

Philosophical foundations for 'good capitalism'?

Labour's business agenda, John Rawls, and property-owning democracy

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Beyond the dead dogmas of deregulation

The approach to regulation and business policy that Ed Miliband and his Shadow Business Secretary Chuka Umunna have begun to sketch has attracted its share of criticism from the business sector's less thoughtful partisans. Digby Jones, with predictably unimpressive recourse to cliché, described Miliband's 2011 conference speech as 'a kick in the teeth for the only sector that generates wealth that pays the tax and creates the jobs this country needs,' ending with the cringe-worthy would-be flourish that Miliband's position is 'Pro-business? Not!' (Rigby, Schäfer and Bounds, 2011).

But Miliband's nascent vision of 'building a new economy', while standing in need of much further development, embodies a potentially fruitful approach to constructing a better capitalism. To see how and why, it is useful to take a step back, and to consider both the foundations of the relationship between business and the state, as well as some of the recent pathologies of how that relationship has been allowed to develop.

The crash in the world economy, ushered in by the 2007 credit crunch, has claimed many victims. Among those victims is a now-discredited picture of how the state should approach the regulation of business. This picture, which saw government's central task as simply getting out of the way of wealth creation, allowing deregulated private enterprise to get on with generating prosperity, had its roots in libertarian and neo-liberal thinking. Nevertheless, it came to be enthusiastically embraced by parties of the centre and left, and especially by New Labour.

Labour's variant on this approach combined quiescent government deregulation with a belief in the sort of under-the-radar redistribution that can only be achieved during times of economic plenty. A slick and rampant financial sector, supercharged by the liberating effects of 'light touch' regulation, would create tax receipts that could be diverted through the bountiful effects of increasing spending on health and education, and increasing the size of the public sector workforce, to those floundering, deindustrialised sections of the country that had not benefitted from the boom. As long as public spending could be kept high, the inequity and instability of a lopsided economy could be safely ignored.

Well, it was fine while it lasted, but we have all seen that the good times, such as they were, ended in tears and recriminations. We are left with a spluttering, unhealthy economy, marred by structural infirmities and rampant inequality, wheezing at the prospect of facing the future. We have learned that the embrace of neo-liberalism and deregulation, rather than giving parties of the left a new way of approaching prosperity and social justice, delivered a

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toxic mix of unfairness and economic uncertainty. On this, it is impossible to disagree with the judgement offered recently by Stewart Wood:

There cannot be anyone left who really believes that minimal regulation and tax reductions for the rich will create wealth which, guided by an invisible hand, will trickle down to those in the middle and below. It doesn't work. It has created an unbalanced economy, excessively reliant on financial services and far too vulnerable to external shocks. And it has produced a country scarred by increasing inequality – soaring prosperity for a tiny minority at the top and a persisting decline in real wages for the vast majority. (Wood, 2012)

It will be a matter of utmost importance for the Labour Party to come to a clear and credible new view about what a better approach to creating a stable, prosperous and equitable economy might look like. Clearly, the deregulatory approach has been tested to destruction, and a return to that discredited picture would be as intellectually discreditable as it would be electorally disastrous. So, what's the alternative?

It seems that the elements of a better approach are beginning to emerge. Ed Miliband has started to talk about ways in which values of fairness and social justice could be better embedded in the mechanisms by which the government sets the rules within which business and finance operate. Stewart Wood talks of 'a supply-side revolution from the left,' now that the failed 'supply-side revolution from the right has run its course' (Wood, 2012). A change in corporate governance could see worker representation on remuneration committees, in keeping with the recent recommendations of the High Pay Commission, thereby creating internal pressures to drive down ultra-high executive pay (High Pay Commission, 2011; see also O'Neill, 2010a, 2010b). Changes in government procurement rules could see lucrative government contracts restricted to firms that take on and train significant numbers of apprentices, thereby contributing towards the country's long-term skills-base and helping to arrest the hollowing-out of high-skill, high-quality industrial job opportunities. Rather than the government simply getting out of the way of business, this rival model sees government's role as being to take a much more active role in setting the terms in which business activity takes place, with the aim of ensuring that the broad social goal of achieving prosperity with social justice can be achieved (see also Denham, 2011).

This approach to 'good capitalism' recognises the residual power of government to set the rules under which the market and its participants operate. Governments have three significant levers, all of which need to be used in unison:

- control over the structure of the tax system, which can be used to incentivise particular forms of corporate behaviour while penalising others;
- changes in direct regulation, which can forbid certain activities, mandate others, or raise or lower the costs of particular business strategies;
- the purchasing power of government procurement, which can be deployed with an eye not just on narrow issues of immediate price, but with a broader eye on economic, environmental and social sustainability. (For an enlightening, sympathetic and comprehensive examination of the strategy of linking procurement to social policy, see McCrudden, 2007).

Honing the details of this approach will be one of the most challenging tasks of opposition. It will also be important to fend off some of the odd and implausible criticisms which this approach attracts. As we've mentioned, Digby Jones, an enthusiastic advocate of the old,

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discredited picture of quiescent deregulation, described Miliband's nascent proposals to use the levers of government to reshape the economy as 'a kick in the teeth' for business. This sort of kneejerk reaction is unsurprising, but outmoded and misguided.

It is myopic to think that the interests of value-creating businesses and entrepreneurs are served by the creation of an unbalanced, unstable deregulated economy; on the contrary, smart regulation rewards good business practices, and creates opportunities for real value-creators. Food hygiene rules are a form of regulation, but they create enormous social benefit, and allow reliable, serious and high-quality food-producers to avoid being out-competed by cavalier corner-cutting and health-endangering producers. Rules on car safety are forms of regulation but, again, they are both massively beneficial for the population in general, and specifically to the benefit of high-quality producers. The right kinds of regulation create incentives that push markets in directions that chime with our collective social values and goals; this is not to claim that identifying the right policies is an easy matter, but it is to say that pursuing the challenge of doing so should be one of the central aims of politics.

Other critics of the pursuit of 'good capitalism' complain that these sorts of interferences in 'the free market' both infringe important commercial freedoms and lead to economic ruin. Putting workers on remuneration committees, for example, can be seen as an illegitimate state intrusion into the working of free market institutions.

But what such critics conveniently forget is that even the most familiar 'free market' institutions are not facts of nature or necessary features of our environment. The limited liability joint-stock corporation as an organisational form did not spring fully formed from the ground like a mushroom, but is a creature of legislative design, dating back to the Companies Act of 1862 (see for example Micklethwait and Wooldridge, 2003). The irony of demanding that governments not interfere in the 'natural' order of corporate activity is thus a decidedly rich one. Markets are created by the rules of property, and structured by a formation of regulatory instruments and legal rules. Appealing to the entitlements thought to be associated with the corporate form is doing no more than appealing to a convention, bereft of independent authority (Murphy and Nagel, 2002). The questions that face us regard *how* governments should structure markets, not *whether* they should do so, for doing so is unavoidable. Even the decision to 'deregulate' is just one political choice among others (and, as we've seen, often a rather disastrous choice); seeing it as a reversion to a natural equilibrium fails to see that our economic life never takes place in the absence of state-made rules.

Still other objectors decry Miliband's talk of rewarding socially valuable economic activity and punishing socially useless business as a return to a sort of moralised version of 1970s industrial policy, but this time with the government picking ethical rather than purely economic winners. But this misunderstands the idea that government's role in the economy, even when extremely active, need not and should not be about endless micro-level interventions, or the promotion of the interests of *particular* companies or businesses. Instead, it is about optimising the rules of the game, given a set of goals that encompass both social and economic objectives.

An analogy from John Rawls is helpful here. Rawls pointed out that the rules of baseball were designed to produce an exciting and engrossing spectacle but that, even if we all know that this is true, that would not license particular baseball umpires in particular games deciding that it would just be more exciting to have an extra innings, or to give the batsman one extra strike (Rawls, 1955). The rules of the game might be changed over time in response to changing playing conditions, changing standards of taste, or the evolution of some other aspect of the game, but that is not to say that being serious about the aims of a particular set of rules need mean that we're prepared to pursue those aims at the expense

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of those rules. As in sport, so in the economy; stable rules and clear expectations are important for business, and sporadic government intervention will often be unhelpful; but that does not mean that those rules should not be constructed with a clear eye on our shared social aims and values.

Lastly, objectors to a 'good capitalism' agenda might see it as inappropriately moralistic. Markets are machines for producing economic value, and economic agents act within those markets to pursue their self-interest, not to bring about a fairer, more equal or more stable society. To bring ethics into economic policy could look like the worst kind of folly. But this objection is entirely backwards. Or, to put it another way, it isn't really an objection at all. If we take seriously the role of politics to embed our social values – such as values of fairness and social justice – in the *rules of the economic game*, then we have no need for individual market agents to make implausibly heroic efforts to bring moral motivations to the front of their own individual agency. As Jürgen Habermas put it in a recent interview:

Politics turns itself into a laughing stock when it resorts to moralising instead of relying upon the enforceable law of the democratic legislator. Politics, and not capitalism, is responsible for promoting the common good' (Habermas, 2009).

Miliband's approach to 'good capitalism' would appear to understand this, and so looks to ways in which government may be able to change the rules of economic life in order to promote the common good. The alternative approach, which sees government's attitude to business as a value-free zone, places the burden of moral leadership on individual agents within the market, but, given the economic pressures faced by individuals and firms, these burdens are simply impossible to carry. Ethical business is enabled by the right kind of rule-based setting, and should not be a matter for individual moral heroism. Placing social values at the heart of politics, and at the heart of regulation, is a way to make good on the purpose of politics, and avoids the unrealistic moralism which sees the possibility of a more ethically justifiable capitalism only in the actions of individual economic agents.

This brings us to the observation that this emerging 'structural' approach to 'good capitalism' chimes in powerfully with broader themes in the political philosophy of John Rawls. On Rawls's view, social justice is a requirement that falls not on individual agents in their daily economic lives, but on the macro-level formation of what he called the 'basic structure' of society – that is,

the way in which the main political and social institutions of society fit together into one system of social cooperation, and the way they assign basic rights and duties and regulate the division of advantages that arises from social cooperation over time' (Rawls, 2001, 10; see also Rawls, 1971; Rawls, 1977; Rawls, 1993).

In other words, social justice is an institutional problem, and we take it seriously by thinking about ways in which – through the structure of regulation, or the arrangement of the tax system, or the way in which government spends its money – politics is able to shape the overall institutional network within which economic activity takes place.

This approach creates what we might call an 'institutional division of moral labour', according to which we can make sense of the conflicting demands that we all face as citizens and as private individuals – demands both to further our own interests, and to live in a society that is justifiable to one another. This 'division of labour' gives to politics the central role of delineating a just *basic structure*, thereby allowing individual citizens to 'advance their ends within the framework of the basic structure, secure in the knowledge that else-

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where in the social system the regulations necessary to preserve background justice are in force' (Rawls, 1993, 268-9). This 'structural' approach puts values at the centre of politics, and at the centre of how we structure the economy, but does so in a way that avoids a moralising and unrealistic emphasis on individual agency.

This new, emerging Labour agenda on business, regulation, and the relationship between governments and markets shares this central Rawlsian insight as to the importance of 'background justice'. In seeing the central problem of economic policy as the way in which we can set the rules of the game in a way that is true to our values of fairness and social justice, it moves beyond the discredited strictures of the neo-liberal past. As ever, the devil will be in the detail, but there is reason to think that Miliband's broad vision is the right one for how we might construct a realistic progressive alternative to the dead dogmas of deregulation.

Rawls, pre-distribution and social democracy in a time of austerity

Having marked one important similarity in approach between the 'structural' approach to constructing a better capitalism, and Rawls's idea of 'background justice', we now turn to a broader set of questions on which Rawls's political philosophy may cast some light. It has become a commonplace of analysis on the left that the future of social democracy will be about discovering how to achieve socially just outcomes without simply being able to redistribute the bounteous proceeds of surging economic growth (Sen, 2011). How, in short, can the traditional aims of social democracy be realised without making use of familiar forms of tax-and-spend? As Ed Miliband put it:

A lot of people will hear me talk about values and say: 'Welcome to the real world: values cost money, but right now the government just doesn't have money to spend'. A lot of people say: 'These are tough times. It's easy to talk about fairness, but how are you going to achieve it when there's less money around?' That's the challenge for Labour. (Miliband, 2012)

Miliband's answer, in short, is that you change the structures under which capitalism operates, rather than leaving the market to its own devices and then intervening afterwards, funding public services and ameliorative transfers through taxation. Similarly, Stewart Wood talks of the limits of traditional forms of redistribution, and the need instead to intervene earlier in the economy, thinking about 'pre-distribution' (in Jacob Hacker's phrase), rather than just *re*-distribution (Hacker, 2011; see also Hacker and Pierson, 2010). If the left has lost its faith in the very possibility of a tax-and-transfer agenda, then instead one needs, as Wood puts it, 'to reform markets so that economic power and rewards are more evenly distributed, even before taxes and transfers kick in' (Wood, 2012).

Intriguingly, this agenda is also John Rawls's agenda for how political institutions can create a just economy. Although Rawls has often been understood as a defender of the traditional, redistributive social democratic welfare state, his own understanding was that social justice had to be much more about what Wood and Hacker call *pre-distribution*, rather than redistribution. So, while Rawls's principles of justice do provide philosophical support for the redress of existing inequalities and for the substantial redistribution of resources, it is incorrect to say that he favoured welfare state regimes in anything resembling their current form. In fact, Rawls was a strong critic of what he termed 'welfare state capitalism' and an advocate of an institutional alternative which he termed 'property-owning democracy'.

Discussion of 'property-owning democracy' occupied only a very small part of his seminal *A Theory of Justice* (1971), and was passed over entirely in *Political Liberalism*

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(1993). But in his final statement of his view of social justice, Rawls provided pointed and explicit (albeit rather brief) discussion of the essential contrasts between welfare state capitalism and property-owning democracy, and explained why he believed that the welfare state could not in fact realise his two principles of justice (Rawls, 2001).

Rawls identifies a number of structural limitations on the capacities of the institutions of welfare state capitalism. He views these structural constraints as preventing welfare state capitalism from ever advancing sufficiently close to the goal of full social justice. Rawls holds that welfare state capitalism unavoidably 'violates the principles of justice' in the following respects:

Welfare-state capitalism ... rejects the fair value of the political liberties, and while it has some concern for equality of opportunity, the policies necessary to achieve that are not followed. It permits very large inequalities in the ownership of real property (productive assets and natural resources) so that the control of the economy and much of political life rests in few hands. And although, as the name 'welfare-state capitalism' suggests, welfare provisions may be quite generous and guarantee a decent social minimum covering the basic needs, a principle of reciprocity to regulate economic and social inequalities is not recognised. (Rawls, 2001, 137-8)

This is a daunting and comprehensive charge-sheet against traditional welfare states. Put briefly, we can list Rawls's criticisms of welfare state capitalism as falling under the following headings:

a) Welfare state capitalism fails to guarantee the fair value of the political liberties, as 'the control of the economy and of much political life rests in few hands' (Rawls, 2001, 138). Hence, there is a violation of Rawls's first principle of justice, which demands not only that all citizens be provided formally with 'a fully adequate scheme of equal basic liberties, which scheme is compatible with the same scheme of liberties for all' (Rawls, 2001, 42), but also that each citizen be guaranteed the fair value of the political liberties (that is, those liberties – such as liberties of thought, speech, assembly and political participation – that are social preconditions for the pursuit of democratic politics, such that they 'ensure the opportunity for the free and informed application of the principles of justice to [the basic] structure and to its policies by means of the full and effective exercise of citizens' sense of justice' (Rawls, 2001, 112-3).

It seems clear from Rawls's remarks here that, with regard to his first principle of justice, he denies not that welfare state capitalism could provide the formal protection of the equal basic liberties, but that welfare state capitalism would be able to protect the fair value of the political liberties. Thus, while a welfare-state-capitalist-regime may be able to satisfy Rawls's first principle of justice in a weak or superficial sense, it cannot provide genuine satisfaction of the demands of that principle as it is unable to deliver to citizens the real underlying value of the deployment of their liberties in the political sphere. The idea, in effect, is that while we may all have equal formal political freedoms in a capitalist society, those freedoms will lack their equal value in a world in which the voices of the disadvantaged are drowned out by the voices of the rich, or where, for example, a large part of the media can be owned by a single individual like Rupert Murdoch (O'Neill, 2007).

In addition to this failing, the charge-sheet continues when we move on from the realisation of the values of democracy and *political* liberty to the realisation of the values of *individual* liberty and equality:

b) Welfare state capitalism cannot do enough to achieve equality of opportunity, leading to a violation of the first part of Rawls's first principle of justice (that is, the principle of fair

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equality of opportunity). Rawls's standard of equality of opportunity is a highly demanding one, such that it is required 'not merely that public offices and positions be open in the formal sense, but that all should have a fair chance to attain them,' where what Rawls means by a 'fair chance' is that 'those who have the same level of talent and ability and the same willingness to use these gifts should have the same prospect of success regardless of their social class of origin' (Rawls, 2001, 43-4). Thus, even a socio-economic regime that is impeccably free of traditional forms of racial or gender discrimination (such as an idealised version of a capitalist welfare state) could find itself falling far short of the requirements of this principle insofar as it failed to do enough to decouple individuals' life chances from their social background. A capitalist welfare state, even with high levels of post-tax redistribution from the rich to the poor, simply lacks the fundamental capacity to remove structural inequalities of class and social background, and thereby fails to give *all* individuals the sort of economic opportunities that they should be able to claim as a matter of justice. Moreover, just as welfare state capitalism fails to give individuals a 'fair chance' of success, so too it fails to embody the egalitarian demand for a principle of economic reciprocity:

c) Welfare state capitalism is incapable of institutionalising a 'principle of reciprocity', such as the difference principle, instead managing only to guarantee a 'social minimum'. This is a violation of the second part of Rawls's second principle of justice (that is, a failure to meet the demands of the 'Difference Principle'). The criticism here is not only that welfare state capitalism does not realise the difference principle (which permits material inequalities only if they benefit the least advantaged), but that it fails to get anywhere close to this standard, through failing to take the egalitarian value of reciprocity sufficiently seriously in economic life. Reciprocity demands that 'gains to those more advantaged must [also] benefit those least advantaged' (Freeman, 2007, 481), whereas in welfare state capitalism, or in any regime that provides a (mere) social minimum (however generous), we have the situation where gains to those most advantaged by a system of social cooperation can float free of the standing of the less advantaged, thus violating this requirement of reciprocity. It is undoubtedly the case that, in our own society, this is exactly what we have seen, with the economic gains to the most advantaged piling up, disconnected from any sense that economic prosperity should be fairly and broadly shared.

Overall, Rawls sees the institutional structure of welfare state capitalism as being unable to meet the demands of any of the three elements of his principles of justice. Thus, Rawls's conclusion is that the achievement of any part of his principles of justice is impossible whilst we retain the sort of redistributive rather than pre-distributive 'welfare-state capitalist' institutions with which we are familiar. This is a bleak prognosis indeed for a writer who has commonly been read as the defender *par excellence* of the welfare state.

Thus, one of the central problems that Rawls addressed in the late stage of his career has deep similarities to the problem now facing social democratic and left-wing parties throughout the world. If we are in favour of creating conditions for genuine social justice, how can we think fundamentally about restructuring the institutions of capitalism so as to bring it about? Our suggestion is that socialists, social democrats and progressives of all parties and, in particular, politicians of the left should acquaint themselves more fully with Rawls's answer to this shared question; not because anyone can expect Rawls's answer – his idea of a property-owning democracy – to work 'off the peg', but because it is nevertheless a rich and suggestive proposal which could do much to inform the next generation of practical thinking about the future of social democracy.

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Rawls's *A Theory of Justice* on the institutional framework of a just economy

Rawls did not claim to have worked out the details of a political-economic regime corresponding to the idea of a property-owning democracy; his aim was simply to indicate the general outlines of the sort of political economy that might be fully consistent with his principles of justice as fairness. Moreover, this outline is pitched at the level of ideal-type regime analysis in Rawls's writings, and it thereby self-consciously passes over detailed questions of institutional design and political sociology regarding how such a regime would function in practice.

In the broadest possible terms, a property-owning democracy will be a market economy in which holdings of capital are widely dispersed across the population. The view is that fair equality of opportunity and limited inequality can be better achieved through a more broad-based distribution of *initial* holdings (that is, through 'pre-distribution', in Jacob Hacker's and Stewart Wood's terms), rather than by relying on the mechanism of 'after-the-fact' redistributive taxation. A property-owning democracy would be a 'regime in which land and capital are widely though not presumably equally held' in which 'society is not so divided that one fairly small sector controls the preponderance of productive resources', and which is able to 'prevent concentrations of power detrimental to the fair value of political liberty and fair equality of opportunity' (Rawls, 1971, 247, 245).

In many respects, the institutional structure Rawls proposes in *A Theory of Justice* for a property-owning democracy is familiar to citizens living under more traditional forms of welfare state capitalism. Rawls assumes that there will be a political constitution providing basic liberties, a public sector that provides public goods (including an educational system that will provide 'equal chances of education and culture for persons similarly endowed and motivated'), and a market and price system with a suitable system of regulation. Rawls goes on to specify five separate branches of government oversight, dealing with regulation of markets, macroeconomic policy, social transfers (with each citizen guaranteed a social minimum), the distribution of property, and the provision of non-essential public goods. The overall picture is of a mixed economy with a judicious blend of market mechanisms and government oversight, embedded within a system of basic liberties, such as with regard to freedom of career choice (Rawls, 1971, 242-251; quotation on education at 243).

What, then, makes a property-owning democracy distinct from more traditional forms of welfare state capitalism? The distinction is to be found in the relative weight accorded in importance to 'after-the-fact' social transfers relative to alterations in the distribution of property in achieving a relatively egalitarian economy.

Welfare state capitalism aims at providing an economic minimum as well as certain public goods (education, health care, housing) to all citizens; this is achieved primarily through redistributive taxation. Property-owning democracy also aims to provide an economic minimum to the 'least well off', but it has a further goal as well: preventing large concentrations of wealth and dispersing ownership of property as widely as possible. One might say that welfare state capitalism simply wants to provide a social minimum, whereas property-owning democracy also wants to put limits on accumulation at the top, thereby narrowing overall inequality from both directions (top and bottom). Moreover, property-owning democracy is also concerned to engage in redistribution in additional dimensions: that is, not just the redistribution of income characteristic of welfare state capitalism, but also the redistribution of wealth and capital assets (as well as ensuring a more equitable distribution of human capital). As subsequent commentators have noted, such equalisation of wealth and assets also has implications for how work is to be organised (Hsieh, 2009; 2012).

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In terms of how such goals might be realised, Rawls points to inheritance taxes as the best mechanism for distributing property more widely and preventing large estates from being transferred in whole from one generation to another. Here Rawls cites proposals for taxation on intergenerational transfers developed by the economist James Meade (who first used the term 'property-owning democracy' in something like Rawls's sense); persons receiving such transfers would owe progressively higher taxes on these gifts according to how many such gifts they had received over their lifetime (Meade, 1964; Jackson, 2012). Rawls does not stipulate that each person must receive an inheritance, and rejects the idea that there is an inherent injustice in some persons receiving more gifts than another (so long as this takes place within the framework of an overall system that is just). For Rawls, inheritance taxes have a more limited, though vital function: preventing large concentrations of wealth from being transmitted inter-generationally. This aim in turn corresponds to a social ideal in which there is no permanent class of politically privileged holders of wealth and capital sufficiently powerful to extract gains for itself that do not function to benefit the least well off.

Rawls's *Justice as Fairness*, and the justification of a property-owning democracy

Towards the end of his life, Rawls seemed to become increasingly disillusioned by the economic system he saw around him, and increasingly critical of the inequities of capitalism. For example, in 1998 he wrote of American civil society being 'awash in meaningless consumerism', while expressing his contempt, which it is not difficult to share, for 'the large banks and the capitalist business class whose main goal is simply larger profit' (Rawls and Van Parijs, 2003). It is a striking fact that in his final sustained statement about justice, Rawls puts his cards on the table so to speak: more than in any previous book, he makes it clear that he believes that contemporary capitalist societies have veered too far away from realising liberal principles of justice. It is here as well that we find the most detailed contrast between the capitalist welfare state and its more justifiable alternatives.

The key to understanding Rawls's property-owning democracy is that it should be seen as a socio-economic system delineated with an explicit focus on the satisfaction of the two principles of justice (that is, the principle of equal basic liberties, and the second principle which includes both the principle of fair equality of opportunity and the difference principle), and thereby also with an explicit focus on the significance of the political values of liberty, equality and democracy. It therefore 'guarantees the basic liberties with the fair value of political liberties and fair equality of opportunity, and regulate[s] economic and social inequalities by a principle of mutuality, if not by the difference principle' (Rawls, 2001, 138). Like welfare state capitalism, it allows private property in productive assets (Rawls, 2001, 138-9). However, unlike welfare state capitalism, under property-owning democracy the basic structure of society and its background institutions 'work to disperse the ownership of wealth and capital, and thus to prevent a small part of society from controlling the economy and indirectly political life as well' (Rawls, 2001, 139). Property-owning democracy ensures 'the widespread ownership of productive assets and human capital', and hence (following Meade) it makes use of varieties of (what we might call) *ex ante* redistribution (that is, redistribution of the capital that individuals bring to the market) as opposed to *ex post* redistribution associated with welfare state capitalism. In other words, property-owning democracy is about creating social justice through pre-distribution, in the face of the impossibility of creating social justice through mere redistribution. As Rawls describes the aims of property-owning democracy:

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The intent is not simply to assist those who lose out through accident or misfortune (although that must be done), but rather to put all citizens in a position to manage their own affairs on a footing of a suitable degree of social and economic equality. The least advantaged are not, if all goes well, the unfortunate and unlucky – objects of our charity and compassion, much less our pity – but those to whom reciprocity is owed as a matter of political justice among those who are free and equal citizens like everyone else. (Rawls, 2001, 139)

We should thus understand property-owning democracy as a socioeconomic system with at least the three following central aims:

- (1) *Wide dispersal of capital*: The *sine qua non* of a property-owning democracy is that it would entail the wide dispersal of the ownership of the means of production, with individual citizens controlling substantial (and broadly equal) amounts of productive capital (including both human and non-human capital).

As Rawls puts it:

... welfare-state capitalism permits a small class to have a near monopoly on the means of production. Property-owning democracy avoids this, not by the redistribution of income to those with less at the end of each period, so to speak, but rather by ensuring the widespread ownership of productive assets and human capital (that is, education and trained skills) at the beginning of each period, all this against a background of fair equality of opportunity. (Rawls 2001, 139)

Note here that Rawls very much shares Meade's interest in putting a variety of productive resources into the hands of each citizen, including their own trained productive capacities as well as the 'external' means of production.

- (2) *Blocking the intergenerational transmission of advantage*: A property-owning democracy would also involve the enactment of significant estate, inheritance and gift taxes, acting to limit the largest inequalities of wealth, especially from one generation to the next.
- (3) *Safeguards against the 'corruption' of democratic politics*: A property-owning democracy would seek to limit the effects of private and corporate wealth on politics, through campaign finance reform, public funding of political parties, public provision of forums for political debate, and other measures to block the influence of wealth on politics, perhaps including publicly funded elections. (Rawls, 2001, 149-50)

Policies of type (3) should be viewed as being in place with an eye on the protection of the fair value of the political liberties, and are therefore closely connected with creating a regime that is in accord with Rawls's first principle of justice. Policies of type (1) and (2) should, in contrast, be viewed as providing the means for institutionalising the demands of Rawls's second principle of justice. Through a combination of all three kinds of policies, Rawls has thereby specified a social system that has the capacity to overcome the structural limitations of welfare state capitalism in delivering a fully just set of socioeconomic arrangements.

Rawls's lessons for the contemporary left in the age of austerity

So, what lessons, if any, does Rawls's preferred socioeconomic regime have for parties of the left and centre-left in 2012? Like many contemporary social democrats, Rawls came to worry that tax-and-transfer strategies were not the high road to social justice. If one cares about the distribution of economic *power and control* in the economy, and not just about the distribution of streams of income, then *ex ante* strategies of 'pre-distribution' have much to recommend them over *ex post* strategies of *re-distribution* (O'Neill, 2009, 2012). Such strategies forge a way for social justice to be set within a more justifiable form of capitalism, without the need for the central state to be constantly concerned with funding the needs of the disadvantaged through the tax receipts of the successful. In Rawls's arguments, then, much support can be found for a promising and significant social democratic agenda, fit for the post-neo-liberal era.

But there is also, in Rawls, an important reminder to anyone on the left who thinks that this new approach could be easy or uncontroversial. Rawls's reminder is that it is an absolute precondition of the egalitarian politics of pre-distribution that the state aggressively interrupts existing concentrations of power and wealth. The politics of property-owning democracy, and the politics of pre-distribution, require that the state does not shy away from the break up and transfer of concentrated capital, whether by inheritance taxation, capital transfer taxation, or land taxation. Rawls's central lesson here is, in effect, that the creation of 'good capitalism' is impossible without the destruction of the wealth inequalities embedded in the old, bad capitalism. Without a concerted attack on extreme inequalities in wealth – that is, without addressing the massive holdings of the 1 per cent (and the 0.1 per cent) made famous by the efforts of the Occupy movement and by much recent commentary (for example Stiglitz, 2011) – there can be no fundamental move towards a 'good capitalism'. Rawls's central insight is that the politics of good capitalism cannot be a politics without enemies.

We do not doubt that many small changes can be made to the regulatory structure of capitalism in order to promote more just outcomes. Employees can be placed on remuneration committees, government procurement rules can promote training and apprenticeships, and so on. But only so much can be achieved in rewriting the rules of capitalism without addressing the current distribution of control over productive capital, and the political and economic power that goes alongside it. As we've seen, this was something of which Rawls became acutely aware towards the end of his life. Those tempted to abandon traditional forms of welfare state capitalism need to be aware that the alternative roads towards promoting greater social justice may be much more, rather than less, arduous, and require greater political courage.

Creating a 'good capitalism' means creating a capitalist system that individual citizens enter, and then operate within, on terms of substantive equality. In order fundamentally to change the rules of the game we must, in the end, also be prepared to think carefully about what it would take to bring about a structurally more egalitarian distribution of wealth and power within the economy. In the challenge of imagining new forms of social democracy that could achieve this aim, Rawls's proposals do not necessarily have the last word, but they certainly provide a significant basis for further exploration.

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