.

VII. Conclusion

Would a careful reading of Rawls and Nozick be a waste of time for economists? After all are not normative theories of justice unsound? The development of economics as a science during the nineteenth century witnessed the purging of utilitarian ethical principles from economics. Nevertheless the utilitarian paradigm has survived implicitly in standard micro-economic theory and it is reflected in the institutional background conditions assumed to exist in theory. It is precisely these background conditions which require careful scrutiny and evaluation. To the extent that the social sciences deal with individual interaction, they have a common basis. In economics, the dominant conception of interaction has been impersonal interaction. Yet much of what economics attempts to explain occurs in an environment of interpersonal interaction (e.g., wage determination, pricing, interest rates, output, employment, public policy, etc.) where considerations of justice, equity, and efficiency are inseparable, not only in collective decision making, but also in individual choices. But attempts to move in the direction of theories of interpersonal interaction have been frustrated by the complexity of problems encountered, the most important being a breakdown in the traditional boundaries among the various social sciences. If economists are going to become involved in interpersonal interaction in order to bring theory closer to reality, then it will soon be realized that economic phenomena are economic only by definition.

39What this means in terms of the framework developed is that in (2) the only positive values are along the main diagonal; all other values are zero. This is why in economic theories of interaction solutions are possible without the existence of a government. This is often overlooked in welfare economics where the existence of a social welfare function is assumed to be necessary for a unique Pareto optimal solution. Pareto demonstrated that the system has a unique solution. The fact of uniqueness appears when one rules which of two states along the contract curve is better. The system determines the point, so the problem arises because of the nature of the question, which requires interpersonal comparisons. In practice, where consensus exists there is little need for theories of justice and where it does not exist such theories are little more than ideology.

40Another problem is that such theories tend to be descriptive rather than analytical and lack definitive results.