

Further Reflections on Economic Justice

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The purpose of these comments primarily is to address issues in detail that are either ignored by the symposium authors or else touched upon lightly. Such comments are not, however, unrelated to these articles and indeed frequently reference them.

E. Ray Canterbury takes up Tumlir's implication that first principles of justice are suspect, as well as Lerner's contention that social justice is a function of preferences. Canterbury sees the advantages in multiple criteria for the ideal or "good society" compared to a unidimensional criterion derived from the simplicity of natural law principles. The origins of No-

*I thank Robert Nozick and John Rawls for writing books so stimulating that they inspired this symposium and also for discussing with me some of their more recondite ideas. I express appreciation to Jeffrey Burkhardt, Edgar Fresen, William Laird, and Irvin Sobel for reading and commenting on an earlier draft. I am indebted to Abba P. Lerner and Alan Mabe for some profound discourse on the general topic. I am grateful also to Harry Johnson for giving me—what regrettably was my last—opportunity to collaborate with this intellectual giant. I nonetheless bear full responsibility for any errors.

Harry and I had not completed our comments for this symposium prior to his death. We had discussed in detail the choice of authors, the introductory statement, and the motivation for any concluding comments. In the absence of a draft of his concluding statements, I completed his contribution in the following way. First, I drew heavily from various sections of Chapters 17 and 18 of his *The Theory of Income Distribution*, London: Gray-Mills Publishing Ltd., 1973. Second, I considered his views on inequality as I understood them. Third, I organized these ideas around the symposium's theme. If I have made any errors of interpretation, I am quite certain that Harry will find a way to inform me in unmistakable terms, in a manner that even wounded egos learn to appreciate.

zick's natural law view are examined and the moral claims for natural law are challenged. Alternative hypotheses are advanced for the nature of Nature, including those of Hegel and Marx. The public goods issue is raised within the context of Nozick's and Rawls' systems.

Harry G. Johnson presents the economist's arguments for the determination of personal income distribution, as well as the basis for the inevitability of poverty and the demands upon public policy that inequality commands. He sees the basis for redistribution toward egalitarianism in the cultural nature of poverty. The yields on natural endowments are decided by social institutions as well as individual choices about transactions under uncertainty. Therefore, Johnson rejects Nozick's view that the morality of the income distribution can be judged only in terms of the "initial conditions."

Professor Canterbury takes the role of a philosopher's devil's advocate as well as presenting the public finance perspective. Professor Johnson, as usual, is the economist's economist as he explains analytically the distribution of personal income and its relation to Nozick's system.

CANTERBERY

I. The Non-Simple Matter of Criteria for "Economic Justice"

Questions concerning economic justice are not simple. We cannot expect the answers to be any more so. A feature of mankind for per-

haps the last 100 thousand years, and no doubt the last 10 thousand years, is a preference for living together. Cooperation and community life must have advantages or it would not have had such a long history. Despite the instinct for community, conflict appears an inescapable element within the contemporary community. To the extent that we seek community, such conflict seems part of being human.

If conflict is human, so is the desire to end it—to have harmony. In human communities the resolution of conflict has always depended on certain criteria, only one of which is fairness in economic transfers. The unidimensional commutative criterion of Robert Nozick and equality criterion of John Rawls must be viewed with caution, because the settlement of differences and the move toward harmony depend upon multiple criteria.¹

Personal and collective security probably was the first criterion of society, of a primitive society. Such a society is the starting point for Robert Nozick. In Nozick, conflict leads ultimately to the minimal state. The only, and therefore the highest task of the state, is to protect individuals from harm to their lives, health, liberty, or possessions. The initial purpose is security. In this system individuals do what they do out of their "rational self-interest," a behavioral assumption preserved by John Rawls in his "original position."

In a practical political sense the notion of a second criterion, basic individual liberties, originates in the 17th century with John Locke. Nozick and Locke appear to be primarily concerned with individual liberty and the security of property and person. One is tempted to say that exclusive concern with the criterion of security begins to diminish with a "civilized" state. For example, Nozick's hypothetical

scenario of the development of the minimal state also serves as a plausible *real* history of the emergence of the nation-states.² Once the nation-state is secure within its own political boundaries, its citizens' demands for individual liberties become more persuasive. However, this is an oversimplification. Modern technology has given us the neutron bomb with which most of a people's possessions will survive while human populations are eradicated. This tool for fine-tuning security meets one of the Lockean provisos but violates all the rest. Surely this is not what Locke had in mind.

Of all criteria, widespread concern with economic equality probably has had the shortest history. Historical evolution has given us criteria roughly in the following order: security first; individual liberties next; and equality last.

However, we cannot construe this to mean that at every historical point the greatest utility is derived from security and therefore a community's concern should always be placed on that criterion above others. It is more plausible to argue that without *some degree* of security, there can be no individual liberties, and without some civil liberties, persons cannot be concerned with economic inequalities. The marginal utilities from each criterion diminish with levels of achievement. The realization of each criterion diminishes its importance because the citizen accepts these fulfillments as constants or the fulfillment of expectations in their lives.

So far we have suggested that there are three basic criteria by which individuals can be guided within a community setting. However, community life is not this simple. There are multiple criteria for the multiple criteria.

Historically we associate security with safe communities and protected nations, but an inadequate food supply to an individual or community provides direct endangerment to life.

²A description and analysis of this real history is included in E. Ray Canterbury, *The Making of Economics* (Belmont, Calif.: Wadsworth, 1976), pp. 6-22, 39-66.

It is a short step from the criterion of subsistence food supply (or subsistence income) to income security and still another short step to national security.

Today about two-thirds of mankind is living on less than thirty cents a day. If this condition continues or accelerates the other third of the world's population will not be secure. The provision of minimal incomes directly and indirectly affects human survival, and makes it a life security issue. Wherever income security is culturally determined, as it is in a technologically advanced society with a very small agricultural population, where do we draw the line for income security?³

If individuals have basic liberties, what are they free to do, with what, to whom? Nozick tells us that people should be free to do anything they want so long as the natural rights of others are not violated, but what constitutes "harm to others"?

An industrial plant emitting toxic fumes and effluents in the world's common property atmosphere and biosphere is engaged in free exchange. People voluntarily use aerosol spray products that are destroying the (world's) common property ozone layer. In an exercise of liberty an individual can purchase defective automobiles that are unsafe to others. (In the U.S. we know that this happens because automobiles are recalled by the manufacturer itself for modification.) The unconstrained use of fossil fuels as the energy base for a free exchange system may alter the world climate until New York, Miami, New Orleans, Los Angeles, and other cities around the world are beneath the oceans. Are people free to use up all essential national resources? The freedom to do certain things can be harmful, even death-inducing, but it appears to be a matter of opinion as to which liberties are fatal. Moreover, mortalities will be

³As Johnson suggests in his comments, the definition of the "socially decent" income line rises as average income per capita increases.

at different levels and rates during different historical epochs, depending in part upon the state of technology. Yet Nozick ignores compensation for pollution and other third-party damages except those affecting private property.⁴

It seems implausible to me that these three basic criteria—security, liberty, and equality—can be lexicographically ordered once and for all. Once the society is ordered for personal protection and judicial arbitration, Nozick appears to rank basic liberties as Number One. Yet his system does not provide for even a minimal—if he will excuse the term—national defense.

If a nation is conquered by an external oppressor, whence liberty? Although Rawls begins in the "original position" with a lexical ordering (basic liberties first), he quickly descends into the quagmire of trade-offs between liberty and equality as he discusses the ongoing Rawlsian cooperative society. As Nozick suggests, Rawls' demands also are not symmetrical; the rich are coerced by the necessity of gaining the cooperation of the poor, but the poor are not required to reciprocate.

This lack of symmetry results because Rawls sees the survival threat from the riot potential of the starving masses or from the withholding of their labor. The restraint of the poor (who are given alms) is the benefit received by the non-poor. If so, "charity" begins at personal and economic security. Under variant conditions social goals will be ranked and weighted differently, which suggests that the "true criteria" are not defined with sufficient precision when we say "security, liberty, and equality."

The complexities do not end with the interdependence of the basic criteria. Economic justice is a sub-category of social justice, the standard or standards used to evaluate the way in which social institutions distribute to individuals the benefits and burdens of their *shared*

⁴Nozick, *op. cit.*, pp. 79-84.

¹The references are, of course, to Robert Nozick, *Anarchy, State and Utopia* (New York: Basic Books, 1974) and John Rawls, *A Theory of Justice* (Cambridge, Mass.: Harvard, 1971).

social state. The criteria for "economic justice" include commutative, desert, merit, equality, need, and expectations.⁵ Nozick wishes us to add entitlement.

Perhaps these criteria can be better understood with an example. Suppose you hire two men, Roy and Charles, in exchange for roofing your house in their spare time. You promise to pay \$400 for their labor with \$200 going to Roy and \$200 to Charles. Roy is older and more experienced (presently skilled) than Charles but Charles is currently otherwise unemployed.

After the job has been completed, you note that Roy worked 25 percent more hours than Charles even though Charles is unemployed. Should you pay Roy more and Charles less than originally promised (contracted)? If so, how much more and less?

If you use the *commutative* contract criteria, you pay \$200 to each. If you believe that Roy *deserves* more because he worked more hours, you would pay him \$250 and Charles, \$150. If you believe—in retrospect—that Roy *merits* more because of his longer preparation and superior skills, you might pay him \$300 and Charles, \$100. If you use the *equality* criterion, you would pay each \$200. If you pay according to *need*, you might pay Charles \$300 and Roy, \$100. If Charles claims that he and his dependents are near starvation, you may widen this differential. If you pay according to *expectations*, each receives what he originally anticipated, \$200.

The payment extremes run from a \$300-\$100 split in favor of Roy (merit) to a \$300-\$100 split in favor of Charles (need). If all criteria were given equal weight, Roy would receive \$210 and Charles, \$190.

However, additional issues might have a bearing upon your decision. Charles contends that, while Roy worked longer and is more skilled

Roy would not have been able to contract for the job if Charles had not been willing to help (that is, the labor unit is defined as two-persons). Because of the jointness of production, the marginal product of each person's labor is undefined.

Entitlement as desert clearly is not a distinct criterion. It is not even clear whether commutative entitlement derives from the original contract or from job performance. As indicated above, if the contract is invoked as the basis for desert, \$200 goes to each worker. On a pure exchange basis, however, if the two are assumed of equal skill (though they are not), Roy deserves \$250 and Charles, \$150, because Roy worked more hours. Even without considering capital and natural resource entitlements, the jointness of current production creates a confusion about whether Roy's marginal product *should* be valued as \$250 because, without Charles, Roy produces a roofing exchange value of zero dollars. If neither has a marginal product in the absence of the other, in what sense are products marginal?

What is the Rawlsian solution to the two-person, one labor unit production function case? Rawls would argue that Charles should receive an equal payment (as long as this does not cause Roy to cease work effort) because, irrespective of initial endowments of abilities, production is joint in a cooperative society and Charles is disadvantaged.

What is the solution in the "good society"? It all depends. It depends upon: (1) the criterion selected; (2) the weights given to each criterion; and (3) the feasibility of making awards according to the weighted criteria. These will all vary over historical time and space.

Among these criteria, only the first is relatively easy to define. Commutative justice is "justice" which results from contract or free exchange. Its simplicity, however, is deceptive. Although *what* is commutative is clear, whether the results of free exchange are "just" is not so

obvious. The presumption by Nozick is that the voluntary nature of such exchange meets his basic liberty criterion and therefore causes free exchange outcomes to be just.

Unfortunately these multiple criteria of "economic justice" also are not mutually exclusive. Moreover, at certain levels of satisfying, other criteria and orderings of criteria lurk behind these *apparent* criteria, suggesting that the latter are not fundamental criteria. Despite this complexity Nozick has reduced the number of criteria in our list from six to one by combining commutative, desert, and merit into commutative entitlement and by ignoring need, equality, and expectations.

Because prior criteria lurk behind the apparent "economic justice" criteria, we have a technical problem similar to that posed by the fundamental criteria. The measure that satisfies an "economic justice" criterion at one level will not necessarily satisfy it at another. That is, some levels of satisfying Criterion A may be lexical with respect to Criterion B (at A's present level of satisfying) while still other levels of satisfying Criterion A may be *substitutable* are *complementary* for B's level.

One measure of satisfying need is a subsistence income. Subsistence needs are ranked above other criteria because survival (security) is fundamental to further earthly satisfactions. This is because life is preferred to death. If any lexical ordering is permanent, it is this one.

The self-sufficient English manor in feudal society had two basic aims: producing enough to sustain the manor, and providing a surplus that could be used for defense (security). Above subsistence, material need may be traded off for the liberty to exchange. Agricultural surpluses appear to have been a precondition for the development of a free exchange system.⁶

All this is to say that there may be a hierarchy of criteria which are hierarchical only in a

historical *ex post* sense. This is because the upper reaches may not even be visible until individuals have moved several steps up the need ladder. What, therefore, are the criteria for the need criterion?

There is a similar problem with *desert*. Nozick suggests that one is entitled to receive payment in proportion to one's *exchange* of productive services. Desert is commutative. Within the context of the social institution of free market exchange one therefore deserves the income that he receives as yields from one's natural endowments. Why is this a criterion for justice?

Nozick's assumption is either that Nature is just in its distribution of endowments or else that the justice of Nature is irrelevant. If the former, the institution of free exchange retains a just distribution because of the voluntariness of its participants. If the latter, natural endowments are "given" and the justice begins (and ends) with free market institutions because of the voluntary nature of transactions. If Nature is just only *by assumption* (certainly the justice of Nature is not a provable hypothesis), Nozick has a circular argument. Nature is "just" and voluntary exchange keeps a "just distribution" intact. (Most neoclassical economists today are not willing to *explicitly* embrace free exchange as a system of justice even though they might otherwise appear comfortable with the implied ethic.) If this is what Nozick means, commutative is not a criterion for justice after all and he has no theory of economic justice.

If Nozick assumes that the distribution of endowments is irrelevant to the issue of justice, then he is giving priority to the voluntary nature of free exchange and he has lexicographically ordered liberty *in the acquisition and transfer of possessions* above other criteria. The endorsement of voluntary exchange itself as a principle of justice is to say that *whatever* income and wealth distributions exist under such exchange are the just ones. However, this is not a theory of economic justice either. Payments

⁵This list is taken from H. Scott Gordon, "Ideas of Economic Justice," *Daedalus* (Summer, 1963), pp. 433-446.

⁶For further elaboration, see Canterbury, *op. cit.*, pp. 8-16, 41-46, 61-69.

to those who produce a market value in exchange for income is still commutative, but it is liberty to contract and exchange, not entitlement as a first principle of justice, that is served.

This fails to answer the question of whether there are other socially just reasons (criteria) for which *non-quid-pro-quo* income payments should be made. Need may be one of those criteria for certain income ranges, but not for others. The commutative criterion therefore appears to be an instrumental variable (or system) and not a fundamental criterion of justice.

Need, equality, merit and expectations appear to be criteria in Rawls' system. Rawls would like to see an efficient economy with no absolute poverty and a minimum of inequality. Rawls considers a society with great inequalities as an unjust society because he views the distribution of the sources of inequalities—natural endowments—as random and, therefore, having no moral basis. The merit criterion is met only in so far as it is required to obtain necessary services from able individuals and to maintain efficiency.

This argument illustrates the 20th century Western shift in measures and in criteria. Minimum life-sustaining need at low levels of production is probably a fundamental criterion behind egalitarianism. Then when moderate needs are generally met, egalitarianism ceases to be a criterion or else has to be based upon non-basic material need criteria.⁷ If some levels of satisfaction of the criteria for economic equality cause them to be lexical, not only are such criteria multiple, the criteria themselves change with the conditions and values of society.

If Nature provided sufficient abundance relative to people's wants, and the society enjoyed moral solidarity, multiple criteria for the "good society" would not emerge and indeed harmony would exist. The classes and levels of wants are derived from the relative selfishness or gener-

⁷Again, see Johnson's discussion of the cultural definition of poverty.

osity of people. With sufficient abundance, rapacious egoism would disappear (except as an occasional aberrant condition). With sufficient, generosity scarcity would be irrelevant.

In the presence of scarcity the issue of social justice emerges whenever each person does not, or cannot, treat other persons as the other persons wish to be treated. This conflict does not end with the establishment of a free exchange system and a minimal state: it requires resolution by social ideals, mores, and rules.

I prefer to think of the multiple criteria as defining the contemporary view of the utopian or "good society," a view (and criteria set) that changes—one would hope, progresses with an increased number of criteria—as production constraints are removed. The "good society" is not simple. A theory of economic justice, especially one that is not a theory of justice, does not help. Except for procedural justice, which is really the rule set for fairness, there is no justice in this world, only relative preferences for criteria of distribution of benefits and costs. To slightly modify Tumlin's view, the rules of law are all the *fairness* that society presently agrees to.

The scarcity-selfishness nexus and the exploitation it engenders is related to Professor Kirzner's extension of Nozick's system. Nozick agrees with Locke that the original acquisition, especially of limited, life-giving resources must leave enough in common for others. Nozick argues that the operation of a free market exchange system will not (in practice) run afoul of this Lockean proviso.

The concept of relative scarcity nonetheless tells us that we can deplete and pollute out of existence *natural* resources. We mentioned above examples where voluntary exchange depletes and pollutes common property. To avoid exhaustion may require us to decrease wants below expectations, or else to conserve collectively. (Technological change is an uncertain and mixed insurance against these requirements.) These natural resources are demanded

for meeting the essential needs for human nutrition, shelter, and transportation.

Indeed, some would question whether *any* goods and services are outside the category of limited, life-giving. In a cultural sense, and to different degrees, *all* goods and services involve life-giving or life-denying properties. The automobile may be life-enhancing at 55 miles an hour but life-denying at 85 miles an hour.

II. The Origins of Natural Law and Its Moral Claims

The unidimensional criterion for justice is suspect. This raises the question of why such simple formulas have been postulated as principles of justice, even by philosophers. This predilection appears to derive from the Western definition of rational man as one who makes consistent choices in his self-interest, where self-interest is legitimized by an alleged first principle, the "invisible hand." This idea of rationality is derived from natural law. A first principle is difficult to find in the best of scientific circumstances but one that is invisible is especially elusive. For Nozick, nonetheless, rational self-interest generates an "invisible hand" theory of politics and economics.

Present-day fascination with natural law goes back at least to Isaac Newton (1642-1727). The Newtonian system put in concrete form the idea that all phenomena, all experience, consisted of the arrangement of atoms following mechanical, mathematically regular laws. In his theory of gravitation, Newton had found a cosmic law subject to precise mathematical proof and as applicable (he thought) to the smallest object as to the entire universe.

The idea that natural effects are caused by mechanical motions had occurred to scientists before Newton. As early as 1605 Kepler wrote to a friend:

I am now engaged in investigating physical causes; my goal is to show that the celestial machine is not the likeness of the divine being, but a likeness of a clock (he who believes that

the clock is animate ascribes the glory of the maker to a thing made). In this machine nearly all the variety of movements flows from one very simple magnetic force just as in a clock all the motions flow from a simple weight.⁸

This passage is closely related to the paradigm that Newton developed. It has two significant implications for philosophy: first, God is an artisan or craftsman who constructed an immensely complicated but reliable piece of machinery called "the universe"; second, after God created the universe and the rules by which it operated smoothly, He then more or less retired and left the machine to run "on its own."

This does not mean, however, that the universe was immoral or valueless, for with Newtonian science a God emerged who was derivable from natural law and in harmony with the order of the universe He made. God, like His universe, was rational and dependable. This optimistic conception of reliability—intensified by the conviction that the Creator was kind and charitable—produced a profound sense of relief. For example, the American clergyman Cotton Mather (1663-1728) could argue: "Gravity leads us to God and brings us very near to Him." To understand the forces of gravity was to better comprehend God's wondrous ways.

Newton's great scientific synthesis was a source of inspiration for much of the liberal philosophy and theology of later centuries. Although one now had difficulty believing that the world had been constructed with only humans in mind, one could at least believe that the mechanics of the universe were so perfect that nothing could go wrong. Because cause and effect were so certain and clear in physics and astronomy, many scholars assumed that history, human behavior, and economics would all be governed by natural laws. If laws are divinely predetermined, scholars reasoned, people should discover what these laws are so

⁸C. Frisch, ed., *Johannes Kepler Opera*, Vol. 2 (Frankfurt/Main: Heyder and Zimmer, 1859), pp. 83-84.

that they can cooperate with the "pre-established" natural order that controls them.

John Locke's (1632-1704) task was to "discover" natural laws in the political universe. This concept of order also was the basis of the political philosophy of the French physiocrats who preceded the English classical economists. We are reminded that the physiocrats were named for physiocracy, the law of natural order. The ideas of these philosophers—taken from the natural sciences—were representative of those spreading through the literate classes in France and England by the middle of the 18th century. The physiocrats' motto, *laissez faire, laissez passer*, neatly summarizes the shared view of the physiocrats and Adam Smith (1723-1790) that the natural advantages of free market competition should not be spoiled by government interference.

Smith believed that once the economy had been set in motion by the "invisible hand" of God, there was no need for any improvements. Repairmen would only upset the mechanism and disturb its ability to function in an orderly way. In his founding of classical economics, Smith was no doubt driven by a desire to emulate the most widely respected scientific system of his time, and thus the impact of Newton on social science and society continues to this day.

People exhibit "rationality" in this metaphorical transfer so long as they respect natural political laws, remain self-interested in economic exchanges, and make consistent choices in terms of these guides. The consequences for each scientific system are the same: harmony and order in the physical and in the social world. Let natural law do this, the people will assuredly be trusted to do what is left undone, which is virtually nothing. As to third-party damages, "rationality" is never having to say that you are sorry.

When the invisible hand is further invoked as theory, it is at the other end of the arm of natural law. Beginning with the distrust of tyranny in 1776 and continuing today, invisible

hand explanations have enjoyed considerable popularity. It is a theory buoyed by the optimistic belief that Nature is automatic and structured to reward persons according to their merit. However, there are some obvious objections to the reliability of invisible hand explanations.

First, one can not distinguish invisible hands from hidden hands because they are equally unseen. Are oil prices decided by free market forces of competing interests or by a roundtable of conspirators? Either way the outcome is to see and experience a "market price" for oil. Richard Nixon initially stated that the Watergate break-in was *unintended*, the unplanned actions of zealots fulfilling a higher cause. Now we know: the "invisible hands" wore gloves.

This brings us to a second criticism. Invisible hand explanations invariably serve the *status quo*. If outcomes are inexplicable, so much the better for those whose interests are currently served.

"Who me? . . . Raise the price of automobiles?" rhetorically asks the head of General Motors. "The invisible hand of the market once again served the public's interest." If you don't like the price of Chevrolets, blame the invisible hand! But, then, no one wishes to cast the first stone at God.

There is a third weakness. The inability to explain an outcome by describing the process that led to it can also be attributed to something else—ignorance! If we do not *understand* the process, say, whereby prices and distributions are decided, how do we *know* whether it is spontaneous or planned, perhaps by conspiracy? To wave aside all competing explanations with our (visible) hands is a repudiation of modern science.

The Western definition of rationality therefore is striking for its simplicity and also for its view of the individual as a mammal with remarkably limited reasoning capacity. The range for choice is narrow and decisions are made in-

dependent of people's own contemporary perception of criteria for the "good society."

Nozick and, in the "original position," Rawls, subscribe to this view of rationality. To Nozick, Nature provides endowments which are either automatically fair or morally irrelevant. (Which, we cannot discern.) In Rawls, the rational man chooses a "fair" principle because of an ignorance that is nearly total. In neither case are higher reasoning faculties brought into play. It is natural law that leads Robert Nozick, to a unidimensional commutative concept of justice. Even though the trains of justice leave the same station, Rawls—given basic liberties—arrives at a unidimensional criterion of equality.

Nozick and Rawls are in search of a prior principle. This raises the question of what the appropriate prior principle is. For Nozick's principles to be derived from a moral premise, we must assume that Nature is just. Then for people to be moral they must obey the laws of Nature. Abba Lerner and I are not convinced that Nature knows what it is doing.

With the help of Newton and Locke, Nature in part displaced God. The Romantic philosophical movements of the 19th century displaced contractarian theory. Only in economic theory did contract theory remain in use and it remains there today. Nozick's system of liberty therefore can be viewed as a 20th century back-to-Nature movement and a bolster for the moral claims of neoclassical economics. This moral claim still seems to emanate from a particular view of God, as one who constructed the rules we call natural laws.

Most of today's neoclassical economists stress the positive scientific elements of general equilibrium and generally leave the moralizing to philosophers and "radical economists." If now the economists and Robert Nozick interlock invisible hands, the theory of general equilibrium conditions might enjoy apparent moral certification.

I do not believe that this will happen. As

Kirzner suggests, there are many competing ethical principles. Kirzner does not demand that we adopt his. To be persuasive to economists as a moralist, Nozick must tell us more about the nature of Nature. Is God as formulator of natural rules a verifiable hypothesis? If so, why are there so many views of God—those of Calvin, Luther, Lao Tse, Mary Baker Eddy, Mohammed, Zoroaster, and so on?

The notion that Locke "discovered" natural laws is fantasy. Natural laws (as defined) were a product of Locke's mind. It seems a paradox that intelligent people endorse such rules because they mistakenly presume that they are not derived from intelligence. People only have the capacity to discern the order in Nature, whereas Nature exhibits the greater faculty of understanding what is best for people. However, a natural law cannot claim moral superiority to man-made law if natural law itself is man-made!

If philosophers accept Nozick's commutative principle of justice, ethics becomes economics. This spectre is not as frightening (to economists) as the reverse. If economists accept Nozick's "entitlement theory" as moral, positive economics will become ethics. This is not to say that the schools of economic thought have no ethical bases. As long as such ethical bases are diverse, however, economics will enjoy the liveliness of competing philosophies and systems of thought.

As Kuhn has persuasively argued, even in the natural sciences the choice of premises greatly influences the type of science that we practice.⁹ Einstein dispensed altogether with Newton's "law" of gravity. The implication of quantum theories combined with relativity is that Nature itself is only probable and not "definite." The content of philosophy and economics is highly

⁹See Thomas S. Kuhn, *The Structure of Scientific Revolutions*, 2nd ed. enl. (Chicago: University of Chicago Press, 1970). The nature of revolutions in economic science is explored in Canterbury, *op. cit.*

sensitive to the choice of scientific metaphor.¹⁰ However, not all social scientists have selected the same metaphor.

All this is not to say that it is easy to separate God and Man or whether it is possible or even desirable. Perhaps we can do no better than the following exchange from Joseph Heller's *Catch-22*:

"What the hell are you getting so upset about? I thought you didn't believe in God."

"I don't," she sobbed . . . "But the God I don't believe in is a good God, a just God, a merciful God. He's not the mean and stupid God you make Him out to be."

III. Hegel, Marx and Alternative Hypotheses

There are alternative views of Nature, views which allow natural laws to change or be overcome through history. G.W.F. Hegel (1770-1831) saw the course of history as the gradual realization by human beings of their own nature, which is identical with Mind, Spirit, or God, terms that Hegel used interchangeably. Spirit is a self-generated creative energy whose ultimate goal is to become fully conscious of itself in its role as Spirit. Matter and Mind are not ultimately separable and all things, all earthly events, are the result of the growth of the Spirit toward the ideal. We can follow the course of this growth to some extent by using Hegel's *dialectic*: feudalism (thesis) encountered a new force, the market economy (antithesis) and the result of this encounter was an entirely new system, capitalism (synthesis). Properly understood, history is a dialectical progression of the self-realization of the Spirit, the goal of which is perfect freedom.

¹⁰In the Newtonian metaphor individuals' actions are inferred from the behavior of inanimate objects. In the latest craze, sociobiology, the understanding of human behavior is assumed derivative of the social activities of living ants, an improvement of sorts. At the risk of seeming radical, I suggest that considerable insight into human behavior might be gleaned from studying humans.

However, humanity's progress toward self-realization is not smooth, as the defenders of the natural order presume. The Spirit can become alienated from itself. Alienation occurs when the Spirit confronts a world that appears real (i.e., aligned with the Spirit) but is in fact of human origin. A person is alienated when he or she becomes hostile toward a former attachment to an object, a behavior, or an idea for reasons that do not emanate from a higher spiritual source but from human imperfection. Alienation is resolved when the Spirit recognizes the object of the hostility for what it is—human error—and unites itself once again with itself. (An obvious difficulty with Hegel is that he tends to be abstract, but so is the notion of the "invisible hand.") The God view accepted by Newton is easily reconciled with the world of free exchange capitalism. But for Hegel, because humanity itself is Spirit or God in the *process of self-realization*, contentment with capitalism is illusory, and alienation is the eventual result. For Hegel, humanity is the manifestation in history of the self-alienated God.

In a sense, Karl Marx (1818-1883) turned Hegel inside out. (In this respect Marx was following Feuerbach's transformational criticism of Hegel.) Instead of seeing Man (used here to mean all people) as self-alienated God, Marx saw organized religion ("God") as a reflection of self-alienated Man. The human species creates God in its own image through organized religion. Thus, Man projects an idealized image of himself as "God" and worships this imaginary spirit. As soon as Man discovers the error of artificial image-worship, Marx believes that Man becomes estranged from himself and his own ungodly earthly creation becomes hateful to him.

Man overcomes alienation by taking God back into himself and recognizing that *human individuals* are the proper objects of love, care, and worship. Religion is a phenomenon of human self-estrangement. Whereas Hegel saw history as a series of detours on the road to the

self-realization of God in Man, Marx, although he also had a progressive idea of history, saw God as yet another roadblock.

The basis of Marx's world view is broadly humanistic, affirming the worth and dignity of Man and Man's capacity for self-realization through reason. There is little evidence that Marx himself had any great affection for the masses of people that his system is supposed to free. He was dedicated to Man's thinking powers, and his own reasoning told him (as did Hegel's) that the forces of history and self-realization were inescapable.

Marx is an evolutionary determinist: the course of history is predetermined, not by "God" but by the evolutions of entire social systems from lower (slavish) to higher (democratic and socialistic) forms. Institutions such as organized religion slow the progress from lower to higher social orders, and the historical process could be speeded up by destroying them. Marx believed he was putting Man and his "true" rationality back at the center of the universe. Man did not have to subordinate himself to immutable natural laws.

Marx saw in the relationship of human beings to their government a process of alienation similar to the one he perceived in religion. Just as humans extend the idealized attributes of the species to a supreme deity, so they project social power into a separate sphere—the state. And the state dominates them. Political alienation, however, is an institutional reality and its resolution requires an actual social revolution—that is, a collective act in which the citizens repossess the social power that they gave to the state.¹¹

The state is intertwined with and at times indistinguishable from the economic life of society, which is yet another sphere of human self-alienation. Here we can clearly see the influence

¹¹Marx has a theory of revolution because conflict remains in the ongoing society. In Nozick revolution is unnecessary because order and harmony are presumed present after the formation of the minimal state.

of Hegel: the Spirit, or God, did not create a materialistic world; the production of material goods was an entirely human undertaking and hence alienating. Marx believed that the workers and the owners of the means of production would be prevented from developing their full human potential because of their slavish devotion to producing more and more goods for the marketplace. Eventually the "animal spirits" that drove men to the accumulation of profit would be exposed as simply a lower stage in human intellectual development.

Because of the intensity of alienation, of obscured self-realization, that the capitalist stage of economic development caused, Marx preferred feudalism to capitalism as a form of economic organization; its social relations were paternalistic and personal and work was not solely a means for making and accumulating money. Under pure feudalism labor was used only to produce consumer goods that were more or less consumed at the site of production rather than sold in exchange for money. To Marx, when the middle-income group or bourgeoisie "got the upper hand," it left no other access between persons than naked self-interest, and egotistical calculation resolved personal worth into exchange value.

Free exchange capitalism was an extension of Man's self-interest that he would grow to dislike, a stage of history's progress that was alien to Man and not the culmination of civilization. When Man's final "scientific" state is achieved, it will be what it *should* be, and, moreover, objectively determined. That is, Man's self-realization that *what is* (capitalism) is unendurable *should* and *will* alter the historical process. At the same time, the technology of capitalism makes it materially possible for alienated labor to escape. Abundance leaves Man free, free of the drive to accumulate property. The process of the self-development of the human species will, according to Marx, culminate in communism.

Thus, because they are concerned both with

"what is" and "what should be," Marx's arguments provide a valuable description of the interconnection between positive and normative economics. When Man arrives at a true perception of reality, he will at the same time experience the economic system that is best for him. This view, of course, is contrary to Nozick's conclusions, in which the commutative criterion is first, last, and always.

Still another description of the nature of Nature can be formulated, one that has implications also divergent from those that view natural laws as immutable. This formulation will use Hegel's method but avoid the functional role of alienation. This view also is conceivable. Suppose that Nature is a Universal Mind which is not ultimately distinguishable from the individual "minds" of persons. The Universal Mind (Nature) can be viewed as an indescribably complex computer with each person's mind being a computer terminal. Different people have varying abilities to gain access to the knowledge of the Universal Mind.

A mentalist, for example, has greater accessibility than the average person. People's progress can be defined as incremental gains in accessibility to all knowledge, that is, to the Universal Mind. All things are known when every person's mind knows itself as the Universal Mind or becomes one with Nature.

Locke's "discovery" of natural laws (beneficial as it was in the defense for constitutional government against monarchy) and its widespread understanding and acceptance is viewed as only one step toward ultimate self-knowledge. Rawls' "discovery" of the principle of minimizing inequalities, the collective judgment of democratic egalitarianism, can be viewed as a recent incremental step.

The implications for social rules are quite different from the Lockean view of natural law. The greater the number of people in a society that gain Universal Knowledge, the greater the agreement (or the greater is Tarascio's homo-

geneity of persons) to higher order social rules. The rules become increasingly collective (in agreement) as they approach the total knowledge of the Universal Mind. (This does not preclude influential persons from advancing competing ideas about what is true.)

When everything is known, the knower is the Universal Mind and the need for individual differences and the cause of conflict disappears. This view is consistent with multiple and variable criteria for the "good society." Ultimate knowledge would include many criteria related to each other in intricate ways. The liberty for intellectual thought experimentation would be the most important freedom in gaining Universal Knowledge and awareness. Freedom of thought cannot in itself harm anyone.

The foregoing view of Nature is also speculative and metaphysical (not verifiable), characteristics equally shared with Locke's, Smith's and Nozick's view of natural laws as first principles. This departure is consistent with the idea of progress evolving from historical experience and learning from having done. Most importantly, these alternative views of Nature have practical consequences for social theory and practice. In the Lockean-Smithian system, order and harmony are the natural conditions. "Rational" people conclude that the less they do to control outcomes, the better. In Hegel, Marx, and my speculations, conflict and disorder are the natural conditions prior to the "ideal" state. Conflict does not end at the edge of the minimal state. In Nozick, whatever *is*, is right. In Hegel and Marx, whatever *is*, is *wrong*.

Moreover, the existence of alternative views of Nature raises still more doubts about the one interpretation of Nozick's parable of initial endowments as a morality play. The competing pictures of Nature have equal moral claims even where—as in Feuerbach—the distinction between Man and God is hopelessly blurred. The proposition that God is created in Man's image is far more demonstrable (and has had far more social

impact) than the reverse. Nature also has no meaning except that placed upon it by individuals and social institutions.

IV. Public Goods and Friedmansque Vouchers

One of the advantages that Nozick claims for the free exchange system is that outcomes are unintended (invisible hand). However, he is quite selective in describing what these unintended outcomes are. For the voluntary nature of his system to remain intact goods, services, and factors must be exclusive; that is, everyone but the buyer of the good must be excluded from the satisfactions or dissatisfactions it provides. No one must receive pleasure or harm from interdependence of utility and production functions. This feature of exclusiveness no doubt explains why the only public good in Nozick's system is police protection and the judicial system. It also explains why his theory does not cover national defense.

In cases of negative externalities (as mentioned above) as well as positive externalities, exclusivity is violated even in private consumption and production. It nonetheless is more common to find nonexcludability with public goods. Indeed, public goods often are defined thusly.¹² If one of the nation's citizens receives protection from foreign invasion, all do. A more mundane example is city street lighting. Once the lights are in place and turned on, it is very difficult to imagine how it would be either

¹²Nonexcludability cannot be the *only* reason for public goods because some private goods exhibit this feature and some presentday "public goods" do not. This is often the consequence of the difficulty in identifying subdemands in joint consumption and subcost curves in joint production. For a discussion of these problems and of some of the other ambiguities in the standard definitions of the public good as well as other justifications for public expenditures, see Alan Abochar, *Transportation Economics and Public Policy: With Urban Extensions* (New York: John Wiley and Sons, 1977), pp. 3-18.

possible or worthwhile to exclude certain non-paying individuals from the lighting benefits. If a good is a public good, it probably will not be produced privately and sold in the free exchange system. Still, according to economic theory (and common sense), it would be in society's interest to have it provided.

The financing of public goods normally requires a redistribution of income and benefits. Obviously, Nozick goes to great lengths to avoid the establishment of a state which would have such redistributive functions. However, it is difficult to conceptualize a system of redressing economic grievances through a principle of rectification that does not require redistribution. In fact, as with protection, compensatory payments require a revenue source.

To further complicate matters the violation of a natural law of acquisition or transfer may have occurred in a different historical period from the recognition of the violation. The classic example is the violation of the human economic rights of the American black population. "Affirmative action" is the contemporary principle of rectification in this case. The first violations extend back in time to the capture of the African Black on the African continent. The tracing of the "roots" of this violation and its history (as Nozick defines history, the record of individual transactions and transfers) is incredibly complex.

Imagine the difficulties of writing the history of acquisition and transfers of all income and properties for every living person back to Adam and Eve. If justice is decided by these principles, no person is being treated justly until all incremental violations have been rectified in some sense. This raises the still more complex question about the division of inheritances of incremental retribution payments otherwise owed to dead ancestors.

In these problem areas, there are at least five reasons why the public finance specialists will prefer Rawls to Nozick. (1) Rawls *begins* with

a principle of redistribution. (2) Nozick ends with a principle of rectification that opens the door for redistribution without defining principles or procedures to be followed. (3) Nozick's system of liberty depends upon exclusiveness that rules out most public goods except the one Nozick himself selects. (4) Rawls' discussion of public finance in the ongoing society presupposes that people have learned from the experience of the 18th, 19th and 20th centuries. (5) Rawls' system allows the economist to postulate a type of social welfare function for income and wealth redistribution. In Nozick's utopian system, in which people are otherwise free to imagine whatever they want, they presumably cannot imagine an effective and fair nonminimal government.

Despite the principle of rectification, Nozick apparently wishes to avoid a unilateral transfer of income or wealth from one individual to another except in instances of voluntary private charity. From what we have learned in public finance this appears to be an unreasonable constraint on the satisfaction of individuals' preferences within a community.

As Lerner and Johnson suggest, people may prefer more equality than that generated by a free exchange system. A society may be comprised of a large number of people who are charitable or who for other reasons (including gaining cooperation) wish to eliminate absolute poverty in the society. (The Rawlsian society allows for this.) They have sympathy for others or else their version of the "good society" has no impoverished members.

There are at least two cases in which individual charity is not effective. (1) Sympathy may extend only to relatives or to persons whom the potential giver knows. There may be a large population which has no relations or friends or at least none with sufficient resources or charity to end their poverty. This condition is most likely to be found in a highly mobile society such as the United States or under the type of free immigration advocated

by Nozick in his utopian framework. (2) Some poverty problems and other social problems requiring transfers may be so extensive that individual charity is not sufficient. This raises the question of whether tax coercion is justifiable.

Where preferences in a democratic society can only be fulfilled by public income transfers, public finance specialists recommend that all be taxed. If everyone is not taxed, there are free riders who would potentially or actually derive benefits without making payments. This—even by Locke's provisos—would be unfair.

Individuals have preferences to do certain things so long as they know that others of their type share more or less equally in the effort. There would be a greater probability that the individual's expenditures will be effective and a lesser probability that others will not receive the free ride. This is the message of the free rider argument. Voluntariness still is present, but it is at the constitutional level when persons agree to be taxed.¹³

There is a way around Nozick's objection to income transfers within his own system. As with the financing of protection and the judiciary, a Friedmansque voucher system could be used to reduce poverty. Taxpayers would receive a second voucher, this one to be used only to reduce poverty. If one has as much faith in the free market system as Nozick, one could believe that private poverty reduction agencies would materialize. Such agencies would see the profit in reducing poverty, just as the private protection association gains profit from the provision of protection. Private enterprise could use its imagination in designing funding projects to ease the burdens of the poor. If poverty became sufficiently profitable, poverty reduction might become a growth industry.

Some might argue that poverty is the golden

¹³An excellent discussion of the free rider argument vis-a-vis Rawls appears in Martin Bronfenbrenner, "Equality and Equity," *The Annals of the American Academy of Political and Social Science* (September, 1973), pp. 9-23.

egg of the agency and the goose is killed by its own success. Such negativists are not true believers. Clever advertising and sound packaging can convince consumers that the poor are always with us. Without the technology of modern media organized religion maintained this self-fulfilling prophecy for centuries.

I would suggest a marketing campaign centered on the theme that poverty is cultural and therefore relative (see Johnson below). Just as automobile producers are careful not to produce a car that lasts forever, the poverty reduction agencies must avoid being so effective that personal incomes become equal.

Would Nozick object to such agencies? The purpose of tax coercion in the minimal state is not redistributive. Therefore Nozick contends that the minimal state is not redistributive. With equal logic the purpose of the poverty reduction system would be minimal income security and since no redistributive purpose is expressed, the antipoverty program is not redistributive.

V. Beyond Critique

Thus far I have provided a critique of the natural law view and its relation to neoclassical economics and to public finance. If this appears to be an assault, Nozick's book provides a remarkable defense. Therefore I have not dwelled on the virtues of his work. This is so even though I believe that he has developed the definitive theory which justifies the existence of a state.

Anarchy cannot survive the brilliance of his arguments. At the same time Nozick has not fulfilled his purpose of providing a theory of the *limits* to the state. He claims to show that no state more extensive than the minimal state can be justified, but his principle of rectification opens the door to justifying *any* size state with ad hoc and subjective arguments.

Even if Nozick's book had been published in 1932, at the leading edge of massive govern-

ment intervention, the New Deal nonetheless would have expanded the tentacles of government. If the Great Depression had failed to mobilize government activity, World War II most assuredly would have. The absence of a theory of national defense would not have reversed the reactions to Pearl Harbor.

I agree when Nozick argues that economic inequalities often lead to inequalities in power. The economically well-off use political power to give themselves differential economic benefits. That certainly appears to fit the U.S. model in many respects. He goes on to contend that the minimal state precludes the multiplicative use of such power, but this gun can be turned either way.

The reduction of economic inequalities can reduce unequal political power and so can a breakage of the institutional linkage between economic and political power. Moreover free market capitalism itself in the presence of decreasing cost industries favors wealth concentration.

Why is the presence of economic inequality an argument in favor of the minimal state? It is more plausible to argue that increased economic equality would reduce demands upon the state and therefore allow the establishment and workability of a minimal state. The minimal state is no guarantee that the power of the wealthy in society will be neutralized. The minimal state may end up with the best judiciary and police system that money can buy, particularly in a system whose highest rewards are through exchange. American history already has traveled this road. Can we trust the system that failed, to extricate us from our present dilemmas?

Still, the questions which Nozick raises are fundamental: "How much room do individual rights leave the state?" His answers are inspirational. "Individuals have rights, and there are things no person or groups can do to them without violating their rights. So strong and far-reaching are these rights that they raise the

question of what, if anything, the state and its officials may do."¹⁴

In this respect I find Nozick's chapter on utopia persuasive and mind-stretching. His utopia consists of utopias—of many different and divergent communities in which people lead different kinds of lives under different institutions. Utopia is a framework for utopias, a place where people are at liberty to join together voluntarily to pursue and attempt to realize their own vision of the "good life" in the ideal community.

He contends that utopia is the equivalent of the minimal state. This, he argues, is because the minimal state treats individuals as inviolate. People cannot be used as means or tools or instruments or resources. People are treated with respect by respecting persons' rights. People choose their lives and realize their ends and their conception of themselves, in so far as they can, aided by the voluntary cooperation of others possessing the same dignity.

Nozick concludes "How *dare* any state or group of individuals do more. Or less."¹⁵ Yes, this is inspirational, but it is also utopian. The minimal state is utopian, however, only if people behave as Nozick wishes them too, independently of existing social institutions. As its literal meaning states, Utopia is Nowhere, and it will remain in a never never land until humans achieve their full potential.

The 17th century concept of the minimal state originated in an environment of political absolutism and economic agrarianism. Progress was seen as deriving from a stationary base, a set of first principles, but the efforts to find first principles of justice are destined to fail. This is not an adverse reflection upon the abilities of philosophers. Little onus should be placed upon the failure to find something that does not exist in the first place. Since the search is futile, it should end.

In this respect philosophy is like neoclassical

economics. If general equilibrium can be proven to exist, the world no longer needs economists. If first principles of justice are found, society can also dispense with philosophers. If Nozick is accepted, economics becomes an ethic derived from first principles and members of both specialties will be technologically unemployed and will have to rely upon private charity distributed by presumably, self-seekers, who are unaware of other people's interests.

This is precisely the fundamental objection. The liberty of material objects does not guarantee an ideal society: this is the unsolved philosophical transformation problem of Nozick. He devotes far too much analytics to the defense of private property so that one is led to believe that individuals' dignity depends solely upon the freedom to exchange possessions and accumulate.

I believe that Nozick's system of liberty is better applied to civil liberties than to commutative "justice." Yet neither "civil liberties" nor "freedom of expression through media" appears in his book's index. This is unfortunate, for he is the ideal author of such a work. His system is more persuasive when applied, for example, to "homosexual acts between consenting adults" than to "capitalism between consenting adults."

Commutative justice may give freedom of migration to possessions without impugning the liberties of persons. People have a greater capacity for appreciation than do objects. Indeed, to become an influential force in modern society, the libertarian movement must do more than make the world safe for orange juice.

JOHNSON

Economic philosophy is too important to be left to philosophers. Robert Nozick and John Rawls start their systems in motion from a natural endowments base and proceed to discuss the justness of income and wealth distributions derived from that base after social institutions are formed. Nozick relies upon the institutions of free market exchange while

Rawls allows for the presence of redistributive institutions, particularly the redistributive vehicles of the modern state. Nozick views entitlements as present at the creation of endowments and free exchange as keeping the distribution justly in place. Rawls sees distribution as decided by the values which social institutions place upon endowments.

In my view neither has described the inherently complex relation among endowments and institutions. Nozick seems to be saying that all individual choices are preferred ones, while Rawls seems to believe that many choices, including "initial state" ones, are pre-determined. Each is wrong because both are correct if their arguments are applied exactly at carefully defined junctures in the individual's life cycle.

The philosophical question of whether the justness of natural endowments can be evaluated already has been addressed by Professor Canterbury. I will present an economist's theory of the personal income distribution and evaluate antipoverty programs. We find—not only that some persons are poor despite their contrary preferences—but that the broader society turns to the modern state to end this malady. The modern affluent society is in step with Rawlsian purpose. However, the failures in Rawlsian achievements may be rooted in the ineptitude of the state's policy-making which often has contrary results (as Tumlin suggests). While Nozick would want to end the state's redistributive role on these as well as other grounds, the economist can recommend a simple redistributive device—the negative income tax—that would make redistribution so direct that the state is only an administrator and not an arbiter of transfers.

Most of the traditional theory of income distribution is concerned with the functional distribution of income. The *personal* distribution of income is its distribution among persons or among families. The personal or family distribution of income will be determined by the distribution of ownership of factors of

production of the various kinds among the human units considered. The person or family typically both provides labor services to the market and owns property of one kind or another—the relative importance of the different income sources varying over the life-cycle of the person or family. Thus the functional distribution may have little to do with the personal distribution. Constancy of the functional distribution (if it is observed in fact) does not necessarily entail constancy of the personal distribution.

The distribution of factor ownership among persons or families is determined at any time by the combined result of two major forces: inheritance and investment in factor accumulation. Inheritance is usually identified with the inheritance of material property; but it is much more complex than that. It includes also genetic inheritance—the inheritance of intelligence, strength, good health, and so on—and cultural inheritance—knowledge imparted informally by parents to children, attitudes to work and towards the accumulation of human and material capital, responsibility, determination—and all sorts of other imaginable differences in characteristics among individuals. Indeed, parents have a choice between leaving their children material property, and leaving them a cultural inheritance through informal and formal education.

Investment is also a complex phenomenon, since it includes both the accumulation of material property through saving and investment, and the accumulation of human capital through formal education and on-the-job training. Inheritance and investment are, moreover, closely interlinked. A person from an educated family is more likely to take a long view of his decision regarding the "optimal" level of education, choice of career, and management of personal finances and savings plans, than one from a family of low educational level. This is one reason why public policy to reduce inequality or relieve poverty tends to stress educational investment in the disadvantaged, at public ex-

¹⁴Nozick, *op. cit.* p. ix.

¹⁵*Ibid.* p. 334.

pense. It is also a reason why differences in personal or family incomes tend to persist and even to widen, over generations, hence giving rise to a social concern that probably would not exist if every individual at birth had an *equal random chance* of ultimately enjoying either a high or low income. That is, the overlay of social institutions upon natural endowments can eliminate "equal choice." On this John Rawls is correct.

Concern with the personal distribution of income is historically recent. Two kinds of concern need to be distinguished, though they are often confused. One is concern about inequality, that is, the dispersion of incomes about the mean. The other is concern about poverty, that is, the existence of people whose incomes are below some minimum level considered to represent a decent or socially acceptable standard of living.

These concerns derive from different views about the nature of the good society.¹⁶ Concern about inequality stems from a definition of the good society as one in which all citizens should be economically equal (in terms of income), regardless of productive contribution or non-contribution. Concern about poverty reflects a definition of the good society as one in which income inequalities due to different inheritances or capacity for useful work are accepted, subject to the society guaranteeing every citizen a decent minimum of subsistence. Nozick, unlike Rawls, does not consider such a provision as a legitimate function of the state. These concerns about inequalities are frequently expressed in extremely naive terms, from the point of view of economics, as evidenced by the types of statistics used to validate the demonstration of inequality or of poverty.

I. A Simple Fisherian Model of Measured Inequality With Actual Equality

Begin with a non-Nozickian and non-Rawlsian natural-endowment state. Assume a society

with a static population, in which all newborn have exactly the *same natural capacities*, and all adults do exactly the same work. The minute a baby is born, it goes into an orphanage for rearing. The orphanage is a strictly commercial proposition, which debits the child with the costs of its upkeep until it reaches the age of fifteen, at which point he (treated as a male) becomes a member of the labor force. Between fifteen and twenty-five, for one reason or another (a pre-adult level of physical strength, or lack of training on-the-job), he earns a standard wage; from twenty-five to forty-five he earns a premium wage for muscle-power or skill; thereafter he earns only the standard wage, until he retires at age sixty-five, and he dies precisely at the age of seventy-five.

In the course of his working life (which means effectively its period of premium earnings) he must both repay his debt to the orphanage and accumulate savings on which to live during his period of retirement. For simplicity, we assume that the rate of interest is zero in this economy, and that individuals consume exactly the same amount at every age of life. (The zero interest rate assumption has the advantage of making labor income the only income in the economy.)

Every individual goes through the same income-consumption and childhood-working/adult-senior citizen life history, and all are exactly equal. But a cross-section of the income distribution permits us to make such shocking observations as "the top 26 2/3 percent of income-earners receive 60 percent of the total income," and "one third of the population received no income whatsoever"—gross inequality in the first case, widespread and shameful poverty in the second.

The age profiles of material capital, human capital, and net wealth also provide the same basis for unthinking confusion. In net terms, the individual's wealth declines steadily from a maximum in the cradle to a zero in the grave. Initially, his human capital is constant (because he cannot yet work) but his material capital becomes increasingly negative as he borrows

from the orphanage to finance his consumption. Once he reaches his peak earning period, he converts human capital into debt repayment and ultimately asset accumulation against his retirement. Cross-section statistics would show approximately half the population in debt and half having positive material capital, and that "26 2/3 percent of the population own 69 percent of the economy's (positive) wealth"—a grossly inequitable state of affairs indeed!

Note that this model assumes that everyone begins as absolutely equal, and in contrast to many standard treatments, takes the whole present value of a worker's future earnings as a measure of his human capital (instead of the excess of those earnings over the wages of unskilled labor). If we were to introduce an institutional arrangement whereby production requires two kinds of workers, skilled and unskilled, and skilled workers are trained up to the point where their extra contribution to output just pays for their training costs (consistently with the assumption of a zero interest rate), we would have still more inequality in the distribution of incomes as measured at a point of time.

For example, consider a society of fifty unskilled workers who get 1000 credits a year each year between the ages of fifteen and sixty-five, and fifty skilled workers who get zero credits between the ages of fifteen and twenty-five (when they serve as apprentices), 1500 credits per year between the ages of twenty-five and forty-five, and 1000 credits per year between the ages of forty-five and sixty-five. At a zero interest rate, the unskilled and skilled jobs offer exactly the same life-time consumption possibilities. But the statistics will show the top 20 percent of the working population receiving 30 percent of the total income, and the bottom 10 percent receiving no income at all.

II. Probability and Income Distribution

The observed apparent stability of the personal distribution of income within society over considerable periods of time suggests a rigidity

of the economic system in generating inequality and poverty, and also an inequity—in the Rawlsian sense of unequal opportunity—as among its individual members. However, constancy of the observed distribution of income in cross-section is quite consistent both with individual persons moving from one income group to another fairly frequently, and with individuals facing exactly the same income prospects.

To demonstrate this simply, we assume that there are only three possible income groups in the economy; that between any two successive time periods an individual may either stay in the same income group or move to an adjacent one (restriction to only one step-wise move simply makes the algebra easier); and that his movement is determined by probabilities, fixed by the economic system, such that P_{ij} is the probability of his moving from i to j and $\sum_j P_{ij} = 1$. Suppose that n_{it} is the number of individuals in group i at time t . Then we construct the dynamic system.

$$n_{1,t+1} = p_{11}n_{1,t} + p_{21}n_{2,t}$$

$$n_{2,t+1} = p_{12}n_{1,t} + p_{22}n_{2,t} + p_{32}n_{3,t}$$

$$n_{3,t+1} = p_{23}n_{2,t} + p_{33}n_{3,t}$$

It can be shown that this system will converge on an equilibrium set of the n_i 's, which can be determined by inserting n_i without the t subscript into the equations. We obtain

$$n_3 = \frac{p_{23}}{p_{32}} n_2$$

$$n_1 = \frac{p_{21}}{p_{12}} n_2$$

$$n_2 = n \left/ \left(1 + \frac{p_{23}}{p_{32}} + \frac{p_{21}}{p_{12}} \right) \right.,$$

where $n = n_1 + n_2 + n_3$ is the total number of individuals. (This assumes that flows of people between adjacent groups are the same in both directions.)

The point is that from a stochastic process in which anyone in an income group has the same chance as anyone else of moving to an adjacent group one can derive a determinate aggregate

¹⁶See the symposium paper by Lerner and Canterbury's comments above.

distribution of income by size classes. This is, of course, purely a statistical approach. It is quite conceivable that different individuals in the same size group have different probabilities of moving, some a zero probability, so that instead of everyone moving at random through the different income groups and having the same expectation of average income (in the very long run) of

$$\frac{n_3 w_3 + n_2 w_2 + n_1 w_1}{n_1 + n_2 + n_3}$$

where the w_i are the group incomes, each income group contains a "hard core" of permanent inhabitants and there is genuine inequality. The probabilities of moving are related to "initial state" endowments and the institutions of society.

III. Choice and the Income Distribution Under Certainty

(a) *Non-Pecuniary Advantages*

Almost since the beginning of economics, it has been recognized that choices among occupations are determined by a balancing of pecuniary advantages (cash income) against non-pecuniary advantages and disadvantages. The individual choosing among occupations will choose that with the greatest total (in terms of utility) of pecuniary and non-pecuniary advantages and disadvantages; and competition among individuals will tend to equalize the marginal net advantages among occupations.

In this connection, we may contrast two types of society, one with very homogeneous ideas about the relative desirabilities of different types of employment, and the other with highly heterogeneous ideas on the same subjects. This is heterogeneity in the same sense as that used by Nozick and Tarascio.

We would expect that, in the first society, there would be very substantial differences among measured cash incomes, since the undesirable occupations would have to pay enough cash income above that paid by the desirable

occupations to compensate those who adopted those occupations for the dissatisfaction they experienced from being in the occupation. In the second society, people would allocate themselves among occupations according to their own tastes and, instead of wide differences among individual incomes correlated with social attitudes toward particular jobs, we would find a tendency toward equality of incomes, but also a segregation of the population into those who traditionally did one kind of job and those who traditionally did another (the tradition resting on personal tastes).

This contrast between the two types of society provides a reason for expecting inequality in the distribution of personal incomes to fall as society becomes more democratic, more egalitarian, and less materialistic. The less cohesive society is in its ranking of occupations by social desirability, the more likely it is that incomes will be equalized (for the same skill level), but also the more likely is it that different categories of the population will be segregated among different types of jobs according to differences in their preferences among occupations. The English businessman who signed the contract for aircraft engines that bankrupted Rolls Royce did so because it contained no inflation escalation clause and was awarded a knighthood.

(b) *Human Capital*

With a perfect capital market in borrowing and lending for the creation of human capital, competition would drive the earnings (net of interest payments on capital invested) of skilled or educated and unskilled or uneducated labor to equality (at least at the margin). Measured gross earnings taken in cross-section at a period of time would, however, show a pattern of inequality of incomes determined by the inequality of educational investment costs among occupations, inequality which would include the effects of differences both in tuition costs and in length of training period.

Only if capital markets were imperfect, in the

sense that individuals had to depend either on the possession of material wealth or on borrowing at interest rates above normal market rates for material investment, would there be a possibility of genuine inequality among individuals. In this case the individual's decision between unskilled and skilled occupations, or between careers requiring more and less educational attainment would depend on his preference system as between present and future consumption.

Those with the lowest marginal rates of time preference (given their combination of directly available resources and their preference systems) would be the ones who opted for the more skilled or educationally demanding jobs. However, the results might not be rents for the more skilled or educated part of the population. Instead, there might result the analogue of the job segregation discussed above, in which those with inherited wealth or with high-income parents became the skilled or educated components of the working force and those without family resources remained the unskilled component, but the rate of return on educational investment was the same as—and might even be less than—that on investment in material capital.

The empirical evidence provided by Becker and others strongly suggests that this is the case: the measured rate of return on education, both private and social, is more or less comparable to the rate of return on material capital. But skilled or educated people tend to come from high-education high-income families (the educational level achieved by the mother appears to be an important influence here), so that the educational system promotes the persistence of social but not as much economic inequality.

IV. Uncertainty of Income Prospects and Differing Attitudes Towards Risk

In Rawls' "original position" every person is risk-averse but there is no reason to presume that persons will remain so in the ongoing

society. If different occupations involve differing degrees of uncertainty about income prospects, the distribution of income as measured on a cross-section basis will reflect both the effects of the riskiness of the outcomes of occupational choices and the effects of the attitudes of the population towards the assumption of the risks of uncertain outcomes.

The implications for income distribution (assuming that individuals are either risk-aversers or risk-lovers, but do not change from one to the other as the size of the income gamble increases) are as follows. In a society composed of risk-aversers the average income earned in the more risky occupations must be higher than that earned in the certainty-income occupations. Hence there must be higher incomes earned by both the successful and the unsuccessful entrants to risky occupations than would occur in a risk-indifferent society, and the income distribution must be skewed to the right.

There will be a larger difference between the incomes actually received by the successful risky-occupation-undertakers, and a smaller difference between incomes earned by the unsuccessful risky-occupation undertakers, and the incomes received by the non-risky-occupation undertakers, than would occur in a risk-indifferent society. However, since the average income of risk-takers has to be higher than that of non-risk-takers, this will reduce the relative proportion of the total population that can be employed in risky occupations, and the two forces of biased dispersion of incomes and smaller numbers in risky occupations will work in opposite directions in regard to the usual statistical measures of inequality of income distribution, so that the effects on these measures will be uncertain.

On the other hand, in a society composed of risk-lovers, there will be a smaller difference between the incomes of unsuccessful risk-takers, and the incomes of non-risk-takers, than would prevail in a risk-indifferent society. The income distribution would tend to be skewed to the left. However, such a society would have

relatively more people engaged in risky occupations, and the effect of this fact combined with the larger difference between the incomes of unsuccessful risk-takers and non-risk-takers than between the incomes of successful risk-takers and non-risk-takers on the usual standard statistical measure of inequality of income distribution would again be problematical. Thus, while we do not know the net effect of a violation of Rawls' assumption upon the actual income distribution, we do raise the doubt that all societies are composed of completely risk-averse persons.

The most important conclusions from the economic analysis of the personal or family distribution of income have implications for both Nozick and Rawls. Inequality in part can be traced to inequalities of initial circumstances. Rawls considers such inequalities as unfair while Nozick views them as either just or unrelated to justice. The contemporary ideal of the "good society" is closer to Rawls than to Nozick because social efforts to remedy such inequalities through public policy, in the form especially of social transfers to poor families with children and through subsidies to education that disregard parental circumstances occur.

The distribution of measured income at a point in time also is to an important extent determined by individual choice among opportunities that yield both different combinations of cash income and non-pecuniary advantages and different profiles of cash income over time. Rawls is willing to permit such inequalities if they are to the benefit of the "worst off." But we are wise to consider Nozick's distrust of government redistribution policies. Individual choice may be influenced heavily by the prevailing system of income and property taxation, which may promote private choices undesirable from a social point of view. Individuals may be equal in their opportunities, unequally treated by the tax system according to the choices they make; and their tax-

influenced choices may be inimical to the social good.

Probably the major problem in designing a "just" economic society is to design a tax and income reward system that will encourage people to maximize their contribution to the productive effort of society (including both physical production and the generation of cultural and other externalities) and forestall them from choosing to retire from productive contribution into a rentier capacity that gives them an income without obliging them or inducing them to invest further effort in work for society's benefit.

V. Poverty and Inequality

The concepts of poverty and inequality are closely linked. In part this may explain why Rawls in the third quarter of the 20th century embraces democratic egalitarianism. The definition of poverty is not strictly a matter of objective specification of minimum cost of physical survival but of subjective specification of what money takes to lead a life considered socially decent. This means that the defined poverty line keeps rising over time as average income per head rises, so that one cannot rely on the general progress of society to remedy poverty.

Instead, the reduction or elimination of poverty requires a reduction in the inequality of distribution of income, raising the incomes of the lowest-income groups *relatively* to those of the highest-income groups. This in turn means that poverty, so defined, can only be reduced or eliminated if general economic progress raises the share of productive assets owned by the initially lower-income groups. There is nothing in the theory of economic growth to suggest that growth in a free exchange system will be biased in this direction.

According to contemporary growth models, which assume an exogenously given growth rate of the labor force, wages per worker tend to rise toward a level set by the accumulation

of capital relative to labor and the equilibrium ratio of capital to labor on the equilibrium growth path, and to rise on a trend path per worker to the extent that there is Harrod-neutral technical progress. In terms of these models, poverty, if defined by a fixed level of consumption per head, should be eliminated eventually. But if poverty is defined in relation to average income per head, it will become a permanent feature of the economy, though the proportion of the poor may be larger or smaller depending on the characteristics of the growth model.

Consequently, poverty will not cure itself through economic progress. There are only two broad ways to cure it: redistribution of income from the rich to the poor through the fiscal mechanism, and redistribution of property (the source of income) from the rich to the poor, either directly or, more acceptably, through public investment in increasing the human capital of the poor, e.g. by public education, retraining programs, and so on.

An inadequate income to support the individual or a normal-sized family may be ascribed to several causes. One is inadequate employment opportunities for workers of sufficient skill to support themselves and their families above the poverty line if they were normally employed. Inadequate employment nowadays has to be the result of deliberate choice by the state. While this choice may be necessitated by domestic or international difficulties (and the need to enforce unemployment for macro-economic disciplinary reasons cannot simply be denied on the grounds that unemployment is distasteful), it is arguably unfair that a subset of citizens should have to suffer poverty to discipline the others.

It is reasonable to argue that unemployment benefits should be generous enough to shield those made unemployed by national economic policy from being forced to descend into poverty. There are two further considerations pointing in this direction, both the result of

research in the United States into the consequences of unemployment. First, crimes against property (robbery, etc.), a violation of a Lockean natural law, tend to increase as unemployment rises. Second, a transitory period of unemployment tends to lead to a permanent increase in poverty. Elderly people get thrown out of work and cannot find their way back into the labor market at their customary wages, and youths entering the labor market cannot put their foot on the first rung of the ladder of promotion to a non-poverty life-time income stream via on-the-job training.

A second cause of poverty of this kind is inadequacy of the factors of production the individual or family can supply to command a non-poverty level of income. This can be regarded as due to the insufficiency of natural endowments and the immobility of the family's factors of production, either between occupations or between regions. One of the problems here is that indigent parents tend to produce and raise children who retrace their own poverty-stricken footsteps. If the children grow up in a poor environment, they tend to face opportunities and make choices that keep them condemned to poverty.

There are exceptions, however, to the implied anti-poverty policy of solving the problem by retraining or assisted migration. First, some individuals are physically or mentally incapable of rendering sufficient labor service to the productive system to be capable of supporting themselves. The relief of their poverty would be more cheaply accomplished by direct cash payments. Nozick's faith that free exchange is moral within this context is questionable. Second, the pay-off from public investment in assisting labor mobility depends on the remaining length of productive life of the assisted, in conjunction with the cost of investment. The pay-off may be too small—as probably in the case of the retraining of unemployed clerks in their late fifties—to justify such investment as contrasted with the award of a cash income

stream. Even so, it may be socially profitable to make economically unprofitable investments of this kind, for the sake of providing a normal family life (father regularly employed in a respectable job, mother keeping house within a reliable budget constraint) for the children.

A third source of inadequate earnings from the individual's or the family's stock of productive assets is, in a broad sense, discrimination against the hiring of those assets. Modern society has reduced discrimination on grounds of religion to negligibility, but it continues to discriminate for various (and usually philosophically very confused) reasons, including color, age, education, and sex.

In any case, if society is concerned about the problem of poverty—and a society does have the right to be concerned about negative externalities—one line of solution is to eliminate the various kinds of discrimination that help to create and preserve poverty. The alternative is to recognize that the discrimination is based on a social philosophy which penalizes unjustly those who are discriminated against, and to award adequate compensation for this discrimination. This would require the formulation of a principle of rectification, difficult as that may be.

VI. Poverty Programs: Promising and Unpromising

Assuming the existence of a social concern about poverty, there are a number of points at which the economist has questions to ask or suggestions to make and advice to offer.

First, there is the question, obvious to the economist, of what the effect of transfers of income to the poor will be on their own efforts. In posing this question in modern times, however, economists and now it seems, philosophers frequently make the mistake of thinking themselves back into classical times, when life really was a hard struggle for survival and the blunting of incentives to work was a really

serious matter. It entailed a drain on the meager resources of the responsible hard-working citizens for the benefit of the social drones, or else a tax on the God-given rightful income of the propertied classes for the benefit of those who should be grateful for the opportunity to find gainful employment in their service. In contemporary affluent times, there is both less obvious necessity for hard work on the part of everyone—as reflected in the increasing cultivation of leisure-time activities for the middle and lower-middle class—and less moral certainty about the rights of those who earn high incomes by virtue of possession of material or human capital to spend the income from it according to their own desires.

In other words, the insistence on efficiency of the economic system at the cost of poverty for some is no longer a tenable starting point. The classical concern about efficiency has to be modified into a weighing of costs and benefits of poverty relief against one another. In Nozick's system if private charity does not solve the poverty problem, it is left unresolved. But in Lerner's view, we can have economic efficiency and still reduce poverty with the distribution of a "social dividend."¹⁷

Second, there is the question of how best to arrange for the poor to receive sufficient incomes. One way of attempting to transfer incomes toward the poor, which is obvious and appealing to the non-economist, is to legislate tinkering with the market mechanism in order to provide prices more favorable to the poor. Previous analyses suggest that programs of this kind are not likely to be promising.

They are likely to ensure adequate incomes for a favored group at the expense of a large degree of poverty for the disfavored group. This is particularly true of minimum wage laws, especially if, as in the United States, the minimum wage is set regardless of the age and position in the labor force of the workers

¹⁷The reference is to Lerner's symposium paper.

covered. Similarly, a policy of farm price supports is likely to do little to raise the incomes of farm workers (as distinct from farm owners) and has the undesirable side-effect of raising the cost of food to the urban poor, a side-effect which it is difficult to counteract effectively and efficiently by food-stamp plans and other methods of subsidizing the food-consumption of the poor. Nozick is correctly concerned about these types of state policies.

However, to the economist the most efficacious way of transferring incomes is to transfer incomes by direct fiscal means. Nozick strenuously objects. Rawls would endorse such transfers wherever they conform to his difference principle.

VII. Income Transfers versus Investment in Poverty Relief

Public concern about the relief of poverty tends, in contrast to the economist's identification of poverty with inadequacy of money income or spending power, to see poverty as a problem of changing poor people's habits and relation to the economic system. Hence the public tends to favor investments—in education for poor children, in re-training of adults, and in the provision of capital to buy better equipment for poor farmers or self-employed workers—over the cash income transfers that appeal to the economist. This orientation is a mixture of prejudice and prescience.

The prejudice involves the attitudes which discriminate between the deserving and the undeserving poor and assume that, with some public help, the deserving can be given a place in the productive system that will enable them to be self-supporting at a non-poverty level. To the economist, two questions arise concerning this attitude.

First, do the poor typically represent some sort of social disequilibrium situation, in which people who could participate effectively in the economic system at a non-poverty level of

income are somehow barred from the opportunity to do so but could be restored to participation by a relatively small amount of social expenditure? Or do they represent an equilibrium situation, the result either of their own choices to disregard opportunities for higher incomes based either on myopia or on a strong preference for leisure and aversion to industrial discipline, or on their own limited talents and capacity for acquiring the education necessary for success in the industrial system?

Economic analysis suggests that the equilibrium explanation is more reasonable than the disequilibrium explanation and that, consequently, the rate of return on investments designed to overcome the presumed disequilibrium is likely to be low and not, as implied, incredibly high. Stated alternatively, free choice and entry, be it Nozick's or Rawls' version, is no guarantee against poverty. A corollary is that it might be economically and socially more efficient to allocate to the poor a block of stock in General Motors, or even a chunk of Government debt, rather than give them their benefits in the form of a specific investment in their human or material capital.

Second, and related, is investment in the creation of human capital in the poor a better investment than a cash income subsidy? If the object is to give people adequate spending power to maintain a decent standard of living, rather than to transform them into a different type of person, a cash income subsidy may be far more economical than an investment in the formation of human capital. This is especially so if the investment is chosen by the governmental bureaucracy in the light of the social circumstances of the poor person concerned. To put the point another way, it is not clear that a poor person is benefitted more, in terms of relieving his poverty, by an educational investment than by the gift of an equivalent allocation of government bonds.

The prescience of this point of view enters the picture when one considers (a) the externality

aspect of poverty—if poverty is offensive, not because the poor have low standards of living, but because they behave in an offensive way affronting the middle-class belief in responsibility and hard work—giving the poor more money to spend as they like simply adds insult to injury, and the money should be used instead to bribe them into conformity with middle-class standards of good citizenship; (b) the inter-generational aspect of poverty—some (but not all) of the children of poor parents constitute a poverty problem for the next generation, either because they have acquired poverty-prone attitudes towards life from their parents' or their parents' choices for them have left them insufficiently equipped with productive capacities to achieve a non-poverty level of participation in economic society.

In Nozick's system, these "natural endowments" are not to be disturbed by the state unless presumably the parents have violated a Lockean natural law. In such cases, in fact, social investments in the transformation of the

parents into worthy citizens may not pay off, in terms of the returns in parent income. These investments, however, may be well worthwhile when the side-effects on the attitudes and educational attainments of the children (and of subsequent generations as well) are taken into account.

A reasonable economic attitude toward the poverty problem would probably accord consumers' sovereignty to the preferences of parents, pay income subsidies to those deemed poor, and let them spend the subsidies on current consumption or investment as they saw fit, but intervene in one way or another to rescue the children from the psychological conditioning and the inappropriate choices that irresponsible parents impose on them. A system of "justice" that treats children as adults, which would allow children to be hungry, unclothed and unsheltered in the absence of effective private charity, is based upon a "moral standard" that appears alien in the post-Poor Law Age.