

John Rawls and Property-Owning Democracy: A Solution to Economic Inequality?

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<p>Tiivistelmä – Referat – Abstract</p> <p>The aim of the thesis is to explore whether John Rawls' theoretical concept of property-owning democracy can potentially inform novel avenues in the current debate regarding economic inequality. This concept is used in the thesis to scrutinize the role of property ownership in liberal theory and advocate for a broader, and more equal, interpretation regarding the role of property. More specifically, the attempt is to show that in Rawls' property-owning democracy there is a possibility for a more equal basis for ownership, which can also enhance broader economic equality.</p> <p>The methodology employed in the thesis is that of concept analysis, which is used to critically examine how some of Rawls' theoretical concepts have been understood in the academic literature and whether there are more accurate interpretations regarding these concepts. Hence, the aim is to focus on Rawls' theory's economic component in the form of property-owning democracy. Furthermore, Rawls' overall impact amongst mainstream economics is highlighted in order to disclose the narrow nature in which his theory is understood amongst most economists. This narrow interpretation of Rawls' theory is exemplified by the focus on a single aspect of the theory, namely, the decision theory rule of maximin. However, closer scrutiny reveals that Rawls formulates a complex theoretical structure that aims to formulate macro principles instead of focusing on micro principles.</p> <p>One of the main findings of the thesis is that through Rawls' property-owning democracy, one can see there to be more space in the liberal political tradition towards greater economic equality than traditionally supposed. This is manifested by the requirement in Rawls' property-owning democracy for a significant degree of equality in the ownership of the means of production. The importance of equality in Rawls' theory makes radical interpretations also possible. For instance, Rawls's property-owning democracy is in accordance with John Stuart Mill's idea of worker managed firms. Therefore, the ownership and organization of the means of production is potentially a concrete area of improvement where greater economic equality could be achieved.</p> <p>Another interesting finding is that mainstream economics, with utilitarian philosophy as its backbone, seems to have forgotten the question regarding the ownership of the means of production and assumes it to be naturally privately held. One explanation for this is that the paradigm change in economics, from classical political economy to neoclassical economics, also meant shifting focus from the question of ownership of production to other avenues. As a result, questions regarding utility maximization became the focus of attention.</p> <p>The thesis shows that questioning underlying assumptions regarding issues such as economic inequality are crucial in order to properly understand and analyze the issue further. Rawls' input in this regard is that he emphasizes the normative context, namely, the need to have clear political and moral arguments regarding justice. Therefore, it is important to scrutinize and formulate clearly what are the underlying principles for a just society instead of assimilating principles at face value. In the context of concrete policy outcomes, assuming certain principles without scrutiny also informs policy outcomes that can be detrimental for greater economic equality.</p>			
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1. Introduction

The issue of income, or economic, inequality¹ has been a prominent topic in academic literature especially after the 2008 financial crisis. Moreover, after Thomas Piketty's *Capital in the Twenty-First Century* (2014), the question concerning income inequality was brought front and centre of the political debate and to the attention of the general public. The data that Piketty's book depicted provided a strong argument for the critique regarding the unequal distribution of wealth and income. As Piketty argued, the rising inequalities in income and wealth were present especially in the United States, but there was also a trend towards greater inequality in other wealthy countries (2014, pp. 22-30). The worry about increasing wealth and income disparities has been so acute that the Financial Times advocated for a reset of capitalism (Financial Times, 2019). What was equally important was Piketty's notion of the need to focus on the distributional question (2014, pp. 15-16). However, Piketty was also committed to a deterministic account of economic analysis that relied heavily on law like forces of convergence and divergence. Moreover, Jacobs notes perceptively that in Piketty's book politics is "everywhere and nowhere", that is, the role of politics in analysing the question of distribution is first highlighted but is then contradicted by Piketty's deterministic analysis of structural forces leading inevitably to a certain endpoint² (2018, pp. 512-513).

Hence, the debate about (economic) inequality is primarily concerned with an analysis where normative questions regarding politics, or anything resembling value judgements, are in the minority. The focus is on measuring the extent of inequality, which is also a formidable challenge if one aspires to analyse it on a global scale. This is due to the impossibility of formulating a uniform index or a figure that would reveal the underlying nature of inequality on a global scale and in a conclusive fashion. As Milanovic (2016) describes the effort "There is no global household survey of individual incomes in the world. The only way to create a global income distribution is to combine

¹ In other parts of the thesis the term "economic inequality" is used instead of "income inequality". Income inequality is mentioned in the introduction in order to contextualize the research question of this thesis to other relevant literature. With "economic inequality" the attempt is to recognize a broader framework for the discussion of inequality that transcends the focus on measurement and incorporates normative elements. The usage of this term is influenced by Amartya Sen's article *From Income to Economic Inequality* (1997).

² One clear example of this is Piketty's central formulation of $r > g$, meaning, that the rate of return of capital (r) outpaces the rate of growth of income and output (g) (Piketty, 2014, p. 571).

as many household surveys as possible” (p. 12). Moreover, despite a myriad of economic analyses of inequality recently, the methodological problems of measuring the level of inequality is evident on the different datasets (Galbraith and Halbach, 2016) and the way economists portray their datasets (Wright, 2015). The question, thus, remains on a deeper level and is a normative one in nature. What is the basis of the current distributional framework? Is it justified in a credible manner and according to sound principles?

The research question asks *why* Rawls was marginalised in the mainstream economic literature. Moreover, a follow-up question asks whether the Rawlsian framework can be utilized to produce a broader discussion regarding distributional questions. The reason for choosing Rawls for this thesis is that he provides an interesting alternative to the prevailing utilitarian doctrine while also employing substantial normative arguments for his theory. Thus, Rawls discusses the subject of distribution from a broader perspective by asking *why* the prevailing system of distribution, based on utilitarian philosophy, is considered just. After scrutinising the reasons for the rejection of Rawls’ ideas amongst mainstream economics³, Rawls’ concept of property-owning democracy is presented. The goal is to investigate whether a radical reading of property-owning democracy can provide a better basis for a justification of a more just structure of society, namely, a better framework for distributive justice that transcends the typical utilitarian doctrine.

The structure of the thesis is as follows. After introductory remarks about Rawls’ theory, the impact of Rawls in mainstream economics is the focus of the analysis, since it paves the way towards the latter part of the thesis. After the discussion regarding Rawls and his impact in mainstream economics, Rawls’ concept of property-owning democracy will be presented with a radical reading. It will be argued that the property-owning democracy concept is a contingent issue and can be interpreted in many ways. However, given Rawls’ remarks about global capitalism and his strict requirement of a non-exploitative relationship regarding the means of production, a radical reading of Rawls is not a far-fetched idea and can provide avenues towards other interesting viewpoints about equality and democracy in a liberal democratic context.

³ In this thesis, “mainstream economics” is used interchangeably with that of “neoclassical economics”. The methodological differences in economics will be disclosed more in the methodology- section of the thesis.

2. Methodology

The methodology that this thesis employs concerns qualitative measures and specifically that of concept analysis. Concepts such as property-owning democracy and the *maximin*-rule⁴ have distinctive characteristics but also encompass a family of discussions about their meaning. Especially in the context of John Rawls' theory, analysing key theoretical concepts is at the heart of the thesis. In scrutinizing concepts the aim is, as Berenskoetter (2016) put it, "to improve awareness of the historical evolution(s) and plural meaning(s) of key terms, to encourage critical and productive engagement with key concepts and to demonstrate how concept analysis contributes to and analysis of politics." (p. 2). Hence, it is important to understand the plurality of meanings that a concept holds. As a result, the attempt is to show that concepts such as the *maximin*-rule and property-owning democracy can have other meanings and possibilities than traditionally supposed. For example, the *maximin*-rule has a more nuanced role in Rawls' theory than is generally understood. The same applies to property-owning democracy, that is, it can be potentially employed as a framework for even greater economic equality, hence, as a means towards a non-exploitative relationship in the means of production.

One should also highlight that concept analysis matters because concepts are fluid in the sense that they are subject to change. Therefore, in making credible arguments for a certain interpretation of a concept, one can also enhance a new understanding of it. This makes it important to scrutinize concepts rather than take them at face value. Reinhart Koselleck has described the effort by emphasising that one cannot subscribe concepts with definite or absolute meanings, thus, what is left is only interpretation of concepts (Koselleck as cited in Barendskoetter, 2016, p. 4). For this thesis the point is important because the argument is not to declare a definite interpretation of Rawls' theoretical concepts. Rather the point is to emphasise the contingent nature of these issues and underscore the importance of evaluating critically any one-sided analysis of theories as complex as Rawls'.

⁴ This term will be introduced in the subsequent section (2.1).

The three different traditions of concept analysis that Berenskoetter describes (historical, scientific and political/critical) (2016, pp. 9-17) are all informative by their own account. The historical and the critical traditions are employed the most in this thesis, but it needs to be emphasised that these three traditions are not incompatible with each other. To reiterate, what epitomizes the rationale of this thesis is the notion that a concept should not be taken for granted but evaluated critically. Of course, one needs to acknowledge that there are various ways to approach the subject, i.e. interpret it (Berenskoetter, 2016, pp. 15-16). Together with concept analysis, it should be noted that Rawls' *reflective equilibrium* methodology is also an important methodological point of reference in this thesis. In its most basic terms, Rawls' methodology is primarily aimed at resolving a specific theoretical problem (Mäkinen and Kakkuri-Knuutila, 2013, p. 15) or a conflict of ideas. Hence, this thesis aims to resolve a specific problem, that of economic inequality, but the approach perhaps resembles more that of concept analysis than Rawls' approach. Nevertheless, the reflective and procedural nature in Rawls' theory is present in this thesis.

To reflect on Rawls' methodology and the approach towards his core question of social justice, Rawls reasons that a complete conception of justice that defines its respective principles, and in turn regulates the virtues in the basic structure, is part of "a social ideal" (Rawls, 1999, p. 9). This means that the social ideal is also connected to an overall "conception of society" which can be understood as a "vision" that makes it explicit how the "aims and purposes of social cooperation" are to be comprehended. Therefore, to understand a conception of justice, one needs to recognise "the conceptions of social cooperation from which it derives" but also how it relates to the fundamental questions regarding principles and the basic structure (i.e. the primary subject). (ibid.) This form of interplay between the ideal (the whole) and the general individual conceptions of cooperation (part) are an example of a dialectical relationship between Rawls' core concepts. As a result, this interplay makes it more difficult to evaluate Rawls' concepts in isolation from one another. Understanding the specific concepts of cooperation (part) informs what the ideal concept of the society in question is. Moreover, the ideal also affects the general conceptions of cooperation.

Taken the above points into account, another reason to employ qualitative measures is connected to the discussion concerning economic inequality. As the current focus in the inequality literature relies heavily on quantitative measures, i.e. measuring inequality, it might be at times forgotten that the nature of data, as a source of information, is prone to different interpretations. Essentially, data should be considered as a tool for creating better explanations that are relevant for what we encounter in the real world. As Atkinson and Brandolini (2006) put it well "Users of the data have to be careful with the choice of data" and "Data may be suitable for one purpose, but not for

another.” (p. 399). As a result, the nature of the methodology in this thesis is to investigate underlying assumptions that are not often questioned but taken for granted in the literature.

As a result, when exploring the subject of the thesis, one should question whether the literature and research concerned with inequality is discussing the phenomenon from similar or perhaps from different points of views. Instead of asking the question “What is the optimal allocation or distribution of national wealth” we could ask questions such as “Is the current distributional framework unequal or just?” or “What is the normative basis to the current distributional framework?”. These questions are not easy, but they should not deter further investigation. In order to analyse the underlying assumptions of the current global political economy framework from the point of view of inequality, it is necessary to understand the nature of the questions being asked in research. In this thesis, the central aim that is being pursued is to engage in a more plural discussion about economic inequality, hence, not only to measure the extent of inequality but to pursue a discussion that has normative implications.

It is necessary to briefly highlight the different traditions in the economics discipline itself, since it is important for the methodology of this thesis. Tabb (1999) describes the issue of differences in methodology in a clear manner. For instance, he calls attention to the different nature between economics and political economy, where the former is an offshoot of the latter. He describes the dichotomy further by arguing that there are economists more concerned with theory and abstractions⁵, while other economists are inclined to focus on real world observations. In essence, this dichotomy is also one where mainstream economics falls into the more theoretical branch and political economy to the more “world-relevant” or “empirical” as Tabb characterises. (1999, pp. 14-15) In order to analyse the issue of economic inequality, the aim of this thesis to employ the more “world-relevant” approach as Tabb would describe the method. Although Tabb’s distinction is rather rough, its simplicity is useful in the context of this thesis to underline the approach towards the research question. Hence, the reasons why this thesis is more “world-relevant” is that it approaches the topic from a broader perspective, meaning, that it considers society to be a complex structure where the nature of inequality is also one that needs to discuss normative elements. To put it bluntly,

⁵ The focus on theory and abstractions is also the tradition that will be coined in the thesis as “mainstream economics” or “neoclassical economics”. The methodological differences between mainstream (i.e. neoclassical) economics and other ways to approach the issue is a matter that would require its own research. To get a sense of this discussion, see for instance Jamie Morgan’s (2016) edited book on the subject.

one needs to know and understand *why* is a certain type of social justice framework more preferable than the other.

How is, then, Rawls related to all of this? Essentially Rawls asked the right question: why utilitarianism? Thus, he discovered a gap in the discussion. As a result, the purpose is to navigate through Rawls' theory and analyse the question of economic inequality in modern liberal democracies in order to see whether Rawls' theory brings new insight to the question. A tentative answer would be that Rawls helps us to understand the importance of normative issues regarding inequality, that is, questions that lie outside the immediate purview of utilitarianism and its focus on efficiency or maximising the utility function of a society. Rawls' criticism regarding utilitarianism is also a convenient approach in the context of this thesis as utilitarianism is the major philosophical backbone of mainstream economics. In addition, the attempt is to analyse the concept of a property-owning democracy to see whether it influences the understanding of the larger question concerning economic inequality by presenting alternatives that might resolve the issue or provide a path forward.

It should also be remembered that asking the right question is a first step into the right direction. When considering the evolution of science, a paradigm shift is usually concerned with shifting the nature of the question rather than answering the same question put forward by others. For example, in the case of physics, Newton reframed the initial question from why an object continues to move into why are there changes in the motion of an object. Hence, Newton perceived the initial question as trivial and inaccurate, since objects do not need any specific reasons to keep moving. They remain in motion unless some outside force changes the situation. (Garfinkel, 1981, p. 8) In the same manner, Rawls' question regarding distributional justice shifts the analysis in a new direction and potentially towards fruitful research.

2.1. Introductory Remarks and Key Concepts of Rawls' Theory

A key aspect in Rawls' theory is that it aims towards a realistic utopia, that is, something that does not necessarily exist in the current historical context but is something to strive for. As Rawls put it "we work within ideal theory, unless otherwise noted." (2001, p. 171). Furthermore, Rawls reasons that the best way to resolve the central question(s) regarding the principles of a just society is from an ideal position, which "provides, I believe, the only basis for the systematic grasp of these more pressing problems" (Rawls, 1999, p. 8). Hence, Rawls outlines that the topic of his theory is social justice and "the primary subject of justice is the basic structure of society". (Rawls, 1999, p. 6) To define the term of basic structure more precisely, Rawls indicates that the question is about the key social institutions that are responsible for issuing the rights and the duties while also defining how the advantages from social cooperation are divided. Furthermore, by key institutions Rawls means "the political constitution and the principal economic and social arrangements". (ibid.) To give further gravity to his notion about the justice of the basic structure, Rawls refers to Aristotle's description of justice, that is, one should refrain "from gaining some advantage for oneself by seizing what belongs to another, his property, his reward, his office". (1999, p. 9) Thus, Rawls distinguishes that Aristotle's accounts of justice are derived from social institutions (ibid.), which highlights the validity of Rawls' own approach to justice. Essentially, Rawls attempts to find the most basic common denominator from where to further extrapolate the details of his system of justice.

Rawls remarks that although justice has the role of being the most significant virtue of institutions, its validity is subject to the broader consequences that it generates (Rawls, 1999, p. 6). This is an important note in the sense that it helps to understand the nature of Rawls' study to justice, that is, it also matters what the wider implications are for society when a certain type of justice framework is adopted. For example, even if the utilitarian principle might be the most "efficient" way to formulate institutions and their more specific functions, it also depends how well it functions as a comprehensive system of justice. If one follows Rawls, it is unacceptable that "the sacrifices imposed on a few are outweighed by the larger sum of advantages enjoyed by many" (Rawls, 1999, p. 3). Therefore, the wider implications of utilitarianism are advantageous for some but not for all, thus, being in contradiction with Rawls' idea of a just society. As a result, Rawls explicitly points out that his aim has been to develop his theory, i.e. *justice as fairness*, "as an alternative systematic account of justice that is superior to utilitarianism." (Rawls, 1993/1996, p. xv). Moreover, Rawls emphasises that *justice as fairness* is meant to apply to a basic structure of a modern constitutional democracy (Rawls, 1985, p. 224).

Some of Rawls' main concepts should be disclosed in order to make the forthcoming discussion clearer. With his theory, Rawls attempts to "present a conception of justice which generalizes and carries to a higher level of abstraction the familiar theory of the social contract" in the same manner as "Locke, Rousseau and Kant" (1999, p. 10). Rawls further clarifies that the principal idea is to assign principles of justice that then regulate the basic structure of society through the agreement of a social contract (ibid.). Overall, Rawls' theory can be encapsulated fairly well by his thought experiment of *the original position* to which most other relevant concepts are connected. The "original position of equality" is a "hypothetical situation" and should not be "thought of as an actual historical state" (Rawls, 1999, p. 11). From *the original position* Rawls starts to build up his thought experiment. Rawls further characterizes *the original position* as "the appropriate initial status quo which insures that the fundamental agreements reached in it are fair" (1999, p. 15), leading Rawls to coin his theory as *justice as fairness*. Consequently, the idea is to rationally arrive at a conception of justice that is fair and reasonable for all participants.

In order to ensure that the circumstances are fair for the decision process, i.e. no one is at an advantage or disadvantage, Rawls introduces *the veil of ignorance* which hides all relevant information regarding one's "place in society, his class position or social status" and other distinguishing features or abilities (1999, p. 11). The aim of this is to further ensure the fairness aspect of the situation (ibid.). At the end of this deliberation process, Rawls argues that his *two principles of justice* will be chosen. *The first principle* aims to secure equal basic liberties while the second advocates for arranging social and economic inequalities to the benefit of the least advantaged and are "attached to offices and positions open to all under conditions of fair equality of opportunity." (Rawls, 1999, p. 266). A lexical ordering applies to these principles, which means that *the first principle* takes precedence over the second and within *the second principle* the fair opportunity aspect comes before *the difference principle* (i.e. inequalities are arranged to the benefit of the least advantaged) (ibid.)⁶. Rawls has also underlined that "Both principles express political values." (2001, p. 48). Pablo Gilabert (2016) and Amartya Sen (1992) both highlight that Rawls made concessions in his later works regarding the strict nature of the priority of *the first principle*, thus, making it less absolute.

⁶ Noteworthy here is that "the second principle of justice is lexically prior to the principle of efficiency and to that of maximizing the sum of advantages" (Rawls, 1999, p. 266), meaning for instance that "an excessive rate of saving" must be balanced in accordance to the difference principle (ibid.). As a result, justice (and equality) take priority over efficiency. Gilabert, though, argues that in some cases a departure from Rawls' default position of equal distribution can be justified for efficiency reasons (2016, p. 847) but he does not elaborate this point further.

A central concept in this thesis is the *maximin*-principle and its role in Rawls' theory. In essence, Rawls distinguishes the *maximin*-principle (i.e. as a rule to be used in *the original position*) with an analogy where "the two principles are those a person would choose for the design of a society in which his enemy is to assign him his place."⁷, hence, one should "rank alternatives by their worst possible outcomes: we are to adopt the alternative the worst outcome of which is superior to the worst outcomes of the other." (1999, pp. 132-133). Rawls also highlights that the *maximin*-rule is well-grounded in the special circumstances of *the original position* but in general the rule should not be considered as an all-purpose guide to ethical conduct (ibid). Mandle (2015) makes a crucial point in stressing that "The basic interests at stake involve the development and protection of the two moral powers — the capacity for a sense of justice and the capacity for a conception of justice." (p. 494). Essentially, a conception of justice must not infringe these powers as they are important for the functioning of Rawls' theory, thus, the cautionary approach of the *maximin*-rule is to take this into account and secure the fulfilment of these moral powers.

The two moral powers are, then, a crucial aspect that underlines Rawls' theory together with the principle of rationality. More precisely, one of the central ideas in Rawls' theory is "goodness as rationality", which states that "citizens have at least an intuitive plan of life in the light of which they schedule their more important endeavours and allocate their various resources so as rationally to pursue their conceptions of the good over a complete life." (2001, p. 141). Hence, in Rawls' framework individuals have certain goals and plans that they seek to fulfil in their life and which they value and this rational plan of life, thus, determines a person's good (Rawls, 1999, p. 372). The two moral powers and the rational plan of life are assumptions that Rawls makes in relation to how the persons in *the original position* come to terms with their decision regarding social justice. What is important here is that these assumptions that Rawls makes are clear and are based on a moral theory of the good. Therefore, there is no arbitrary process of summing up various utility functions to arrive at some form of conclusion on what people want or desire. Rather Rawls outlines explicitly the underlying theoretical framework that underlines his preferred system of justice.

⁷ Here the analogy is made in order to describe the situation. Rawls emphasises that persons in *the original position* "do not, of course, assume that their initial place in society is decided by a malevolent opponent." (1999, p. 133).

The endpoint of Rawls' process of formulating the ideal structure for a just society is called a *reflective equilibrium*. Rawls characterizes it as "an equilibrium because at last our principles and judgements coincide; and it is reflective since we know to what principles our judgements conform and the premises of their derivation." (1999, p. 18). Before this endpoint there is a process where modifications and revisions are possible regarding the judgements or "the contractual circumstances" of the system of justice (ibid.), which implies to the reflective nature of Rawls' theory. Thus, the process of deciding on the most relevant conception of justice is subject to change if it is deemed necessary. This depicts a more nuanced version of Rawls' theory, that is, there is room for change if it is deemed necessary for the functioning of the system of justice. Moreover, there is a procedural nature in *reflective equilibrium*, which is highlighted by Rawls' notion that "we may want to change our present considered judgements once their regulative principles are brought to light." (1971, p. 49). Therefore, instead of presuming Rawls' theory to be a rigid structure, the procedural and reflective nature of it should be noted.

What should be emphasised about Rawls' theoretical framework is its primary object, that is, social justice. This main object of Rawls' inquiry extends above and beyond the decision theory scenario of *the original position*, meaning that one should not evaluate Rawls' theory solely based on it. More precisely, *the original position* should be viewed as a thought experiment that does not aim to depict a real historical scenario but a realistic utopia that is possible in "reasonably favourable but still possible historical conditions" (Rawls, 2001, p. 4). Consequently, Rawls' framework is not detached from historical time — as would seem to be the case from the set-up of the original position⁸ — but is dependent on it. Another point to emphasise is that even though Rawls does not engage in a discussion that would directly and specifically scrutinize critically the foundations of mainstream economics, his discussion concerning utilitarianism can be seen to be a corollary for such a discussion. This is because utilitarianism is the philosophical foundation of mainstream economics and its main thesis of utility maximization goes to the heart of the mainstream economic approach. Moreover, Rawls' theory was discussed vividly amongst economists, which also eventually lead to the *maxim*-centric view of Rawls' theory that is discussed in this thesis in section three. Overall, what characterises Rawls' theory is a form of conflict resolution where the main object is to decide upon the most just institutions of a society.

⁸ Rawls mentions that the original position is "nonhistorical" (2001, p. 16), which would seem to suggest there to be no role for history. However, the nonhistorical aspect is related to abstract nature of *the original position* and should be understood as part of the larger object of defining the bigger framework for a realistic utopia.

3. Why Was Rawls Forgotten in Economics?

3.1 Introduction

One of the issues that this thesis addresses is the question regarding Rawls' input and influence in economics. In the current context of income, or economic inequality, which threatens the stability of liberal democracies, Rawls' work regarding distributive justice is a relevant approach to the matter. After all, Rawls provides a substantive argument that seeks to encompass both the politics and economics of inequality. As mentioned above, the absence of a serious political discussion in the inequality literature is considerable and the focus seems to be more on the mainstream economic argument that measures the extent of inequality. This is, of course, an important finding that provides the backdrop to this research. However, at some point there needs to be more serious consideration of how such a problem might be resolved, that is, normative arguments should be presented.

Interestingly, despite Rawls' efforts to convince economists about his theory, most of the profession has adopted a diluted aspect of *justice as fairness*. In essence, concepts such as the *difference principle* have not been considered as a serious contender against the utilitarian doctrine. The diluted aspect can be seen in current economic textbooks such as in Mankiw's *Principles of microeconomics* (2001). In discussing Rawls' theory, Mankiw quickly focuses the attention on the *maximin*-criterion (2001, pp. 448-449) without much consideration on how it relates to the overall theory that Rawls formulates in *A Theory of Justice*. The focus on the *maximin*-criterion by mainstream economics is also a central point that Jukka Mäkinen identifies in his research (2004)⁹. It seems that especially Kenneth Arrow's and John Harsanyi's interpretations of Rawls' theory have had a significant impact on the reception among most economists (Mäkinen, 2004, p. 31).

⁹ Mäkinen's dissertation on the subject is in Finnish and titled: "*John Rawlsin oikeudenmukaisuuskäsityksen merkitys normatiiviselle taloustieteelle*". A rough translation to English would be "*The significance of John Rawls' conception of justice to normative economics*".

Indeed, what can be seen in the Mankiw example is also one that Edgren (1995) identifies in his research about Rawls' impact: "While various elements of his approach are usually mentioned, his basic point is generally taken to be his difference principle (maximizing the welfare of the worst off individual) applied as a decision principle for evaluating the equity of resource allocation." (p. 332). It appears, then, that Rawls is seen as a "special case" of utilitarianism (Mäkinen, 2004, pp. 22) amongst mainstream economics rather than a departure from the doctrine or a serious challenge to it. Moreover, one of the central factors that seems to be common in most economic analysis of Rawls' work is the tendency of resorting to reductionism¹⁰. Another point is that Arrow and Harsanyi do not understand Rawls' overall methodology, which leads to false interpretations (Mäkinen, 2004, p. 222). The reductionist methodology is not surprising given the tendency in mainstream economics to resort to methodological individualism and mathematic modelling when analysing theoretical concepts. Put differently, this could also be inferred as a tendency of mainstream economics to resolve to "mathematical-deductivist modelling", as characterised by Lawson (2003, pp. 3-5).

The relationship between Rawls' theory and the mainstream economic interpretation of it via the *maximin*-critique is an interesting entry point regarding the discussion concerning Rawls and economics. As one surveys economics textbooks, it becomes apparent that the interpretation of Rawls' theory has been influenced by a few key economists, that is, Kenneth Arrow and John Harsanyi. Moreover, their interpretation seems to have dominated the way in which the rest of the profession has understood Rawls' theory¹¹. Hence, from the perspective of Arrow and Harsanyi, Rawls' theory fails due to its reliance on the *maximin*-rule. As Arrow put it, the *maximin*-criterion has undesirable consequences due to its emphasis on maximising the position of the worst-off

¹⁰ Reductionism is understood here in its epistemological sense. As Risjord (2014) puts it: "Epistemological reductionism holds that theories at one level can be replaced by theories at a lower level." (p. 11)

¹¹ It should be mentioned here that Mäkinen's dissertation has influenced the approach of this thesis, that is, the discussion concerning the *maximin*-critique of Rawls' theory among mainstream economics. Another point to emphasise is that Mäkinen situates the discussion into a context where he differentiates between normative economics and positive economics, arguing that normative economics (i.e. welfare economics) is a natural ground for economics and moral philosophy to have a discussion (2004, p. 1). Together with a comprehensive study into the reasons of Rawls' limited impact among the economist profession, Mäkinen also highlights a different interpretation of Rawls. This interpretation is informed by a distinct methodological understanding of Rawls' theory and one which Mäkinen argues to be the way in which Rawls also constructed and understood his theory. Mäkinen calls this methodology as *Saving of Appearances (SA)*-method and it is derived from Aristotle's Nichomachean ethics. Mäkinen's view on the subject is disclosed more in section 3.2.3.

individual (1973, p. 255). Since Arrow and Harsanyi reduce Rawls' theory to this decision theory mechanism of *maximin*, they also assume the *maximin*-principle to be a general guiding principle for every moral or ethical situation.

What follows will be a more in-depth analysis and explanation of this critique put forward by Arrow and Harsanyi. By first scrutinizing the *maximin* influenced critique¹², the idea is to set a foundation for the further discussion of Rawls' property-owning democracy. With the aforementioned considerations, the object in this thesis is twofold: first to see *why* Rawls' arguments of distributive justice have not influenced economists over their predilection regarding preference utility. Following this chapter, the concept of Rawls' property-owning democracy will be presented. Moreover, a radical interpretation of the concept will be pursued to see whether Rawls' theory offers a more profound change in the current understanding of liberal capitalism. In addition, the research question seeks to investigate to what extent can the concept of property-owning democracy serve as a valuable point of reference from which to extrapolate potential insights to the issue of economic inequality. Hence, this investigation could also inform and influence new avenues in the inequality literature. As a bridge between these two parts there will be a section about how mainstream economic literature has understood (or justified) the concept of means of production and its relation to property and ownership, that is, is it exclusively reserved for the capitalist class or is there room for more equal distribution.

¹² Here the dissertation by Mäkinen provides good guidance to the topic. As mentioned above, a key methodological feature present in Mäkinen's dissertation is the distinction between welfare and positive economics. The divide between the two is not a problem-free issue as it implicitly takes for granted certain assumptions about the nature of economic methodology (i.e. that there exists a non-normative and a normative branch). As a separate discussion, this distinction between normativity and non-normativity is an important matter that would require a research of its own much like the methodological differences between mainstream economics and political economy. As a result, this thesis will focus on the core arguments of Mäkinen's research in its own context, namely, with the distinction between welfare and positive economics. Certainly, the problematic nature of this distinction will influence the criticism regarding Mäkinen's research, but the focus is to investigate the criticism against Rawls through Mäkinen's research and see whether it holds.

3.2 The *Maximin*-critique of Arrow and Harsanyi

3.2.1 Background

It is informative in the context of Rawls' impact amongst mainstream economics to consider two main themes that exemplify the criticism towards Rawls. The first is the criticism related to the role that the *maximin*-criterion plays in Rawls' theory (i.e. the *maximin*-critique). The second criticism is related to the way in which Rawls' conception of justice is seen to lead to irrational decisions regarding the just distribution of scarce resources (i.e. the false intuition critique)¹³. As already shown in Mäkinen's dissertation, it is possible to analyse Kenneth Arrow's and John Harsanyi's critique against Rawls along these two broad categories. Moreover, the reason for focusing on these two economists is due to their academic prominence, which has influenced the view of Rawls' theory among mainstream economics. Arrow is a well-known economist who has also won the Nobel prize in economics together with John Hicks in 1972. Harsanyi, in turn, is a known decision and game theory scholar who has also ventured into ethics and political philosophy in his writings (Mäkinen, 2004, p. 29) and has also received a Nobel prize in economics together with John Nash and Reinhard Selten in 1994.

Arrow's significance is further highlighted by the manner how other economists have cited his early article that discussed Rawls' theory¹⁴, which seems to have acquired a type of a standard to which to refer when highlighting the problems of Rawls' theory (Mäkinen, 2004, p. 28). In the case of Harsanyi, his central status is exemplified, for instance, by Arrow who highlights Harsanyi's writings as a key comparison (or alternative) to Rawls' theory. Moreover, Rawls himself positions the average utility principle (one that Harsanyi subscribes to) as the main opponent of his conception of justice. (Mäkinen, 2004, p. 29) However, Rawls refers to Harsanyi indirectly when discussing the principle of average utility in *A Theory of Justice* (1971, pp. 161-162) while Arrow mentions Harsanyi's approach (together with Vickrey) as an example of "a contractarian foundation" that draws from utilitarianism (1973, p. 250). In his later works, Rawls refers to Harsanyi's and Arrow's criticisms explicitly (2001, xvii) suggesting that Rawls also viewed their criticism to be the

¹³ The categories of *maximin*-critique and false intuition-critique are drawn from Mäkinen's dissertation (2014) and are rough translations of Mäkinen's Finnish terms that are, respectively, "maximin-kritiikki" and "epäintuutiivisuus-kritiikki" (p. 43).

¹⁴ Arrow, K. (1973) *Some Ordinalist-Utilitarian Notes on Rawls's Theory of Justice by John Rawls*.

most potent ones. This also makes the focus on Arrow and Harsanyi a relevant avenue to scrutinize the criticism against Rawls amongst mainstream economics.

To explain the critique concisely, it seems that both Arrow and Harsanyi analyse Rawls' theory from a point of view that examines particular parts of Rawls' theory. By and large, Rawls' theory is conflated into the *maximin*-rule. As noted, scrutinising the *maximin*-rule, in isolation from the other parts of the theory, is a form of analysis which abides to the principles of reductionism. Following the account of epistemological reductionism, reductionism can be understood here as a form of analysis that tries to derive explanations (or verify a theory's relevance) by examining its individual parts. As Garfinkel notes: "The reductionist's claim, then, is that lower-level description is somehow all there is; such a description is complete" (1981, p. 53). Therefore, according to a reductionist thesis, if a lower-level explanation does not hold the same can be said about the higher-level explanations. Hence, if Rawls' theory fails in its more basic functions (e.g. in the *maximin*-part) the theory as a whole is also questioned according to a reductionist approach. However, given the nature of Rawls' theory as a complex structure, where different concepts have relationships between each other that in turn support the theory at large, analysing specific parts can lead to misleading interpretations. Understanding this reductionist logic helps to explain why Rawls was not able to convince economists about the necessity of the *maximin*-rule in his theoretical framework.

Mäkinen also notes the reductionist nature in the criticisms that Arrow and Harsanyi put forward while identifying additional, and more nuanced, interpretations regarding the critique against Rawls. In the case of the *maximin*-critique, Mäkinen identifies two additional interpretations regarding the critique (2004, p. 126). In the first interpretation of the critique, Arrow and Harsanyi equate the *difference principle* with the *maximin*-rule. In the second interpretation, both scholars focus in their articles¹⁵ on the justification of the *original position*, namely, they argue that one can criticise the *original position* with the same arguments as one can the decision theory principle of *maximin*. More precisely, both view that Rawls' conception of justice, be it the *difference principle* or the *original position*, is dependent upon the rationality of the *maximin*-rule. (Mäkinen, 2004, p. 134; p. 154) Hence, the *maximin*-critique is the argument that Rawls' usage of the *maximin*-principle does

¹⁵ Arrow, K. (1973) *Some Ordinalist-Utilitarian Notes on Rawls's Theory of Justice* by John Rawls and Harsanyi, J. (1975) *Can the Maximin Principle Serve as a Basis for Morality? A Critique of John Rawls's Theory*.

not provide a credible basis for Rawls' conception of justice (i.e. *justice as fairness*) (Mäkinen, 2004, p. 135).¹⁶

Some examples about Arrow's and Harsanyi's critique should be provided in order to give background to the subsequent discussion about the critique. As indicated, Harsanyi (1975) evaluates Rawls' theory from a *maximin* centric viewpoint and uses counterexamples which aim to highlight the irrational consequences related to the application of the *maximin*-criterion in everyday moral situations (pp. 594-598). For instance, Harsanyi describes a scenario where a person living in New York gets two job offers. One is in the city of New York, but the offer is for "a tedious and badly paid job" while the other job offer is "interesting and well paid" but is in Chicago. If one were to apply Rawls' *maximin*-rule in this scenario, Harsanyi argues, the person could not take the job in Chicago because s/he would have to take a plane from New York to Chicago and there is a very small possibility for the plane to crash. Therefore, as the *maximin*-rule advises extreme caution, even the small possibility of a plane crash would deter the person from taking the better job in Chicago. (Harsanyi, 1975, p. 595) Harsanyi also refers to Arrow's (1973) article to highlight the scepticism towards the *maximin*-criterion that both of them share, although it seems that Harsanyi is even more against the criterion while Arrow sees similarities between Rawls' and Harsanyi's approaches (which Harsanyi also does agree in some respects) (Harsanyi, 1975, pp. 605-606).

Arrow (1973) provides a similar example as Harsanyi, but which is related to medical procedures. In the example, Arrow tries to emphasise how the *maximin*-principle¹⁷ has repercussions that are "hardly acceptable" (1973, p. 251). In essence, Arrow argues that "there can easily exist medical procedures which serve to keep people barely alive but with little satisfaction and which are yet so expensive as to reduce the rest of the population to poverty" and that "A maximin principle would apparently imply that such procedures be adopted." (1973, pp. 251-252). Arrow's argument is about how the *maximin*-principle leads to illogical solutions that are related to situations involving

¹⁶ Mäkinen also further elaborates the false intuition critique in which the focus is on the irrational consequences that Rawls' conception of justice (and especially the *maximin*-rule) lead to regarding moral dilemmas in everyday life. This critique branches into three additional forms that are related to professional ethics, intra-generational saving and primary goods. (Mäkinen, 2004, pp. 179-180) Although the overall critique splits into these three separate discussions in Mäkinen's research, the main issue to be examined in this thesis is the *maximin*-critique. This is because it is highly conspicuous how Arrow and Harsanyi focus explicitly on the *maximin*-issue and it is also a major part of the moral dilemma scenarios that Arrow and Harsanyi depict.

¹⁷ Note that Arrow equates Rawls' *difference principle* explicitly as the "maximin principle" (Arrow, 1973, p. 248)

moral dilemmas. Hence, Arrow's rationale is that because the *maximin*-principle seeks to maximize the minimum position, it can lead to situations where the position of the worst-off individual (i.e. the sickest) is made better with the expense of those who are healthier, but who do not receive proper treatment due to the preferential treatment via the *maximin*-rule. What, thus, becomes clear is that the arguments by Arrow and Harsanyi depict binary options and if-clauses that portray a very specific scenario where the application of the *maximin*-criterion runs into problems. This critique also echoes a more profound tone regarding Rawls in mainstream economics, namely, that Rawls is seen primarily via the *maximin*-principle. What will become apparent is that there is a form of misunderstanding regarding Rawls' theory, which is specifically apparent in the *maximin*-critique. It should be remembered that Rawls' theory is not a general guideline to ethical behaviour (Mäkinen, 2004, p. 184). Rather, the question is more about resolving the bigger question regarding the core principles of social justice than specific questions regarding individual action.

3.2.2 Is There a Maximin-Critique?

Before proceeding into the specifics regarding arguments that defend the Rawlsian framework, the subsequent step is to see whether a *maximin*-critique of Rawls' theory even exists. One can start by referring to Edgren's (1995) article on the reception that Rawls' theory has had in mainstream economic textbooks. Edgren's research pinpoints similar issues that Mäkinen has identified in the literature concerning Rawls. For instance, Edgren highlights the one-sided nature of the critique against Rawls, which also translates into the narrow criticism regarding the role of the *maximin*-principle in Rawls' theory. Furthermore, the one-sided viewpoint into Rawls' theory is further highlighted when one reviews some of the economics textbooks and their contemporary editions that Edgren has listed. As an example, Hal Varian's (2005) book, which seems to be the only one that still has recent editions, depicts a familiar diluted view on Rawls' theory. In the discussion concerning social welfare functions, Rawls is introduced briefly as a representative of a "minimax" function (Varian, 2005, p. 618). The "minimax" function is taken to be a welfare function in which "the social welfare of an allocation depends only on the welfare of the worst-off agent-the person with the minimal utility." (ibid.)¹⁸. In a footnote it is mentioned that "John Rawls is a contemporary

¹⁸ Arrows' impossibility theorem is mentioned in the chapter concerning welfare functions and Arrow's book *Social Choice and Individual Values* is also mentioned. Again, it would not be too big of a logical leap to argue that Arrow's influence is considerable in the literature concerning questions regarding distributional justice. Consequently, this has most likely influenced the viewpoint regarding Rawls as well.

moral philosopher at Harvard who has argued for this principle of justice.” (ibid.) It, thus, seems that the *maximin* interpretation of Rawls in Varian’s book is the only way he is mentioned, that is, Rawls is seen as a special case of utilitarianism. Moreover, there is no substantive analysis about Rawls’ theory even though Varian notes in passing that each welfare function “represents different ethical judgements about the comparison between different agent’s welfare.” (ibid.). The note on ethics is, however, not explored further but presented in a manner that seems almost trivial to the analysis.

There is a similar interpretation of Rawls’ theory in the economics textbooks referred to by Mäkinen. For instance, Jehle and Reny (2011) make a similar notion to ethics as Varian by stating that as one is choosing between different functions, it is also a choice regarding “alternative sets of ethical values” (p. 288). Unlike Varian, Jehle and Reny have a brief notion about the history of theories of justice, which they divide into the utilitarian and the contractarian tradition, thus, following a similar approach as Rawls¹⁹. Interestingly, the authors mention Harsanyi, along with Rawls, as part of the contemporary contractarian tradition. (ibid.) After presenting Harsanyi’s expected utility version as a decision theory rule, the analysis regarding Rawls turns quickly to the *maximin*-rule. Jehle and Reny note that the risk averseness of Rawls’ framework does not provide a persuasive argument and they refer to Arrow’s 1973 article *Some Ordinalist-Utilitarian Notes on Rawls's Theory of Justice by John Rawls* as a point of reference to emphasise their argument (2011, p. 289). Moreover, Jehle and Reny see that Rawls’ *maximin*-framework is not incompatible with utilitarianism but “can be seen as a very special case of it, namely, the one that arises when individuals are *infinitely* risk averse.” (ibid.) This confirms the notion that Mäkinen also emphasised, that is, Rawls is seen as a special case of utilitarianism (2004, p. 30) rather than presenting a significant departure from it.

In Nicholson and Snyder (2016), the mathematical formalism is even more present in the analysis of Rawls although the authors note sympathetically that Rawls’ idea of focusing on the least well-off segments of society “is probably a good antidote to thinking about social welfare in purely utilitarian terms” (2016, pp. 474-475). However, the authors note familiarly that people most likely are not as risk averse as Rawls’ suggests. (ibid.). In the context of the criticism regarding Rawls’ risk averseness, it should be noted that mainstream economic theory regards Rawls to be overly pessimistic in choosing to use the *maximin* rule. However, considering the issue at hand in the *original position*, shouldn’t there be significant caution in choosing the principles of justice? After all, the magnitude of the decision is such that it will dictate the other following sequences in Rawls’ theory.

¹⁹ Though, one should note that intuitionism is not considered here and the note on the history of theories of justices is minimal.

Indeed, Rawls notes that “The situation involves grave risks” as any probabilistic calculations are not possible under the *veil of ignorance*²⁰, thus, the representative parties making the decisions “are much more in the dark than illustrations by numerical tables suggests.” (1999, pp. 134-135). Moreover, Rawls explicitly argues that the premises of his theory do not rest on significant risk aversions (2001, p. xvii). What Rawls means is that the representative parties are not irrationally risk averse in *the original position* but rather recognize that one’s responsibility in the situation is grave and requires caution. Deciding upon significant principles that are to govern a society is different from deciding between which good to purchase in a competitive market. Thus, the argument of Rawls’ risk averseness speaks volumes also about the weighting of different options amongst Rawls’ critics. It seems that the critique assumes implicitly there to be small transaction costs in the situation, meaning that if one does not get the structure of the society right the first time, one can alter the decision easily by choosing another principles from the “free-market” of ideas.

Another point to remember is that Rawls has emphasized the issue of reaching a minimum of satisfaction with the two principles of justice (1999, p. 135), which underlies the preliminary nature of Rawls’ theory. The point is to reach an acceptable minimum from which to make further decisions regarding the more specific structure of a just society. It is also important to note here the nature of rationality in Rawls’ theory, since Rawls has specified it in his later works. Consequently, Rawls later corrected the phrase in the original version of *A Theory of Justice*, which stated that his theory is part of rational choice theory. The clarification states that:

“What should have been said is that the account of the parties, and of their reasoning, uses a theory of rational choice (decision), but that this theory is itself part of a political conception of justice, one that tries to give an account of reasonable principles of justice. There is no thought of deriving those principles from the concept of rationality as the sole normative concept.” (Rawls, 2001, p. 82).

²⁰ Noteworthy here is the point that Gilibert (2016) makes in that: “The principles are first adopted behind a thick veil of ignorance that only allows general information about human psychology and social organization in the circumstance of justice.” (p. 849).

Taken into consideration the points above while also remembering earlier remarks made by Mankiw (2001)²¹, it seems that the view about Rawls is heavily influenced by a narrow interpretation of his theory, that is, a *maximin* view. This corroborates Mäkinen's general categorization of the critique against Rawls' being mostly focused on the *maximin*-aspect. It, thus, seems that much of the criticism comes back to the *maximin*-principle at some point in the argumentation. For instance, the argument about Rawls' irrational risk aversion echoes a view that sees the *maximin* rule to be an unsound method of decision making, which is also seen to discredit Rawls' theory at large. It seems that the argumentation of mainstream economics is one where it does not seem likely for a "rational" individual to be as risk averse as Rawls makes them to be in *the original position*. Again, this is in line with Mäkinen's depiction about the general shape and form of criticism that has emerged from the mainstream economic profession. Even though the examples provided do not represent an exhaustive list of various economics textbooks or their interpretations of Rawls, it would seem safe to assume that the diluted aspect of Rawls' theory present in some of the most influential textbooks represent a general view amongst the literature concerning Rawls, the crux of the criticism being the *maximin*-principle. Although Mäkinen categorises the criticism in his dissertation in a more comprehensive and nuanced way, it can be argued that a significant part of the criticism against Rawls revolves around the issue of *maximin*.

3.2.3 The Defence of Rawls Against the *Maximin*-Critique

Following the textbook interpretations of Rawls, the next task is to disclose some of the arguments that would be in defence of Rawls' theory. In order to discuss this, it is informative to refer to some of the arguments that Mäkinen makes regarding Rawls' theory. In this context, it should be stressed that a major theme in Mäkinen's dissertation is the methodology that he adopts when interpreting Rawls' theory. This methodology is inspired by Aristotle's argumentation process in *Nicomachean Ethics* and is called the *Saving of Appearances* (henceforth abbreviated as SA)-methodology. Mäkinen notes that unless one is aware of this methodology, which Rawls has adopted from Aristotle and Sidwick, Rawls' theory can be easily interpreted in a utilitarian fashion (2004, p. 39). This utilitarian interpretation was already highlighted in the previous sections. Mäkinen and Kakkuri-Knuutila (2013) highlight the novelty of the SA-approach by arguing that "only a few scholars have paid attention to the similarities between Rawls's and Aristotle's methodologies (2013,

²¹ Mankiw has a better discussion about Rawls than most of the other economics textbooks, but it still focuses on the *maximin* issue and the risk aversion argument against Rawls. See Mankiw (2011), pp. 448-450.

p. 5). Consequently, in several parts of his dissertation, Mäkinen emphasises the need to understand how Rawls arrives at his conclusions, which can be understood via the SA-methodology. Despite of this, Mäkinen also criticises Rawls of not paying enough attention in disclosing his argumentative process but focusing too much on its endpoint (i.e. the *reflective equilibrium*) (2004, p. 39). Indeed, Rawls also notes that the central focus of his theory has not been to describe its methodological foundations (1999, p. xix). Rawls' own remarks on the influence of Aristotle are not as explicit as Mäkinen makes it seem²² but one understands the claim better by looking into the article by Mäkinen and Kakkuri-Knuutila (2013) where the authors depict the gradual progression of Rawls' methodology.

Mäkinen's view and Rawls' defence

The core of Mäkinen's argument is that Arrow and Harsanyi have misunderstood Rawls' theoretical approach and its foundations. Again, the reason to this is the lack of understanding of the SA-methodology. Mäkinen and Kakkuri-Knuutila (2013) explain that Aristotle's SA-method is supposed to resolve a specific theoretical problem (p. 15), which suggests that Rawls' approach is limited to a certain problem area. Taking this into consideration, *justice as fairness* is, thus, designed to apply in a specific context (a democratic society) (Rawls, 2001, p. 39) where the attempt is to resolve a specific problem (that of social justice). More precisely, the object of the SA-methodology is to reconcile two opposing views (or theories) and try to formulate a conclusion that saves the important parts and discards the false ones. (Mäkinen, 2004, p. 66) According to Mäkinen, Rawls starts his argumentative process (along the steps of SA) by first presenting the relevant questions and concepts essential to the question of a just society. Consequently, Rawls introduces utilitarianism, intuitionism and perfectionism but focuses on utilitarianism as he sees it to be the main opponent of his *justice as fairness* concept due to its central influence in moral philosophy. Along the Aristotelian principle, Rawls sees that the best aspect of his theory is its ability to absorb the ideas from the other theory that it seeks to replace. In the case of utilitarianism, some of the important parts that the methodology of Rawls tries to preserve (or save) are its systematic nature, its wide range of application and its emphasis on the efficiency of institutions. (ibid.)

²² Mäkinen refers to a footnote in *A Theory of Justice* where Rawls' mentions Aristotle in the context of methodology (Rawls, 1971, p. 51)

Considering the role that the SA-methodology plays in Mäkinen's analysis, it is easier also to understand the rationale of Mäkinen's defence of Rawls' theory. Unlike in Arrow's and Harsanyi's criticisms, Mäkinen makes the case that Rawls' *original position* does not play a role merely as a decision theory principle of *maximin* (2004, p. 226) but has a more complex role in Rawls' theory, which neither Arrow nor Harsanyi recognize. Put differently, Arrow and Harsanyi assume that the *maximin*-rule is of vital importance to the justification of the *difference principle* (in the context of the *original position*) (ibid.). Moreover, Mäkinen argues that Arrow and Harsanyi have been mistaken in judging the *difference principle* based on the argumentation of the decision theory rule of *maximin*. (2004, p. 160). As per Rawls, what constitutes as justifications for the *justices as fairness* principle is different from the rationale that makes the representative parties in *the original position* choose the *maximin*-rule as their guiding method for decision making, hence, they are two separate issues with different justifications (2001, p. 43).

To reiterate, the issue regarding the argumentation process seems to be that economists, especially Arrow and Harsanyi, have emphasised too much the role of the decision theory rule of *maximin* in Rawls' *original position*, meaning, they often conflate the two. As Mäkinen argues, the interpretation that Arrow and Harsanyi make, regarding the *original position* and the *maximin*-rule, easily translate into a simplistic account of the argumentation process of Rawls' theory (2004, p. 157). It is, then, important to understand that Rawls tries to separate the rationale regarding the *maximin*-rule and the *original position* from the more general justification of his principles of justice (Mäkinen, 2004, p. 158) Therefore, Mäkinen argues that understanding Rawls theory merely from a *maximin*-justification point of view misses a broader point of the theory and leads to false interpretations. The broader point of Rawls' theory is to find the common denominator from which to further distinguish more accurate principles for social justice. The *maximin*-rule in the *original position* is only a way to help the representative parties decide on the most just framework in *the original position*, hence, it has a very limited role in the theory at large.

Recognising that Rawls' argumentation proceeds from general principles to more specific accounts helps to understand his thought process. Rawls indicates this implicitly in various parts of *A Theory of Justice*. One example is in Rawls' description of the *original position* where he states that: "One argues from widely accepted but weak premises to more specific conclusions" (1999, p. 16) and "We begin by describing it so that it represents generally shared and preferably weak conditions." (1999, p. 18). To follow a Rawlsian thought process, due to the pluralistic nature of democratic societies, it is easier to approach from generally accepted principles rather than assuming that these principles will reveal themselves from, for instance, aggregation because the variety of

interests and preferences are considerable.²³ In the preface to the revised edition of *A Theory of Justice*, Rawls admits that, in retrospect, he should have presented the argument for the two principles of justice differently (1999, p. xiv). As has been emphasised before, what is evident in the *maximin*-critique is that much of Rawls' theory has been evaluated by scrutinizing concepts in isolation from other parts of the theory. Notwithstanding, the focus of criticism on the *maximin*-principle is not surprising given that Rawls devotes considerable effort into explaining how the *maximin*-rule relates to the *original position* and the *difference principle* in *A Theory of Justice*.

After the publication of the original version of *A theory of Justice* (1971), Rawls began to clarify his position regarding the justification of the *difference principle* by the means of the *original position* with two articles (“Some Reasons for the Maximin Criterion” and “Reply to Alexander and Musgrave”)²⁴, which were primarily aimed towards the economists that analysed his theory solely via the *maximin*-rule (Mäkinen, 2004, pp. 159-160). What is noteworthy is that there is a difference in the scope of analysis between Rawls and mainstream economics. This is highlighted by Rawls as he explains that his theory of justice contains principles that “are macro and not necessarily micro principles” (Rawls, 1974a, p. 636) and clarifying again in another article that “Maximin is a macro not a micro principle” (Rawls, 1974b, p. 142). In addition, Rawls has also highlighted that his attempt has been to disclose “the chief structural features” of his theory (1999, p. xviii), which underlines further the point about a macro approach to his theory. This implies that the point of Rawls was not to devise a decision theory scenario with his theory but to approach the issue of social justice from a broader perspective where the *maximin*-rule is only one aspect. This also speaks of the difference in theoretical approach between Rawls and mainstream economics.

As is familiar already from *A Theory of Justice*, Rawls pursues a strategy of comparing his justice principles (i.e. *justice as fairness*) to other potential principles for justice (i.e. utilitarianism). This comparative-strategy is also one which he utilises in *Justice as Fairness: A Restatement* (2001). In *JF*, Rawls' central focus is in clarifying what are the separate reasons that apply to each respective principle and their subsections (2001, p. xvii) and to put forward an argument “from the original position for the two principles of justice” (2001, p. 80). As Mäkinen explains, Rawls' argumentation strategy uses decision theory principles (2004, p. 154), but in the case of the

²³ In other words, aggregating diverse interests can lead to fallacies of composition.

²⁴ Noteworthy is that both articles appeared in economic journals.

maximin-rule the application of the rule is to be only as a “rule of thumb”²⁵ (Rawls, 1971, p. 155) rather than a general rule of decision making in every imaginable situation.

Thus, the *original position* argument is divided into “two fundamental comparisons” in *JF* (Rawls, 2001, p. 80), which is also a familiar approach from the article “Reply to Alexander and Musgrave” (1974a) (Rawls, 2001, p. 94). Rawls states clearly that the two comparisons approach has the advantage of distinguishing between the different reasons that underlie the choosing of the *equal basic liberties principle* and the *difference principle*, i.e. the two principles of *justice as fairness*. Moreover, Rawls states explicitly (again) that the formal resemblance between the *difference principle* and the *maximin*-rule is misleading, that is, the former is a principle for distributive justice while the latter is “a rule of thumb” for decisions under uncertainty. Adding to this, Rawls says that the reasons that justify the *difference principle* do not rely on the *maximin*-rule. (Rawls, 2001, pp. 94-95) Indeed, Rawls further explains that the *maximin*-rule is a heuristic tool²⁶ for the representative parties in the original position in order to “organize their deliberations” (Rawls, 2001, p. 97), that is, decide upon the framework of social justice. Moreover, Rawls underlines that “the maximin rule was never proposed as the general principle of rational decision in all cases of risk and uncertainty.” (Rawls, 2001, p. 97).

In reference to the two fundamental comparisons, Rawls also has a more detailed account of the structure of his argument and its relation to the *maximin*-rule in a chapter titled “The Structure of the Argument and the Maximin Rule” (Rawls, 2001, p. 97). Mäkinen explains the chapters role as a framework that further exemplifies an argumentation structure that is relevant for the forthcoming first pair of the two fundamental comparisons (2004, p. 164). In other words, the argumentation structure of the first fundamental comparison resembles a *maximin*-argument strategy but only in form. The first comparison essentially argues that Rawls’ *justice as fairness* is better suited for securing *equal basic liberties* (Mäkinen, 2004, p. 168) than its principal opponent in this comparison, namely, the principle of average utility (Rawls, 2001, p. 96). Moreover, the justification for choosing *justice as fairness* is based upon political theory rather than guided explicitly by the decision theory rule of *maximin* (Mäkinen, 2004, p. 168). What is, then, meant by political theory in this context? Primarily it is connected to the Rawlsian idea of an existence of certain basic principles (akin to natural rights) amongst equal and free citizens who also have certain moral powers which

²⁵ “Rather, it is a maxim, a rule of thumb, that comes into its own in special circumstances.” (Rawls, 1971, p. 155)

²⁶ “Clearly the maximin rule is not, in general, a suitable guide for choices under uncertainty. But it is attractive in situations marked by certain special features.” (Rawls, 1971, p. 153)

enable them to come to an agreement about the nature of their preferred system of justice. Hence, as Leif discusses the issue, Rawls recognizes three fundamental ideas that are present in the political culture of a democratic state: citizens are free and equal, and that society is a fair system of cooperation between its citizens (Leif, 2017). The political conception of justice is an idea that Rawls has developed after *A Theory of Justice* first in *Political Liberalism* and later further clarified in *Justice as Fairness: A Restatement*. The most recent clarification argues that *justice as fairness* should be understood as a political conception of justice “rather than as part of a comprehensive moral doctrine”²⁷ (Rawls, 2001, pp. xi-xvii).

When recalling the argument that Rawls’ conception of justice is based upon political theory, it allows one to further follow his argumentation process. Given that Rawls’ theory is concerned with deciding upon a credible framework of justice in a liberal democracy, the three ideas of freedom, equality and a fair society are political qualifications, which lead to a specific type of a conception of justice in Rawls’ theory. Moreover, understanding also that individuals (or more accurately the representative parties) that decide upon the framework of justice possess two moral powers (i.e. capacity to cooperate in a mutually beneficial way and honour its terms) (Rawls, 2001, p. 19) ultimately enables them to choose in the *original position* the conception of *justice as fairness* as the best alternative for justice vis-à-vis the other contenders (such as utilitarianism). Furthermore, political theory is also present in the two principles of justice, since “Both principles express political values.” (Rawls, 2001, p. 48).

The point of depicting this argumentative process by Rawls is to highlight the issue that much of the criticism from Arrow and Harsanyi focus on the technical aspects (e.g. the *maximin*-rule) and how it relates or affects the other core principles in Rawls’ theory. This inclination towards surveying technical aspects is most likely the result of the rise of mathematical modelling in economics. Thus, mainstream economics has become heavily reliant on mathematical deductivism (Lawson, 2016, pp. 56-58), which also explains the focus on Rawls’ *maximin*-principle. Furthermore, there is little effort to engage more thoroughly with Rawls theory, such as, whether liberty and equality are the most important values in a democratic society from which to further build a just

²⁷ However, Rawls does refer to moral sentiments in the original version of *A Theory of Justice*: “I wish to stress that a theory of justice is precisely that, namely, a theory. It is a theory of the moral sentiments (to recall an eighteenth century title) setting out the principles governing our moral powers, or, more specifically, our sense of justice.” (Rawls, 1971, pp. 50-51).

society. Moreover, if liberty and equality are desirable principles, how does utilitarianism (be it the total sum or average principle) secure these rights better than *justice as fairness*?

Taken the above into consideration, it is easier to summarize the two fundamental comparisons and their relevance. The first comparison, as briefly stated above, provides a better basis for the principle of *equal basic liberties* than its main comparison (i.e. the principle of average utility). Consequently, Rawls' *justice as fairness* provides a better basis for a public political culture where no one's (i.e. citizen with equal basic liberties) position is precarious or unbearable (Mäkinen, 2004, p. 168). The reason for this is that the stable and equal position, in regards to the citizens, could be worse if the principle of average utility would be chosen since it might require (under certain conditions) that the "basic rights and liberties of some be in various ways restricted, or even denied altogether for the sake of greater benefits for others or for society as a whole." (Rawls, 2001, p. 102). In other words, Rawls' argument is that the central issue in the average utility principle is its maximization of the average number, which might lead to unequal scenarios that infringe upon the basic rights and liberties of citizens. Under the utilitarian doctrine, be it the sum of utilities or an average of preferences approach, a minor fraction of a society might benefit disproportionately if the utility number (sum or an average) is large enough. This approach can therefore hide significant inequalities.

In the second part of Rawls' argumentation for the *original position*, the purpose is to lay the foundation for the *difference principle* and its justification by the means of the *original position* (Mäkinen, 2004, p. 169). The focus is now on the *difference principle* because, according to Rawls, the first comparison did not provide enough support for it (2001, p. 119) as it was focusing more on the principle of *equal basic liberties*. Therefore, in this second comparison, the other option to which *justice as fairness* will be compared to is similar to it in every respect with only one difference, that is, the *difference principle* will be replaced with the principle of average utility that is also combined with "a suitable social minimum". (Rawls, 2001, p. 120) This principle is also called the principle of restricted utility (Rawls, 2001, p. 126). The superiority of Rawls' *difference principle* in the comparison is based on its ability to ensure a better basis for economic justice to both the well-off and the least well-off.

To further elaborate Rawls argument on the superiority of the difference principle, Rawls sees that there are three core justifications for the *difference principle*: publicity, reciprocity and stability. (Mäkinen, 2004, p. 170) With publicity, Rawls argues that it has an effect that gives the "political conception of justice an educational role." (Rawls, 2001, p. 122). As Mäkinen explains this point, the alternative conception of justice under comparison (i.e. the same conception as *justice as*

fairness, but without the *difference principle*) recognizes the first principle regarding *equal basic liberties* in a public manner, but runs into difficulties in the second part where it subscribes to the principle of average utility with a suitable social minimum. This is because it contradicts itself by being committed to the publicity condition in the first principle, but not in the second (regarding economic equality) (Mäkinen, 2004, p. 171). This educational role that Rawls mentions can also mean that citizens are aware of the first principle and its role in guaranteeing basic liberties. Consequently, it would be the case in the Rawlsian framework that one would not accept any possible inequalities that might result from the principle of restricted utility. Rawls is also sceptical about the social minimum and asks, for instance, how such a minimum should be determined (Rawls, 2001, p. 127).

The second justification for the difference principle, reciprocity, argues that no one should be better off in a manner that would be disadvantageous for the less well-off. Rawls also makes here a deeper argument about those who are “better endowed”²⁸ and are urged to pursue further benefits but in a way that contributes to the common good. Moreover, these endowments should be understood as common assets. (Rawls, 2001, p. 124) In the third justification, Rawls states that *justice as fairness* provides a better basis for stability due to its equal nature concerning economic equality. As Rawls puts it in a concise manner: “the principle of utility asks more of the less advantaged than the difference principle asks of the more advantaged.” (Rawls, 2001, p. 127). One could argue that these concepts also play a supportive role with each other. For instance, the justifications of reciprocity and stability could also be seen as reinforcing each other, since reciprocity asks for everyone to pursue their goals and desires as much as they please given the requirement that is contributes to a common good. Stability, then, ensures that none of the “better endowed” individuals are able to press their needs above others, but can still pursue their own goals. Moreover, the notion of publicity can be inferred to secure that all the justifications are publicly known, which also enhances the fairness and stability aspect of Rawls’ theory.

It seems that much of what Mäkinen has argued about the critique against Rawls is accurate in the sense that it is very limited in scope and focusing primarily on the *maximin*-principle. It also seems that Rawls has made considerable efforts to clarify his position as a response to the *maximin*-critique. Despite of this, it is rather peculiar that Rawls has not disclosed his methodology in more detail until the start of the 21st century and the publication of *JF*. Interestingly, in the original version of *A Theory of Justice*, Rawls anticipates some of the criticisms that his theory might face. More precisely, Rawls expected that his opponents might argue that the *maximin*-rule (in the context

²⁸ “(who have a place in the distribution of native endowments they do not morally deserve)” (Rawls, 2001, p. 124)

of the difference principle) leads to situations where there are substantial wealth and income disparities, which are allowed as long as the most disadvantaged are benefitting even the slightest amount. (Rawls, 1971, p. 157) Conversely, significant disparities are not allowed for the well off if the disadvantaged are losing in any respect (ibid.). In this light, it would seem even more pressing to clarify the methodology. Tentatively it could be that Rawls later considered his theory too rigid and sought to distance himself from the rational choice methodology by emphasising the political aspects of his theory.

Other points about the maximin-critique

Some key points regarding the disjunction between the interpretation of Rawls in mainstream economics and what Rawls meant with his theory should be further elaborated. The following examples will also corroborate Mäkinen's general findings about a diluted view of Rawls' theory in mainstream economics. Hence, one characteristic view about Rawls' theory in the economics textbooks is that there is a clear difference in how the textbooks and how Rawls approach the core question of just distribution. While Jehle and Reny ask "how can we go from consistent individual views to a social view that is consistent and that *also* respects certain basic values on matters of social choice that are shared by members of the community?" (2011, p. 270) Rawls' answer would be that these individuals would first have to come to terms with the basic principles before deciding on other social issues. Namely, when the mainstream economics literature starts from the problem of how to aggregate individual preferences, Rawls' approach is to first decide on the ethical principles, which all would share, thus, forming the basis for further considerations about the structure of the society and adequate distributional frameworks. The theory of *justice as fairness* is aimed to "formulate the principles that are to regulate the background institutions" (Rawls, 1999, p. 246). Another interesting issue is that in the economics textbooks reviewed in the previous section, ethics is mentioned only in passing as a qualification needed to be disclosed in formulating welfare functions. However, substantial analysis about ethical premises and what they might mean for distributive outcomes is absent. As Rawls put it, it might be that we do not always understand precisely the premises that underlie interpersonal comparisons (Rawls, 1999, p. 78), thus, a clear disclosure of the premises would seem to be required in order to address in the best manner the question regarding just distribution.

Rawls' view on interpersonal comparisons also highlights the difference in how he approaches the question of just distribution when contrasting it to the traditional mainstream economic approach. Rawls presents the concept of *primary goods*, which is an alternative to the utilitarian way of measuring interpersonal utilities. Rawls characterises his primary goods as a "Kantian interpretation, the embedding of ideals in its principles" (Rawls, 1999, p. 284). This stands in contrast to other forms of welfare measurement, e.g. the utilitarian average utility principle, that are affected by contingencies and are "arbitrary from a moral point of view" (ibid.). What this means is that the difficulty of defining common denominators is a dilemma for the average utility principle because it attempts to reconcile (i.e. measure) individual's utilities that are diverse and contingent. In order to measure a plethora of utilities, the average principle needs to make moral assumptions that are not usually disclosed properly. In contrast, Rawls' primary goods make explicit certain principles (based on a theory of the good), which provide the ideational basis for an index of primary goods. Furthermore, the role of *primary goods*, or its index, in Rawls' theory is to use it as a method to identify the "bottom position" (Rawls, 1999, p. 79; Rawls, 2001, p. 57) in the society, thus, the segment which is the focus of *the difference principle*.

As a result, the approach of Rawls is to define a common point of reference first while the utilitarian principles attempt to find commonalities through aggregating different preferences (preference utilitarianism) or summing up utilities (classical utilitarianism). Moreover, the aggregations, or summing, are done assuming certain principles of rationality and utility maximisation. Rawls notes that the question regarding interpersonal comparisons has the tendency of obscuring "the real question, namely, whether the total (or average) happiness is to be maximized in the first place." (Rawls, 1999, p. 78), which further signals how differently Rawls understands and handles the question. In *Political Liberalism* (1993/1996), Rawls' hesitancy towards maximization, in the case of basic liberties, is also evident. Rawls explains that the attempt of his theory is to equally secure liberties and social conditions for all citizens, which also enables them to exercise the two moral powers of "a sense of justice" and "the capacity for a conception of the good". (Rawls, 1993/1996, pp. 331-332)

Edgren's (1995) article makes also important insights regarding the differences between mainstream (or welfare) economics and Rawls' theory. One such point of difference between welfare economics and Rawls' theory is that the former seeks to find a ground where policies can be evaluated based on the "judgements held in common by all cultures" whereas Rawls is interested in exploring what diversity means for ethical judgements (Edgren, 1995, pp. 335-337). This diversity is partly marked in the initial stages of Rawls' theory, that is, in the early stages of Rawls' system of justice where subsequent steps are devised and "each constituent culture may further elaborate behaviour as

its own ethics dictate” (ibid), which signals there to be space in deciding the specifics of a society’s arrangements. The pluralistic nature in Rawls theory, i.e. acceptance of diversity, is also indicated by Rawls with the assumptions that “we are confident that religious intolerance and racial discrimination are unjust.” (Rawls, 1999, p. 17)²⁹ and by reference to “reasonable pluralism” (Rawls, 2001, p. 84) in his theoretical framework. More precisely, the pluralistic nature refers to the diversity of ideas and identities in liberal democracies.

Another perceptive argument by Edgren is that in welfare (or mainstream) economics “nothing can be said about the content of the area of agreement”, since it varies according to “the mix of preferences” that various actors have (Edgren, 1995, p. 338). Furthermore, the discussion concerning preferences and how they are formulated is unfamiliar to welfare economics. In Rawls, however, there is a deliberate attempt to arrive at an agreement about the content in a situation where there are “conflicting cultures” regarding the core contents of the agreement³⁰. A further note about the nature of welfare economics is that it does not concern itself too much on the question of income distribution, since the focus is on efficiency whereas in Rawls this is a central question. (Edgren, 1995, pp. 338-339) However, Edgren sees also similarities between Rawls’ approach and that of the economists, namely, in the reasoning and methodology (1995, p. 340).

To highlight in summary a few points about Rawls’s theory, one should realize that in Rawls’ *justice as fairness* there are clear normative principles that regulate the society. Hence, the idea of a just society, where citizens are guaranteed certain principles (liberty and equality according to the two principles) is a crucial aspect of his theory. Of course, it is clear that Rawls assumes many things, for instance, the rationality of individuals and their ability to arrive at conclusions via rational deliberation. The point is that at least Rawls brings these principles front and centre of his argument whereas the utilitarian principles says little about what constitutes justice. Is justice about arriving at an aggregate number about the diverse interests amongst people? Perhaps utilitarianism, and its mainstream economic offshoot, assume that if allocation is efficient enough then justice will somehow materialize in the process. Moreover, it might be that the mainstream economic methodology has become formalised, according to the principles of mathematical deductivism, to such an extent that it has become myopic about its philosophical foundations and its assumptions about social reality and human nature.

²⁹ It seems that the pluralistic nature is a fundamental value that Rawls attaches to his theory as a “provisional fixed point” although he also later says that “for even the judgements we take provisionally as fixed points are liable to revision” (Rawls, 1999, p. 18). Revisions are, though, limited by the two principles.

³⁰ Rawls calls these different views as “various conceptions of justice” (Rawls, 1999, p. 5)

3.2.4 Discussion: Amartya Sen and Rawls, Other Critique towards Rawls

It is apparent from Mäkinen's dissertation that he believes Rawls to be a central figure in resolving the dilemma regarding distributional justice. Furthermore, Mäkinen sees Amartya Sen's capabilities approach as a relevant way forward for Rawls' theory. This could be achieved by combining the best aspects of Sen's and Rawls' theories (Mäkinen, 2004, p. 219). It seems that Rawls too has viewed Sen's capabilities approach rather favourably by acknowledging that he sees the approach to be an important topic and one that also informs the use of *primary goods* (1993/1996, p. 183). In more detail, Sen's capabilities approach argues that social justice is not about what sort of resources or primary goods each person holds but rather of the "actual freedom" of a person, which is "represented by the person's 'capability' to achieve various alternative combinations of functionings." (Sen, 1992, p. 81). Therefore, there are differences in how one is able to use resources in order to achieve the type of freedoms that Rawls' *primary goods* provide.

Sen also characterises the Rawlsian approach as one that is concerned with the means to freedom as opposed to that of the extent of freedoms (Sen, 1992, pp. 85-86), the latter being close to Sen's capability approach (i.e. to what extent can a person actually employ the freedom that s/he has in principle). An example would be how poor people in rich countries can have characteristics, e.g. disability or illness, which makes it more difficult for them to convert *primary goods* to actual capabilities in order to achieve a better and a healthier life (Sen, 1992, p. 82). In other words, despite having the means to certain ends, the actual capabilities to achieve those ends is limited. Interestingly, Sen (1997) has also described a similar gap between actual capabilities and the means to achieve them in between nations by acknowledging that some individuals that live in poorer countries might have better capabilities than those in richer countries. Sen characterizes this to be reflective of the "substantial differences between the income-based view and the nonincome indicators of quality of life", which are a result of concentrating merely on income rather than concentrating also on other "economic and social influences on the quality of life." (Sen, 1997, p. 389).

Sen recognizes that Rawls has broadened the field of arguments relating to the income discussion (1992, p. 86) but also recognizes some shortcomings in Rawls' theory. Despite the criticism towards Rawls, Sen makes it clear that he is far more in agreement than disagreement with Rawls and his point of contention specifically relates to the issue that one can be more accurate in examining the distributive issue (ibid.), i.e. referring to Rawls' *primary goods*. Rawls' answer to Sen's criticism about the use of *primary goods* is to highlight the nature of how the index is derived. Specifically, Rawls sees that the index takes into consideration those relevant goods that are necessary

for individuals to achieve their basic capabilities, namely, their status as free and equal citizens who are capable of being full-fledged members of their society (Rawls, 2001, pp. 169-170).

A note on Mäkinen's methodology in interpreting Rawls is in order to provide a critical viewpoint as well. One of the problems relating to the SA-method is its implicit assumption that the prevalent hegemony of ideas are the ones that are the most acceptable ones to be considered as the basis for justice. Here it is informative to refer to Barnes (1980) who asks: "Are there not other, and more important, sources of philosophical perplexity than Common Opinions, and does not the Method lead us to ignore those sources?" (1980, p. 497). This is a relevant question. Perhaps the SA-method leads to a stalemate situation? Hence, if radical or unorthodox interpretations are not allowed in the method will it, then, lead only to piecemeal advances that are insufficient to answer acute situations? Unlike Barnes, Mäkinen does not see conservative connotations merely as a negative aspect but one which also implies a stronger case for justice that is also more realistic than a radical ethos (2004, p. 233). Overall, what characterizes Mäkinen's support of Rawls is the SA-method and its endpoint of *reflective equilibrium*. In essence, Mäkinen sees that the deliberative process of *the reflective equilibrium* acquires a balance between competing conceptions of justice (2004, p. 40).

It should be noted here briefly that criticisms regarding Rawls' theory are plentiful and necessarily branch into other disciplines other than economics. To give a few examples of the other types of criticisms, one famous counter argument to Rawls is from Robert Nozick³¹ who focuses on an alternative conception of justice. Nozick's "entitlement conception of justice" argues that "there is no argument for a more extensive state based upon distributive justice" (Nozick, 1974, p. 230), which is in stark contrast to Rawls' theory and its significant redistributive functions that are provided via a strong institutional state structure³². Another critique from a post-Marxist viewpoint is from Chantal Mouffe (1987). Mouffe criticises Rawls of establishing a position where "between the 'reasonable' and the 'rational' there is no space left for something properly political" (1987, p. 112). What Mouffe means is that there is no room for "conflicts, antagonisms, relations of power, forms of subordination and repression" (1987, p. 113). However, Mouffe's solution to the problem is a form of deliberation where there is "collective participation in a public sphere" where conflicts and interests are resolved (1987, p. 121). Mouffe's criticism regarding the absence of conflict in Rawls' theory is valid, but the solution seems to also be a form of rational discourse in the public sphere,

³¹ Nozick also respected Rawls' work a great deal and highlighted the broad range of Rawls' work by arguing that: "Political philosophers now must either work within Rawls' theory or explain why not." (Nozick, 1974, p. 183).

³² "In establishing these background institutions, the government may be thought of as divided into four branches.", that is, an allocation branch, a stabilization branch, a transfer branch and a distribution branch. (Rawls, 1999, pp. 243-245).

which is close to Rawls' *reflective equilibrium*. Jurgen Habermas (1995), in turn, has criticized Rawls on the design of *the original position* in the sense that it is not compelling enough in every aspect of guaranteeing an "impartial judgement" of the principles of justice (p. 110).

4. Property-Owning Democracy: A Radical Interpretation

4.1 Introduction

It is relevant to begin this section of the thesis with the question of what does property-owning democracy mean? How did Rawls understand it? As was insinuated earlier in the text, the concept of property-owning democracy is complex and has sparked various interpretations. Cohen and Rogers note in the foreword of *Property-Owning Democracy, Rawls and Beyond* (2012) that the concept of property-owning democracy has “many variations and a rich history” (p. xiv). Alan Thomas perceptively observes that the trouble in Rawls’ account of property-owning democracy is that it is a rather ambiguous concept where, for instance, reciprocity can be realized in both a property-owning democracy and in liberal market socialism (2017, p. 216). More precisely, Rawls sees that both concepts, a property-owning democracy and liberal market socialism, fulfil the requirement of the two principles of justice.³³

The subject matter of property-owning democracy is a vibrant field of research and one that is interesting and relevant in a contemporary context as well. This is due to the recent resurgence of interest regarding economic inequality and questions regarding just distribution of resources in societies. These are also issues that were the focus of classical political economy which combined an analysis of social relations with the prevailing material conditions of the historical period in question. Moreover, classical political economy also discussed questions of morality, ethics and justice and although not, perhaps, resolving any long-lasting philosophical dilemmas, the attempt to examine and argue for a specific theoretical framework made the discipline more aware of the complex nature of social reality. Rawls made a similar attempt to tackle the highly abstract concept of justice while also discussing the economic aspects of the topic. Thus, the most potent way to address the political economy side of Rawls is to discuss property-owning democracy as it is the most concrete way to discuss Rawls’ thoughts regarding distributional justice.

³³ “Throughout the choice between a private-property economy and socialism is left open; from the standpoint of the theory of justice alone, various basic structures would appear to satisfy its principles.” (Rawls, 1999, p. 228)

4.2 The Road to Property-Owning Democracy: The Means of Production and its Justification in Mainstream Economic Literature

To connect the criticism regarding Rawls' theory among mainstream, or neoclassical, economics to the study about Rawls' property-owning democracy, it should be stated why the approach that, for example, Mäkinen has adopted requires further development. Mäkinen's argument about the SA-methodology, and the need to understand the process of how Rawls develops his theory, is a valuable input, but one which does not provide enough substance to advance into more concrete aspects of analysis. More precisely, Mäkinen's argument is a rather technical one and relates mostly to methodological issues without expanding into more normative arguments, that is, what Rawls' theory implies for the actual construction of a just society. Certainly, the aim of Mäkinen's dissertation is different from this thesis, which makes the introduction of property-owning democracy necessary at this point.

However, given Rawls' own inclination of providing guidelines rather than explicit policy recommendations, it can be difficult to discern what sort of policies or other normative recommendations the Rawlsian framework provides (outside the core principles of equal liberty and economic equality). Despite of this, the flexible nature of property-owning democracy makes it possible to pursue radical interpretations that emphasise especially the equality aspect (present in both principles of Rawls' theory) and which can subsequently provide a more just basis for economic equality in a democratic society. Nevertheless, the high importance of liberty in Rawls framework (Sen, 1992, p. 87) also makes for an interesting juxtaposition between liberty and equality. In more concrete terms, how can one balance the rather strong requirement of liberty between equality? Does it inform a type of a night-watchman-state in the manner of Nozick's libertarianism? Or is the equality aspect far more important and which one could use to pave the way towards an argument of democratic socialism? These issues will be the subject of the next part of the thesis.

Before discussing the concept of property-owning democracy more precisely, it should be first disclosed what is the nature of the term "property". More precisely, what does the term mean for Rawls and how has it been understood in mainstream economics. This analysis informs further the possible differences and similarities between Rawls and mainstream economic theory. Moreover, surveying briefly how the concept of property has evolved through history can reveal interesting aspects that can be used later in the analysis of property-owning democracy. Understanding the core normative principles that underlie the conception of property in liberal theory, and in mainstream economic theory, also advances the analysis regarding the means of production, which is also a central

part of the property-owning democracy discussion. The focus, thus, is to briefly survey how mainstream economics understands the concept of property by scrutinizing the key liberal interlocutors concerning the nature of property and its connection to ownership and individuality.

The connection between liberal theory and economic theory has been a defining characteristic of Western civilization from at least the 17th Century. As Clark (1998) notes thoughtfully: “With its focus on individual choice as the primary determinant of social outcomes, Classical Liberalism is ideally suited for expression in the form of economic theory.” (p. 41). Hence, discussing liberalism in connection to (mainstream) economic theory is a relevant and necessary starting point on the discussion of property. One key figure that represents classical liberalism, and also connects mainstream economic theory’s understanding of property to the Rawlsian framework, is John Locke. From a Rawlsian perspective, Locke is one of the key influences of Rawls, namely, as a central historical precedent in the contractarian tradition. Certainly, Locke is also important as a philosopher who made the case that private property and labour are linked in a special way. Clark describes Locke’s position on property rights by acknowledging that Locke understood them to be natural rights (1998, p. 43) as opposed to, for instance, being a result of a historical progress. This is in stark contrast to Locke’s predecessor Thomas Hobbes who viewed property rights to be a product of the authority of the sovereign (Waldron, 2016).

Wood (2012) notes a key factor in Locke’s philosophy, namely, his emphasis regarding productivity and profit which is different from earlier ideas of value creation. In other words, Locke argued that value is created in production rather than as a result of exchange. Therefore, Locke was critical of any sorts of idle aristocrats who “passively collect rents without improving their land”, but also of merchants who merely buy cheap in one market and sell high in another, not to mention hoarding goods in order to raise their prices. However, Locke was not a champion for the ordinary working people but rather saw the industrious landlord, who improves the productivity conditions of his property, as an exemplar of a proper way to generate wealth for a community. (Wood, 2012, p. 275) Locke also made clear the relationship between the individual and property:

“The labor of his body and the work of his hands, we may say, are properly his. Whatsoever then he removes out of the state that nature has provided and left it in, he has mixed his labor with, and joined to it something that is his own, and thereby makes it his property.” (Locke, 1690, pp. 17-18)

What, then, distinguishes what is common and what is the property of someone else, according to Locke, is the labour that was included (or added) to the thing in question. Hence, combining one's labour in a certain good or a thing was a special kind of metaphysical concept that empowered the individual to have a natural right (a parallel to a divine right) towards ownership.

As the likes of Hobbes, Locke and Smith provided an intellectual pillar for Classical liberalism³⁴, the political ideology would eventually split into other neighbouring traditions. The split occurred as the historical circumstances changed and it became more pressing for the liberal tradition to respond to the intellectual challenge of the likes of Karl Marx. As Tabb (1999) put it, "Liberals acted to save the system by reforming it" (p. 71). Clark (1998) uses a helpful categorization where he uses the term "Modern Liberalism" to distinguish it from the earlier classical version. Moreover, Clark views that the split that created the new modern form of liberalism was initiated by a split where the classical version favoured the argumentation of defending property as a natural right whereas the modern version favoured the argument of defending property due to its social benefits. (1998, p. 43). Rawls can also be understood as a key figure in this modern version of liberalism because he explicitly defends the right to personal property on the basis of providing, for instance, "sufficient material basis for personal independence" (2001, p. 114). However, Rawls does not believe that the right to property is a general right in the ownership of the means of production, which ought to be "socially, not privately, owned" (ibid.).

Trough modern liberalism one can also see the emergence of utilitarianism, which is of course Rawls' major point of contention in his theory. A central figure in the transition from the classical to the modern view of liberalism is Jeremy Bentham who is also a key figure in the development of the utilitarian doctrine. To draw a connection point between this new form of liberal theory and (mainstream) economic theory, Hunt and Lautzenheiser (2011) note thoughtfully that Bentham's social philosophy "was to become the philosophical basis of neoclassical economics" (p. 130)³⁵. To disclose the difference between the emerging utilitarian doctrine and the natural right orientated contractarian doctrine, Bentham was critical of the way in which classical liberal theorists used the term "natural" in order to support a particular vision of society. The object of Bentham's utilitarian doctrine was to establish a social theory that was based in science, that is, pleasure and pain were the only necessary elements one should pay attention to when evaluating rights and wrongs.

³⁴ Classical Liberalism is understood here as a historical intellectual movement with forerunners such as Thomas Hobbes, John Locke and Adam Smith.

³⁵ Persky (2016) also argues that: "the utilitarian credo still stands as the chief practicable guideline for modern social policy." (p. 26).

(Clark, 1998, pp. 89-90) Proposing this binary option scenario (pleasure or pain) made it also possible to develop the methodology of mathematical formalism that mainstream, or neoclassical, economics is known for today. Moreover, Bentham proposed additional qualifications that could be used in quantifying pleasure, such as, the intensity; duration; certainty or uncertainty; and the extent of pleasure (Hunt and Lautzenheiser, 2011, p. 130). Adding these qualifications also made it possible to enhance the sophistication of the calculations of pleasure and pain.

One can already see the emerging rupture between the contractarian tradition (natural rights) and utilitarianism (utility maximization), a divide which is also a central theme in Rawls' theory of justice. But what facilitated this rupture and the movement away from natural law and natural rights towards utility? Tabb argues that Bentham had a motivation to develop the first steps of utilitarianism in order to "disarm the growing radicalism of social thinking in his time." (1999, p. 68). Clark makes a similar argument by referring to the general struggle between workers and owners of property with the latter having two reasons to oppose the doctrine of natural rights. First, natural rights made it possible for workers to demand participation in the political process. Second, natural rights also provided a strong case for the protection of private property, thus, preventing government reforms or other actions such as tax collection, provided that the right to property were to be understood in its strongest form. This limited government action would also make it difficult to resolve the initial conflict between workers and private property. (Clark, 1998, p. 90)

As was mentioned above, the utilitarian doctrine would eventually become the central philosophical background for mainstream economic theory. One should also note the clear difference between Bentham's utilitarian doctrine and the labour theory of value that the classical political economy writers such as Adam Smith, David Ricardo and Karl Marx subscribed to. Hunt and Lautzenheiser explain this difference well by highlighting that Smith, Ricardo and Marx did not deem it possible to have a scientific explanation of the magnitude of a commodity's exchange value by scrutinizing its use value (2011, p. 156). After all, the rationale in the classical political economy tradition was that all commodities must have a use value in order to have exchange value. However, utility theory explained that it was not about the total utility of a commodity (i.e. its use value) that determined its exchange value but its utility at the margin (marginal utility), meaning, the additional utility that stems from a small (marginal) increase in utility. (ibid.)

One could also add here that Locke was an important precursor to the utilitarian ideas. Certainly, the basis of Locke's philosophy is very different from utilitarianism (i.e. Locke's natural right doctrine), but the inherent focus on productivity is an important concept for the later development of utilitarianism and, subsequently, for neoclassical economic theory. Wood notes that Locke's "language of 'improvement' echoes the scientific literature devoted to the techniques of

agriculture” which also represents a very different attitude towards property, namely, one that emphasises improvement, which was then manifested by Locke’s argument for enclosing and excluding common land for productivity reasons (2012, pp. 276-277). Even though Locke and Bentham represent different philosophical traditions within liberal theory, there seems to be a continuation from Locke to Bentham where there is a gradual development of ideas that would prove to be essential to the capitalist market economy. Hence, Locke’s general ethos of scientific improvement of property and production coupled with Bentham’s scientific exploration to ethical conduct provided a basis from which neoclassical economics could build towards the mathematical formalism that measured every aspect of society, be it goods or people.

Martins (2014) highlights the issue regarding individuality by using the Marxian term of vulgar economy: “in contrast to classical political economy, [vulgar economy] subscribes to methodological individualism, where society can be totally explained in terms of the interaction of self-interest seeking individuals, who create society through social contract.” (p. 164). What is interesting in Martins’ quote is that he connects implicitly the emergence of methodological individualism (i.e. the focus of analysis on the individual in a utilitarian fashion) to the concept of the social contract. Indeed, in the contractarian tradition the individuals form the society by agreement, hence, it becomes more pressing also for social theory to focus on these individuals and how to manage them. Thus, the connection between utilitarianism and the contract tradition is an interesting point and one which should be considered. It might be that this connection also forces Rawls to accept certain features of utilitarian thought into his own theory in order to keep it consistent³⁶.

In general, the historical basis in liberal theory to equate property with natural rights seems to inform an understanding that property is a natural aspect of human existence rather than a result of historical evolution that required, at least, centuries to develop into its current form. As Patomäki (2006) discusses the role of metaphors in understanding abstract concepts, one can similarly question whether it is somewhat misleading to discuss (or presume) property as a natural phenomenon as opposed to a long process of history. The concept of property needed time to formulate not only as a part of an economic system like capitalism but on a cognitive level, namely, in the minds and thoughts of people who were part of the process. One should note at this point that the nature of property did not change much from Locke to Bentham. To be more precise, the underlying normative

³⁶ This point is made clearer by remembering the nature of the SA-methodology. As referred earlier in the text (in part 3.2.3), Rawls attempts to incorporate some valuable aspects of the utilitarian theory into his own theory, specifically its systematic nature, its wide range of application and its emphasis on the efficiency of institutions. Moreover, Audard notes that Rawls has a utilitarian past (2015, p. 501).

assumption regarding property changed only slightly from classical liberalism to its modern version. Certainly, the concept was under serious scrutiny in Marx's writings which sparked a response from the liberal side.

Furthermore, there is a peculiar aspect to the history regarding private ownership of the means of production. In effect, utilitarianism does not seem to have anything to say about it or deems the issue unimportant. As Persky notes, "one looks in vain for the deep utilitarian work on private property rights in the means of production." (p. 55). The same could be said about neoclassical (mainstream) economics as well. Paul Samuelson³⁷ noted in his article about Marxian economic models that: "Remember that in a perfectly competitive market it really doesn't matter who hires whom" (1957, p. 894). This signals wider implications in the understanding of the ownership of the means of production, that is, the question regarding their ownership is deemed somewhat trivial and unimportant in neoclassical economics. Hence, there seems to be a continuation from the utilitarian doctrine to modern neoclassical economics in the understanding of this question. What seems to matter for neoclassical economics is the functioning of the market, not who owns which production assets. It seems that the questions of ownership in productive assets (or means of production) were taken over by the focus on marginal utility and how to quantify it.

³⁷ Samuelson was titled in the New York Times obituary as the "foremost academic economist of the 20th century" (Weinstein, 2009), which signals the influence of his work and the influence of neoclassical economics in the public sphere.

4.3. Rawls and Property-Owning Democracy: From *A Theory of Justice* to *Justice as Fairness: A Restatement*

Before venturing into a deeper discussion concerning property-owning democracy, it is informative to first see what Rawls wrote about the issue. The most comprehensive discussion that Rawls has on the matter is in *Justice as Fairness: A Restatement* (2001). In *A Theory of Justice* (1971/1999), there is also a discussion regarding the matter but compared to *Justice as Fairness* it is more subtle. In *A Theory of Justice* Rawls refers to the concept in the clearest manner in Chapter V “Distributive Shares”. In the chapter, Rawls connects the issue of justice and political economy while also outlining some of the key facets of his inquiry. What is interesting is that Rawls views the role of economics in his theory rather narrowly, meaning, he emphasises the primary concern to be the theory of justice and that “questions of political economy are discussed simply to find out the practicable bearing of justice as fairness.”(1999, p. 234). He also frames the scope of the inquiry into a macro perspective, discussed in the earlier part of this thesis, by emphasising that the question is about economic systems and the appropriate form of background institutions “that regulate economic activity” (Rawls, 1999, p. 235). The ways in which this regulation is done is through taxation, rights of property and the market structure (ibid.). Consequently, the issue of property rights emerges instantly as a key principle in Rawls’ thinking.

As mentioned above, Rawls outlines more precisely what he means by property-owning democracy in *Justice as Fairness: A Restatement*, devoting a whole chapter (Part IV) to the issue. Rawls already paves the way for a more extensive discussion of property-owning democracy in the preface of the revised edition of *A Theory of Justice* (1999). Specifically, Rawls intends to clarify the difference between a property-owning democracy and a welfare-state, since he sees them to be “quite different.” admitting also that “since they both allow private property in productive assets, we may be misled into thinking them essentially the same.”. (Rawls, 1999, xiv-xv) Here Rawls also clarifies the main difference between these two concepts by arguing that, unlike a welfare-state, a property-owning democracy aims “to disperse the ownership of wealth and capital” in order to avoid a situation where a small segment of society controls the economy and “political life itself.”. (ibid.) Rawls acknowledges that he has adopted the term property-owning democracy from James Meade³⁸ along with some core elements of Mead’s ideas (1999, p. xiv). For instance, Meade’s idea to “equalize the

³⁸ Specifically, from Mead’s book *Efficiency, Equality, and the Ownership of Property*. Interestingly, Persky notes that Paul Samuelson called Meade “the last of the utilitarians.” (2016, p. 188)

distribution of the ownership of private property” (Meade, 1964, p. 75) seems to have influenced Rawls a great deal.

In *Justice as Fairness: A Restatement* Rawls states explicitly that property-owning democracy is a framework that recognizes all the main facets of the two principles of justice while a capitalist welfare-state does not fulfil the requirements of the two principles. Rawls also underlines that the nature of his survey into property-owning democracy is tentative and does not imply any endpoints or absolute truths. Moreover, the point is to sketch roughly what the institutional content of the two principles of justice would look like. Following these general notes, Rawls introduces five different social systems: laissez-faire capitalism, welfare-state capitalism, state socialism with a command economy, property-owning democracy and liberal (democratic) socialism. (Rawls, 2001, pp. 135-136) According to Rawls, the first three examples violate the two principles of justice in at least one way. In the case of laissez-faire capitalism, the focus is too much on efficiency and growth while there is a tendency to neglect the fulfilment of equality of opportunities and political liberties. Welfare-state capitalism, Rawls argues, allows large inequalities to exist in the ownership of real property, that is, productive assets and natural resources. Lastly, state socialism with a command economy is at odds with the principles of equal basic rights and liberties as there is only one central decision-making mechanism without any democratic procedures. (Rawls, 2001, pp. 137-138)

What is left are the two remaining systems of property-owning democracy and liberal socialism, which, according to Rawls, are the only ones that satisfy the two principles of justice. In fact, one need not to decide between these regimes as both fulfil the requirements of the two principles. When deciding which one to choose, Rawls argues, one needs to refer to society’s historical conditions, traditions and political thought. These factors are the main factors that inform the decision, hence, it depends on the historical context where a society finds itself. Rawls also clarifies that the first principle of justice contains a right to private personal property, but it is different from a right to property in productive assets. (Rawls, 2001, pp. 138-139) Indeed, as mentioned earlier, the right to personal property is similar to a natural right, but this right does not extend to the ownership of productive assets (i.e. means of production). (Rawls, 2001, p. 114; Rawls 1999, p. 54).

What follows next in the chapter (Rawls, 2001, pp. 135-179) are various justifications to Rawls’ theory, which at first do not seem to be that much connected to the discussion concerning the two economic systems of property-owning democracy and liberal socialism. What comes apparent, though, is that Rawls is explaining various aspects of his theory and attempting to solidify the justification for a property-owning democracy as a system that fulfils the two principles of *justice as fairness*. In other words, Rawls repeats some of the core principles of his theory. As a result, Rawls

approaches the issue by first discussing ideas of the good; constitutional and procedural democracy; the fair value of equal political liberties; political and comprehensive liberalism. Regarding ideas of the good, Rawls argues that “the right and the good are complementary” (2001, p. 140) and that “the just draws the limit, the good shows the point.” (2001, p. 141). To explain crudely, the point is to highlight what is the main motivational base of the citizens in a society that fulfils the requirements of the two principles of justice, that is, an ideal form of a democratic society. Consequently, as Murray explains, citizens have a capacity for a sense of justice and a capacity for a conception of the good, which are powers that enable a fair system of cooperation (2015, p. 131). Thus, in order to have a functioning democratic society that fulfils the two principles, citizens are assumed to hold the right and the good in high regard or even naturally possess such virtues. By making this assumption, Rawls formulates a normative principle based on moral and ethical conduct.

The following sections in the chapter discuss issues that elaborate and explain the nature of property-owning democracy while being also aspects of Rawls’ general theory of justice. For instance, Rawls clarifies that a property-owning democracy is a constitutional regime because in a procedural democracy there are no constitutional limits (2001, p. 145), which means that even some fundamental rights (such as the two principles) could be overturned by majority decision. Another example is the discussion concerning the fair value of equal political liberties. Here Rawls attempts to counter Marx’s view that equal liberties in democratic states are just formal liberties. To this Rawls’ answer is that a condition should be added to the first principle of justice that guarantees its fair value. However, Rawls does not elaborate what is the institutional form that guarantees this fair value of equal political liberties. (Rawls, 2001, pp. 148-149) As can be seen in these examples, Rawls is primarily constructing reasons to support the first principle of justice, hence, the liberty aspect. The second principle is supported more in the section concerning economic institutions.

The focus, thus, turns to the part where Rawls lays out a few examples of economic institutions of a property-owning democracy. The most concrete ones are related to savings, taxation, family and the index of primary goods. With the savings principle, Rawls formulates a principle of just savings that seeks to create and maintain a just basic structure over time (Rawls, 2001, p. 159). Rawls maintains that if a society is to be “a fair system of cooperation between generations over time” a just savings principle is required (ibid). As savings necessarily require a tax scheme, Rawls continues by formulating some guidelines for taxation with the aim to uphold the background justice in the domain of economic and social issues (Rawls, 2001, p. 160). What follows are tax guidelines that focus on a progressive tax on inheritance (at the receiver’s end) with the aim to prevent a build-up of wealth and, thus, to disperse real property and productive assets more equally (Rawls, 2001, p.

161). Rawls also outlines that an income taxation could be avoided entirely and a proportional tax on consumption adopted, hence, “taxing only total expenditure above a certain income.” (Rawls, 2001, p. 162). Especially the tax guidelines regarding inheritance are drawn from Mill³⁹, but the influence of Meade is also present. One example is the way in which Meade has similarly argued that a progressive tax on unearned income (i.e. property) to be less harmful than a tax on earned incomes (1964, p. 54). However, it remains somewhat obscure how committed Rawls is to these suggestions.

The discussion regarding *primary goods* is mainly concerned with their flexibility, that is, the criticism that Sen put forward, which was addressed in the previous section⁴⁰. Focusing on a viewpoint that has not been discussed earlier, Rawls addresses Marx’s criticisms regarding liberalism in more detail, which also informs the investigation regarding property-owning democracy. A few examples are interesting, for instance, Rawls argues that the background institutions of property-owning democracy, coupled with fair equality of opportunity and *the difference principle*, provide suitable protection for positive liberties. This is to counter the Marxian criticism that private property secures only negative liberties⁴¹ (Rawls, 2001, p. 177). Another interesting aspect which is related to the issue of property is the Marxist critique of a lack of democracy in the workplace. Rawls admits that it is a considerable problem and to which property-owning democracy does not have a direct answer to. Here, Rawls’ tentative response is to refer to Mill’s idea of worker-managed firms as a way to establish democracy in the workplace. (Rawls, 2001, pp. 177-178) The idea of worker-managed firms is an interesting issue that tackles the essential paradox in Rawls and in the liberal tradition at large: how to reconcile between liberty and equality in a sufficient way?

In summary, the details of Rawls’ perspective on property-owning democracy are left somewhat vague. Of course, one central aspect of Rawls is that he prefers to formulate simple principles or general guidelines rather than exact and detailed accounts of institutional frameworks. This is the opportunity, but also a potential disadvantage, of property-owning democracy: exhaustive answers are not available. Despite of this, the attempt is to emphasise the former option, meaning, realizing the opportunity to formulate radical interpretations of Rawls’ accounts and bring forward viewpoints that emphasise the aspect of equality in Rawls’ theory. The emphasis on equality is

³⁹ ” we borrow from Mill (and others) the idea of regulating bequest and restricting inheritance.” (Rawls, 2001, pp. 160-161).

⁴⁰ Discussed in section 3.2.4

⁴¹ The positive and negative liberties framework is derived from Isaiah Berlin.

important, since most mainstream economists see Rawls as representative of a special case of utilitarianism rather than an alternative to it.

4.4. Property-Owning democracy: The Intersection of Liberty and Equality in The Means of Production

The argument for a radical interpretation of Rawls' property-owning democracy is influenced in part by the argument of Krouse and McPherson (1988) who state that the degree of equalization of property holdings in property-owning democracy has been underestimated in the literature concerning Rawls' theory (p. 80). Moreover, one of the reasons for this equalization argument is, as Krouse and McPherson highlight, that the background institutions in Rawls' ideal society are supposed to "prevent excessive accumulation of property and wealth." (1988, p. 87). Preventing excessive accumulation of wealth is also a dilemma in the 21st century as Piketty (2014) has shown in his research. The dispersion of property and wealth is also the difference that separates Rawls' property-owning democracy from welfare-state capitalism since there is a strong commitment to the priority of liberty in the Rawlsian framework (ibid.)⁴². Krouse and McPherson also make a significant point of explaining that most criticisms of *the difference principle* are made in the context of assuming that it will be applied in a welfare-state context. This, then, leads to arguments where there needs to be significant redistribution efforts which will be inegalitarian. (1988, pp. 90-91) The inegalitarian point of view partly reflects Arrow's medical procedure argument, that is, *the difference principle* (together with the *maximin*-rule) leads to distribution patterns where the least well-off segment of society are benefitted disproportionately compared to the more well-off. But as Krouse and McPherson emphasise, if one assumes a societal structure that is structured from the beginning from the viewpoint of *the difference principle*, the critique is not valid. (ibid.). Indeed, it is revealing that in most cases Rawls' property-owning democracy is rarely considered in a "non-capitalist framework" (Krouse, McPherson, 1988, p. 80)⁴³.

⁴² As Rawls argues: "welfare-state capitalism permits a small class to have a near monopoly of the means of production." (2001, p. 139). Of course, one can have counter forces of, for instance, labour unions to alleviate this potential monopoly.

⁴³ This might also be a result of the way in which Rawls describes his ideal economic and social regime as a *property-owning* democracy, which has capitalist connotations.

Considering the role of the means of production, an interesting aspect is that in a property-owning democracy Rawls sees John Stuart Mill's idea of worker-managed cooperative firms to be "fully compatible with property-owning democracy"⁴⁴ (2001, p. 176). The reference to Mill is informative and gives further clues where to follow Rawls' understanding regarding property and the means of production. Audard (2015) and Persky (2016) both note the special role that J. S. Mill has occupied in Rawls' thinking. Persky further notes that "In many ways, Rawls's project can be viewed as an elaboration of John Stuart Mill's effort to reconcile equality and liberty." (2016, p. 191). Indeed, there is an uncomfortable relationship in liberal theory concerning liberty and equality and how to balance the two. This is also evident in Rawls' theory and can be observed to be the case also in a property-owning democracy regime⁴⁵. For instance, despite an emphasis on property, Rawls' defence of property is somewhat provisional (Persky, 2016, p. 188). It is, hence, not entirely clear what the role of property is in Rawls' ideal economic-social regime. As Persky notes, Rawls draws from Meade's work, but does not engage in depth on Meade's arguments (2016, p. 189). Essentially, it appears that Rawls' attempt is to "find an institution he can endorse as just", that is, fulfil his two principles of justice (Persky, 2016, p. 190). The problem with Meade, Persky argues, is that he does not consider the investment-incentive problem where "the erosion of capital's concentration could undermine the entrepreneurial incentives often seen as driving productivity growth and the application of technology." (ibid.). More precisely, Persky sees a problem in the way in which much of decision making regarding the economy is left to bureaucrats, executives and mutual funds as the rest of the population in Meade's scheme is enjoying the fruits of the equalized property-ownership. (ibid.)

One problem with Rawls and Meade is that there is little, if any, historical analysis of property ownership nor details of how an equalisation of ownership could act as a mechanism for greater equality. References towards equalizing ownership are made but any subsequent steps are rarely disclosed. A combining element with Rawls and Meade is their concern regarding the effects of concentrated wealth. Rawls argues that the political process (legislators and parties) should be "independent of large concentrations of private economic and social power" (Rawls, 2001, p. 150) and that the role of just background institutions is to "work to keep property and wealth evenly

⁴⁴ While Rawls is vague, he does suggest that liberal socialism might well involve "a firm's direction and management [being] elected by, if not directly in the hands of, its own workforce" (Rawls, 2001, p. 138).

⁴⁵ In addition, Rawls notes the difficulty of deciding between the lexical priority of fair opportunity and *the difference principle* (2001, p. 163).

enough shared over time to preserve the fair value of the political liberties and fair equality of opportunity over generations.” (Rawls, 2001, p. 51).

Hence, if one aims to develop Rawls’ scheme of a property-owning democracy forward, it is perhaps best to refer to J. S. Mill’s idea of worker-managed cooperatives, which Rawls sees as compatible to his regime. The reference to Mill can further be emphasised by Audard’s (2015) notion that: “there is a distinctive influence of Mill’s later texts on socialism on Rawls, his critique of free markets and capitalism and his analysis of the stationary state of the economy.” (p. 502). As is apparent from Little’s (2014) article on Rawls economic influences, Rawls was critical about the combined force of globalism and capitalism⁴⁶. In Little’s article, Rawls discloses that he is also in agreement with Mill’s concept of a stationary state (2014, p. 520).

Concerning Mill’s idea of worker-managed cooperatives and the stationary state of the economy, he sees them to be intertwined as the latter paves the way for the former to be established (Persky, 2016, p. 133). Mill’s stationary state is basically a situation where “the rate of accumulation falls towards zero”, thus, savers and investors limit their activities since there is little incentive due to a falling profit rate (Persky, 2016, p. 85). However, Mill saw an opportunity in this as enabling prosperity for “the greatest number” (ibid.) as the reconstruction of the workplace would take its shape from a relationship of exploitation towards economic democracy (Persky, 2016, p. 133). Mill was influenced in large part by the experimentation done by French cooperatives in the aftermath of the French revolution in 1848 but was sceptical of cooperatives at first (Persky, 2016, p. 139). Eventually, Mill would come to embrace cooperatives, which he believed to be more beneficial than “intelligent unionism”, that is, his weaker argument on economic democracy where workers and capitalists would engage in a form of profit-sharing. Instead, Mill saw that unions should engage in productive activities themselves rather than accumulating savings in strike funds. The rationale of Mill was that cooperative initiatives would enable workers to strive towards greater creativity and ingenuity while abolishing the inherent conflict between workers and capitalists. In time Mill also

⁴⁶ In a letter to Van Parijs, Rawls expresses scepticism of the repercussions of creating a strong version of European integration because:

“The large open market including all of Europe is the aim of the large banks and the capitalist business class whose main goal is simply large profit. The idea of economic growth, onwards and upwards, with no specific end in sight, fits this class perfectly. If they speak about distribution, is [al]most always in terms of trickle down. The long-term result of this — which we already have in the United States — is a civil society awash in meaningless consumerism of some kind... So you see that I am not happy about globalization as the banks and business class are pushing it.” (Little, 2014, p. 520).

assumed that the productivity gains of cooperatives would rival those of private businesses and would incentive investors to lend capital to cooperatives. (Persky, 2016, pp. 140-151).

Persky brings the cooperative discussion into a contemporary framework by referring to an article by Bowles and Gintis (1993), which discusses the case of democratic enterprise. In the article Bowles and Gintis argue that there are “two reasons why firms should be owned and run democratically by their workers”, namely, accountability and efficiency” (Bowles and Gintis, 1993, p. 75). Accountability means that since there exists an element of power in the employment relationship, the “governance should on democratic grounds be accountable to those most directly affected” whereas in the case of efficiency, the argument is that a democratically run firm uses “a lower level of inputs per unit of output than the analogous capitalist firm.” (ibid.) Bowles and Gintis highlight a key aspect in relation to how liberal political theory generally attributes both liberal and democratic principles to the state but only the latter (liberty) to the economy. Liberty, thus, ensures in capitalist economies that “effective claims on resources and command over labour generally reside in property owners and their representatives may represent a just form of social organization providing, of course, that markets are sufficiently competitive.” (Bowles and Gintis, 1993, p. 98). The authors further argue that liberal political theory makes a false assumption in assuming that a capitalist economy belongs to a “private sphere”, since the managers of the firm actually wield considerable power over the employees, their lives and family (ibid.).

Thus, following Mill’s cooperatives, i.e. worker managed firms, framework brings one back to a familiar Marxian critique of exploitation, that is, an unequal relationship between the capitalists and the workers. The discussion regarding private and public spheres by Bowles and Gintis also highlights a power relationship where the monopolization of production under the principle of liberty alone solidifies the unequal nature of the relationship. Private ownership of property is secured as a right but interestingly democracy of the means of production does not qualify as a right in the same manner. Hence, limiting one aspect of society from democratic principles would seem to be a deliberate decision to secure power. Indeed, securing a monopoly right in the means of production also commands a wide usage of power over individuals and their lives. As individual rights are a central concern for Rawls, it would imply that an exploitative relationship in the means of production would not fit into a Rawlsian framework. In a property-owning democracy, liberty and equality (or democracy) are qualifications that ought to be manifested in the relationship in the means of production. Therefore, democratic ownership of the means of production would seem to be feasible in a Rawlsian framework and would enhance the equality aspect of the theory.

5. Conclusion

What is the main finding of this thesis? The most important one is to highlight that through Rawls' theory one can see there to be considerable room in the liberal theory tradition for an even stronger case for economic equality. This emphasis on equality is further realized through the ownership and organization of the means of production. On a conservative note, this means that issues such as worker participation in productive assets (i.e. the means of production) are within the scope of liberal democracies. More precisely, issues such as a more visible worker representation on corporate boards is consistent with liberal principles of equality. On a more radical note, Rawls' property-owning democracy provides a justification where a full-fledged worker-managed firm is a justifiable demand and a consistent one with the general liberal principle of a non-exploitative relationship that can be extended to the means of production. Since Rawls agrees that John Stuart Mill's cooperatives, i.e. worker-managed firms, are consistent with property-owning democracy, discussing new avenues for the Rawlsian framework in economic equality would be best realized by incorporating Mill's theory into it. But is it counterintuitive to apply Mill's ideas with Rawls' if the central argument of Rawls would be against utilitarianism and Mill is considered to be a utilitarian philosopher? Such a view is of course one-dimensional and depicts a narrow image of both philosophers. After all, both philosophers revised some of their core ideas throughout their careers. Rawls indicated at least some form of scepticism towards liberal capitalism and Mill experienced a sharper turn towards socialist ideas.

Another important finding is the absence of any normative discussion regarding the ownership of the means of production. More precisely, scrutinizing the evolution of property from Locke to Bentham and beyond reveals that, since the challenge proposed by Marx, the concept was somewhat left out in the side-lines. It seems that the paradigm change, from classical political economy to neoclassical economics, also meant shifting focus from the question of ownership of production to other avenues. What only mattered, as Paul Samuelson put it, was that there would be competitive markets. This suggests that anything outside of this purview would be irrelevant. As a result, current liberal theory, together with neoclassical economics, assumes the liberty of the capitalists to be the most important factor in the means of production. It is a normative choice to prefer an arrangement where the means of production are exclusively privately owned. Moreover, it is peculiar that liberal theory advocates equality and democracy, but for some reason this discussion does not extend to the ownership of production. Therefore, why is democracy not a factor in the means of production?

The aspect regarding democracy is one reason to employ Rawls' theory in this thesis. Inherent in Rawls' philosophy is a democratic factor, that is, one where democratic deliberation leads to a just society. This is, of course, an ideal process and one that is not necessarily an accurate depiction of how a political process works in liberal democracies. However, one should not underestimate how ideals and principles affect the everyday workings of institutions and societies. One crucial aspect that makes the utilitarian doctrine influential even in the modern age is its simple argument of providing the greatest happiness (or satisfaction) to the greatest number. To describe the issue crudely, although utilitarianism has been transformed from the sum of happiness (classical) to the average number of happiness (modern) framework, the central message has remained the same. What matters above all is to satisfy the diverse wants of the plethora of individual preferences.

But one might also ask whether mainstream economics, with the utilitarian doctrine as its central philosophical guideline, has become so specialized in statistical analysis that it sometimes becomes myopic of its own past. In other words, as the abundance of information and the range of statistical techniques becomes more abundant, is there any considerations on the regulating principles that underline such techniques? The more such specialization proceeds, the more difficult it might become to change the underlying assumptions. As can be seen from the economic textbooks that were surveyed in this thesis, the discussion about Rawls' theory is extremely narrow and one which conflates a host of philosophical ideas to one guiding *maximin*-rule. In essence, the answer to *why* was Rawls marginalized in mainstream economics is that his theoretical approach was very different to the model centric views prevalent in the mainstream economics tradition. Rawls incorporated aspects that were difficult to address in economic models (i.e. moral and political philosophy) which then lead to the *maximin*-focus of his theory. Again, one can question whether Rawls' approach has much resemblance to the actual workings of a liberal democratic society where power relations and conflict between diverse (class) interests are prevalent. Yet Rawls at least provides a point from where to argue for the principles that should regulate a society's system of justice. To argue that such questions are arbitral is to confess ignorance of major societal questions or admit that one has never thought of such questions in the first place but assimilated certain normative principles at face value.

As Persky (2016) put it well, the modern radical dilemma remains how to actualize the freedom of the working classes (p. 196). Rawls provides some answers to this by providing a systematic theory of justice and one which also recognizes the careful balance between liberty and equality. To be sure, Rawls' definite answer in the form of economic institutions is not a perfect one and leaves many specifics formulations vague. It is also not entirely clear what Rawls would have thought of the state of liberal capitalism in the aftermath of the 2008 financial crisis. However, Rawls provides a credible basis from which to argue for greater equality and democracy in the context of the means of production. The means of production is also a central aspect where one can see the manifestation of working-class agency, hence, a concrete area of improvement and agenda. In a time where the foundations of liberal capitalism are questioned in a more decisive fashion, realizing the potential to further develop the argument of a property-owning democracy by incorporating elements from J.S. Mill's thoughts on cooperatives is one way to reform central liberal capitalist institutions towards a more equal and democratic basis. Equally important is to understand that assuming certain principles without scrutiny also informs policy outcomes that can be detrimental for greater economic equality.

6. Bibliography

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