The crisis of egalitarian policy and the promises of asset-based redistribution *

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Revised version, 10 April 1996

Abstract

This paper analyses the links between egalitarian policy and unemployment and the possible use of asset-based redistribution to overcome the crisis of egalitarian policy.

Contrary to left-Keynesian belief, egalitarian policies in the postwar period were not the means to ensure high aggregate demand and full employment. The main direction of causation went the other way: full employment generated increasing egalitarian demands while high unemployment after the golden age paved the way for increasing inequality. The breakdown of the golden age is itself explained by a gradual deterioration of the business climate which undermined the full employment policy. In addition, increasing international mobility raised the costs of redistributive taxation.

Asset-based redistribution may, as suggested by Bowles and Gintis, open new possibilities, but the Scandinavian experience with increased worker ownership raises serious questions about the implementation of asset redistribution.

JEL classification: D30, E12, E32, H2

Key words: Redistribution, social democracy, wage earner fund, political business cycle, inequality.

* This version of the paper has benefitted from the comments of participants in the conference on Efficiency and Equality, University of Wisconsin, November 1995. It will appear, without the appendices, in Erik Olin Wright (ed) Efficiency and Equality, Verso.

Economic inequality has been increasing in many parts of the world since the late 1970s, and there is a widespread perception that existing egalitarian models impose unacceptable costs in the form of high taxation, low productivity and reduced growth rates. The failures and recent collapse of central planning in the Soviet Union and Eastern Europe have undoubtedly contributed to a general shift of opinion against western social democracy. However, the policy reversals and attacks on the welfare state predate the Soviet collapse and must be explained primarily by developments within the capitalist countries.

In an important and thought-provoking paper Bowles and Gintis (1994) build on and extend their earlier work (e.g. Gintis (1976), Bowles (1985), Bowles and Gintis (1993)). Applying an agency-theoretic approach to egalitarian policy issues, they suggest that there are good reasons why social democracy (and traditional egalitarian models in general) lack credibility. These traditional strategies have, they argue, focused on the redistribution of income, a strategy which ultimately must impair economic performance. Asset-based redistribution is offered as an alternative strategy. Unlike income redistribution, an egalitarian strategy based on asset redistribution can, they argue, be productivity enhancing. Hence, it may become possible to gain broad political support for this kind of egalitarian redistribution.

As pointed out by BG "equality pessimism' finds little support in the empirical record of macroeconomic performance" (p.14). The data are often shaky and the methodology questionable,¹ but existing studies typically suggest that, if anything, equality and economic performance are positively correlated. Thus, the roots of the crisis of egalitarian policy are not

¹ Different studies have produced strikingly different results. ILO (1984), for instance, includes only eight developed countries but the most equal country (Japan) in the BG data has a higher Gini coefficient in the ILO data than the US, the most unequal country according to BG, and the rankings of the other countries also differ greatly. And both the BG and the ILO figures differ from the Luxembourg Income Study which was designed specifically to overcome the comparability problems involved in international studies (Atkinson et al 1995).

immediately obvious in the data, and to explain the crisis BG focus on two sets of issues. They suggest that

- (i) egalitarian policies during the 'golden age' were linked to closed-economy, left-Keynesian beliefs in the expansionary effects of egalitarian redistribution;
- (ii) these beliefs have been gradually undermined by the increasing integration of national economies in the world market. As a result, attention has shifted to the supply side: productivity and wage costs are now regarded as the key determinants of international competitiveness, and anti-egalitarian, low-wage policies appear attractive.

A correct diagnosis is important for an evaluation of possible solutions, and in some respects the account by Bowles and Gintis (BG) seems incomplete or even misleading. In this paper I consider, in section 2, the links between Keynesian employment policy and inequality, while section 3 takes up the effects of international integration. The analysis of the background to the changes is followed in section 4 by a brief discussion of the proposals for worker-owned firms. Worker ownership may indeed overcome some of the constraints on traditional egalitarian policy. But one should not exaggerate the differences between the BG approach and social democratic policy. Schemes of industrial democracy and increased worker ownership were developed in a number of countries, and the fate of these proposals testify to the opposition and transitional difficulties that would meet any scheme of this nature. A final section summarises the conclusions.

Section 2: Egalitarian policy and left Keynesianism

During the golden age, Keynesian policies were seen as important in smoothing out the trade cycle and preventing deep depressions, and the promise of full employment through Keynesian policy also gave credibility to a reformist and pragmatist approach, thereby strengthening social

democrats against attacks from both radical socialists and the right (Scharpf (1991), Glyn (1995)). In this sense the Keynesian promise may well have been essential for egalitarian policy. Moreover, good economic performance in the form of both high employment and high rates of productivity growth made the implementation of egalitarian policies easier during the golden age. But, at least in Europe, Keynesian demand arguments played a very limited role in the direct justification of welfare state programmes. This is not surprising. The links between distribution and growth in some Kaleckian and left-Keynesian models have never been widely accepted,² and in any case the links would be largely irrelevant if other policies could (and did) ensure full employment. Furthermore, the models did not apply (without significant modification) to small open economies, and social democrats and mainstream Keynesians in the small west European countries have always been keenly aware of the openness of their economies.³

Growth considerations did play a role in the policy discussions but not in the form of left-Keynesian demand-driven growth models. When egalitarian policies were linked to productivity and growth, the arguments usually focused on the supply side. Wage increases, it was argued, would put pressure on employers to innovate and ensure high-quality jobs and technological progressiveness; shorter hours would be compensated by an increase in the quality and intensity of work; educational programmes would raise productivity, labour market policies increase flexibility, and social programmes bring women into the work force and reduce workers' opposition to productivity increases and structural change.

The demise of the golden age was followed by a breakdown of the consensus behind both Keynesian demand policy and egalitarian redistribution. Macroeconomic problems made

² In fact, neither theoretical nor empirical arguments have convinced me of the relevance of wage-led growth, even in closed economies (Auerbach and Skott (1988), Skott (1989)).

³ The question of international competitiveness has probably been the most dominant theme in political-economic debates in Denmark in the post-war period.

their appearance in the late 1960s with a pronounced increase in strike activity and general social unrest in most OECD countries. These developments were accompanied by rising inflation, reduced productivity growth and low profitability, problems which were later exacerbated by the oil shock.

Broadly speaking, the initial policy response aimed at maintaining full employment and at dealing with inflation and balance of payments problems through some combination of incomes and exchange rate policies. In the late 1970s, however, the priorities started to change, inflation was given top priority and unemployment was allowed to rise. Monetarist and new classical theories were used to justify the change. Market mechanisms, it was argued, automatically and quickly bring the economy back to full employment following a shock, and Keynesian policy, consequently, becomes unnecessary or even harmful: attempts to push income beyond the full employment level merely lead to rising inflation, and informational problems and policy lags defeat all possibilities of fine-tuning, making attempts in this direction destabilizing.

Having denied the need for aggregate demand policy, the rise in unemployment was followed by supply-side criticisms of trade unions and of the disincentive effects of high taxes, generous unemployment benefits, high minimum wages and a low dispersion of wages. Although "all too often based on a superficial analysis of economic behaviour and unsupported by rigorous empirical evidence" (Atkinson (1993)) these criticisms have been influential, and the 1980s and 1990s have been characterized in many countries by labour market reforms, attacks on unionized labour, tax reforms and the restructuring or curtailment of welfare programmes.⁴

⁴ The careful studies in Atkinson and Mogensen (1993) of the disincentive effects of the welfare state in Sweden, Germany, Denmark and Britain lead to the conclusion that "a number of the effects which have been identified are relatively small in size. Perhaps more importantly,

Although Kaleckian and left-Keynesian ideas played, at best, a limited role as motivation for egalitarian policies, other aspects of Kalecki's work may help explain both the decline of the golden age and the policy reversals: the broad pattern of the postwar period can be seen as part of a Kaleckian long wave. As long ago as 1943 Kalecki predicted that "the maintenance of full employment would cause social and political changes" as "'the sack' would cease to play its role as a disciplinary measure" and that, as a result, "a powerful block is likely to be formed between big business and the rentier interests, and they would probably find more than one economist to declare that the situation was manifestly unsound" (Kalecki (1971 [1943], p.141-144)).

From this Kaleckian perspective, egalitarian policies in the postwar period were not the means to ensure high aggregate demand and full employment. The main direction of causation went the other way: full employment generated ever-increasing egalitarian demands for reform during the golden age while high unemployment after the golden age paved the way for increasing inequality. The breakdown of the golden age is itself explained endogenously. High employment not only compressed the distribution of income, it also caused, more generally, a deterioration of the business climate, and this deterioration gradually undermined the full employment policy.

The Kaleckian long-wave argument can be represented mathematically in the form of a two-dimensional system of differential equations (Appendix 1; Skott (1993)). This system implies that fluctuations in 'business climate' lead fluctuations in employment by about a quarter

there are relatively few situations in which a disincentive effect has been clearly established: there are many areas where we have a great deal still to learn. To dismantle the welfare state on the grounds that it causes disincentives would risk losing its very definite distributive advantages for the sake of an uncertain pay-off in terms of improved economic performance" (Atkinson (1993, p.297)).

of a cycle.⁵ Using profitability and strike activity as indicators of business climate, the postwar evidence for the OECD countries is consistent with this prediction. The late 1950s and early 1960s were characterized by high profit rates, low strike activity and falling unemployment. In the late 1960s and early 1970s unemployment was low but profit rates were falling and strike activity increasing. This period was followed in the mid 1970s to early 1980s by low profitability, high strike activity and rising unemployment. Finally, from the mid 1980s to the early 1990s profit rates have been rising and strike activity falling while unemployment (especially in Europe) has fluctuated around a high level.

Kalecki's argument is essentially that any economic system which relies on markets and private accumulation must maintain a satisfactory business climate, and that if full employment causes a deterioration of this climate then traditional social democratic attempts at taming the capitalist beast are bound to falter. From a long term perspective, however, institutions cannot be taken as given, and institutional reform may affect the compatibility of full employment and an egalitarian income distribution with successful, market-based accumulation. This kind of institutional transformation can be seen precisely as "social democracy's historic challenge" (Glyn (1995, p. 5)) while events over the last twenty years indicate the failure so far to meet the challenge and achieve this kind of transformation.

In the present context the interesting question is whether or to what extent the breakdown of the golden age and the increase in inequality could have been averted through a strategy of asset-based redistribution. Or looking ahead, whether asset-based redistribution can be a key element of an institutional transformation to overcome the accumulation constraint on egalitarian

⁵ Incidentally, the cyclical implications of the Kaleckian argument suggest that the current phase of high unemployment and increasing inequality will give way to phases with increasing employment and then, with a lag, to decreasing inequality. So perhaps some of the current pessimism on the left is unfounded or at least exaggerated.

policy. I shall return to this question in section 4.

Section 3: International integration

Many of the developments of the postwar period have been common to all OECD countries, and this (imperfect) synchronization may have been reinforced by increasing international integration. In Europe, for instance, the policy reversals after the golden age came early in the UK, and the changes there contributed to the pressure for change elsewhere.

BG emphasize the limitations that international demand leakages and capital mobility impose on traditional domestic demand policy. I think this emphasis may be misplaced. Trade and capital mobility have profound effects on the conduct of Keynesian demand policy, and the policy game between different countries will typically lead to suboptimal outcomes. It is not clear to me, however, why the demand-side complications should give a strong inegalitarian bias. 'Social democracy in one country' may come up against international constraints, but the main constraints are not the conditions for aggregate demand policy.

Open economies may try to solve their demand problems through beggar-thy-neighbour policies, and at the world level these policies may lead to aggregate demand problems which could have been solved by coordinated expansion (problems of this kind may well play a role in the European experience). But international competitiveness does not in itself dictate an uneven distribution of income. The domestic income distribution will influence the sectoral trade pattern, but arguably there can be dynamic advantages to an egalitarian strategy involving the specialization in skill and knowledge-intensive products as opposed to inegalitarian strategies of price competition in low-skill products.

Certain forms of increased competition can, of course, have inegalitarian effects. This is the case, for instance, in high-income countries when low-skill products meet intensified

competition from new producers in low-income countries. Structural changes of this kind, which figure prominently in current debates (e.g. Wood (1995)), will clearly put a strain on egalitarian policies. But internationalisation has had additional, direct effects on the domestic 'bargaining game': changes in reference groups and in international mobility have affected both the attitudes and bargaining position of the rich. The logic of this argument can be presented in terms of a simple, stylised example.

Consider first a closed economy and assume that

- (i) random shocks cause the incomes of individual agents to deviate from the average income.
- (ii) redistribution is possible using proportional taxes to finance lump-sum transfers.
- (iii) redistribution may be costly in the sense that the average level of income may depend inversely on the rate of redistributive taxation.
- (iv) agents are risk adverse; they are prepared to buy insurance (in the form of a lower expected value of income) in order to reduce the variability of income.

In the special case with costless redistribution, the optimal outcome is complete redistribution: the tax rate is set equal to one and all agents receive the same post-redistribution income. With costly redistribution the optimal tax rate will typically lie between zero and one, the exact solution depending on the degree of risk aversion, the distribution of the random shocks and the costs of redistribution. (See Appendix 2)

Now introduce a second country and assume that initially the two countries are identical and that a country may restrict immigration but cannot prevent emigration. Each country sets its own redistribution scheme, but now agents in each country may escape the implications of the scheme by emigrating to the other country after learning the value of their individual income. Emigration involves private costs, and agents weigh these costs against the possible gains in

income (after redistribution).

In the extreme case without migration and redistribution costs, the implications for egalitarian policy are devastating. If country 1 has chosen a tax rate $t_1 > 0$, country 2 may raise the income of all its citizens by reducing its tax rate marginally below t_1 . High income agents in country 1 will then wish to emigrate, and the inflow of high income agents increases the average income and enables the country to raise its lump sum transfers. Incomes in the high-tax country, on the other hand, drop as a result of the emigration. Thus, on plausible assumptions the game between the policy makers in the two countries produces an outcome with $t_1 = t_2 = 0$, that is, without any redistribution (Appendix 2).

With positive migration costs each country retains some leeway for redistribution, and in general one would expect the degree of redistribution to vary directly with the level of migration costs and inversely with the level of redistribution costs. Internationalisation may have affected the potential for egalitarian redistribution through both of these channels. The reduction in the costs of migration (both tangible and mental) is straightforward. Increasing similarities of education, improved language skills, cultural homogenization and legal changes combine to increase the job opportunities abroad, and improved transportation and communication make it possible to retain close links with family and friends in the home country.

The costs of redistribution have also been affected by the process of internationalisation. Internationalisation has altered the composition of the reference groups of, in particular, high income groups: the weight of domestic low-income groups has declined and the weight of foreign high-income groups increased. As a result the general consensus behind egalitarian policies has been eroded. Comparing their own net income with those of foreign managers, lawyers or professors, high-income agents no longer show the same willingness to accept domestic redistribution. Changes of this kind in general attitudes almost inevitably lead to

increased tax evasion and intensified attempts to exploit loopholes of the system. The result is a rise in the costs of redistribution.

In addition to these changes in the costs of migration and redistribution, the argument also implies the existence of international policy spillovers. The migration condition sets an upper limit to the difference in taxation. Hence, a domestic shift in priorities leading to lower taxes in any single country can make it impossible for other countries to pursue their previous policies. In this way the consequences of Mrs Thatcher can spread internationally .

In Europe, these effects of increased internationalisation have, I think, been much more important for distributional policy than the external leakages of traditional Keynesian demand policy. The US, where changes in international mobility have been less pronounced, might seem to require a different explanation. In fact, however, the basic reasoning behind the example may be particularly relevant for the US. High domestic mobility is combined in the US with the financing of many programmes at the state or local level. This combination severely circumscribes the possibilities of redistribution using traditional European-style policies. Thus, although other factors have undoubtedly been important, this institutional element alone may help explain the relatively low level of redistribution in the US throughout the postwar period. In the US, redistributive programmes that would have been viable in the absence of mobility instead cause a fiscal crisis for the local authority that tries to implement them. High mobility makes it essential that redistributive programmes are financed centrally and that they are structured in a reasonably uniform manner. From this perspective the current US trend towards increasing decentralization of welfare programmes threatens to produce a further weakening of egalitarian policy.

Section 4: Asset-based redistribution

The analysis in section 2 raises a number of questions with respect to the asset-based strategy advocated by BG. From a Kaleckian perspective, the main question is whether asset-based redistribution presents a hitherto neglected way of achieving egalitarian objectives without violating the accumulation constraint. There are at least three ways in which this might happen.

Productivity increases, first, may relax the accumulation constraint if they take the right form. If capital goods come to be used more efficiently (if the output-capital ratio increases) then less investment is required to generate any given rate of growth of output and employment. But an increase in the rate of growth of labour productivity, on the other hand, raises the investment requirements for full employment growth.⁶

With asset-based redistribution, second, the conflict over the functional distribution of income would presumably be greatly attenuated. If workers are the sole residual claimants (and all economic activity were to be organised in worker-owned firms) a distinction between profits and wages would be irrelevant. In itself this does not necessarily remove all conflict: the distinction between wages and profits might not matter under these circumstances, but the distinction between saving/ accumulation and consumption remains. More fundamentally, asset-based redistribution will affect both the identity and characteristics of the decision makers. Thus, the relevant definition of 'business climate' cannot be assumed unchanged, and depending on the detailed institutional set-up of worker-owned firms the investment criteria will change too (as discussed e.g. in several contributions to Bardhan and Roemer (1993)).

The net effect of these changes is uncertain, and the precise institutional implementation of the reforms could be critical for the outcome. More importantly, even if on balance an

⁶ This adverse effect may be offset by an aspiration effect: a higher growth rate of income may lower workers' demand with respect to the wage share if there is inertia in the formation of real wage aspirations (Skott (1991)).

egalitarian wealth distribution with widespread worker ownership could overcome the accumulation constraint, a comparative analysis of this kind is insufficient. Distributional conflict may be attenuated once the redistribution of assets has been accomplished, but the transitional process of asset redistribution will be characterized by intense conflict. In this connection it is interesting to note that proposals for increased industrial democracy and worker ownership were developed by social democrats in a number of countries in the 1970s.

In Denmark the debate started after proposals from the trade unions in the early 1970s, and in 1977 an official commission was formed under the Ministry of Labour to examine the various possibilities for extending worker ownership. The commission's report acknowledges that industrial democracy may be desirable for a variety of reasons but focuses on economic aspects, touching on some of the same issues that come up in relation to the BG proposals. Thus, it is argued that increased worker ownership may reduce distributional conflict, increase worker motivation and productivity, and increase the saving rate and the supply of finance for industry (Udvalget Om Lønmodtagernes Ejendomsret (1978, pp. 14-15)) .

Unlike in Sweden, none of the Danish proposals were carried out. They never gained widespread popular support, and by the early 1980s the debate had faded completely in the face of high unemployment, inflation and balance of payments problems. The lack of public support may be attributed partly to the collective funds which were prominent in the trade union proposals. These collective funds were easy targets for attacks from employers and right-wing parties as well as from the new left. BG reject central funds (I expect), but while central funds may have clear political drawbacks, involve real dangers of bureaucratization and nullify some of incentive benefits of worker ownership, one should not overlook the fact that there are also strong arguments in their favour. Risk considerations and the desirability of raising additional finance provide part of the motivation for this feature of the plans, and a concern for the unity

and internal solidarity of the workers' movement also played a role: the introduction of central funds would make it possible to ensure that all members of the labour force, private and public employees as well as the unemployed, could receive shares in the funds while the control rights associated with the gradual build-up of worker-owned capital in private companies could be vested locally with the workers of the companies.

If nothing else, the fate of these plans for industrial democracy and extended worker ownership illustrate the political obstacles to drastic changes in property rights. The proposals appeared in response to escalating worker militancy and declining profitability and business confidence. In the Scandinavian case the proposals were backed by powerful unions and strong social democratic parties, yet they failed. The proposals were seen as a massive threat to the existing order, and the radical political nature of the plans may have contributed to subsequent attacks on the traditional welfare state.⁷ The general lesson is that social democrats -- like other would-be reformers -- face a dilemma. Fundamental institutional reform may be required to achieve egalitarian objectives and maintain full employment without violating the accumulation constraint, but the very attempt to bring about any such fundamental reforms easily provokes a political backlash.

Turning briefly to the problems associated with international integration, BG claim (p. 58) that asset-based redistribution will reduce the international mobility of capital. Again the transitional process would seem to raise problems, but leaving aside the transitional issues the

⁷ Discussing the Swedish case, Glyn (1995, p. 20) notes that the proposed policies "impinged on the authority and freedom of action of business which was supposed to be guaranteed in return for full employment and the welfare state. This seems to be at the root of the employers' repudiation of the Swedish model"

Thus, full employment

"generated demands which violated the prerogatives of capital. This provoked a backlash which forced social democracy to abandon not only its radical, and system-reforming proposals but also full employment itself".

A similar argument is made by Lundberg (1985).

argument seems plausible. If redistribution consisted of a once and for all reallocation of existing assets without any subsequent intervention, the result might even be a removal of the migration constraint altogether. In practice, however, asset-based redistribution will not have this character. Although BG give few details of what they have in mind, they do accept the need for "continuing redistribution of property rights to overcome the disqualifying consequences of luck, increasing returns to scale, differences in individual abilities, and other forces contributing to uneven development" (p.56).⁸ In practice, therefore, the policy may not be dramatically different from traditional social democracy in this respect.

Social democratic policies have clearly involved income redistribution, but asset redistribution seems at least as important: education and health are obvious examples but social expenditures like unemployment insurance or universal, state-backed pension rights would also seem to fit the asset category. In fact, the distinction between income and asset-based redistribution is somewhat blurred. Policies which from the point of view of an individual involves asset redistribution (e.g. the right to a minimum old age pension, the right to unemployment benefits, or the right to a 'home ownership grant at the age of 20') show up at the national level as a stream of 'contractual income transfers'. If by asset redistribution one meant a one-off redistribution of existing physical assets the distinction would be clear, but on a broader interpretation of asset redistribution it seems wrong to identify social democracy with income redistribution.

Section 5: Concluding remarks

An agency-theoretic perspective does not provide final answers and complete blueprints. It

⁸ Le Grand (1989), who addresses some of the same issues raised by BG, offers a couple of interesting suggestions, e.g. a universal "poll grant" financed by wealth taxation and paid to everyone at the age of majority.

highlights questions that should be asked of any organisational structure. It is perhaps indicative of the 'openness' of the underlying framework that the most important example in the paper -- worker-owned firms -- remains somewhat sketchy and underspecified. Asset-based redistribution may have important advantages but the information and incentive problems are complex and, as pointed out by BG, the interaction of effort, financing and risk issues complicates the design of worker-owned firms.

The BG proposals concerning housing, education and children are more concrete, but complications also arise in these areas. Owner occupation, for instance, carries many benefits (at least for stable households), and housing projects often have social problems, high crime rates, poor physical environment etc. But the incentive structure in renting may be only a minor part of the problem. To a large extent the high concentration of poverty in public housing in the US is a result of changes in eligibility and rent structures during the postwar period, and the physical deterioration of many housing projects has been exacerbated by the underfunding of housing authorities in the wake of falling rental incomes.⁹ Post war policies in favour of owner occupation may also have contributed to the 'ghettoisation' and concentration of social problems in public housing. They facilitated a process in which traditional working/ middle class tenants started to leave for the suburbs. Once this process got started, the resulting deterioration of the stability and general environment of the projects increased the incentives for anybody else to get out. Quite apart from these policy effects and vicious circles, owner occupation suffers from its own incentive problems and market failures: the level of property maintenance and neighbourhood activities of any single owner affects the property values of all neighbours. Some

⁹ The average annual income for public housing residents in Chicago has dropped from 33% (in 1980) to less than 10% of the median income in the city in 1994. This concentration of low income households in public housing has "isolated public housing politically as well as spatially" (Kamin (1995)).

of the coordination problems that these externalities give rise to are more easily solved by a housing authority. A housing cooperative may be an even better solution but the individual ownership incentives stressed by BG get weaker the larger the cooperative.¹⁰

The big question, however, concerns the implementation of asset redistributions. BG do not discuss implementation in any detail, but there appears to be a certain tension in their treatment of transitional issues. Thus, the expansion of worker ownership will not, they argue, take place unless "supported by government policy" (p.36) and the redistribution of assets must make use of the "ability of the state to define and assign property rights" (p.25). But the state does not operate in a vacuum, and as pointed out by BG in a number of places (e.g. p. 6 and 18) the potential productivity enhancing effects of asset redistribution may not overcome the resistance to these changes from powerful groups.¹¹

The relative neglect by BG of transitional questions is reflected also in some of their general arguments for the productivity enhancing nature of asset redistribution. Trust and cooperation, for instance, may improve economic performance, and the existence of high levels of trust and cooperation may be correlated with low levels of inequality. But the causation is unclear. An "equal distribution of property holdings may foster the social solidarity necessary to support cooperation and trust" (p.8) but could it not be argued, conversely, that trust and cooperation are indispensable for the feasibility of egalitarian policies and outcomes? The existence of a positive correlation between trust and equality does not necessarily imply that attempts at radical redistribution will raise the level of trust.

In order to address the transitional questions one needs to analyse the reasons for the

¹⁰ Similar problems arise with respect to work place organisation; Aage (1995).

¹¹ Solow (1987, pp.181-2), hardly a radical socialist, goes as far as to claim that "the Reagan and Thatcher people do not really care about macroeconomic performance" but about "the redistribution of wealth in favour of the wealthy and of power in favour of the powerful".

observed crisis in egalitarian policy, and in these comments I have focused on two sets of influences: a Kaleckian long wave of endogenously changing worker militancy and business confidence, and the effects of international integration and increasing mobility. Both of these sets of influences are, I believe, important at a general level, but internationally the empirical picture is quite diverse. The policy reversals and the tendency to increasing inequality are by no means uniform, and traditional welfare policies retain strong popular support in many countries.¹² This international diversity of institutions and political conditions is important. It is difficult to transplant successful schemes from one part of the world to another, and policy proposals need to be given concrete shapes that take into account the local conditions. Proposals that fit the current US situation may be unsuitable for a North European reality, and vice versa. One general conclusion, however, seems safe: radical changes in property rights will provoke immense opposition and any scheme of asset-based redistribution need to address this political reality.

In conclusion, the concept of asset-based redistribution encapsulates some important implications of post-Walrasian, agency theory for egalitarian policy, and I have found BG's analysis and proposals immensely stimulating. Perhaps they try to differentiate their product a bit more strongly than is really warranted from traditional social democratic policy but that is a minor point. Overall, if I have doubts about the paper, they concern not the central message but the neglect of some complications and problems. Transitional issues, in particular, would seem to require much more attention.

¹² A Danish survey from 1994 showed little change compared with earlier studies. Only 28 per cent of the population thought the welfare system had gone too far while 63 per cent disagreed with this view; faced with a choice between tax reductions or further increases in public sector services, only 44 per cent opted for tax reductions (Goul Andersen (1995)).

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Appendix 1

In the absence of government intervention the Kaleckian feedback relations between business climate and employment can be described using a trivial modification of the Goodwin (1967) model:

$$\hat{v} = f(x) ; f' > 0 \quad (1)$$

$$\hat{x} = g(v) ; g' < 0 \quad (2)$$

where x is (an indicator of) the business climate and v the rate of employment, and where $\hat{}$ is used to denote growth rates. The original Goodwin model analyses the interaction between the rate of employment and the share of profits in income. High rates of employment strengthen workers and lead to a decreasing profit share; a low profit share on the other hand has adverse effects on the accumulation of capital and hence (given a constant capital-output ratio) depresses the rate of growth of employment. In equations (1)-(2), the general indicator of business climate replaces the profit share. It is assumed that accumulation determines the growth rate of employment and that the rate of accumulation in turn is determined by the business climate. These assumptions are embodied in equation (1) which depicts the growth rate of employment as a function of the business climate. The slow and cumulative effect of employment on business confidence is captured by equation (2) which says that high rates of employment gradually undermine the business climate. The mathematical system (1)-(2) yields conservative fluctuations of the two state variable around a unique, non-trivial equilibrium: given some initial values of the employment rate and the indicator of business climate, both variables will fluctuate around their long-run equilibrium values, the amplitudes and period of the fluctuations remaining constant. (This Goodwin-Kalecki argument disregards short term fluctuations in capital utilization. Skott (1993) considers the interaction between short-run trade cycles and long-term fluctuations of a Kalecki-Goodwin type.)

If one wants to take into account the possibility of Keynesian macroeconomic policy, the argument needs to be reinterpreted and extended. Keynesian policies enable the government to control the rate of employment, but there is a trade-off. Policy-generated full employment may involve costs in the form of, say, low productivity or high inflation. Thus, let v_1 represent the level of employment in the absence of policy intervention and assume that the costs of attaining the employment rate v are given by

$$c = c(v_1, v) ; c_1 < 0, c_2 > 0 \text{ for } v \geq v_1 \quad (3)$$

The maximisation of an objective function $U(v, c)$ subject to the constraint (3) implies that

$$v = h(v_1) \quad (4)$$

This equation says that if there are costs involved in raising the rate of employment above the non-intervention rate, then policy-makers will be forced to take these into account. The result is a rate of employment which varies with the non-intervention rate.

Equation (4) can be combined with the following (modified) Goodwin equations:

$$\hat{v}_1 = f(x) ; f' > 0 \quad (5)$$

$$\hat{x} = g(v) ; g' < 0 \quad (6)$$

Substituting equation (4) into (6) again yields a two-dimensional Lotka-Volterra / Goodwin system.

Appendix 2

Assume that

- (I) under pure market conditions the income of each agent is a stochastic variable ω_i where ω_i follows the same distribution for all i , and ω_i is independent of ω_j for $i \neq j$.
- (ii) redistribution is possible using proportional taxes and lump sum transfers. With a tax rate t and transfer ω_0 , agent i receives a net income of $(1-t)\omega_i + \omega_0$,

(iii) redistribution is costly and

$$E((1-t)\omega_i + \omega_0) = (1-f(t))E(\omega) ; f(0)=0, f' \geq 0, f'' \geq 0 \text{ for } 0 \leq t \leq 1 \quad (7)$$

This equation implicitly defines the lump sum transfer as a function of t .

(iv) agents are risk adverse and choose the tax rate to maximize expected utility subject to the constraint (7).

In the special case with costless redistribution (i.e. $f(t)=0$ for all t) it is readily seen that the outcome is full redistribution with $t=1$. With costly redistribution the optimal tax rate will lie between zero and one, the exact solution depending on the degree of risk aversion, the distribution of ω_i and the specification of the f -function.

Now introduce a second country and assume that emigration involves a private cost λ so if t_j and ω_{0j} are the tax rate and lump sum transfer in country j , an agent born in, say, country 1 faces the following options:

$(1-t_1)\omega_i + \omega_{01}$ if she remains in country 1

$(1-t_2)\omega_i + \omega_{02} - \lambda$ if she emigrates.

An income-maximising agent in country 1 thus wishes to emigrate if

$$(1-t_1)\omega_i + \omega_{01} < (1-t_2)\omega_i + \omega_{02} - \lambda \quad (8)$$

To simplify the analysis, assume that a country may restrict immigration but cannot prevent emigration and let ω_i take one of two values: a high value ω^h and a low value ω^l , each with probability $1/2$.

If country 1 has chosen a tax rate $t_1 > 0$, then in the extreme case without migration and redistribution costs (that is $\lambda=0$ and $f(t)=0$ for all t) country 2 may raise the income of all its citizens by reducing its tax rate marginally below t_1 , i.e. $t_2 = t_1 - \epsilon$. In this case all high income agents in country 1 will wish to emigrate. As a result the average income of the remaining (low income) agents is simply ω^l . In country 2 on the other hand the inflow of high income agents

increases the average income and enables the country to raise its lump sum transfers. The post-redistribution incomes for the two types of agent in country 2 then become

$$\omega^h - 1/3 t_2(\omega^h - \omega^l) \quad \text{if } \omega_i = \omega^h \text{ (and } t_2 < t_1) \quad (9)$$

$$\omega^l + 2/3 t_2(\omega^h - \omega^l) \quad \text{if } \omega_i = \omega^l \text{ (and } t_2 < t_1) \quad (10)$$

and it is readily seen that (compared to the no-migration case with $t_1 = t_2$) both groups in country 2 will gain if $t_1 - t_2$ is sufficiently small. Thus, the game between the policy makers in the two countries leads to an equilibrium with $t_1 = t_2 = 0$. (Since even the low income agents in country 2 achieve incomes above ω^l there would be an incentive for all agents in country 1 to emigrate. By assumption, however, countries may impose restrictions on the flow of immigration, and the arrival of low-income immigrants would reduce the average income level in country 2.)

With positive migration costs ($\lambda > 0$) each country retains some leeway for redistribution, and the equilibrium degree of redistribution will vary positively with λ while an upward shift in redistribution costs ($f(t) > 0$) will tend to reduce the degree of redistribution. Only the rich migrate and with Nash-type behaviour the migration condition is the equality between income in the home country and income in the other country with both incomes calculated at the original (pre-migration) composition of the population. Thus, the migration condition for the rich in country 1 can be written

$$(1 - t_1)\omega^h + \omega_0(t_1) = (1 - t_2)\omega^h + \omega_0(t_2) - \lambda \quad (11)$$

To allow for parametric shifts, let the redistribution costs be given by $f(t, \gamma) = \gamma f(t)$, where the parameter γ reflects the degree of international integration (the effects of changing reference groups). Using equation (7) we then have

$$\omega_0(t_i) = (t_i - \gamma f(t_i)) E(\omega) \quad (12)$$

If t_2 is taken as given, the dependence of the maximum non-migration tax rate in country 1 on changes in λ and γ can be found by substituting (12) in (11) and differentiating:

$$[(1-E(\omega)/\omega^h + E\omega/\omega^h \gamma f'(t_1))] dt_1 = 1/\omega^h d\lambda \quad (13)$$

$$[(1-E(\omega)/\omega^h + E\omega/\omega^h \gamma f'(t_1))] dt_1 + f(t_1)E(\omega)/\omega^h d\gamma = 0 \quad (14)$$

From (13) and (14) it follows that $dt_1/d\lambda > 0$ and $dt_1/d\gamma < 0$.

In the special case with $f(t)=0$ for all t , it is readily seen that even with $t_1=1$ migration will not take place unless

$$\lambda < 1/2 (\omega^h - \omega^l).$$