

# Rawls, Libertarianism, and the Employment Problem: On the Unwritten Chapter in *A Theory of Justice*

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**Abstract:** Barbara Fried described John Rawls's response to libertarianism as "the unwritten theory of justice." This paper argues that while there is no need for a new theory of justice to address the libertarian challenge, there is a need for an additional chapter. Taking up Fried's suggestion that the Rawlsian response would benefit from a revised list of primary goods, I propose to add employment to the list, thus leading to adoption of a full employment principle in the original position that ensures that anyone who wants to work will be able to do so. I argue that although Rawls famously proposed government as employer of last resort, he never integrated that comment into his theory, which lacks a full employment principle and says nothing about the injustice of involuntary unemployment in its ideal theory. I first refute the received view of Rawls's treatment of employment as required by its importance for citizens' self-respect, then show that in fact, the full employment assumption is the result of the role of general equilibrium theory in Rawls's model of a well-ordered society, and indicate why developments in economic theory and economic policy support the proposed revision.

Barbara Fried described John Rawls's response to libertarianism as "the unwritten theory of justice." This paper argues that while there is no need for a new theory of justice to address the libertarian challenge, there is a need for an additional chapter. Taking up Fried's suggestion that the Rawlsian response would benefit from a revised list of primary goods, I propose to add employment to the list, thus leading to adoption of a full employment principle in the original position that ensures that anyone who wants to work will be able to do so. I argue that although Rawls

famously proposed government as employer of last resort, he never integrated that comment into his theory, which lacks a full employment principle and says nothing about the injustice of involuntary unemployment in its ideal theory. I first refute the received view of Rawls's treatment of employment as required by its importance for citizens' self-respect, then show that in fact, the full employment assumption is the result of the role of general equilibrium theory in Rawls's model of a well-ordered society, and finally show why developments in economic theory and economic policy show the need for the proposed revision.

Although Rawls developed his theory of justice as a response to utilitarianism, Barbara Fried remarks that the game changed with the publication of Robert Nozick's *Anarchy, State, and Utopia* in 1975.

[Nozick] singlehandedly made deontological libertarianism a political philosophy to be reckoned with in academic circles, at precisely the moment it was on the ascendancy in political circles. For the general readership of [*A Theory of Justice*], it also singlehandedly enshrined libertarianism rather than utilitarianism as the chief rival to 'justice as fairness,' and put the difference principle at the center of Rawlsianism. Forty years later, to most nonspecialists 'Rawlsianism' is the difference principle, and the most durable part of Nozick's argument has proved to be his critique of that principle."<sup>1</sup>

Moreover, Fried notes, over the years "a small cottage industry has emerged, dedicated to showing how little is required, logically speaking, to turn Rawls into Nozick and Nozick into Rawls. . . . As Loren Lomasky put it, 'Is it possible to deny the fundamentally libertarian flavor of a theory in which [maximal liberty for all] enjoys lexical priority?'"<sup>2</sup> But, Fried continues, since Rawls never revised his theory to address the libertarian challenge, "we have to *infer* how he would have responded to the substantial libertarian critique of *TJ* that has amassed over the past four decades,"<sup>3</sup> and this inferred theory she dubs "the unwritten theory of justice."

Although Fried overstates the extent of Rawls's and Rawlsians' neglect of libertarianism,<sup>4</sup> a clearer account of his differences from libertarians would be an advance. However persuasive one finds Rawls's and Samuel Freeman's denials that libertarians are even liberals,<sup>5</sup> one cannot deny libertarianism's wide currency today, both in the public—which is, as Rawls emphasized, the principal audience of political philosophy—and in philosophy, where Gerald Gaus has taken up the libertarian mantle from Nozick and mounted a new line of attack on justice as fairness.<sup>6</sup> Even Samuel Scheffler, who is among Rawls's staunchest advocates, has recognized the seriousness of the challenge. "The idea that a society should constitute a fair system of cooperation among free and equal people, and that the major institutions of society should provide a fair framework within which people can pursue their diverse conceptions of the good, is deeply appealing," he recently wrote, while nevertheless conceding that, "there is a certain looseness in talk of a fair system of cooperation, and we need to think harder about what that

idea includes and what exactly we are demanding when we demand a fair social framework.”<sup>7</sup>

Scheffler, however, proposes nothing specific to eliminate this looseness, and Fried tells us only that “it is easy to see where Rawls and libertarians come apart and hard to see how to get them to agree on much of anything except by persuading one or the other to change their fundamental moral commitments.”<sup>8</sup> This thought leads her to the pessimistic conclusion that “it is regrettable that the other *Theory of Justice*—the one framed as a response to the libertarian critique of the actual *Theory of Justice*—will remain unwritten. One can only speculate how engaging with that critique might have moved Rawls to revise ‘justice as fairness.’”<sup>9</sup>

Moreover, Gaus’s currently influential critique of Rawls’s political liberalism (which Fried mentions but does not discuss) picks up where Nozick left off.<sup>10</sup> Gaus counters Scheffler’s claim that justice as fairness remains deeply appealing and argues rather that it is dead. He notes the remark on the back cover of *Justice as Fairness* that Rawls was “well aware that since the publication of *A Theory of Justice* in 1971, American society has moved farther away from the idea of justice as fairness,”<sup>11</sup> and observes that there has been “considerable dispute about almost every aspect of Rawls’s ‘political turn,’ including whether it was well- or ill-advised.”<sup>12</sup> In any event, he argues, *Political Liberalism* must be seen as a collection of essays written over twenty years where “superseded thoughts appear to be retained along with later ideas.”<sup>13</sup> This, Gaus contends, has led to numerous inconsistencies in the argument and leads him to conclude that the power and relevance of Rawls is not to be found in his theory of justice, but in his idea of public reason, which Gaus interprets as showing “that moral clarity can be achieved even when a collective commitment to justice is uncertain.”<sup>14</sup>

I cannot adequately discuss Gaus’s deep and powerful critique of justice as fairness in this space, and I mention him here simply to underscore the relevance today of the libertarian critique. I instead take up Scheffler’s challenge “to think harder about what [justice as fairness] includes and what exactly we are demanding when we demand a fair social framework.”<sup>15</sup> Fried, for all her pessimism, offers a clue. After conceding her inability to articulate the unwritten theory of justice, she suggests that one direction Rawls might have taken in responding to the libertarians is “to revise the list of primary goods . . . to include those things that are essential to attain the [incommensurable and irreconcilable ends that determinate individuals actually possess].”<sup>16</sup> And since Rawls himself characterized his list of five primary goods as ‘basic’ and allows that we may add a primary good “should it prove necessary,”<sup>17</sup> this approach seems promising. To succeed, however, we must go beyond these indeterminate suggestions and identify the primary good, as well as explaining how its addition makes justice as fairness more robust and better able to respond to the libertarian challenge.

The missing primary good is employment, and the remainder of this paper presents a proposal for amending justice as fairness by adding it to the list of primary goods, as well as offering reasons for thinking that Rawls might accept the addition as a friendly amendment. The broader objective, however, is to identify employment as the elephant in the room of political philosophy, and to show how the failure to notice the elephant affected not only Rawls's theory of justice, but the discussion of justice in mainstream political philosophy. Rawls is particularly instructive in this regard. *A Theory of Justice* mentions full employment only once, in a passing remark in the section on "Background Institutions for Distributive Justice" where he says that the stabilization branch of government "strives to bring about reasonably full employment in the sense that those who want to work can find it."<sup>18</sup> He says nothing here about the importance of employment for citizens' self-respect, nor does he suggest that government serve as employer of last resort; indeed, he remained silent on full employment in a series of articles and books until he was near the end of his career.

Samuel Freeman has emphasized Rawls's commitment to full employment and sees no need to revise the theory. "By 'least advantaged,'" Freeman notes, "Rawls means the least advantaged working person, as measured by the income he/she obtains for gainful employment," since "[h]e assumes the ideal case where people live a normal course of life, engage in gainful employment, and are capable of making contributions to the social product."<sup>19</sup> This is a plausible explanation of Rawls's view, but it fails to explain why he waited so long to call attention to something he regarded as important. I conjecture that these late remarks on the employment problem indicate that he was starting to see the elephant, was experiencing some reflective disequilibrium concerning his modeling of employment and unemployment in his theory, and hence that he would accept the proposal to include employment as a primary good. But while I believe these conjectures are correct, my main objective here is to identify the elephant, and Rawls is particularly helpful just because he is even today the only mainstream philosopher to take notice of the injustice of unemployment.

This paper is thus Rawlsian in the same sense that Rawls regarded his theory of justice as Kantian in his 1980 Dewey Lectures; that is, the version of justice as fairness defended here "sufficiently resembles [Rawls's] in enough fundamental respects so that it is far closer to his view than to the other [current accounts of justice] that are appropriate for use as benchmarks."<sup>20</sup> Section 1 briefly summarizes what Rawls did say about employment, as well as what he did not say. Section 2 then analytically considers employment as a primary good and argues that it does indeed possess important features of primary goods. In particular, I show that the received view of Freeman et. al., which emphasizes the importance of employment for citizens' self-respect, supports my view that employment should be regarded as a primary good over Freeman's claim that there is no need to do so. Thus, whatever

one thinks of my conjecture about what Rawls would think today, the main point is that my revised justice as fairness is an improvement on the classical version (although I should not want to call my version 'neo-justice as fairness').

Sections 3 and 4 develop further the suggestion that Rawls may have experienced reflective disequilibrium concerning his modeling of employment by examining the economics implicit in Rawls's model conception of a well-ordered society; Section 3 considers the quarter century from his entry into graduate school to the publication of *A Theory of Justice*, and Section 4 the next quarter century that takes us to near the end of his career. There are some remarkable coincidences here and Rawls, who was deeply immersed in economic theory, was surely well aware of them. The story in Section 3 is the emergence and triumph of the research program known in economics as the 'neoclassical synthesis' that Rawls incorporated into his model conception; the story of Section 4 is the unraveling of that research program, starting with Milton Friedman's Presidential Address to the American Economic Association in 1968. That address did not immediately transform economics, but it presaged things to come in the years following 1971, with the triumph of conservative libertarian economic policies in America and Britain in the 1980s and beyond and the rise of the New Classical Macroeconomics as an alternative to the Keynesian full employment policies that Rawls assumed in 1971 and that came increasingly under attack and remain under attack today.

Section 5 concludes the paper by exploring the relationship of the full employment version of justice as fairness to proposals for a universal basic income and property owning democracy.

## 1.

The addition of employment as a primary good leads the parties in the original position to adopt a full employment principle as a fundamental principle of justice. The primary good of employment and the full employment principle are necessary and sufficient for one another; employment as a primary good is necessary for the adoption of a full employment principle because otherwise employment does not arise in the original position, and it is sufficient because once it is on the table, the parties' concern for the least advantaged leads them to assert a right to employment.

Now Rawls always understood full employment as a feature of a well-ordered society and says as much in *Theory*.<sup>21</sup> But the comment appears in Part Two of the book, which is concerned with non-ideal theory, and there is no full employment principle. This approach shows that Rawls *assumes* full employment and sees no need to model it as a requirement of justice. This assumption seemed reasonable during the time he was developing justice as fairness, but it had the consequence that unemployment appears as a technical problem in macroeconomics rather than as a matter of justice. *Theory* thus treats the employment problem as exogenous to

the theory of justice, whereas the proposed amendment moves it into the original position so that employment and unemployment are endogenous and relevant to justice.

My claim is not that Rawls insufficiently appreciated the importance of employment, but rather that he failed to model it properly in his theory. He believed that when the employment market does not provide a sufficient number of jobs to employ everyone, society should act as the employer of last resort. The introduction to the paperback edition of *Political Liberalism* contains his strongest statement of the importance of full employment, and it comes in his critical remarks about libertarianism and its sole concern with the basic liberties. “These guaranteed liberties taken alone are properly criticized as purely formal (VIII:7). By themselves they are an impoverished form of liberalism, indeed, not liberalism at all but libertarianism (VII:3). The latter does not combine liberty and equality in the way liberalism does; it lacks the criterion of reciprocity and allows excessive social economic inequalities.”<sup>22</sup> Among the proposed solutions to the latter, Rawls proposes a policy of society as employer of last resort. “Lacking a sense of long-term security and the opportunity for meaningful work and occupation,” he says, “is not only destructive of citizens’ self-respect but of their sense that they are members of society and not simply caught up in it. This leads to self-hatred, bitterness, and resentment.”<sup>23</sup>

But it does not follow from his commitment to guaranteed employment that his theory models it correctly, and I conjecture that these remarks reflect his dissatisfaction with his modeling of employment and unemployment in his theory—i.e., a sense of reflective *disequilibrium* with their modeling of justice as fairness. While I have no direct evidence of this, the next section argues that it is a plausible interpretation of his advocacy of government as employer of last resort.

## 2.

The received view of Rawls’s treatment of employment and unemployment takes his comment about the importance of employment for citizens’ self-respect as explaining why he had no need of a full employment principle in his theory of justice. This interpretation is not only implausible, but is based on a misunderstanding of the role of the ‘social bases of self-respect.’

It is implausible because it ignores the fact Rawls’s call for government as employer of last resort appears only in brief comments in the introductions to some of his later works. Even among those later works, however, there is no discussion of the importance of employment for self-respect; *Justice as Fairness*, for example, says nothing about employment being essential to justice, and I have already noted that *Theory* contains only the one sentence about the stabilization branch, with no explanation of why the stabilization branch is working to ensure full employment. Moreover, even if Rawls thought that the reason for assuming full employment is

obvious, he knew better than to treat a theoretical assumption in this way. Theorists (and in particular, economists) engaged in model construction always state all their assumptions, and an assumption as important at full employment would seem to merit at least a sentence or so. Finally, explicit mention of the full employment assumption might also have prevented readers of Rawls's theory from interpreting it as a justification of a welfare state, an interpretation Rawls dismissed. Considerations such as these suggest that he may not have been reflective about that assumption.

The deeper problem with the received view is that it misunderstands the role of the social bases of self-respect as a primary good in Rawls's model. If a good's relation to self-respect means that there is no need to model it explicitly in the theory, there would be no need of any primary goods other than self-respect. The basic liberties, for example, are certainly essential to citizens' self-respect, but rather than this counting against designating them as primary, it is an important reason they merit that designation. In recognition of this, Thomas Pogge appropriately dubbed Rawls's fifth primary good the '*residual* social bases of self-respect.'<sup>24</sup> On this interpretation, which I believe is plainly correct, Rawls included this primary good to cover those goods that influence citizens' self-respect but that are not fundamental to justice.

Rawls's account of what makes goods primary also seems to support including employment on the list. "To identify the primary goods," he said, "we look to social background conditions and general all-purpose means normally needed for developing and exercising the two moral powers and for effectively pursuing conceptions of the good with widely different contents."<sup>25</sup> Add to this Rawls's statement about the importance of employment for citizens' self-respect, and we seem to have grounds for saying that employment is not a residual but a *primary* good that is a fundamental aspect of a fair system of social cooperation. But if it is fundamental, the principles of justice should reflect that. This supports my reading of Rawls's later remarks on employment and self-respect to indicate reflective disequilibrium and movement toward recognition of employment as a primary good.

But it is surely fair to ask why Rawls did not see this himself, particularly in view of the fact that he was eight years old in 1929 and thus was a child of the Great Depression. The full explanation here is complicated and beyond the scope of this paper, but the simplest explanation is that no major liberal political philosopher has recognized employment as relevant to justice; indeed, the employment problem is the elephant in the room of liberal political philosophy and my claim that Rawls was experiencing reflective disequilibrium concerning his modeling of it amounts to saying that he—perhaps alone—was starting to see it. Thus, notice that while Rawls encountered a myriad of objections to his theory, no one has until now questioned his full employment assumption, nor has any other major liberal philosopher emphasized employment as a requirement of justice.<sup>26</sup> Rawls was always solicitous

of his critics and his failure to come around to seeing employment as a primary good can be in large part passed off to his critics distracting him from the problem.

Fried is a case in point here. She almost sees Rawls's reply to libertarianism, but while she correctly suggests modifying the list of primary goods, it never occurred to her to designate employment as the missing one. She is puzzled by Rawls's failure to engage directly with libertarianism, noting that "[w]hile perfectionism, intuitionism, and rational egoism make cameo appearances in [*A Theory of Justice*] . . . 'libertarianism' does not appear in the book (although Rawls likely had a Smithian version of libertarianism in mind in his brief discussion of 'a system of natural liberty')." <sup>27</sup> Fried is correct to see that Rawls's discussion of the Smithian natural liberty view is his nod to libertarianism, and indeed he has little to say on that view. But Rawls neglected both employment and Smithian natural liberty (which also stands in for such contemporary laissez-faire advocates as Hayek, who is the intellectual godfather of both Nozick and Gaus) for the same reason that most economists at the time were utilitarians and Keynesians.

Rawls simply did not regard this view as a serious alternative to justice as fairness. His critique is best seen as the application of a social choice decision procedure using pairwise comparisons, a familiar procedure that was integral to Kenneth Arrow's work. According to this procedure, we choose between three or more alternatives by comparing them in pairs; if we must decide between A, B, and C, we first compare A and B, and then compare the preferred selection in that choice to C, with transitivity of preferences dictating that if A is preferred to B and B is preferred to C, then A must be preferred to C. <sup>28</sup> Rawls's first comparison, likely made before he even began graduate study in philosophy, would have been the choice between mainstream economics (as an articulation of utilitarianism) and laissez-faire economics, and since Rawls saw utilitarianism as clearly superior in this comparison, he could focus on the remaining choice between utilitarianism and justice as fairness. Thus, lurking in the background of the debate between Rawls and the libertarians is the debate in economics between Keynes and Hayek, a debate that Rawls thought Keynes had so convincingly won that the laissez-faire philosophy of Hayek could be taken off the table.

But since Rawls and the economics mainstream shared the commitment to full employment, and since the pursuit of it was widely seen as basic to economic policy in the 1950s and 1960s, Rawls could comfortably take it for granted and focus on the divide between him and the utilitarians. This, however, had the unintended consequence of making the employment problem exogenous to justice. I shall show how this omission turned out to be damaging to his theory of justice in Section 4 where we examine developments after 1971 that led to a major crisis in macroeconomics and their relevance to Rawls, but we must first explain more fully how Rawls actually came to his full employment assumption and why he

neglected the primary good of employment even while emphasizing its importance for citizens' sense of self-respect.

### 3.

It is remarkable that between 1946 and 1971, the quarter century bookended by Rawls's entry into graduate school and the publication of *A Theory of Justice*, a new paradigm established itself in economic theory, quickly taking over an entire profession, only to face a serious challenge in both theoretical and policy matters just as Rawls was publishing his great book based on that paradigm. Now while everyone knows that Rawls was knowledgeable about economics, the depth of that knowledge and the extent to which we find it integrated into this theory of justice is not exactly evident. Yet his interest in economics was palpable as early as "Two Concepts of Rules" when he reminded his reader that "the classical utilitarians were largely interested in social institutions. They were among the leading economists and political theorists of their day, and they were not infrequently reformers interested in practical affairs. Utilitarianism historically goes together with a coherent view of society, and is not simply an ethical theory, much less an attempt at philosophical analysis in the modern sense."<sup>29</sup>

But he also knew that economics had recently changed enormously, and much of that development coincided with Rawls's early career, including theoretical contributions of the first order by people whom Rawls knew personally. No one was more important in the revolution than Paul Samuelson, who became Rawls's colleague when Rawls taught at M.I.T. By 1955, the year Rawls published "Two Concepts of Rules," Samuelson already felt confident to proclaim victory in economic theory.

In recent years 90 per cent of American Economists have stopped being 'Keynesian economists' or 'anti-Keynesian economists'. Instead they have worked toward a synthesis of whatever is valuable in older economics and in modern theories of income determination. The result might be called neo-classical economics and is accepted in its broad outlines by all but about 5 per cent of extreme left wing and right wing writers.<sup>30</sup>

Rawls imported the model into his own theory, and he was fortunately perfectly situated to study it closely as much of the most important theoretical work on the still new research program was coming out of M.I.T. and Harvard. In addition to Samuelson, Robert Solow was also at M.I.T., and Kenneth Arrow moved to Harvard in 1968 and stayed until 1979. In Samuelson, Solow, and Arrow, Rawls had access to major figures who would win Nobel prizes in economics, indeed figures whose work was as revolutionary in economics as was his own theory in philosophy, and these three are just a few among many economists with whom Rawls engaged. It was doubtless Arrow who arranged for Rawls to spend a sabbatical year at Stanford in 1970, just before the publication of *Theory*, with himself and Edmund Phelps.

That newly victorious economic paradigm, which owed it birth to Samuelson's Ph.D. dissertation and his subsequent book, *Foundations of Economic Analysis*, is known as the 'neoclassical synthesis,' dividing economics into micro- and macroeconomics, with general equilibrium theory as the ideal microeconomic theory and Keynesian macroeconomics as its non-ideal counterpart. Rawls's division of his theory into an ideal and non-ideal part mirrored this division; general equilibrium theory and the original position are the ideal, micro theories, and Keynesian economics and Rawls's discussion of the institutional framework of justice as fairness in the second part of *Theory* are the non-ideal, macro theories. Both the ideal micro theories employ representative agents who rationally maximize and who do so with perfect information,<sup>31</sup> zero transaction costs, and complete contracts.<sup>32</sup>

Rawls's ideal theory includes a well-ordered market, which is precisely what general equilibrium theory models, and this brings us back around to the full employment assumption, which is a fundamental feature of general equilibrium theory. "Walras's Law," according to which it is impossible for a single market (e.g., the labor market) to fail to clear when other markets clear, is fundamental to general equilibrium theory. This, I must stress, has nothing to do with ideal theory as utopian theory; it is a deduction from the fundamental premises of microeconomic theory, and Rawls knew far too much economics not to be aware of it. Rawls's full employment assumption, in other words, comes in simply because it is essential to general equilibrium theory.

Rawls's modesty about his understanding of economics has obscured some of this, however, and his written works do not reveal the extent to which the mainstream economic paradigm is integrated into his theory of justice. Consider, for example, his "remarks about economic systems" in section 42 of *Theory*:

It is essential to keep in mind that our topic is the theory of justice and not economics, however elementary. We are concerned with only some moral problems of political economy. . . . In asking these questions my intention is not to explain, much less add anything to what economic theory says about the workings of [economic] institutions. Attempting to do this here would obviously be out of place. Certain elementary parts of economic theory are brought in solely to illustrate the content of the principles of justice. If economic theory is used incorrectly or if the received doctrine is itself mistaken, I hope that for the purposes of the theory of justice no harm is done.<sup>33</sup>

Now while the economic theory Rawls employs in *A Theory of Justice* is indeed relatively elementary, his knowledge of the economic theory behind the elementary presentation is deeper than he lets on. Thus, Arrow emphasized in his review of *A Theory of Justice* that "as an economist accustomed to much elementary misunderstanding of the nature of an economy on the part of philosophers and social scientists, I must express my gratitude for the sophistication and knowledge Rawls displays here."<sup>34</sup> Likewise, Edmund Phelps, another Nobel laureate in economics whose 1973 anthology *Economic Justice* helped spark increased interest in justice

among economists, has described himself as “[coming] under the influence of John Rawls.”<sup>35</sup> And while many economists have arguments with Rawls, no one has as yet detected an error in his understanding or application of economic theory.

The last sentence of the above quotation is particularly telling, and I return to it in Section 4, but what interests us here is Rawls’s reminder that he uses only elementary economics, which, while true, obscures both the depth of his knowledge and the role of that knowledge in his theory of justice. We can see this clearly in Daniel Little’s excellent and exhaustive summation of Rawls’s references to economics and economists in his published works. Little, after going through all these references, concludes that the publications do *not* reveal a particularly deep understanding of economic theory but rather suggest that (1) Rawls was influenced mainly by economic theory from the 1940s to the 1960s, (2) the most influential fields were social choice theory, decision theory, game theory, and social welfare theory, and most notably (3) “none of these citations reflect a significant or substantive discussion of the economist’s views.”<sup>36</sup>

Rather, Rawls tends to illustrate a philosophical point by finding a relevant theoretical claim in one economist or another. This indicates a degree of familiarity with the contemporary literature, but a fairly low level of intellectual engagement with the debates and analytical approaches. In contrast to his treatment of utilitarianism, Kant, or Rousseau, Rawls’s treatment of economic theory is brief and nonsubstantive.<sup>37</sup>

Moreover, “Keynes is not mentioned in these early articles and only tangentially in [*A Theory of Justice*]. And there is no mention of general equilibrium theory.”<sup>38</sup>

Rawls’s personal library, however, reveals someone very deeply engaged with economic theory. His copy of Gerard Debreu’s dense, highly mathematical monograph *Theory of Value: An Axiomatic Presentation of Economic Equilibrium* (a major classic on general equilibrium theory that every economist will recognize but few have actually read) is marked up from beginning to end. His research in economics also continued after the publication of *Theory*. Rawls acquired Kenneth Arrow and Frank Hahn’s *General Competitive Analysis* in December 1971, and that volume is likewise annotated throughout and heavily so in the first half of the book, although *Theory* was already in print when he acquired it. And when Phelps published his introductory text *Political Economy* in 1985, Rawls took time out from the political liberalism project to work carefully through much of that book—including chapters not directly relevant to his theory of justice.

This is just a small sample of his extensive work in economics that continued throughout his career. Thus, while Little has presented an outstanding analysis of Rawls’s published works, the Rawls library reveals that (1) he was heavily invested in the study of economic theory across many decades, including macroeconomics from the 1980s, (2) social choice, decision theory, and game theory were actually minor influences in comparison with general equilibrium theory and macroeconomics, and (3) his engagement was likely more substantive than that of many economists.

He was well aware that his work was proceeding alongside major advances in economics and his well-ordered society is economically well ordered because it has at its core a powerful theoretical model of a modern market economy, one that is widely known in economics as the ‘Arrow-Debreu model.’ It is a model that incorporates a full employment assumption not as incidental but as essential—hence, the description of it as ‘Walras’s Law.’

Rawls, then, did not assume full employment because he saw it as essential for citizens’ self-respect; he recognized that this is indeed the reason employment is important, but that is not why he assumed it. If the full employment assumption had been the result of deliberation on whether or not to make that assumption, one would expect that he would have shared his reasoning on it in the body of his works, but he only does that late in his career. Add to that the problems with the received account of the assumption and the integration of general equilibrium theory in his model conception of a well-ordered society, and we gain some clarity on how the assumption came into the theory in the quarter century when he was developing his theory of justice. We now must turn our attention to the quarter century 1971–1996 (approximately), where problems with the neoclassical synthesis created problems for the full employment assumption.

#### 4.

“If economic theory is used incorrectly or if the received doctrine is itself mistaken,” Rawls commented in the quotation above, “I hope that for the purposes of the theory of justice no harm is done.”<sup>39</sup> He need not have worried about using the theory incorrectly, but we shall now see that theoretical problems in economics would infect his theory and demolish his stated hope. My argument here draws heavily on his collection of about 120 economics books, many of which he acquired after 1971,<sup>40</sup> where we find here support for my claim that he was experiencing reflective disequilibrium on employment and unemployment. One might naturally think that Rawls, who produced three books and numerous papers after 1971, was too consumed with such matters as political liberalism and the law of peoples to have time for much else, but his library reveals a deep interest in economic theory during the last quarter century of his life. He acquired a large number of books on macroeconomics and annotated many of them extensively, reflecting a concern to think through the emerging crisis in macroeconomics and, we must assume, to relate them to his project.

While Rawls left no references to these readings, one would be mistaken to conclude that they had little impact on him. Rather, he must have had them in his mind leading up to those scattered remarks about employment, self-respect, and the need for government as employer of last resort. Of course he never got around to revising justice as fairness but we can find in these books some grounds for thinking that he would accept the addition of employment as a primary good as the best way

to take up Scheffler's challenge and tightening up the theory, especially since the revised theory models what he wanted to say all along. A review of events during the last quarter century of his life may help the reader to see this.

The first sign of the ensuing crisis was Milton Friedman's Presidential Address to the American Economic Association in 1968,<sup>41</sup> and as the American economy slid into stagflation in the 1970s, Friedman's critique gained influence. The work of Robert Lucas, a colleague of Friedman's at the University of Chicago, contributed to the rise of the New Classical Macroeconomics (known to the public in the 1980s as "supply side economics").<sup>42</sup> Now of course these developments in economics coincided with emergence of the Reagan and Thatcher regimes in America and Britain, and although the heated discussions centered on the appropriate macroeconomic theory, they also impacted general equilibrium theory, and in particular its assumption of full employment. It had always been assumed that the ideal general equilibrium theory supplied the foundation of the non-ideal macroeconomics, and as we have seen, Rawls's theory reflects this perspective, but the New Classical Economics signaled a return to pre-Keynesian thinking. This was not lost on Rawls, who was reading widely on these issues, including Bruce Greenwald and Joseph Stiglitz's "Keynesian, New Keynesian, and New Classical Economics."

The Neoclassical Synthesis was taken as an article of faith. Fundamental questions about the failures of the market system, such as the causes of periodic depressions and the unemployment that accompanied them, were avoided. Keynesian economics created schizophrenia in the way the economics was taught: microeconomic courses, in which students were introduced to Adam Smith's invisible hand and the fundamental theorems of welfare economics, were followed by macroeconomic courses, focusing on the failures of the market economy and the role of government in correcting them . . .

There were two ways in which the two sub-disciplines could be reconnected. Macrotheory could be adapted to microtheory; and the converse. New Classical Economics took the first approach. Its advocates aimed to derive the dynamic aggregative behaviour of the economy from the basic principles of rational, maximizing firms and individuals . . .

The other approach seeks to adapt microtheory to macrotheory. For the want of a better term, one can refer to it as the New Keynesian Economics. The phenomena of unemployment, credit rationing and business cycles are inconsistent with standard microeconomic theory. New Keynesian economics aims to develop a microtheory that can account for them.<sup>43</sup>

Although Rawls never commented on this, there can be little doubt that he would come down on the New Keynesian side. Further support for this is Frank Hahn's *Equilibrium and Macroeconomics*. Rawls read it carefully, including Hahn's "Reflections on the Invisible Hand." Hahn is of particular interest because he is a major figure in not only the development of macroeconomics but also in general equilibrium theory, where his 1971 book (co-written with Rawls's friend and colleague Arrow) has been tremendously influential. Hahn continued to hail general

equilibrium theory “a major intellectual achievement,” charging that a person “must be far gone in philistine turpitude . . . to be unmoved by the elegant means by which it is proved.”<sup>44</sup> He goes on to remind the reader that it establishes its result only as a possibility, however. “Nothing whatever has been said of whether it is possible to describe any actual economy in these terms,”<sup>45</sup> he emphasizes. But the New Classical economists, in their commitment to microfoundations, take the general equilibrium model as the correct model of the actual economy. Hahn, like Stiglitz, takes the macrofoundations approach.

This paper attempts to circumvent the nonsense of the representative agent which arises in macroeconomics. It recognises that macro data are relevant to agents’ decisions, and so excess demands should contain macro variables as arguments. The macro variables I consider are the price index, unemployment and GNP. This paper should be regarded as a tentative beginning to make macroeconomic theory literate.<sup>46</sup>

The addition of employment to Rawls’s primary goods would bring his theory in line with Hahn and Stiglitz as we now include a macroeconomic primary good in our list of otherwise microeconomic ones. As Greenwald and Stiglitz emphasized, in constructing our models, “the choices must be dictated by the phenomenon to be studied. If this is unemployment, to begin the analysis by assuming market clearing is to assume away what is to be explained. Important as it is to understand the dynamic maximization problems individual [*sic*] and firms are engaged in, ignoring the important constraints they face . . . results in models which are of little relevance. We suspect that in many instances, myopic models focusing on the constraints are far better than ‘rational’ models ignoring them.”<sup>47</sup>

I submit, then, that our amended theory of justice as fairness is (as Robert Solow once described his own paper) “plus Rawlsian que le Rawls,”<sup>48</sup> and that Rawls would approve the reasoning here and embrace the proposed friendly amendment. It eliminates at least some of the looseness that worried Scheffler, and improves the theory’s account of both employment and its evil twin, unemployment. But most important, it identifies the elephant in the room of political philosophy, for although his theory neglected it, Rawls himself did not, and that would appear to distinguish him from a total neglect of an important injustice in liberal democratic market societies.

## 5.

Had Rawls included employment as a primary good and explicitly derived the full employment principle from the original position, there would be little room for confusion about his stance on libertarianism, for although the latter term dates from the 1950s, the view of course pre-dated the term and was prominent in the Keynes-Hayek debates with which Rawls was surely well acquainted but which he largely ignored. Thus, *A Theory of Justice* contains no references to Hayek, while

*Anarchy, State, and Utopia* contains multiple references to him, and Gaus frequently references him, approvingly noting Frank S. Meyer's remark that "Ludwig von Mises and Hayek must be integrated into an adequate American conservatism for the twentieth century."<sup>49</sup> Rawls consistently rejected out of hand libertarian philosophy along with libertarian economics, and he rejected it not only because of its views on income distribution, but also because of its macroeconomic theory and policies. Because the latter rejection remained implicit, it went largely unnoticed, and the employment problem remained exogenous to the theory of justice.

In the concluding chapter of *The General Theory*, Keynes opined that "The outstanding faults of the economic society in which we live are its failure to provide for employment and its arbitrary and inequitable distribution of wealth and income."<sup>50</sup> Rawls took the latter as his project, because he saw the former as having been solved by Keynes. But at a time when machines powered by artificial intelligence are increasingly replacing human labor in the productive process, we should do well to reconsider whether justice can be meaningfully discussed without taking account of the employment problem.

To date, unfortunately, there is no indication of much awareness of the problem among political philosophers, liberal or otherwise. I concluded by discussing briefly two currently prominent views: the universal basic income proposal of Philippe van Parijs et al. and the property-owning democracy proposal of Rawls and James Meade. Van Parijs has noted his surprise at Rawls's rejection of the universal basic income proposal by noting his objection to a basic income for Malibu surfers.<sup>51</sup> Now although I am inclined to agree with Rawls on this, the broader point is that the full employment principle does not itself contradict the universal basic income proposal, but is orthogonal to it; one might, for example, accept a minimal basic income while also insisting that jobs be available to all who wish to work, with working citizens earning more than non-working ones. I should add, however, that universal basic income is at most necessary for social justice, and is not sufficient as the universal basic income discussion seems not to grasp (perhaps because the discussants simply have not seen the elephant). Property-owning democracy is likewise orthogonal to our amended justice as fairness, but since the argument here shows that full employment is fundamental to justice, the achievement of it will take priority over the achievement of property-owning democracy. And although Rawls was more explicit about property-owning democracy than he was about full employment, I believe he would agree with this result.

These suggested critiques of universal basic income and property-owning democracy would require considerably more argument, however. Here, I can only suggest their relation to full employment and thus put these issues on the table for further discussion. I believe that Rawls would agree that it is time for political philosophers to have these discussions.<sup>52</sup>

## Notes

1. Fried 2013, 431.
2. Lomasky 2005, 180.
3. Fried 2013, 431, emphasis added.
4. Rawls addressed libertarianism in the introduction to the paperback edition of *Political Liberalism*, a response to which I return below, See also Freeman 2001 and Scheffler 1976.
5. Freeman 2001.
6. Gaus 2011; 2013; 2016 passim.
7. Scheffler 2015, 234–5
8. Fried 2013, 441.
9. Ibid.
10. Cf. Gaus 2013.
11. Cf. the back cover of *Justice as Fairness*.
12. Gaus 2013, 243.
13. Ibid.
14. Rawls 2001, back cover.
15. Scheffler 2015, 235.
16. Fried 2013, 445.
17. Rawls 1988, 257. While Fried suggests “revising” the list, I presume that amounts to adding one, as it is difficult to see how subtraction would improve the theory’s ability to respond to libertarianism.
18. Rawls 1999 (1971), 276/244. Page numbers for quotes are listed for both the original and revised editions separated by a slash, with the original edition listed first.
19. Freeman 2007, 106.
20. Rawls 1980, 517, with ‘Rawls’ substituted in brackets for ‘Kant’ in the original.
21. Throughout this paper, ‘*Theory*’ refers to *A Theory of Justice* (1999 [1971]).
22. Rawls 1996, lvi.
23. Rawls 1996, lvii. See also the Introduction to the *Lectures on the History of Political Philosophy* (Rawls 2007, 11).
24. Pogge, 2007, 73.
25. Rawls 1996, 75.
26. Marx, of course, tried calling attention to the elephant, but liberal philosophers as well as many Marxists failed to pick up on this aspect of his theory.
27. Fried 2013, 430.
28. Although Kenneth Arrow famously raised problems with this procedure, his work should not be understood as undermining it but rather as posing a problem with it.
29. Rawls 1955, 19n21.
30. Samuelson 1955, 212

31. Rawls, of course, excludes some information with his device of the veil of ignorance, but some general information is permitted and that information is perfect and complete.
32. It is not a coincidence that both theories have been criticized as being overly abstract and unrealistic, an objection to which Rawls responded by saying that “Theory and Political Liberalism try to sketch what the more reasonable conceptions of justice for a democratic regime are and to present a candidate for the most reasonable. The focus on these questions no doubt explains in part what seems to many readers the abstract and unworldly character of these texts I do not apologize for that.” One could see his friend and colleague, Kenneth Arrow, addressing critics of general equilibrium theory using similar terms. (Rawls 1996, lxii).
33. Rawls 1999 (1971), Section 42, 265 (234).
34. Arrow 1973, 245.
35. Vane and Mulhearn 2009, 119.
36. Little 2013, 506.
37. Ibid.
38. Ibid.
39. Supra note 29.
40. I count sixteen economics texts in the Rawls archives at Harvard, and an additional 105 in his personal collection to which I have had access thanks to Mardy Rawls.
41. Cf. Friedman 1968.
42. For a succinct discussion of the rise and fall of the Neoclassical Synthesis, cf. Blanchard 2016.
43. Greenwald and Stiglitz 1987, 119–120.
44. Hahn 1982; 1984, 114.
45. Ibid.
46. Hahn 2004, 13.
47. Greenwald and Stiglitz 1987, 131.
48. Solow 1974, 30.
49. Gaus 2016, 137.
50. Keynes 1936, 372.
51. Van Parijs 2009.
52. I am indebted to Elizabeth Anderson, Wylie Bradford, Geoffrey Harcourt, Daniel Little, Hans Oberdiek, Alexander Paparella, David Schweickart, Frank Thompson, Thomas Tolin, and two anonymous referees from *Social Philosophy Today* for helpful comments and criticisms of earlier versions of this paper. All mistakes are, of course, my responsibility.

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