

The Promise of Predistribution

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In his important speech to *Policy Network's* conference on “The Quest for Growth”¹ earlier this month, Ed Miliband announced that Labour has a “new agenda”, a new central big idea that will drive its economic message in the run-up to the next general election. It may not have the snappiest name – indeed, quite the contrary – but the idea of “predistribution” is a potentially powerful one.

If it is pursued courageously and with serious intent, an economic policy centred on the idea of predistribution has the capacity to create an exciting and radical new agenda for social democracy, and to deliver an unrecognizably more equal and just society. Alternatively, if pursued in its weaker versions, it promises no more than an ineffective rear-guard action against the dispiriting and regressive politics of austerity. Very much will depend on the directions in which it is developed, and on whether Labour embraces a weak or a radical version of the politics of predistribution.

The core meaning of “predistribution” is simple to grasp. As Yale political scientist Jacob Hacker, the term’s progenitor, puts it in his *Policy Network* paper on “The Institutional Foundations of Middle-Class Democracy”², the aim of predistribution is “to focus on market reforms that encourage a more equal distribution of economic power and rewards even before government collects taxes or pays out benefits”. Instead of equalizing unfair market outcomes through tax-and-spend or tax-and-transfer, we instead engineer markets to create fairer outcomes from the beginning. To put things in a slightly different way, the need for *ex post* redistribution is reduced as the *ex ante* distribution of economic power is made more fair and equitable.

One could see this approach as the politics of the second-best, or as a fall-back strategy for the Left to adopt as it makes its concessions to atrophying state capacity and unsupportive public opinion. On such a view one might imagine that, now that the recession has made it impossible to help the disadvantaged by the old strategy of skimming-off a small part of the proceeds of growth, here’s a way of doing it on the cheap. Indeed, Hacker sees predistribution as a way for social democrats to accommodate their ambitions to a more hostile world.

In a world of weak economies, predistribution could be seen as offering an easier path than support for the traditional welfare state, with less need to raise revenue to fund benefits payments and social expenditure; and in a

¹ <http://www.policy-network.net/event/3918/The-quest-for-growth-ideas-for-a-new-political-economy-and-a-more-responsible-capitalism>

² http://www.policy-network.net/pno_detail.aspx?ID=3998&title=The-institutional-foundations-of-middle-class-democracy

world of scepticism about government spending and hostility to taxation, there may be less need for social democrats to change people's minds. But, as we'll suggest, this need not be the only way to think about predistribution; instead, it can be embraced as an inspiring new way of securing social justice, and not just as an accommodation to a bleak world of triumphant neoliberalism, weak states, and a lack of public support for public policies that help those who lose out from unbridled capitalism.

There is much that governments can do to foster greater equality in market outcomes without spending money. The concrete measures that Ed Miliband has advanced, although not yet engaging the full potential of the politics of predistribution, present a promising start on a path towards a more justifiable and human form of capitalism. From capping rail and fuel price increases, to legislating for a living wage, and from changing government procurement rules to encourage vocational training, to putting workers' representatives on corporate remuneration committees, these are all workable, worthwhile policies.

But the real question is how far down this line Labour will be willing to go. It was much to Labour's credit that it warmly welcomed the insightful findings of the High Pay Commission.³ But even here, it would be reasonable to ask for rather more than we've yet seen. It is one thing to put a single workers' representative on every remuneration committee but, in practice, is not hard to imagine the circumstances where a single representative was easily sidelined or ignored. If we really think that runaway executive pay has gone much too far, and that rampant inequality is scarring our society, then more fundamental reforms of corporate governance would make good sense. A good start would be to begin to move towards something closer to German forms of codetermination, with a more even balance of power between the representatives of shareholders and workers on corporate boards and remuneration committees. A voting bloc representing workers' interests would be less easily ignored than a solitary dissenting voice.

Broader questions regarding the representation of worker's interests and the reallocation of effective power within the economy also present themselves. As economists Michael Kumhof and Romain Rancière argue, in research published by the IMF, the best way of flattening pre-tax inequalities is significantly to raise the bargaining power of wage-earners.⁴ Research published by the OECD in their 2012 "Going for Growth" Report also shows that labour-market reforms that increase workers' power to negotiate their wages, and which increase workers' legal protections, are a highly effective way of flattening inequalities without harming growth.⁵ Following these suggestions would mean government strengthening trade unions and collective bargaining arrangements as a way of broadening the dispersal of bargaining power within the economy, and thereby reducing unequal outcomes. It's a classic "predistributive" policy. But policies to broaden the reach and strengthen the grip of trade unions are, of course, well outside the

³ <http://highpaycommission.co.uk/uncategorized/final-report-of-the-high-pay-commission-published/>

⁴ <http://www.imf.org/external/pubs/cat/longres.cfm?sk=24378.0>

⁵ See "Reducing Income Inequality While Boosting Economic Growth: Can it be Done?" online here: <http://www.oecd.org/eco/publicfinanceandfiscalpolicy/49421421.pdf>

comfort zone of the less contentious forms of predistribution. What this begins to show is that the politics of predistribution cannot be an innocuous or uncontroversial.

As well as strengthening bargaining power through making industrial organization easier, and by creating more institutional support for workers' representation, redistributive strategies can look to flatten inequalities through improving the distribution of the human capital which individuals bring to the market. Indeed, this is central to what Ed Miliband seems to have in mind, when he speaks of creating "a much higher skill, higher wage economy." But there are limits to what can be achieved through this particular subset of redistributive policies. The limits of this particular approach become clear when we examine some of Miliband's own examples. In his speech, he argued that predistribution can offer something significant to "somebody working in a call centre, a supermarket, or in an old people's home". Well, perhaps opportunities to improve one's skills or human capital could offer particular individuals routes towards more high-skilled and highly-paid jobs, but there is no possible policy that entirely removes jobs like these from the economy. While call-centre work can be exported to developing countries (as we've seen, with notably mixed results), we'll always need a society where some people work in supermarkets, and, with a rapidly aging population, we'll need more, rather than fewer, people who work in caring roles looking after old people. If predistribution is to offer a comprehensive strategy for institutionalizing social justice, it needs to work across a much broader spectrum than performing the single role of delivering more to people through the operation of the labour market.

This brings us to an older and more radical approach to predistribution that can be found in the history of social democracy, even if it once went by another name. The Nobel Prize-winning economist James Meade, in his 1964 book *Efficiency, Equality and the Ownership of Property*, championed the idea of a systematic regime of redistributive policies, which he called a "property-owning democracy". Despite the term's subsequent associations with the Right, and in particular with Mrs Thatcher's sell-off of council housing, Meade's version of a property-owning democracy was conceived as a stage in the development of social democracy beyond the welfare state.

Meade's property-owning democracy would go beyond the constraints of redistributive policies by looking fundamentally to change individuals' economic power within markets. It would do this by significant redistribution of control over both human and non-human capital. Meade's approach to predistribution thus involved a society where social justice was promoted not only by raising wages through substantial investment in education and training, but also by giving every citizen a capital stake, along the lines of a supercharged version of the "Baby Bond" that George Osborne threw onto the scrapheap.

What Meade saw clearly was that, in order to be effective, redistributive policies needed real teeth. As well as finding ways to disperse the distribution of human and non-human capital by improving the capital holdings of the disadvantaged, alongside this Meade emphasized the significance of breaking-

up, or at least significantly diluting, existing concentrations of capital held by the wealthy. Hence, Meade advocated the aggressive taxation of capital transfers between generations where, in distinction from standard forms of inheritance taxation, the system of transfer taxation would be designed so that transfers would attract broadly similar rates of taxation, whether they were realized through inheritance or by means of gifts *inter vivos*.

What was central to Meade's vision was to find every workable way to disburse effective *control* over economic resources, so that every individual could, insofar as possible, be an active and participating economic agent. By putting everyone in a position to take part in economic activity on the basis of their having real economic agency, one could get directly at the heart of problems of socioeconomic inequality. Meade's proposal was to treat the root causes of inequality, rather than attending only to the symptoms. In pursuing these ends, one of the striking features of Meade's version of "property-owning democracy" was its pluralism regarding useful means, marshalling a number of distinct policy mechanisms, including the tax system, direct transfer payments, education policy, housing policy, industrial policy, and government intervention in the financial markets, in pursuit of a unified and integrated political goal.

This pluralism of means illustrates the important fact that a comprehensive strategy of predistribution is not a straightforward *replacement* for the more familiar redistributive mechanisms of the traditional welfare state, but should, instead, be seen as in part an *extension* of those mechanisms. Predistribution requires an active state, and it presupposes a background in which high quality public services are playing their part in the overall strategy for empowering citizens and cutting-off inequality before it emerges. Perhaps most important among these institutions are those offering education and training (including lifelong opportunities for retraining) and, perhaps most significant among those, institutions such as SureStart, offering early intervention in the lives of those who might otherwise grow up with low skill levels, or who were in danger of missing out on the chance to grow into active and successful participants in economic life.

Meade's idea of a predistributive "property-owning democracy" was later taken up and further developed by the political philosopher John Rawls, in work published during the final period of his career, and in particular in his discussion of the institutions of a just society in his final presentation of his theory of justice, his 2001 book *Justice as Fairness: A Restatement*. Rawls argued that predistribution in a "property-owning democracy" wasn't a second-best strategy for creating social justice, but was in fact far superior to traditional forms of welfare-state redistribution.

Predistribution of human capital, through education and training, fosters self-respect and economic agency, while predistribution of capital stakes gives people the kind of independence that comes with being less in thrall to the vagaries of the labour market. Those with a more secure economic position are free to refuse demeaning or badly paid jobs, and this in turn bids-up wages and reduces inequality.

The key to understanding Rawls's *property-owning democracy* is that it should be seen as a socioeconomic system delineated with an explicit focus on the satisfaction of his two principles of justice, 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" (JF, p. 138). Unlike a purely *redistributive* welfare state, under Rawls's 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" (JF, p. 139). This ensures "the widespread ownership of productive assets and human capital," thereby effecting an egalitarian *predistribution* of the capital that individuals bring to the market, rather than relying on after-the-fact mechanisms to deal with the aftermath of skewed and unfair free market processes. As Rawls describes the aims of property-owning democracy:

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. (JF, p. 139)

Rawls's predistributive state achieves fairness in economic competition and equality of opportunity by doing as much as it can to invest equitably in the human capital of its citizens. It responds to the ideal of non-domination, and helps to realise a republican brand of freedom, by ensuring that all citizens can be *active* and independent participants in economic life, rather than being the playthings of remote economic forces. And it is designed to realise the value of social equality by constructing economic institutions that give everyone, as a matter of their entitlements as citizens in a democratic society, the means to secure their status and self-respect as participating members of the economic life of that society.

Meade and Rawls, the two outstanding theorists of predistribution, conjure a vision not just of tinkering at the edges of current market outcomes, but of fundamentally changing the distribution of economic power in society. While both look to reduce the month-to-month taxation and redistribution of *incomes*, they nevertheless agree that real predistribution involves the aggressive taxation of wealth, through taxes on capital holdings and transfers, and especially on inheritance. Real, radical forms of predistribution do not so much allow governments to tax less in absolute terms; rather, they require a fundamental shift in the focus of taxation from income to wealth.

What would it mean to follow the visions of Meade and Rawls in practical public policy? Well, as well as increasing investment in education and training, it would mean finding as many ways as would be practicable to grant citizens real and direct economic power. As we've mentioned above, this could mean creating a regulatory climate more friendly to union activity, and could

mean reform of corporate governance so as to give workers and their representatives a stronger voice in decision-making. It could also mean, for example, finding ways to democratize financial institutions, for example changing the governance of pension funds so as to give individual investors more of a democratic say in how their money is invested. It would mean government finding ways to support cooperatives and mutuals, using the tax system to reward companies that give real voice to their workforces. It could mean the creation of local investment banks, with real democratic oversight that involves members of the communities in which those banks would operate. And it would mean looking again at ways of providing real capital stakes to individual citizens, whether through the resurrection of a more comprehensive version of the lost Baby Bond scheme, or by other ways of, for example, providing start-up capital to small businesses on more advantageous terms.

The power and promise of predistribution is that governments can find ways to influence the structure of the economy, to make it unrecognizably more egalitarian and more democratic. That is the aim; as for the best way of achieving it, what matters is what works in advancing that vision. Meade provided a good example in advocating a panoply of independent policies and institutional innovations. Politicians of the left need to think through the possibilities of a range of possible ways of moving towards this goal. Only time will tell which routes through may work best.

Before concluding we want to call our reader's attention to the relationship between this social democratic politics of predistribution and the very different tradition represented by Blue Labour. What Meade and Rawls offer is an agenda for creating fairer and more democratic economy, based upon and motivated by appeal to the general political values of equality, freedom, opportunity and social justice. This may seem like anathema to Blue Labour critics of Fabian system-building or philosophical abstraction. But disputes about philosophical foundations are, in one interesting way, politically besides the point. This is because the agenda that we derive from Rawls and Meade, in its practical recommendations, overlaps in most relevant respects with economic agenda of Blue Labour. Disagreement about philosophical orientation can fall away as interestingly irrelevant when we turn to real politics and the practical question of how to reform the economy. Maurice Glasman talked of the imperative to achieve "high levels of democratic interference in the economy" as the practical goal of Blue Labour politics.⁶ Well, that's also the goal of property-owning democracy, and of the politics of predistribution in the tradition of Rawls and Meade. Different starting points are consistent with a shared destination.

In its more radical forms, predistribution is a potentially radical and inspiring project for social democrats who have come to see the limitations of the old ways of doing things. It's a project that promises a strategy to deliver abundantly on values of social justice, economic freedom, and equality of opportunity. But it's a project that involves going head-to-head with entrenched interests, breaking up existing concentrations of wealth and

⁶ <http://www.guardian.co.uk/politics/2011/apr/24/blue-labour-maurice-glasman>

economic power. The politics of predistribution, if taken seriously, simply cannot be a politics without enemies. Labour must decide whether its engagement with predistribution is to be limited to tinkering at the edges of neoliberalism, or whether it will instead fully embrace the opportunities of the present moment, decide to be radical, and realise the full promise of the politics of predistribution.

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