



Universiteit Leiden

# **'The Rawlsian justification of a property-owning democracy'**

**D.R. Taylor**

**s1157655**

**d.r.taylor@umail.leidenuniv.nl**

**Under the supervision of Dr. B.J.E. Verbeek**

Leiden University  
Faculty of Humanities  
Institute for Philosophy

Reuvensplaats 4  
2311 BE  
Leiden  
The Netherlands

## Abstract

The rapid development of technological innovation has yielded increasing returns on capital investment relative to labour. At the same time, the accumulation of capital seems to be concentrating more and more into the hands of a select few, resulting in the development of far-reaching economic inequalities. With the development of technological innovation having gained considerable momentum in modern times, the need to design effective policies centred around dealing with the economic, social and political effects of its development arguably seems more important than ever. Property-owning democrats –drawing on John Rawls' conception of justice as fairness- have set out proposals for curbing what they conceive to be undesirable developments in inequality, focusing mainly on the establishment of a socio-economic framework characterized by the widespread dispersal of capital assets. Some scholars such as Vallier (2015), however, have cast doubts on the desirability and effectiveness of adopting a property-owning democracy as the socio-economic arrangement fit to meet these challenges. This thesis attempts to settle the debate. I argue that the satisfaction of the Rawlsian fair value of political liberties favours the justification of a property-owning democracy over that of welfare-capitalism. Furthermore, I assert that the satisfaction of Rawls' difference principle depends on the exact definition of 'benefiting' the least well off, so that this principle may favour the justification of either socio-economic arrangement. I further argue that meeting Rawls' principle of equality of opportunity would be better served in the context of welfare-state capitalism, taking into account the critiques set out by O'Neill (2009) and Vallier. In addition, I identify further theoretical issues regarding property-owning democrats' definition of private property that have, in my view, not been sufficiently addressed. Lastly, I identify a number of practical issues regarding the implications of a property-owning democracy in an economic context. Given that only the fair value of political liberties points directly towards the justification of a property-owning democracy -with its justification on the basis of the difference principle and equality of opportunity being questionable and thus unjust-, I conclude that a property-owning democracy is not justifiable on Rawlsian grounds.

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## Introduction

With the debate regarding welfare-state reform having gained considerable momentum in both public and scholarly circles over the past several years, it is curious that the same cannot be said for the discussion of a property-owning democracy. Whilst the discussion focused on providing potential alternatives to the welfare policies pursued under traditional welfare-state capitalism seems to have found some consideration within political arenas<sup>1</sup>, the subject of a property-owning democracy has received considerably less attention. Though the past decade or so has seen somewhat of a resurgence in scholarly attention aimed towards exploring the concept of a property-owning democracy further, the attention given to this specific theoretical framework seems to pale in comparison to the apparent prominence of its general subject matter. Research conducted by Saez & Zucman (2014) found that rises in wealth inequality could to a large extent be retraced to a considerable growth in wealth for the top 0.1% of households - a group which saw a yearly growth in wealth of 5.3% per year - whilst for the bottom 90% there had been no growth to speak of (Saez & Zucman 2014, 1). The way in which wealth inequality seems to have grown over the course of recent history is in many ways reminiscent of concerns put forward by the English economist James Meade. In his *Efficiency, Equality and the Ownership of Property* (1964), Meade quite accurately predicted the way in which wealth inequality was to develop in the decades following its publication. The rapid development of technological innovation would result in increasing returns on capital investment relative to labour, consequently increasing its importance with regards to wealth creation. In simpler terms, this development would entail that those individuals already in possession of capital assets would find it easier to accumulate further wealth, whilst those having to rely on their labour would be drawing the short end of the straw. In his work, Meade was to set out various different types of proposals aimed at adequately addressing this trend.

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1 For a scholarly analysis on the discussion of basic income models prevalent in the German political arena, for example, see Opielka (2008).

Coupling this development with the conception of justice set out by John Rawls (2001) -who himself had endorsed a property-owning democracy- property-owning democrats have argued in favour of a property-owning democracy as the socio-economic framework most fit to deal with these challenges. These developments in capital accumulation -specifically with regards to their role in accelerating the development of further inequalities- are the main motivation for property-owning democrats to endorse a socio-economic framework characterized by the widespread dispersal of capital assets (O'Neill and Williamson 2012, 4). Their reasoning behind this approach is the following; if current trends in capital accumulation produce outcomes incompatible with a Rawlsian conception of a just society, then the proposal of preventing certain capital accumulations from taking place is justifiable on Rawlsian grounds.

Proponents thus generally arrive at their endorsement of a property-owning democracy on the basis of two differing but strongly interrelated dimensions, namely, (1) from an economic standpoint as exemplified by Meade, and (2) from a moral perspective as embodied in Rawls' conception of a just society. More recently, O'Neill (2009) has emphasized different elements of the aforementioned reasoning, paying considerable attention to the role played by capital accumulation in bringing about vast inequalities incompatible with Rawls' conception of justice as fairness. Interestingly enough, Vallier (2015) has argued *against* a property-owning democracy using an approach similar to that adopted by its proponents, identifying issues both with its economic implications as well as with its potential for justification on Rawlsian grounds. His *Moral and economic critique of the new property-owning democrats: on behalf of a Rawlsian welfare state* (2015) cast doubts on the desirability and effectiveness of adopting a property-owning democracy as the socio-economic framework fit to deal with the issues presented above. A Rawlsian theoretical framework, he argued, would better lend itself for a defence of welfare-state capitalism as its favoured socio-economic arrangement.

It is the aforementioned debate with which we will concern ourselves in this thesis. In it, we will ask ourselves to what extent a property-owning democracy is justifiable on

Rawlsian grounds. In the first section, I will briefly discuss the origins of a property-owning democracy, outlining its basic elements as well as summarizing Rawls' reasons for endorsing it. Next, I will evaluate the arguments put forward by O'Neill, Vallier and others that have been formulated in response to Rawls' endorsement. In the second section, I will introduce a number of additional reasons for arguing against the endorsement of a property-owning democracy. In doing so, I will first identify a number of theoretical issues regarding property-owning democrats' definition of private property ownership. I will then discuss a number of practical issues regarding the economic implications of a property-owning democracy. Finally I will conclude that, since the fair value of political liberties is the only principle pointing directly towards the endorsement of a property-owning democracy, a property-owning democracy is not justifiable on Rawlsian grounds.

## Part I: The theoretical debate regarding a property-owning democracy

Concerns about the economic and social implications of technological innovation may be said to go back as far as the mid 1960's, the decade in which the English economist James Meade published his *Efficiency, Equality and the Ownership of Property* (1964) - a work which was eventually to become one of the most important economic foundations favouring the endorsement of a property-owning democracy. It was in the form of this work that a property-owning democracy would find some of its earliest theoretical expressions. In it, Meade argued in favour of many of the policies now commonly associated with a property-owning democracy, such as its concern with the redistribution of capital assets (Meade 1964, 52). Such an aim was conceived by him to be a necessary reaction to what seemed to be an irreversible development within the economic sphere. As technological innovation was predicted to gradually increase the returns on capital investment relative to that of labour, it seemed inevitable that the ownership of capital assets was to become the dominant mode through which wealth was to be created. Since the ownership of capital assets was distributed in an unequal fashion, it became probable that this distribution would have the potential of becoming one of the main drivers behind inequality. It was this very notion that led Meade towards his often quoted depiction of the future as one characterized by “a limited number of exceedingly wealthy property owners (...), butlers, footmen, kitchen maids and other hangers-on” (Meade 1964, 33). Though such an outlook undoubtedly appeared bleak, Meade was to make a series of policy-proposals centred around countering the effects of this development - and it was in this context that his apparent endorsement of a property-owning democracy was set to first arise.

The policy proposals set out by Meade may generally be divided into two different forms - the first being concerned with *re*-distribution, the second with so called *pre*-distribution. Policies fitting into the first type include Meade's proposal of imposing a progressive annual taxation of “the value of the total property owned by the taxpayer” (Meade 1964, 53). This type of progressive taxation was believed by him to be best

able to facilitate a reduction in “the net savings and so the net capital accumulation of the largest property owners” (Meade 1964, 53). This proposal alone, however, could not be expected to prevent an uneven distribution of property by itself. Meade therefore also advocated the imposition of inheritance taxes, a measure which was to counter-balance the level at which capital would tend to concentrate around a specific group of individuals or families (O’Neill 2012, 79). Though inheritance taxes had already been in place for some time, Meade recognized them to be quite easily avoidable. Since inheritance taxes were mainly focused on taxing the transfer of assets after death, they largely overlooked the possibility of circumventing these taxes by transferring capital assets to others over the course of one’s lifetime. This observation led Meade to believe that the imposition of inheritance taxes alone would be wholly ineffective in the absence of gift taxes, which would also need to be imposed (Meade 1964, 54-55). Apart from the progressive taxation measures set out above, Meade believed there to be further opportunities for influencing the distribution of property-ownership. He argued in favour of increasing government spending with regards to what O’Neill has called “human capital” (O’Neill 2012, 79). In Meade’s work, these proposals mainly emphasized the importance of public investment in education (Meade 1964, 59). Increasing investment in education would positively influence an individual’s capacity to earn and would serve to curb the influence of capital assets within the education system (Meade 1964, 59). In doing so, this investment would counter the influence of environmental factors that “enable the children of the relatively rich to gain more than the children of the poor from such education” (Meade 1964, 59). This in turn would increase equality of opportunity, limiting the influence of wealth in determining one’s power to earn in favour of a fairer meritocratic system (Meade 1964, 61). Ideally, the end result would entail that individuals would be better enabled to enjoy a higher level of economic self-determination based on their own individual merits.

The second, more controversial proposal type was centred around what may be referred to as *pre*-distribution. Policies fitting into this second type include Meade’s advocacy for bringing about a “widespread dispersal of ownership and control of productive resources” (O’Neill 2012, 79). Meade suggested that this goal might be



achieved through the promotion of employee share schemes, in which a worker could obtain a property share of the company for which he works (Meade 1964, 59). He also proposed encouraging small property-owners to pool their savings for investment in highly profitable but risky securities in the hope of evening out the property distribution (Meade 1964, 59). This idea of widely dispersing the ownership and control of productive resources into public hands might well be considered to be of the more radical proposals present in his work. It set itself apart from more traditional policies of re-distribution by its apparent intention of establishing a more 'equal playing field' from the outset. It was this characteristic that earned it the more fitting description of a proposal type centred around *pre-* rather than *re-*distribution. This focus on the dispersal of capital assets is perhaps what most clearly sets a property-owning democracy apart from other socio-economic frameworks such as welfare-state capitalism, which is mainly concerned with providing welfare through re-distribution. In bringing about such a radical change of affairs, a property-owning democracy would work towards spreading the ownership of productive resources across all members of society. Such an aim might well be described as one fitting to the pursuit of a socio-economic framework based on the tradition of egalitarian values. With an eye on the wide variety of potential policies set out by property-owning democrats, it is to be expected that these various policies may potentially have very different outcomes. What is clear in all cases, however, is that they are all unified in their aim of preventing the accumulation of large amounts of property from taking place.

Having drawn part of their economic reasoning from James Meade, property-owning democrats soon turned to John Rawls in order to strengthen the moral dimension of their theory. Rawls' work on the theory of justice had placed him in the liberal-egalitarian tradition, combining "the values of equality, personal freedom and personal responsibility" (Cappelen and Tungodden 2006, 393). This approach strongly differed from stricter forms of egalitarianism, allowing for the presence of certain inequalities resulting from a difference in choices (Cappelen and Tungodden 2006, 393). In other words, the liberal-egalitarian approach of justice is one of synthesis - attempting to guarantee a respect for both liberal and egalitarian values. In order to adequately judge whether a property-owning democracy may be considered

to succeed in such a task, however, we must first turn towards the moral justification relied on by them.

### **John Rawls and his Justice as Fairness**

Much of the literature concerning the subject of a property-owning democracy seems to owe a debt to John Rawls in one way or another. Upon the publication of his *Justice as Fairness: A Restatement* (2001), Rawls was one of the few to have brought the idea of a property-owning democracy into the realms of philosophical discourse. Such a notion certainly seems to become clear when analysing the more recent scholarly contributions towards the property-owning democracy debate, by far the largest part of which has made an attempt to approach the concept beginning from a Rawlsian standpoint. It must be stated however, that this appeal seems to be rather out of proportion given Rawls' comparatively limited treatment of the subject in *Justice As Fairness: A Restatement*. Still, this does not change the fact that property-owning democrats have repeatedly relied on Rawls' ideas in order to strengthen the moral fabric of their case.

In his *Justice as Fairness: A Restatement*, Rawls set out a handful of core principles from which he believed a theory of distributive justice would have to set off. Rawls' apparent defence of a property-owning democracy may be thought to follow from the specific conception of justice discussed by him in *Justice as Fairness: A Restatement*. Here, Rawls presented a revision of his earlier principles of justice, narrowing them down to a set of two core principles. The first principle stated that "each person has the same inalienable claim to a fully adequate scheme of equal basic liberties" (Rawls 2001, 42). Meeting Rawls' first principle would require a society to guarantee the fair value of political liberties, in which the political liberties of individuals are to receive equal treatment regardless of arbitrary factors. Rawls' second principle concerned the understanding that "social and economic inequalities are to satisfy two conditions: first, they are to be attached to offices and positions open to all under conditions of fair equality of opportunity; and second, they are to be to the greatest benefit of the least-advantaged members of society (the difference principle)" (Rawls 2001, 42). Thus, meeting Rawls' second principle required a society to guarantee

equality of opportunity as well as the difference principle. For Rawls, in order for us to be able to speak of a truly ‘just’ society, its institutional framework would have to be specifically designed using these conceptions of justice as their guiding principle. In turn, the institutional framework of society would have to play an active role in guaranteeing the realization of these principles for all of its members.

The two principles set out by Rawls may be considered a direct consequence of his conception of a just society as being actively engaged in the implementation of justice as fairness, a society defined by him as “a fair system of social cooperation between citizens regarded as free and equal” (Rawls 2001, 39). The truth of the matter as it stands, however, is that there seems to exist a considerable distance between the realization of these principles and the institutional frameworks currently in place. Welfare-state capitalism was thought by Rawls to be structurally unable to meet the requirements set out by these principles, believing it to entail structural violations of the fair value of political liberties, equality of opportunity and the difference principle respectively (O’Neill 2012, 77-78). In Rawls’ view, however, the aim of designing a given society’s institutional frameworks around the realization of these principles was anything but a purely utopian endeavour (O’Neill and Williamson 2012, 4). Instead, what Rawls’ theory seemed to present us with was the philosophical equivalent of ‘having our cake and eating it too’, presenting his theory as a fully realizable way of achieving a seemingly utopian state of affairs (Rawls 2001, 4). By directly connecting his theoretical conception of justice as fairness with the practical circumstances needed to bring about its realization, Rawls’ enquiry would inevitably have to turn towards the question of which socio-economic framework was to be deemed best equipped to realize a society based on these principles. With such an aim in mind, Rawls was eventually to argue that a property-owning democracy was one of only two<sup>2</sup> socio-economic frameworks not in direct violation of either of his principles, with laissez-faire capitalism, welfare-state capitalism and state-socialism all coming into conflict with these principles in one way or another (Brettschneider 2012, 55).

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2 Rawls believed liberal socialism to be the second socio-economic framework compatible with his principles of justice. However, since our enquiry is focused mainly on evaluating the Rawlsian justification of a property-owning democracy specifically, we will leave the discussion of this second option aside for now. For a scholarly comparison between the two, see Jung (1998).

Since almost every scholarly contribution towards the debate is concerned mainly with contrasting a property-owning democracy with the existing arrangement of welfare-state capitalism specifically, it is the comparison between these two alternatives with which we will choose to concern ourselves here. This comparison is especially important given the fact that Rawls' *A Theory of Justice* (1971) has often been interpreted as providing a defence of welfare-state capitalism (O'Neill 2009, 379). It seems clear, however, that Rawls' later revision of this work does little to reinforce the credibility of this interpretation (O'Neill 2009, 379). As we have seen, Rawls made no attempt to obscure his view that welfare-state capitalism -which we define here as a system concerned with providing individuals with a level of basic welfare through re-distribution- would entail structural violations of his principles of justice (Brettschneider 2012, 55). Since his endorsement of a property-owning democracy was to be partly motivated by the violations of these principles on the part of welfare-state capitalism, it is the reasoning behind these perceived violations to which we shall now turn.

### **Welfare-state capitalism and the fair value of political liberties**

As has been mentioned earlier, guaranteeing the fair value of political liberties would require a society to grant every citizen's political liberty equal treatment regardless of any potential arbitrary factors, such as the amount of property that is owned by them. The potential for conflict between welfare-state capitalism and the fair value of political liberties may be thought to lie predominantly in the effects an unequal distribution of property ownership would be able to have outside of the economic sphere. As we have seen, Rawls had been critical towards welfare-state capitalism's capabilities of fully realizing the principles set out by him in *Justice as Fairness: A Restatement*. This eventually prompted him to consider a property-owning democracy to be the socio-economic framework most capable of achieving full social justice. As far as the realization of the fair value of political liberties is concerned, Rawls' eventual endorsement of a property-owning democracy can be said to have the somewhat unique characteristic of focusing more strongly on the democratic element of its justification (O'Neill 2012, 80). We may find here too, then, one of the main reasons why Rawls thought his first principle could not be guaranteed by the system

of traditional welfare-state capitalism. In his view, welfare-state capitalism would be structurally unable to adequately prevent the effects of wealth from establishing an unequal hold on a society's political system (O'Neill 2012, 81-82). Rawls' worry in this regard certainly does not seem to have been completely unfounded. For example, recent independent research has produced some empirical evidence pointing towards the idea that "preferences of the well-off group are much more likely to be reflected in policy outcomes than are those of less-affluent citizens" (Gilens 2012, 241).

Later property-owning democrats such as O'Neill (2012) have since criticized the basis on which Rawls had come to reject welfare-state capitalism as an alternative for realizing this principle. O'Neill called into question Rawls' claim that the endorsement of a property-owning democracy could be deemed justified on the basis that welfare-state capitalism would be incapable of realizing the fair value of political liberties (O'Neill 2012, 82). O'Neill somewhat nuanced the importance of a property-owning democracy's tendency towards producing a widespread dispersal of productive assets for guaranteeing the fair value of equal political liberties. Instead, O'Neill argued that its fulfilment did not necessarily require "the adoption of the full range of economic policies associated with a POD" (O'Neill 2012, 82). O'Neill came to this conclusion on the basis that the fair value of political liberties might also be realized through the adoption of policies aimed at insulating the economic sphere from the political one, for example through campaign finance reform (O'Neill 2012, 82). Since these measures could already be imposed in the context of welfare-state capitalism, guaranteeing the fair value of political liberties would not necessarily require the widespread dispersal of productive assets characteristic to a property-owning democracy. Vallier too embraced such a notion, adopting it as sufficient reason to argue that welfare-state capitalism would be equally capable of satisfying the fair value of political liberties (Vallier 2015, 20).

There is an important issue regarding the plausibility of the approach set out by O'Neill in this respect, which I shall from here on refer to as the 'insulation approach'. As has been mentioned, this approach relies on taking measures to insulate the political and economic spheres from one another within the context of welfare-state capitalism. Campaign finance reform is appealed to as an example of one of those

ways in which welfare-state capitalism would be able to insulate these spheres from one another. However, the arguments put forward by O'Neill -which have in turn been appealed to by Vallier- seem to vastly oversimplify the apparent relationship between the economic and political spheres. Consequently, they have overstated the apparent effectiveness of campaign finance reforms for insulating them from one another. There seems to be evidence indeed to suggest that campaign finance reforms have been able to have some impact on limiting the influence of donations on electoral outcomes (Stratman & Francisco 2006, 178). It certainly has not, however, been able to insulate the political sphere from the economic one to the degree espoused by property-owning democrats - let alone achieving anything near to the full insulation of the two from one another. Furthermore, campaign finance reforms have also been found to result in various side-effects damaging to this cause, such as their tendency to “most likely benefit incumbents at the expense of challengers” (Stratman & Francisco 2006, 199). This effect can hardly be considered to aid in realizing the fair value of political liberties through campaign finance reform alone. In addition, one could argue that a strong political influence originating from the economic sphere is not necessarily dependent on the *direct* funding of the political process. The apparent dependency of the political- on the economic sphere might well entail that economic actors with large amounts of capital are able to wield significant power over the political process without having to rely solely on direct donation. Large economic actors are capable of influencing the decision making process through many other means. This includes, for example, influence exerted through the lobbying process, employer associations as well as through direct negotiations conducted between private and governmental bodies. In this case, even if one was to limit direct monetary contribution between spheres to a far-reaching extent, one would expect the results to be limited so long as underlying relations of influence remain unaltered. Needless to say, the business of designing policies aimed towards curbing a more indirect method of influence seems to be somewhat of an unattainable endeavour.

With these observations in mind, it is clear that those defending welfare-state capitalism on the basis of the fair value of political liberties must rely on more than the insulation approach in support of their argument. However, further argumentation on this issue seems to be limited on their part. Rawls' emphasis on the widespread

dispersal of capital assets characteristic to a property-owning democracy seems then to be more likely to achieve some degree of insulation between the economic and political spheres. If the concentration of large amounts of capital were to be heavily restricted, then it may likewise be expected to have a similar effect on the concentration of large amounts of political power. If the concentration of capital assets poses a threat to the democratic merits of a given society, dispersing these assets into the hands of the many may be expected to produce a more democratic outcome – at least when compared to the insulationist policies suggested by O’Neill. If this is the case, a property-owning democracy would be better suitable for satisfying the fair value of political liberties. For Vallier, however, there was yet another reason for rejecting a property-owning democracy’s capability of being able to satisfy the fair value of political liberties. The incentive for lobbyists and interest groups to attempt to capture and regulate governmental bodies was deemed by him to impede a property-owning democracy’s ability to guarantee these very liberties (Vallier 2015, 20). Vallier believed this to be the case due to the vast amount of power that would have to be concentrated in a property-owning democracy’s government bureaucracy (Vallier 2015, 13). Since this vast level of power would enable the bureaucracy to ‘make or break’ one’s economic prospects, a property-owning democracy would greatly increase the incentives to attempt regulatory capture (Vallier 2015, 13). However, we seem to have insufficient reason to think this would be any different under the welfare-state capitalism endorsed by Vallier on this point, with interest groups, lobbyists and other large economic actors already exerting considerable influence on the political decision-making process. This idea is further strengthened by the observation that welfare-state capitalism itself makes only limited attempts at curbing the potential for this specific type of regulatory capture to take place. Rawls’ justification for endorsing a property-owning democracy on the basis of the fair value of political liberties -as well as his subsequent rejection of welfare-state capitalism on the basis of this same principle-, is then not as unreasonable as O’Neill and Vallier suggest.



## **Welfare-state capitalism and the difference principle**

As has been briefly discussed earlier, Rawls' difference principle required that the inequalities permitted in a given society were to be to the advantage of the least well off. Welfare-state capitalism's perceived violation of the difference principle stems largely from Rawls' conception of the difference principle as dealing with *social* inequalities alongside inequalities of wealth and income (O'Neill 2009, 382). It is the former type of inequality specifically which he believed could not be remedied through the ex-post redistributions characteristic to welfare-state capitalism (O'Neill 2009, 383). If this is the case, then welfare-state capitalism would enable the existence of inequalities that are not to the benefit of the least well off, violating the difference principle in the process. In order to guarantee this specific type of inequality -which includes inequalities of status, power, and self-respect- a property-owning democracy would actively pursue pre-distributive or 'ex ante' policies in order to combat "the likelihood of social domination or of loss of status" (O'Neill 2012, 89). If the various social attributes of the difference principle are to be directly connected to the underlying relations of wealth -as Rawls seems to suggest- then it would indeed seem to follow that the pre-distributive policies pursued under a property-owning democracy might well be better capable of guaranteeing the difference principle. Doubts have been cast, however, over the straightforwardness of this connection. Vallier, for example, has claimed that much of the argument is based on "psychological claims about the bases of self-respect that seem highly speculative" (Vallier 2015, 17). Vallier believes these claims to be speculative given the fact that there seems to be little empirical evidence available that is able to confirm them (Vallier 2015, 17). This point of criticism seems to quite plausibly point towards the apparent shakiness of property-owning democrats' argumentation on this front, concluding it to be a "messy empirical matter" (Vallier 2015, 17). Furthermore, Vallier has pointed out that for many people, their level of self-respect is not necessarily directly related to their employment (Vallier 2015, 17). Simply put, many people needn't necessarily require the fulfilment of all of the social factors put forward by property-owning democrats. At the very least then, property-owning democrats seem to have simplified the straightforwardness of this connection without providing any evidence to corroborate their claims. In the absence of any empirical



evidence that is currently capable of settling this matter, we will leave this specific part of the discussion aside – especially since there is a further critique to be made regarding the justification of a property-owning democracy on the basis of the difference principle.

It seems clear that even if we grant that a property-owning democracy would be better equipped to guarantee the *social* facets of the difference principle -as both Rawls and O’Neill have argued- ensuring that permitted inequalities are to benefit the least well off as far as wealth and income are concerned remains equally important for achieving social justice. It is in this area that the outright justification of a property-owning democracy on the basis of the difference principle becomes problematic. Much of the issue here revolves around what *exactly* constitutes ‘benefiting’ the least well off. If benefiting the least well off is to be defined by providing them with a larger initial share of productive resources according to some kind of starting gate principle, then the satisfaction of the difference principle indeed seems to point towards the endorsement of a property-owning democracy. This is mainly because a property-owning democracy’s policy of widely dispersing capital assets into public hands would quite clearly result in individuals receiving a larger amount of productive assets from the outset. This in turn would increase the least well off’s access to productive resources, and with it, their ability to benefit from them. In doing so, a property-owning democracy would improve this access to a higher degree than can be expected from the re-distributional policies pursued under welfare-state capitalism. Williamson (2009), for example, has suggested that under a property-owning democracy, the poorest households could expect to be guaranteed a level of wealth as large as \$100.000 (Williamson 2009 as cited in Vallier 2015, 5). It seems very unlikely that welfare-state capitalism would be able to provide its citizens with an amount of productive resources as large as this.

If however, benefiting the least well off is to be defined by a socio-economic framework’s ability to provide a long-term safety net -which sees them provided with a smaller batch of resources guaranteed over a longer period of time- then satisfying the difference principle instead points towards the endorsement of welfare-state capitalism. This is the case since the goal of providing individuals with the guarantee

of a long-term safety net is exactly what traditional welfare-state capitalism currently attempts to achieve. Differences between the two conceptions of ‘benefit’ discussed here are especially important keeping in mind Vallier’s observation regarding the ability of a given regime to exceed an individual’s cognitive capacity (Vallier 2015, 6). In Vallier’s view, a regime might well demand that citizens comply with a given set of rules without them actually being able to do so. An individual’s cognitive or motivational limitations are thought by him to play an important role in determining whether or not they are able to comply with the rules set out by a given regime. Given the fact that under a property-owning democracy an individual is provided with a comparably larger amount of capital resources –after which there is little to no re-distribution coming to him- then this arrangement can be expected to greatly increase an individual’s responsibility of adequately managing the assets given to him. It seems clear that a property-owning democracy would thus demand more cognitive and motivational abilities from its citizens than welfare-state capitalism. This is especially the case as far as the responsible management of their capital assets is concerned. If an individual’s capital assets were in some way to evaporate, through engaging in a bad investment for example, then a property-owning democracy’s focus on pre- rather than re-distribution might well put this individual in a worse position than if he were to be guaranteed some long-term form of redistribution under welfare-state capitalism. Thus, an individual who is provided with a level of responsibility greater than what his cognitive ability is able to cope with might not always be better served by the establishment of a property-owning democracy.

Moreover, even this observation still ignores the fact that people are prone to make mistakes somewhere along the line, and this need not be traced solely towards a cognitive inability to meet a regime’s requirements. Besides a regime being able to simply ask too much from its citizens, it is also able to punish too severely. In the first case, a regime may well ask citizens to comply with rules that supersede their cognitive abilities. In the second, an individual may be expected to comply with rules fitting to his cognitive abilities, but issues may still arise for a vast amount of other possible reasons. An individual’s decision to make a certain investment might be perfectly in line with what may be expected of him cognitively, but it may well turn out to be a bad investment nonetheless. Elements of luck, for example, cannot be

retraced solely towards an individual's cognitive inability. Under a property-owning democracy, this individual would be more severely punished for factors beyond his control. Its focus on the pre-distribution of capital on the basis of a starting gate principle will mean he is entitled to little or no re-distribution after this fact. It is not clear given these situations why a property-owning democracy would necessarily benefit the least well off more than a welfare-state would be able to do so. In short, we may assert that the question regarding which socio-economic arrangement is to be deemed most fit to realize the difference principle is strongly dependent on how one defines<sup>3</sup> 'benefiting the least well off', so that this specific principle is able to favour the justification of either socio-economic arrangement.

### **Welfare-state capitalism and the comparative value of equality of opportunity**

The societal guarantee of Rawls' conception of equality of opportunity consisted mainly in a given societal arrangement's capability of negating "the influence of social factors on the capacity of individuals to achieve particular social positions" (O'Neill 2009, 385). Following this definition, Rawls deemed the absence of policies centred around the extensive blockage of intergenerational capital transfers under welfare-state capitalism as a sign of it being unable to guarantee a sufficient level of equality of opportunity, causing him to endorse a property-owning democracy instead (O'Neill 2009, 385). The idea here is a relatively simple one. In failing to limit the transfer of capital and the advantages of opportunity commonly associated with them, a society would unavoidably enable inequalities to arise through generations and certain family relations. Though this line of thinking seems very much reasonable given Rawls' definition of equality of opportunity, its direct connection towards the endorsement of a property-owning democracy has nonetheless received some scholarly criticism. On this point also, O'Neill has since stepped in to criticize Rawls' justification of a property-owning democracy on the basis of equality of opportunity. O'Neill's objection to Rawls' line of thinking in this respect is similar to his criticism of Rawls regarding the justification of a property-owning democracy on the basis of the fair value of political liberties. Here too, O'Neill asserted the idea that

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3 Or perhaps 'values'

guaranteeing fair equality of opportunity is not necessarily dependent on realizing *all* of the policies a property-owning democracy sets out towards achieving (O'Neill 2009, 385). In O'Neill's view, a society which adopts policies aimed at preventing intergenerational wealth transmissions would be able to satisfy equality of opportunity without having to necessarily adopt the proposal of dispersing ownership of productive resources (O'Neill 2009, 386-387). In other words, O'Neill believed it to be possible to guarantee equality of opportunity through imposing only the *re*-distributive policies advocated by Meade, such as inheritance taxes, gift taxes and the investment in human capital. O'Neill deemed these policies to be capable of preventing inequalities of opportunity associated with "the intergenerational transmission of advantage" (O'Neill 2009, 385). In his view, guaranteeing equality of opportunity thus would not require the imposition of a property-owning democracy's *pre*-distributive policies, such as its widespread dispersal of productive resources. Since the *re*-distributive policies mentioned above could be imposed under welfare-state capitalism, that system could then still be deemed capable of satisfying equality of opportunity.

With an eye on some of the critiques set out by Vallier, however, there might be an additional reason to be critical of Rawls' endorsement of a property-owning democracy on the basis of equality of opportunity. In his critique of the property-owning democrats, Vallier set out the following critique regarding the implications of a property-owning democracy's endorsement, writing;

"Due to incentive and information problems, PODs will produce a smaller basket of primary goods than welfare states. They will reduce a society's level of income and wealth and, consequently, they will probably reduce the number and variety of firms in an economy. Thus, the availability and variety of jobs will be more restricted, and with it the free choice of occupation will be reduced. This includes the opportunity to own and operate one's own business" (Vallier 2015, 18).

It must be noted that in Vallier's work, this point of critique is aimed against the defence of a property-owning democracy on the basis of the difference principle – not equality of opportunity. By itself, this passage does not necessarily damage the Rawlsian justification of a property-owning democracy on the basis of equality of opportunity. This critique becomes relevant, however, through the questions it raises

regarding the comparative *value* of equality of opportunity. If this critique is a plausible one, then it would clearly establish some kind of a trade-off between equality of opportunity and the total amount of opportunities available to individuals overall. The question then becomes which of the two we are to assign the most importance towards. For example, would a situation which provides much more equal chances of attaining potentially fewer opportunities be preferred to a situation in which the opposite is the case? A Rawlsian, in defending a property-owning democracy on the basis of equality of opportunity, should say so.

However, this trade-off is not as simple as it seems. Firstly, Vallier's point regarding the reduction of opportunities under a property-owning democracy is plausible. Since it is unlikely that a property-owning democracy's policies would not have at least some detrimental effect on the efficiency of the economic system, it is likely that this would result in at least some loss of jobs. Moreover, given that a considerable part of the inequalities of opportunity currently enabled by employers may be strongly embedded culturally, the degree to which institutions could remedy inequalities in this specific area is questionable. This is not to say that they could not theoretically improve even these inequalities of opportunities in the long-term – only that Vallier's argument regarding the reduction of total opportunities is the more plausible of the two. We might say then that endorsing a property-owning democracy on this basis could provide us with a chance of improving equality of opportunity at the more plausible cost of greatly reducing the total amount of opportunities for all. If we take Vallier and O'Neill's critiques into consideration, then welfare-state capitalism may be considered better capable of balancing the two. For one, welfare-state capitalism would suffer from none of the economic inefficiencies that Vallier attributes to the pre-distributive policies imposed under a property-owning democracy, thus likely providing a larger total amount of opportunities. As O'Neill suggests, there is also little reason to think policies aimed at improving equality of opportunity, such as the inheritance taxes referred to by Rawls, could not be pursued under welfare-state capitalism. Thus, both O'Neill and Vallier's criticisms of a property-owning democracy point towards endorsing welfare-state capitalism on the basis of equality of opportunity. This conclusion seems to hold even if we take into account the fact

that Vallier did not specifically aim the critique above at the justification of a property-owning democracy on the basis of fair equality of opportunity.

### **Conclusions so far**

In summary, it is clear that a step by step analysis of the various justifications and critiques of a property-owning democracy exposes a number of different issues on both sides. The insulation approach appealed to by both O'Neill and Vallier fails to provide a convincing argument for welfare-state capitalism's ability to guarantee the fair value of political liberties. Defending welfare-state capitalism on the basis of the fair value of political liberties thus requires more than an appeal to the insulation approach – something both O'Neill and Vallier have failed to do. Rawls' arguments in this regard are more convincing. Thus, the endorsement of a property-owning democracy on the basis of the fair value of political liberties is justified. However, the question about which of the two arrangements is favoured by the difference principle seems to be dependent on how one chooses to define benefiting the least well off. Having considered two very different conceptions, it seems plausible for the difference principle to favour either arrangement. This means that the Rawlsian justification of a property-owning democracy on the basis of the difference principle is highly questionable and thus unjustified. Equality of opportunity seems to favour welfare-state capitalism for two reasons. Firstly, O'Neill has plausibly pointed out that many of the policies aimed towards guaranteeing equality of opportunity -such as inheritance taxes- can be implemented in the context of welfare-state capitalism. This means that imposing these policies does not require a property-owning democracy. Secondly, Vallier's argument regarding the reduction of available jobs and firms under a property-owning democracy -though not aimed primarily against its justification on the grounds of equality of opportunity- seems to plausibly point towards an overall reduction of opportunities for all. This forces us to think about the *value* we are to assign towards equality of opportunity, especially when it can also be achieved through the pursuit of re-distributive policies under welfare-state capitalism. Taking these points into account, welfare-state capitalism would thus be able to go a long way in guaranteeing equality of opportunity, as well as being more likely to effectively balance equality of opportunity with a larger amount of opportunities

overall. Therefore, the Rawlsian justification of a property-owning democracy on the basis of equality of opportunity is also unjustified. There are, however, further critiques to be made regarding the endorsement of a property-owning democracy that have not yet been sufficiently addressed. It is these critiques to which we shall turn in the following section.

## Part II: Theoretical and practical objections to a property-owning democracy

As we have seen, a large part of Vallier's arguments against a property-owning democracy may be seen in the context of its workings in relation to the market system. Although much of the property-owning democracy agenda seems to form a radical departure from many of the outcomes commonly associated with the market system (such as its tendency towards capital accumulation), its proponents have often explicitly connected a property-owning democracy to the workings of the market system. Rawls himself has claimed that a property-owning democracy "openly embraces markets for many purposes, and does not condemn private control of capital as such" (O'Neill and Williamson 2012, 7). Its establishment has in fact often been imagined as being wholly realizable *within* the context of the market system itself – so much so that the market system is thought to play a crucial role in bringing about the state of affairs envisioned by its proponents. Vallier believed however that a property-owning democracy would necessarily bring about issues as far as economic incentives were concerned. Through actively striving towards halting the accumulation of capital from a specific point onwards, property-owning democracies would consequently cause individuals not to consider capital accumulation beyond the point dictated by the government bureaucracy (Vallier 2015, 7). Furthermore, he also argued that the price signals produced by capital accumulation – signals which prove helpful in pointing other investors towards money-making opportunities present in the sectors where capital accumulation takes place- would bar capital resources from finding their most efficient usages (Vallier 2015, 8). Other disincentives apparent to Vallier in a property-owning democracy regard a severe decrease in the marginal benefit of work and the blockage of market exchanges (Vallier 2015, 7-11). Plausible replies to these objections on the part of property-owning democrats seem to be few and far between, if not non-existent. Though this may well point towards Vallier's economic arguments against a property-owning democracy as being plausible ones, perhaps he did not go far enough here in attacking property-owning democrats' understanding of some of the market system's most central characteristics. One could very well argue that the



arguments put forward by Vallier mainly centre around attacking the *consequences* of a deeper, underlying issue within the theoretical framework of a property-owning democracy. Moreover, property-owning democrats seem also to have insufficiently thought out the implications of their policies in relation to the market system. In order to better illustrate these points, we will momentarily have to divert our enquiry towards the rather dubious relationship between a property-owning democracy and its apparent understanding of the market system. These critiques will be divided into two different categories, namely issues arising on a theoretical level and issues arising on a practical level.

## **Theoretical issues**

### **A property-owning democracy and the ownership of private property**

As we have seen, one of the main justifications for the endorsement of a property-owning democracy put forward by its proponents is its perceived ability to correct many of the inequalities enabled by the traditional market system and welfare-state capitalism in general. One of the main methods through which it is thought to be able to do so is its fundamentally different approach towards the accumulation of capital and private property. Regarding the latter point, it seems clear that property-owning democrats' conception of private property -and the role played by it within the market system- differs substantially from its conception within the liberal doctrine. Corey Brettschneider clearly refers to this idea in his essay on the topic (Brettschneider 2012, 54). In it, Brettschneider points out the importance of the exact conception of a right to private property within a property-owning democracy, especially with regards to its inherent characteristic of including a right to exclusive usage for whoever comes to own it (Brettschneider 2012, 54). This latter point is especially important given that the way in which one conceives the importance of exclusion rights can be determinant for the justification of the widespread dispersal of private property. Under a traditional capitalist system, these exclusion rights are of a more absolute importance. Here, the accumulation of private property knows no strict bounds apart from what is taxed for re-distribution purposes. The owner of this property would be more free than in a

property-owning democracy to do with it as he pleases. This includes making it available for gift or inheritance. In principle, an individual's right to exclude others from the usage of his private property is up for discussion to a lesser degree than under a property-owning democracy, no matter how much he has accumulated up to that point. One could of course counter this argument by pointing out that inheritance and gift taxes may also be imposed in the context of welfare-state capitalism, as we have seen. However, the differences in the way these exclusion rights are perceived under a property-owning democracy remain when we take into account its pre-distributive policies, such as its widespread dispersal of productive resources. Under a property-owning democracy, caps on the amount of capital that may be justifiably accumulated are enforced by the government bureaucracy. The ownership of productive resources would also be widely dispersed into public hands, though it is unclear whether this would also include the dispersal of non-capital goods. An appeal to the exclusion rights of those who own this private property under the old distribution could theoretically be used to render this dispersal unjustified. However, given that this widespread dispersal of property would be one of a property-owning democracy's most central characteristics, the comparative importance of exclusion rights is thus viewed less rigidly in this context compared to their conception under welfare-state capitalism. At the same time, a property-owning democracy claims to clearly embrace a right to private ownership, actively enforcing it in a coercive fashion (Rawls 1999 as cited in Brettschneider 2012, 54). It is clear given the above that in making this claim, property-owning democrats cannot be referring to the exact same definition of private-property in use under welfare-state capitalism. The question then becomes how exactly they do define the concept.

Brettschneider partly addresses this issue by arguing that exclusive private property rights may be deemed justified only if "they exist in states that secure some form of a basic welfare right" (Brettschneider 2012, 54). Since he considers excluding individuals from the usage of private property to be a coercive action, Brettschneider draws on Rawls' understanding of public justification in order to establish that "coercion (...) be justified by reasons that all reasonable citizens can endorse regardless of their general moral standpoints" (Brettschneider 2012, 59). In other words, if the exclusion rights of private property are to be considered an act of

coercion, and if that coercion requires the kind of public justification set out above, then private-property too requires this justification.

Since the definition of what exactly constitutes a basic welfare right is far from an exact science, it remains unclear what role Brettschneider's conception of justification plays in the context of a property-owning democracy specifically. Admittedly, Brettschneider clearly states that this definition of private property rights does not necessarily serve as a "full-fledged argument for property-owning democracy" (Brettschneider 2012, 54). Instead, Brettschneider envisions the relationship between welfare rights and a justifiable right to exclusion as follows;

"The burden for public justification is to demonstrate why there are reasons for the excluded person to accept her duty to respect others' property rights. (...) such an argument can be made plausibly only when welfare rights are guaranteed to all citizens." (Brettschneider 2012, 55)

This specific conception of private property and its right to exclusion does not seem to directly support the case for a property-owning democracy, unless a right to exclude could *only* be justified through the widespread dispersal of productive assets. Brettschneider's own definition however does not make this claim. If private property-ownership is to be deemed justified on the basis that it provides a basic right to welfare for all -as Brettschneider suggests- then welfare-state capitalism is capable of meeting the requirements set out by him in this respect. This is the case since welfare-state capitalism already provides such a basic welfare right - justifying its existence to those who own little by demonstrating its ability to meet their basic interests through the re-distribution of private-property accumulated by others. Though Brettschneider establishes the notion that private property ownership requires some justification towards those who own little of it, it remains unclear in this case why this idea should point solely towards the endorsement of a property-owning democracy. Stronger still, the definition provided by him is at least as capable of speaking in favour of the welfare-state system endorsed by Vallier, since this system already meets the requirements set out by Brettschneider in this regard.

The underlying theoretical criticism I wish to make here, is that property-owning democrats have clearly failed to provide a convincing account of their definition of

private-property. The way in which they view the role of exclusion rights in relation to private property is unclear to say the least. Given that a property-owning democracy would entail the widespread dispersal of productive resources privately owned before this fact, they would at least have to specify under which conditions a right to exclusion may become forfeited. This would enable us to better ascertain under which conditions a person may justifiably exclude the usage of his property from others, and when he may not. Though we may agree with Brettschneider's notion that the right to exclusion requires justification, property-owning democrats must be careful not to shift the burden of proof. Surely the coercive dispersal of private property to the degree espoused by property-owning democrats would benefit from a clearer conception of private property in relation to their theory. To make things worse, the definition of justifiable private property ownership proposed by Brettschneider appears to lack a clear and explicit connection towards its specific role regarding the endorsement of a property-owning democracy. In fact, it seems just as able to speak in favour of the endorsement of welfare-state capitalism. It is therefore unclear why his definition on what constitutes justifiable private property-ownership should point solely towards the endorsement of a property-owning democracy.

## **Practical issues**

### **The effects of restricted capital accumulations in a market context**

As we have seen earlier, property-owning democrats have explicitly attempted to position their arguments within the context of market-capitalism, whilst at the same time attempting to block, remove or at least redefine some of its most central characteristics. Their proposal of placing severe limitations on the level of accumulated capital is an example of such a fact. It is to be expected, however, that the type of capital restrictions proposed by them is able to have far-reaching consequences in a market context. An important issue arises when we take into account the possible effects this proposal might have on capital-intensive industries, which require large amounts of capital in order to be able to operate successfully. Examples of such industries include railroads, telecommunications and the oil industry. Since severe restrictions on capital accumulation would be in place under a

property-owning democracy, it seems unlikely that these types of industries would be able to survive without being able to have large amounts of capital at their disposal. If they were to wish to preserve these industries whilst keeping these capital restrictions in place, property-owning democrats could of course counter this objection by stating that these economic sectors could become subject to government control. They could also suggest that these industries are to form some kind of a cooperative. However, this would not change the fact that the existence of these industries requires large amounts of capital in order to operate adequately. In the case that capital accumulation would be restricted to a level lower than capital-intensive industries require, these industries would simply vanish. If these industries were to be placed under some form of governmental or cooperative control, it seems unlikely that the control of these industries would be more effectively conducted by either alternative given Vallier's critique regarding the efficient allocation of capital (Vallier 2015, 8). Since property-owning democrats do not seem to have addressed any of these issues above, it is unclear how they have envisaged their proposals to work in any real economic setting.

### **Part III: Conclusion**

In this thesis I have argued that a property-owning democracy is unjustified on Rawlsian grounds, given that only one of Rawls' principles points directly towards its endorsement. Though the fair value of political liberties could provide its proponents with their strongest argument for endorsing a property-owning democracy, its endorsement on the basis of the difference principle and fair equality of opportunity has been shown to be problematic enough to rule out its Rawlsian justification on these grounds. Having evaluated the various arguments put forward in relation to the difference principle, I concluded that this principle could be used to endorse either arrangement. Therefore, justifying a property-owning democracy on the basis of Rawls' difference principle is unjust. In weighing up various arguments, I also concluded Rawls' equality of opportunity principle to be better guaranteed under welfare-state capitalism. This too renders the Rawlsian justification of a property-owning democracy on the basis of equality of opportunity unjust. Furthermore, the endorsement of a property-owning democracy becomes even more problematic when we take into account the theoretical flaws relating to property-owning democrats' inconsistent definition of private property. In addition, issues with the economic implications of a property-owning democracy's endorsement, such as the operational issues faced by capital-intensive industries, further decrease the desirability of endorsing it.

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