

The Distributive Justice of the Market

By Sam Vaknin, Ph.D.

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"(1) Each person is to have an equal right to the most extensive total system of equal basic liberties compatible with a similar system of liberty for all.

(2) Social and economic inequalities are to be arranged so that they are both: (a) to the greatest benefit of the least advantaged, consistent with the just savings principle, and (b) attached to offices and positions open to all under conditions of fair equality of opportunity. "

John Rawls, "A Theory of Justice", 1971, p.302

Resources are scarce. This is the basic, dismal truth of the dismal science. The second truth is that people consume resources. A basic existential anxiety makes them want more resources than they can consume (the "just in case" principle). This raises the question of fairness, a.k.a. "distributive justice". How should resources be allocated in a manner which will conform to one or more just principles?

This apparently simple question raises a host of more complex ones: what constitutes a resource? what is meant by allocation? Who should allocate these resources or should this better be left to some Adam Smithian "invisible hand"? Such an invisible hand (working through the price mechanism) - should its mode of operation be guided by differences in power, in intelligence, in knowledge, in heritage? In other words: what should be the entitlement principle, how can it be determined who is entitled to what?

Everything constitutes a resource: income, opportunities, knowledge, brute power, wealth. Everything, therefore, is subject to distribution to individuals (natural persons), groups of people, certain classes. There are many bases for distribution, but the issue is HOW JUST these bases are and how can we ensure that we are distributing resources using a just distribution base.

We all face opportunities to acquire resources. In a just society, everyone is granted the same access to these opportunities. Access does not translate into ability to make use of it. Idiosyncrasies and differences between accessees will determine the latter, i.e. the outcome of such access. The ability to use is the bridge between the access and the accumulated resources. Given access and the capacity to utilize it - resources (material goods, knowledge, etc.) will accrue to the user.

There is a hidden assumption in all this: that all men are born equal and deserve equal respect and, therefore equal treatment. This is not self evident. It would have been probably hotly disputed by the 16th century aristocracy. As late as 1930, Jose Ortega Y Gasset thought that people should be given access to resources in accordance with their lineage, up bringing and social responsibilities. The mere fact of biological and mental existence does not endow anyone with rights. Should we equally respect the ignorant and the scholar, the criminal and the virtuous, the atheist and the pious, the male and the female, the old and the young - different societies will have different answers. Should the material wealth of these people reflect the different respect that they receive from society, is it the best, most efficacious measure of this respect? Moreover: what index will be used to measure the "equality" between people if an egalitarian view is adopted (everyone should have the same)? Communism (a strict egalitarian idea) foundered exactly on these issues: equal respect and agreed index. It also failed in establishing realistic timeframes. The wish to implement strict egalitarianism here and now transformed communism into the hideous Stalinism that it became.

One solution is to specify a "bundle" or "package" of goods, services and intangibles (like information or skills or knowledge). Everyone should have the same bundle and justice will be thus guaranteed. But will justice bring happiness and satisfaction in its wake? Not necessarily. During our life, we construct our own "bundle". It reflects our own preferences, priorities and predilections. None of us will be too happy with a standardized bundle, not selected by us.

This is precisely where trade and the market come in. It allows for the exchange of goods and services between holders of identical bundles. If I like books, but detest oranges - I will give my oranges to someone else in return for his books. That way both of us will be better off than under the strict egalitarian version.

Two problems become immediately evident:

First, there is no guarantee that I will find my match: a person who is interested in swapping his books for my oranges. Granted, the bigger the market, the more likely I am to find my trading partner. Still, illiquid markets or small ones inhibit the scope of these exchanges. The second problem is that both participants still have to agree on an index: how many books will be given in exchange for how many oranges? This is the price of the oranges in terms of books. The problem is not solved - merely simplified - by the introduction of money. Money makes matters more convenient - but it does not eliminate the necessity to negotiate. Market failures abound. In other words: money is NOT an index. It is merely a medium of exchange. The index - AS EXPRESSED IN MONEY - is the underlying agreement regarding the relative values of resources in terms of other resources.

Thus, indirectly, trading and the market are instruments of increasing happiness and welfare. The invisible hand is also a just and benevolent one. Money is a medium of exchange which increases happiness because it facilitates exchanges, makes life easier, increases our welfare by allowing us to get exactly what we want. We trade what we do not want, nor need - for what we both want and need. But money is imperfect. As Rawles has demonstrated (1971), it is incomplete when we attempt to measure

intangibles and needs to be combined with other measures. For instance, how can we use it to measure opportunities?

Some say that all people should have the same resources at some initial point (the "starting gate"). What they do with these resources and how they plunder or increase their wealth is their business. The initial distribution should be equal - the end distribution should depend on the use made of the resources and, ultimately, on the users themselves. More egalitarian thinkers proposed that income should be equal in each time frame. But this raises yet another problem: even if the income is identical, what determines the accumulation of wealth is the USE made of the income. An example: a person who would use up all his income (not to mention borrow against his future income) - will, inevitably, end up poorer than a person who saved some of the money for rainy days. Finally, relative disparities of wealth will emerge. What then? Should the excess wealth be confiscated in order to equalize their positions? Perhaps, a society-wide law should specify how much can be saved and how much must be expended? This would limit freedom, show no respect to people, involve coercion and worse, conflict with what people desire and deserve to have (conflict with free will and free choice or with the freedom of expression as well as with basic rights, like the right to be content). It is better to effect an egalitarian distribution of wealth through taxation and welfare payments. These are redistributive mechanisms which reset the "wealth clock" within every time frame (at the end of every month or fiscal year). Still, is there any moral difference between confiscating and expropriating savings outright - and doing it through elaborate state apparatuses like the tax system? Not really. The anti-tax movements do seem to hold some moral grounds. That part of the tax revenues that is distributed to the less well off could easily be portrayed as punitive: it punishes enterprise, success, entrepreneurship, courage, foresight and many other virtues. Welfare, on the other hand, partly seems to reward dependence and parasitism.

We opened this article with Rawles' Difference Principle. For him, all the principles of justice are reducible to principles of distributive or retributive justice. This is far fetched. Many human activities are not income or money dependent. There are inherent inequalities between people which do not allow us to respect them equally. Moreover: what drives humans (and, maximizes the benefits to the least advantaged) is based on conflict and inequality. It is the same as in the physical world. Equality might motivate people in the short term. But than it atrophies and leads to social corruption and death. A useful lesson can be learned from the field of thermodynamics: an inequality of energy is required in order to generate motion and life. As energy dissipates and is equalized (a state of entropy) - all grinds to a halt and death prevails.

A moral question does arise regarding natural inequalities. The mentally retarded, the mentally insane, the hemiplegic and quadriplegic, the chronically ill - did not choose to be so. Dworkin (1981) proposed a compensation scheme. First, he postulated a model of fair distribution. In this model, all of us are given the same purchasing power and use it to bid, in a fair auction, for resources that best fit our life plan, goals and preferences. We are then permitted to use these resources as we see fit and although we may end up with disparate economic results, we cannot complain: we were given the same purchasing power and we could have bid for any other resource that we might have needed. Dworkin assumes that prior to the hypothetical auction, people are unaware of their own natural endowments but wish (and are able) to insure against being naturally

disadvantaged. Their payments will create an insurance pool to compensate the less fortunate for their misfortune. This scheme is, at best dubious. We are usually very much aware of our natural endowments and of the natural endowments and liabilities of others. Therefore, the demand for insurance is not unanimous and equal amongst us all. Some of us badly need and want it - others not at all. If such insurance were available and were traded between willing buyers and sellers (who willingly forego resources to pay for it) - no moral problem would have arisen. But if such insurance is imposed upon those who do not need it or wish it and covers those who, ab initio, gave up no resources and did not invest work or effort in obtaining it - it is immoral. Such insurance is bought and paid for with a restriction of our freedoms and liberties. This, in effect, is the essence of most of the modern welfare programs. This is not to mention the practical problem of how to measure differences in natural endowments, how to distinguish them from acquired ones and who will determine what should be included in the list of natural disadvantages.

This is the philosophical basis of capitalism: that the market is wiser than any of its operators and participants. That humans do not need to bother themselves with constructing patterns of "just" distribution. That the market will reward justly those who deserve it (no matter which criterion for desert is used). Capitalism works, on the whole. Its truth value is substantiated by its continued existence and success.

The Libertarians adopted this view of human inability to dispense with justice by establishing a just pattern of distribution. Instead of imposing a pattern on society, they limited themselves to ascertaining that the market players engage in just acquisitions and in just exchanges. The market is just if the exchanges permitted in it are just and just actions always result in just outcomes. Justice is not dependent on a particular distribution pattern, whether as a starting point, or as an outcome. Robert Nozick proposed his "Entitlement Theory" in 1974 which was based on this approach.

Still, one issue remained unresolved: the accumulation of wealth, ownership, why first owners should exclude others from owning the very same thing? What moral right to exclude others is gained from being the first?

Nozick advanced the Lockean Proviso: an exclusive acquisition of the outside world is just only if, following it, there is "enough and as good left in common for others". If the position of others is not worsened by the acquisition - then it is morally permissible. But that their situation is not worsened - does not mean that it could not have been better in an alternative situation (distribution). There is no morally plausible and defensible justification of the Lockean Proviso. Exclusive ownership is the result of real-life irreversibility. The first has the advantage of excess information, has invested work, time, effort. All these are irreversible facts leading to an irreversible situation: ownership. The act of owning involves investments and the latter relate to the future. Thus, we encounter another information asymmetry: we know nothing about the future and everything about the past. This asymmetry is known as "investment risk". By taking on investment risk - the first owner attains ownership. Ownership is the compensation for investment risk, setting the asymmetry straight. The situation of the others is ALWAYS worse off by the amount of profits that the owner makes. Profits reflect inherent inefficiency, an intrinsic compensation. There is a law of conservation of benefits, the situation is always win-lose. A product or service could always have been sold to the

"others" for a profitless, lower, price, thereby increasing their well-being.

If we say, on the other hand, that ownership is the result of adding value to the world, of improving reality - it is only reasonable to expect it to equal all the value added which can be derived presently and in the future.

Equipped with this understanding of both our shortcomings (we are unable to construct a just distribution pattern which will also be practicable) and of our abilities (to barter investment risk for exclusive ownership) - we embarked on the long road to mature, full bodied, capitalism. We are still not there: visionaries keep popping up with new just distribution patterns, governments keep intervening, incomes keep being redistributed, ownership keeps being contested. But these are phenomena of the past. As capitalism demonstrates its inexhaustible ability to increase well-being and the inexorability of this trend of increase becomes evident - the more inevitable the outcome.

Sam Vaknin is the author of "Malignant Self Love - Narcissism Revisited" and "After the Rain - How the West Lost the East". He is a columnist in "Central Europe Review", United Press International (UPI) and ebookweb.org and the editor of mental health and Central East Europe categories in The Open Directory, Suite101 and searcheurope.com. Until recently, he served as the Economic Advisor to the Government of Macedonia.

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I do not mind lying, but I hate inaccuracy

By Arthur Snell

I do not mind lying, but I hate inaccuracy by Arthur Snell

The report of the Congressional Commission on Wartime Relocation and Internment of Civilians (Personal Justice Denied) makes no mention of MAGIC intelligence or the men who penetrated the Japanese Foreign Ministry code, an event that had a major impact on the conduct of WW II. After a two-year so-called "study" and twenty hearings, nine commissioners and their 34-member staff concluded that decisions made regarding ethnic Japanese in WW II were based on hysteria, racism and a failure of political leadership. They are wrong on all counts. Is there anyone on this planet who believes them? Their report is so flawed that the Dept. of Justice advised Congress not to accept it. In spite of this, the report is being distributed for use in schools. Trying to get the public's attention on this is about as productive as winking at a girl in the dark.

Retired high school science teacher.

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