

# A Property-Owning Democracy or a Democratic Socialism?: Which One is More Compatible with Rawlsian Justice?<sup>1)</sup>

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What kind of economic regime is more compatible with Rawlsian justice, private ownership or social ownership of the means of production? Since Rawls has published *A Theory of Justice*,<sup>2)</sup> there has been much debate over this problem. Some argue that *A Theory of Justice* offers “a philosophical apologia for an egalitarian brand of welfare state capitalism.”<sup>3)</sup> Others argue that his political and economic regime is completely different from the capitalism in the classical sense of Marxism.<sup>4)</sup>

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2) John Rawls, *A Theory of Justice*, (Cambridge; Harvard University Press, 1971). Henceforth called *TJ*.

3) Robert Paul Wolff, *Understanding Rawls: A Reconstruction and Critique of "A Theory of Justice"*, (Princeton, N.J.: Princeton University Press, 1977), p.195. There are many other authors who regard Rawlsian justice as one of defences of welfare state capitalism, for example, Allan Ryan, Allen Buchanan, Amy Gutmann, Brian Barry, Barry Clark and Herbert Gintis, Carole Pateman, Norman Daniels, etc..

4) For example, Arthur DiQuattro, and Richard Krouse and Michael MacPherson.

But he himself rejects a welfare-state capitalism and illustrates a property-owning democracy and a liberal (democratic) socialism as economic regimes consistent with his justice as fairness.<sup>5)</sup>

I will deal with the following problems in this paper; what are the characteristic features of the property-owning democracy as an alternative to capitalism? Can a liberal democratic socialism be compatible with Rawls's political liberalism? I will argue that a property-owning democracy can be more compatible with Rawlsian justice than a liberal socialism, particularly concerning his political liberalism. And I will suggest my understanding of his property-owning democracy as a "mixed" regime.

## 1. Rawls's Conception of Property-Owning Democracy<sup>6)</sup>

### a) the main institutions of Rawls's property-owning democracy

Rawls thinks that his property-owning democracy realizes all the main political values expressed by the two principles of justice, but a capitalist welfare state does not. He thinks of such a democracy as an alternative to capitalism. Concluding his survey, Rawls outlines the main institutions of property-owning democracy as follows:

- i) Provisions for securing the fair value of the political liberties,
- ii) Provisions for realizing fair equality of opportunity in education and training,
- iii) A basic level of health-care provided for all.<sup>7)</sup>

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5) J. Rawls (1989), *Justice as Fairness: A Guided Tour* (Cambridge, Harvard University), p.110. Henceforth called *JF: GT*.

6) It is from J.E. Meade's property-owning democracy. J. E. Meade, "Efficiency, Equality and the Ownership of Property", *Liberty, Equality and Efficiency* (The Macmillan Press Ltd., 1993), pp.21-81, In this work, Meade proposes "four possible lines of attack which we may summarise as the replacement of the Brave New Capitalists' Paradise by i) A Trade Union State, ii) A Welfare State, iii) A Property-Owning Democracy, iv) A Socialist State.

Furthermore, Rawls insists upon two conditions: 1) a regime of competitive markets, and 2) state intervention both to correct market imperfections (e. g., to supply public goods and to correct negative externalities) and to ensure the background conditions essential to distributive justice.<sup>8)</sup> So the main institutions of property-owning democracy are the above mentioned i), ii), and iii), together with iv) competitive markets and state intervention.

b) guarantee of the equal liberties

Concerning the fair value of political liberties, in spite of his criticism that welfare state capitalism rejects the fair value of the political liberties, he is also the target of the standard left criticism that the equal liberties in the liberal democratic state are solely formal and the great inequalities in background institutions enable the few with more wealth and powers to control the political lives.

To answer this criticism, Rawls distinguishes between the basic liberties and the worth of these liberties. But this distinction is simply a definition and does not answer the left's objection. To meet that objection, Rawls includes in the first principle of justice a proviso that the equal political liberties, and that only these liberties are to be guaranteed their fair value.<sup>9)</sup>

But what kinds of institutional arrangements are needed to secure the fair value of political liberty? Rawls simply assumes that "there are practicable institutional ways of doing this compatible with the central range of application of the other basic liberties. But we can imagine two alternatives in Rawls's justice as fairness to this end: 1) insulating the state from the influence of underlying inequalities in economy and society, and 2) eliminating those inequalities.<sup>10)</sup>

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7) *JF: GT*, p.131.

8) *TJ*, pp.270-274.

9) *JF: GT*, p.123.

10) James Fishkin, *Justice, Equal Opportunity, and the Family* (New Haven, Conn: Yale

I think that Rawls covers both of these alternatives. With respect to the first, what is crucial is that political parties and the political process be autonomous with respect to private demands. Rawls proposes the public funding of elections and restrictions on campaign contributions.<sup>11)</sup> But the insulation of the state from the background inequalities cannot be sufficiently guaranteed enough to secure the fair value of political liberty without eliminating those inequalities. For capitalist economies impose significant structural constraints upon the range of policy options available to the liberal democratic state. So the fair value of political liberties requires the elimination of at least the most severe underlying economic inequalities if political process is to be insulated from the inequalities.

As for the second, Rawls also emphasizes that if the fair value of political liberty is to be maintained, background institutions for upholding distributive justice must prevent excessive accumulation of property and wealth.<sup>12)</sup> We may think of the difference principle as a means of equalizing the wealth. The egalitarian potential of the difference principle would face powerful constraints, both political and economic. But “it (the difference principle) says that to benefit still further from that good fortune we must train and educate our endowments to work in socially useful ways that contribute to the advantages of those who have less”.<sup>13)</sup> The difference principle is to justify just inequalities, though they may be rather great, not to disperse the wealth of the more able to the less able equally.

Rawls follows Meade in supposing the key institutional means of equalizing property ownership are 1) a progressive taxation over gifts and inheritances,<sup>14)</sup> 2) public policies to promote equal opportunity in education and training of various kinds. But Rawls does not agree with

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University Press, 1983).

11) *JF: GT*, p.123.

12) *TJ*, p.225.

13) *Ibid.*, p.132.

14) Meade called them “death duties”. J.F. Meade, *Ibid.*, p.52.

Meade that certain eugenic policies<sup>15)</sup> are available. For they may violate the priority of liberty required by the first principle of justice. I believe that in Meade's property-owning democracy, eugenic policies play a substantial part in reducing inequalities. If Rawls cannot accept Meade's eugenic policies, Rawls should emphasize the importance of public policies to promote equal opportunity in education and training of various kinds in order to help citizens to get and exercise their power of earning income substantially.

c) the fair equality of opportunity in education

Concerning provisions for realizing fair equality of opportunity in education and training, Rawls states "the expectations of those with the same abilities and aspirations should not be affected by their social class". The formal equality of opportunity in education is necessary but insufficient. For the higher education which influences the individuals' earning powers and which may bring out a great inequalities of wealth makes up a very large part of the cost.

In order to treat all persons equally, it is necessary to devote more attention and resources to those born into less favourable social positions or with fewer native assets. However, the fair equality of opportunity in education can at best be imperfectly realized, so long as the autonomy of family is respected.<sup>16)</sup> So the fair equality of opportunity in education

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15) For instance, differential fertility. Meade supposes that it could clearly have an important influence on the distribution of property. For there can be no doubt that there are some genetic factors at work in determining a person's ability to earn. The 'regression towards the mean' by differential fertility is to be explained by the fact that an intelligent father, transmitting only each of his chromosome pairs to his son, will on the average transmit only one half of the genes which made him exceptionally intelligent. J.E. Meade, *ibid.*, pp.47-48.

16) Richard Krouse and Michael MacPherson, "Capitalism, "Property-Owning Democracy", and the Welfare State", Amy Gutmann (ed.), *Democracy and the Welfare State*, (Princeton, New Jersey: Princeton University Press, 1988), p.88.

requires constraints upon the permissible degree of underlying inequality. Rawls places a great emphasis upon restricting the intergenerational transfers of unequal property and wealth. This is the explicit purpose of the distribution branch in Rawls's structure of governmental institutions, and it requires a steeply progressive taxation on gifts and inheritances.<sup>17)</sup>

d) property-owning democracy and welfare state capitalism

In Meade's property-owning democracy, the progressive taxation of gifts and inheritances may promote consumption rather than savings. It may also occur in Rawlsian justice. For an important feature of the difference principle is that it does not require continual economic growth: net real saving may fall to zero. To answer this problem, Rawls reminds us that the principle of just savings should hold between generations, while the difference principle holds within generations. Of course real saving is required only to make possible the conditions needed to establish and to preserve a just basic structure over time. So the just saving principle will be one that a member of any generation would adopt as the principle they would want preceding generations to have followed, no matter how far back in time.<sup>18)</sup>

Though such a kind of just saving principle may bring out real savings, it cannot regulate intergenerational transfers of wealth at the level of individuals. Rawls, like Meade, regulates bequest and inheritance by progressive taxation to preserve a just basic structure over time. But the aim is not to raise funds to subsidize the poor, but to encourage a wide and far more equal dispersion of real property and productive assets, that is, to prevent accumulations of wealth that are judged to be inimical to background justice, eg., the fair value of the political liberties and to fair equality of opportunity. So the principle of progressive taxation is applied

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17) *TJ*, pp.277-278.

18) *JF: GT*, pp.127-128.

at the receiver's ends and thereby income taxation might be avoided altogether.<sup>19)</sup> Therefore whether Rawls's property-owning democracy works successfully or not depends largely on the progressive taxation over gifts and inheritances to prevent the intergenerational transfers of wealth. And these features of progressive taxation make Rawls's property-owning democracy completely different from a welfare state capitalism.

Every modern industrial state is a welfare state. None permits natural or social contingencies fully to determine the life chances of its members. All have programs whose explicit purpose is to protect adults and children from the degradation and insecurity of ignorance, illness, disability, unemployment, and poverty.<sup>20)</sup> In this sense, Rawls's property-owning democracy could be seen as a welfare state, even if not as a welfare state capitalism rooted in the utilitarianism.

Both a property-owning democracy and welfare state capitalism allow private property in productive assets.<sup>21)</sup> But one major difference is this : the background institutions of property-owning democracy 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. By contrast, welfare state capitalism may permit a small class to have a near monopoly of the means of production.<sup>22)</sup> Property-owning democracy avoids this, not by the redistribution of incomes to those with

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19) Meade proposed 4 ways, but he preferred the progressive taxation according to the size of the total amount which he had received over the whole of his life by way of gift or inheritance. J.F. Meade, *Ibid.*, pp.53-54.

20) Amy Gutmann, "Introduction", *Democracy and the Welfare State*, (Princeton, New Jersey: Princeton University Press, 1988), p.3.

21) J. Rawls comments that this may tempt us to think they are much the same, but they are not. As he admits, the failure not to emphasize this contrast is a serious fault of *TJ*, *JF:GT*, p.140.

22) For "the welfarism implies that any two state affairs that are identical in terms of individual utility characteristics must be judged to be equally good, no matter how different they are in nonutility respects". A. Sen, "Utilitarianism and Welfarism", *The Journal of Philosophy*, Vol. 76, No.9 (September 1979), p.464.

less at the end of each period, but rather by insuring 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 which puts all citizens in a position to manage their own affairs on a footing of a suitable degree of social and economic equality.

So the least advantaged are not objects of our charity and compassion but those to whom reciprocity is owed as a matter of political justice among those who are free and equal citizens along with us, and who are doing their full share on terms seen by each as mutually advantageous and consistent with everyone's self-respect.

Welfare state capitalism accepts as given substantial inequality in the initial distribution of property and skill endowments, and then seeks to redistribute income *ex post*; property-owning democracy seeks greater equality in the *ex ante* distribution of property and skill endowments, with correspondingly less emphasis on subsequent redistributive measures. "The ownership of property in property-owning democracy could be equally distributed over all the citizens in the community. No citizen owns an excessively large or an unduly small proportion of the total of private property. Each citizen will be receiving a large part of his income from property."<sup>23)</sup> Clearly Rawls's view presupposes that widespread ownership of productive property would result that the distinction between labouring and capitalist classes would disappear.<sup>24)</sup> So "property-owning democracy"

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23) J.F. Meade, *Ibid.*, p.41.

24) According to Jon Elster, "clearly it (Meade's property-owning democracy) would contain a class of capitalists, at least in the sense of a class in itself (people who could live comfortably without working should they choose to do so, but, typically, their ancestors and their descendants would not be capitalists.) ... The class organization of capitalists might largely survive the introduction of property-owning democracy". Jon Elster, "Comments on Krouse and MacPherson", *Ethics* 97(October 1986), p.148. This kind of criticism may apply to Rawls's property owning democracy. But even though this kind of class may exist in Rawls's property owning democracy, it will make no sense. For it is certain that they get their current social status within the limits of justice during their own lives and so



could not be described as “capitalist” in the classic Marxian sense.<sup>25)</sup> But what I have argued till now does not show that property-owning democracy is more compatible with Rawls’s political liberalism than liberal democratic socialism is.

## 2. A Liberal Democratic Socialism

Rawls argues that “to illustrate the content of the two principles of justice, we need not decide between a property-owning democracy and a liberal socialist regime. In each case, ... the principles of justice can be realized.”<sup>26)</sup> What does a property-owning democracy share with a liberal democratic socialism? What makes him think that his theory has no commitment to either capitalism or socialism? What are the differences between the two?

In both systems, firms in free and workably competitive markets compete against one another, but in liberal socialism, capitalist firms are bound to be prevented from forming, and only worker controlled firms compete against one another. In these firms the workers can not have full ownership rights<sup>27)</sup> over the means of production. In other words, they do not have the rights to sell, alienate to others and destroy the means of production. They have only the rights to access, that is, the use rights and the income rights, etc.. For if they have the full ownership rights over the means of production, then capitalist firms could emerge. So the central feature which distinguishes the two forms of regime is not the competition

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they are not inimical to the background justice of property owning democracy.

25) Richard Krouse and Michael MacPherson, *ibid*, p.83.

26) JF: GT, p.140, and he argues that the first principle of justice includes a right to private property, but this is different from the right of private property in productive assets, JF:GT, §32.5.

27) A.M. Honoré, “Ownership”, *Oxford Essays in Jurisprudence: A Collective Work*, (ed.) by A.G. Gust (Oxford University Press), p.108.

in markets, but only whether the existence of the full ownership rights over the means of production is allowed or not.

Rawls argues that the first principle of justice includes a right to private property, but this is different from the right of private property in productive assets.<sup>28)</sup> I want neither to reject this argument, nor to argue that the list of his basic rights must be expanded to include a) a basic right to free exchange and b) a basic right to own and acquire natural resources and means of production.<sup>29)</sup> I believe that even without these additions to the list of basic rights Rawls should favor property-owning democracy over liberal socialism in modern democracies.<sup>30)</sup>

Rawls argues that a virtually permanent feature of modern democracies is the existence of a wide variety of divergent and incompatible conceptions of the good. And he emphasizes that these conditions are not just the plurality of opposing conceptions of the good, but a plurality of opposing but reasonable comprehensive doctrines.<sup>31)</sup> Given this fact of pluralism, the only fair basis for social cooperation is to allow a wide variety of determinate conceptions of the good (within the limits of justice) to flourish and for basic rights to maintain and protect such flourishing.<sup>32)</sup> Arguments for principles of justice are incomplete (that is, a mere *modus vivendi*) until one shows these principles can help to constitute and promote a stable society under modern democratic conditions.<sup>33)</sup>

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28) *JF: GT*, §32.5.

29) Daniel Shapiro, "Why should Liberals Should Support Free Market Capitalism", *The Journal of Political Philosophy*, Vol. 3 (March 1995), pp.58-59.

30) But, I will argue that under modern democratic conditions, the right of private property in productive assets should be recognised as an additional but important right at the constitutional stage. For Rawls proposes property-owning democracy as a constitutional regime, not as a procedural democracy. *JF: GT*, p.116.

31) John Rawls, *Political Liberalism* (New York: Columbia University Press, 1992), pp.36-7, 59. Henceforth called *PL*.

32) *PL*, pp.303-4, 308.

33) *PL*, pp.303-4, John Rawls, "Reply to Habermas", *The Journal of Philosophy*, Vol. xcii, No. 3, March 1995, p.147.

When a practical decision is to be made between property-owning democracy and liberal socialist regime, we look to society's historical circumstances, to its traditions of political thought and practice.<sup>34)</sup> The fact of pluralism of opposing but reasonable comprehensive doctrines is a characteristic feature of modern democracies, not the content of the two principles of justice. Therefore the problem of choice between the two forms of regime at the constitutional stage should be understood as the problem of which kind of regime is more compatible with the features of modern democracies.

Now the question which I should answer is which form of regime allows for a much wider variety of divergent conceptions of the good (within the limits of justice) to flourish and for its basic rights to maintain and protect such flourishing. There are many conceptions of the good which require the existence of capitalist firms. There are conceptions of the good which require the existence of worker-managed firms. And there also may be certain conceptions of the good which require the existence of completely different forms of ownership rights according to their own unique communitarian conceptions of the good.

Liberal socialism cannot permit the existence of capitalist firms. However property-owning democracy permits the existence of a wider variety of ownership rights, including socialist forms of ownership. Thus property-owning democracy allows for a wider variety of conceptions of the good. Therefore, if Rawls's political liberalism accept the fact of pluralism seriously, the right of private property in productive assets should be recognized as an additional but important right at the constitutional stage, so property-owning democracy should be favored in modern democratic conditions.<sup>35)</sup>

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34) *JF: GT*, p.140.

35) Of course, if we were in a society which has overcome the fact of pluralism, property-owning democracy might not be favored.

### 3. Conclusion: Reinterpretation of Rawls's property-owning democracy

The attempts to argue that Rawls's two principles of justice are more compatible with liberal socialism is related to the importance of democracy in the workplace.<sup>36)</sup> Many people's sense of self-respect is significantly affected by work. There are significant differences in the extent to which capitalists and workers control the labour of others, their own labour, and the productive process of the firm as a whole.<sup>37)</sup> And since Rawls argues that there is a link between equal rights and equality in the social bases of self-respect, and since his principles do not guarantee the latter equality explicitly, the most direct solution may be to add to the list of basic rights use and income rights over means of production, for in this way we can eliminate the inequalities in power and authority in the workplace. But the basic problem with this argument is that little has been said to show uncontentiously how the income and use rights in market socialism will actually be effective in eliminating these inequalities.<sup>38)</sup>

The more reasonable solution seems to me that both worker-managed firms and firms consisting of capitalists and workers, are included in a constitutional regime, that is, property-owning democracy. For Rawls believes that Mill's idea of worker-managed firms is fully compatible with

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36) There may be other arguments for a liberal socialism. For instance, private ownership over the means of production should not be permitted, for when it is combined with competitive markets, it necessarily creates a great inequalities which is inimical to the background justice. Though this argument is really strong, but it is not touched in this paper. For it is too controversial and empirical for me to touch in this short paper.

37) Gerold Doppelt, "Rawls' System of Justice: A Critique From the Left", *Nous* 15 (1981), p.267.

38) Daniel Shapiro, *ibid.*, p.70. It seems to me that there is no significant difference between market socialism in Shapiro's argument and Rawls's liberal socialism.

property-owning democracy.<sup>39)</sup> I believe that this is the nearest solution to Rawls's political liberalism. For this solution can realize Rawls's claim that "in each case, ... the principles of justice can be realized" without the expansion of the list of basic rights. So I want to understand Rawls's property-owning democracy as a "mixed" regime which includes both socialist ownership and private ownership of the means of production. If we understand Rawls's property-owning democracy as I propose, we can easily accept various kinds of reasonable but opposing conceptions of good in our constitutional regimes. If so, we can get an overlapping consensus regarding political justice under modern democratic conditions.

Furthermore, all of us Koreans, like Germans in a few decades ago, do sincerely desire the reconciliation of our nation, that is, the reunification of Korean peninsula. I think that Rawls's property-owning democracy understood as a "mixed" regime will have a great practical implication. For it is really urgent for us Koreans to make a model of the reunified constitutional regime.

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39) *JF: GT*, p.143.