13 Why Have the Rabble not Redistributed the Wealth? On the Stability of Democracy and Unequal Property

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1 INTRODUCTION

In economically developed capitalist countries, personal and household wealth are distributed quite unequally.[1] At the same time, these countries are marked by democratic forms of government, which allow their citizens to redistribute both income and wealth through various taxes and expenditure programmes.[2] The question thus arises as to why the overwhelming majority of citizens, who collectively possess a very modest share of these societies' stocks of wealth, do not use the political power conferred on them by democratic institutions to distribute more property to themselves.

1.1 Alternative Explanations

From a certain left-wing standpoint, the simple answer might be that, despite formal democracy, the wealthy are able to exercise disproportionate influence and thus defend their interests by 'hijacking' the political process. A counterview, from a right-wing standpoint, might be that unfettered rights to accumulate property are in fact in the interest of nearly every citizen. If this proposition is married to a neo-classical style belief in the rationality of voters, one derives the conclusion that it is citizens' rational self-interest that leads them to forgo radical redistribution of property.[3]

This chapter attempts to take a step towards explaining why democracies do not redistribute wealth more radically by evaluating these and other possible explanations of this phenomenon. The explanations are initially grouped into three broad categories: (1) reasons why a majority of voters may reject redistribution of property as inimical to their material interests; (2) ideological factors, such as beliefs that existing inequalities of wealth are morally justified; and (3) ways in which political outcomes may be disproportionately influenced by wealthier citizens. It is noted that these explanations may overlap one another, and that more than one of them may play a significant role in accounting for the stability of inegalitarian democracies.

One effect of limiting the discussion to industrial democracies is that it allows me to ignore a fourth class of explanations for the persistence of inequality: namely, that the possessors of wealth may defend it against confiscation by taking up arms. In some poorer democracies, voters may understand that there are powerful groups which will permit democratic institutions to survive only if their own privileges are not threatened, and that assaults against property could lead to the abrogation of those institutions. While guarantees against property confiscation were sometimes sought by the wealthy before granting political rights to other citizens at earlier stages in the history of the now industrialized democracies, I do not see fear of the abrogation of formal democracy, or of the defence of property by force, as directly operative concerns in those countries today.

It may be noticed that, of the categories of factors that I do list for consideration, only the first is primarily economic in nature. Once I move to the second and third categories, I stray further from my competence as an economist. Partly because of this problem, this chapter attempts only a preliminary sorting out of the issues and a rough and necessarily subjective assignment of responsibility for the outcome among the possible contributing factors, without setting up a comprehensive formal model. Towards the end, the composite explanation which is put forward is contrasted with the simple left- and right-wing views stated above, and its implications for welfare, policy and political strategy are considered.

1.2 What Kind of Wealth Levelling is at Issue?

For a meaningful discussion on why democratic polities have not levelled property ownership, we need a prior understanding of what such a levelling would entail. Costs and benefits, their incidence, and perhaps also ideological and political responses, will differ depending on whether what is at issue is a one-time redistribution of wealth, a scheme to equalize wealth-holding in perpetuity, or a plan to transform wealth into public property. I begin, here, by stating that a one-time redistribution is *not* what interests me. If one correctly infers from historical experience that generating skewed wealth distributions is an inherent tendency of industrial market economies, then one-time redistributions are of little consequence. Also, I focus mainly on proposals that retain individualized property, with only a few remarks about the possibility of collectivizing wealth.

Even within the domain of egalitarian private ownership schemes many variants are possible. Property ownership could be exactly or only approximately equalized, or one could stop half-way between existing inequalities and equalized wealth. For example, ensuring that each citizen has the same amount of property upon attaining adulthood while allowing differences to set in thereafter can be considered egalitarian, although it does not guarantee equality at any particular moment. Estate, gift, wealth taxes or other instruments may be used to generate equality, and additional mechanisms (such as compulsory savings schemes or public saving) may or may not be put in place to offset possible disincentives to saving. My discussion will leave the notion of levelling open-ended in these respects, distinguishing between different approaches as required or where of particular interest.

1.3 Organization

This structure of this chapter is straightforward. Sections 2, 3 and 4 discuss in turn material self-interest, ideological and political influence explanations for the lack of wealth equalization in democracies. In Section 5, I try to bring explanations of all three types together and to consider their relative contributions to an overall explanation of that phenomenon. A comparison of the resulting composite explanation with left- and right-wing views is then offered. In the final section, I consider the implications of my discussion for welfare, policy and political strategy, as well as for predictions about whether the past stability of inegalitarian democracies will prove durable in the future.

2 MATERIAL SELF-INTEREST AND LEVELLING

In this section, I consider reasons why a majority of citizens, acting rationally and on narrow material interest, might desist from or moderate their demands for a redistribution of wealth. I assume a polity in a developed capitalist nation with a typically unequal and skewed distribution of wealth.[4] All adult citizens are assumed to have equal political rights, and all are assumed to value only the consumption of material goods and leisure. To maintain a degree of agnosticism about the causes of saving, individuals *may* also derive utility from consumption by their heirs, although this need not be the case. An individual's stock of wealth will not be a source of utility in its own right, and neither will considerations of envy or altruism enter, except for the intergenerational possibility just mentioned. Each individual is assumed to live for an uncertain, finite number of periods, and to maximize the present value of his lifetime stream of expected utility. This not only facilitates discussion of savings effects, but also allows for the possibility that attitudes towards risk may affect rational political choices in interesting ways.

2.1 The Static Model

With control of wealth skewed as in real-world industrialized nations, the average individual owns far less than her *per capita* share of wealth. In any given period, therefore, such an individual could be better off under a hypothetical equal distribution than under the actual unequal one, since additional wealth makes possible additional consumption and leisure. If everyone votes and proposals are restricted to lie on a continuum along which increasing levels of redistribution lead ever closer to complete equality, then the dominant proposal would be that producing fully equalized wealth. An illustrative and well-known restriction is the linear balanced-budget tax scheme, under which the choice of a uniform proportionate tax rate (here, on wealth) determines the size of a uniform lump-sum wealth grant. If wealth is to be redistributed instantaneously and enjoyed for a single period, the proposal of a 100 per cent tax rate with equal distribution of the proceeds would defeat all alternatives, since it makes a majority of the voters better off than any other admissible option. For example, in 1981, average *per capita* net wealth in the USA was about US$35 000 but median wealth was about US$10 000. An instantaneous egalitarian redistribution of household wealth without administrative costs would have left the median citizen more than US$25 000 richer. In fact, all but the top few per cent of households would have gained from such a move; for example, the second quintile of households could have raised their wealth from an average of under US$23 000 by US$12 000 in an equal redistribution.[5]

As is well known, however, even the static model becomes more complicated, and perhaps unsolvable, when the set of permissible redistributions is less restricted. Once more dimensions of choice are considered – for example, if we allow voters to select different tax rates for different wealth levels – a voting equilibrium becomes elusive, because it is always possible to lure pivotal members from an existing coalition by proposing a rate structure that makes them even better off. For example, the bottom 50 per cent would prefer to give themselves not 50 per cent but 100 per cent of the wealth; but with suitable pay-offs to some bottom 50 per cent subgroup, the top 50 per cent could defeat this proposal. Such complications thwart the possibility of predicting fully *general* solutions, and they raise the possibility that redistribution may fail to be progressive in nature despite the logic of the constrained case discussed earlier. Yet redistribution does occur. Presumably, procedures and rules, which in the long run are endogenous to the social forces involved, in the short run structure real decision processes sufficiently so that real choices are made.[6]

A different kind of problem arises in a multi-period model, where one must consider the effects of a proposed redistribution scheme on both the distributable wealth and the incomes of future periods. Wealth will vary with the scheme chosen insofar as it affects incentives to save, and incomes will vary not only on account of such wealth changes, but also because elements of the scheme may affect incentives to work. In particular, if the marginal dollar earned would in a less constrained environment have been divided equally between consumption and savings, then a 100 per cent tax on additional wealth accumulation would make it rational to devote that dollar to consumption alone. Since the dollar would have been valued more as savings but for the constraint, it follows that the utility to be derived from the extra dollar has been reduced, and thus that the incentive to work has been weakened.

2.2 A Model for Dynamic Analysis: The Case of Income Redistribution

I simplify my discussion of dynamic effects by assuming that the parameters of political choice are sufficiently constrained to permit the use of a simple median voter model. An example of such a model in a related application is Meltzer and Richard's (1981) model of a balanced budget redistribution of income with a linear tax and grant mechanism. In the Meltzer–Richard model, full equality of post-tax and grant incomes would be predicted but for the effects of the scheme on work incentives. This resembles our own problem, except that we must take into account both saving and work incentives.

Meltzer and Richard adopt a static model in which utility depends upon consumption and leisure (both normal goods), pre-tax income is the product of labour supplied and individual-specific productivity, disposable income is entirely consumed, and tax and grant levels are constrained by a balanced budget rule. Although the effect of the tax on labour supply is ambiguous, the rising grant level that accompanies it offsets the tax's income effect, so increased redistribution unambiguously reduces the labour supply. With the income base declining as the tax goes up, so does the marginal benefit from redistribution. The citizen having median productivity and income thus finds it optimal to impose less than a 100 per cent tax. Considering the effect of taxation on citizens' effort choices therefore leads to a moderating of the median voter's appetite for tax progressivity.

A similar result might obtain in a model of redistribution of wealth if such redistribution leads to reduced labour supply, savings, or both. But whereas Meltzer and Richard obtain their result without very strong assumptions about utility, a model of wealth redistribution would be sensitive to necessarily controversial assumptions about savings behaviour. Variation in the specifics of redistributive proposals compound this uncertainty.

2.3 The Role of the Savings Motive

Individuals who derive no utility from consumption by others after their own lifetimes may nonetheless save current income to smooth consumption over their life-cycle (Modigliani and Brumberg, 1954), both because the timing of earnings and expenditures do not perfectly coincide and because future earnings are unpredictable. Uncertainty about the date of death means that such individuals might leave some unspent savings, although this need not occur if they exchange their savings for suitably designed annuities. That bequests are in fact observed does not rule out the possibility that individuals are of this type because annuity markets may be imperfect. Perfectly selfish individuals may also derive current utility from the attention given to them by their heirs in order to secure their prospects of a future bequest (Bernheim, Shleifer and Summers, 1985). Alternatively, individuals could have the welfare of their heirs as an argument in their own utility functions (Barro, 1974), and could therefore save with the specific intention of promoting their heirs' well-being.

Debate between proponents of the view that saving is primarily motivated by life-cycle considerations and those who attribute it to the aim of leaving bequests has so far resisted definitive empirical resolution. In a much-cited study, Kotlikoff and Summers (1981) estimated that about 80 per cent of net wealth is the result of transfers, whereas Modigliani (1988a) responded with his own estimate that 80 per cent of wealth is accumulated for life-cycle purposes. Kessler and Masson (1989), who review the Kotlikoff–Modigliani debate and related literature, attribute the difference in their estimates to divergent assumptions, for some of which plausible arguments exist on both sides. They concluded that 'it is hard to reject Kotlikoff's view that bequests play a "sizeable" role in saving' although the Kotlikoff–Summers estimate 'that bequests represent 80 per cent of existing US wealth appears exaggerated' (Kessler and Masson, 1989, p.151).

One of the most recent estimates, by Gale and Scholz (1993) based on mid-1980s US data, finds that bequests accounted for 31 per cent of net wealth, while a further 20 per cent was derived from interhousehold transfers and 12 per cent from parental transfers for educational expenses. The authors of the study in question thus concur with Kotlikoff and with Kessler and Masson that bequests play a non-trivial role in wealth accumulation. Indeed, even Modigliani admits that 'bequest motivated transfers . . . seem to play an important role . . . in the very highest income and wealth brackets' (1988b, p.39). Gale and Scholz note, however, that 'a life-cycle model augmented with imperfect annuity markets, and hence accidental bequests, is perfectly consistent with life-cycle saving being the dominant motivation for saving'.

2.4 The Importance of the Method of Redistribution

For an analysis of the effects of wealth redistribution, the mechanism of redistribution plays just as important a role as does the motive for saving. Suppose, for example, that the mechanism for equalizing wealth is a combination of a wealth tax and a grant levied or paid out each period so as to equalize post-tax and grant wealth. If we make the strong simplifying assumption that administrative costs are trivial and that there is no problem of information or compliance, then as long as people are not fully satiated in income and leisure, and as long as the society is large and it is impossible to coordinate savings behaviour on a voluntary collective basis, there will be no saving whatsoever.[7] This will be so, regardless of whether utility is specified so that saving in a conventional world occurs mainly to smooth intertemporal consumption, or so that it is intended for the purpose of leaving bequests, for under the proposed scheme, no individuals could increase their own wealth or that of an heir by saving, since all would enjoy only the society's average wealth at the end of each period. Without saving, private wealth would fall towards zero, and productivity would decline sharply. Unless the redistributive mechanism in question were supplemented by some sort of forced savings scheme, this consideration would undoubtedly lead citizens rationally to prefer something less than the maximum level of redistribution of wealth.[8] In addition, since by causing the disappearance of savings a 100 per cent tax rate would generate zero tax revenue, those who could otherwise benefit from some redistribution of the saved portions of higher incomes would have reason to favour a tax of less than 100 per cent.

To see the sensitivity of the effects of redistribution to the mechanism to be employed, consider now the alternative possibility that the only instrument of wealth redistribution under consideration is an estate tax, which is to be set at a single proportionate rate for all citizens, and the proceeds of which are to finance a grant of equal value to all members of the cohort about to attain adulthood. In this case, the incentive effects of redistribution clearly depend upon the model of savings behaviour. If utility is specified as in a life-cycle model with no intergenerational altruism, the existence and level of an estate tax will have no first-order effect on savings or work effort, although there would be a second-order effect through the tax's influence on the distribution of wealth (for example, workers made wealthier by their share of the tax might choose to work less). Expecting this minimal behavioural impact, the majority might vote for a high estate tax, just as they would without taking savings and labour supply effects into account. On the other hand, if most saving is motivated by a desire to bequeath wealth, or by implicit intergenerational exchanges requiring the possibility of bequests, then a high estate tax might lead to a substantial decline in savings, and the informed voter might oppose it for that reason. The impact of the tax rate on the size of the redistributable revenue pool would also be a factor here. The studies cited above suggest that the impact of an estate tax on savings lies somewhere between the two theoretical extremes. In a Canadian simulation study cited by Kessler and Masson (1989), for example, Davies (1982) finds that 'if inheritances were taxed at 100 per cent, mean wealth drops from $29,017 to $16,793', or by 42 per cent. Anticipation of such effects might suffice to reduce the level of wealth distribution favoured by the median voter.

2.5 Enforcement

The expected impact of redistribution is further complicated by the fact that actual tax administration is costly, enforcement is imperfect, and each form of tax induces its own strategies of avoidance. Informed rational citizens would take these factors into account in voting on redistributive proposals. For example, if taxes on wealth are more easily avoided than are taxes on incomes, this could make income taxes a preferred means for achieving the same redistributive objective. Also, consideration of avoidance may imply that the point at which the amount of wealth captured by taxation is decreasing in the tax rate (the top of the wealth-tax 'Laffer curve') arrives earlier, making it rational, from the standpoint of maximizing their own transfer, that the average citizen choose a lower rate.

2.6 Cambridge Issues (What if the Rich Save More?)

Even without the effects of levelling schemes on saving incentives, the equalization of wealth can be expected to reduce aggregate savings for the simple reason that the proportion of income saved is an increasing function of the level of individual or household income. In a Kaldor-type world in which average people do not save, eliminating the 'capitalists' without replacing them with a 'socialist' state is a recipe for capital decumulation and economic regression.

2.7 Work and Effort

As already mentioned, since the incentive to work is partly a function of individuals' existing wealth, the distribution of wealth will also affect the supply of labour. Redistribution to the non-wealthy may reduce the labour supply by expanding their budgets for leisure, while for the wealthy, anticipation that incremental earnings spent on savings would simply be confiscated may lower the marginal incentive to work. However, with estimates suggesting that the labour supply is relatively inelastic with respect to earnings (Ehrenberg and Smith, 1991; MaCurdy, 1992), these effects may be viewed as of second-order importance. A further consideration is raised by models such as that of Shapiro and Stiglitz (1984), in which it is the sting of job loss that motivates work effort. If redistributed wealth lessens the pain of job loss, giving more wealth to the poor may lead to a combination of reduced effort, higher employer expenditure on the detection of shirking, and an increase in both the wages of the employed and the numbers of unemployed. There is little basis on which to predict the magnitudes of these effects, however.

2.8 Finance Issues (Impacts on Capital Allocation and Management)

In addition to effects on savings levels and labour supply, rational citizens should also consider the possible effects of wealth-levelling upon the efficiency of capital *management* and *allocation*. Finance and organization theorists identify benefits from specialization in managerial and risk-bearing functions.[9] But when the financiers and managers are not one and the same, the financiers must find ways to induce the managers to maximize the return on their assets rather than pursue personal objectives. Some theorists, including Demsetz (1983), postulate that holders of small shares of a firm's equity have limited incentives to invest resources in the supervision of management, and that it is the larger shareholders upon whom such supervision depends. In the absence of the concentration of ownership which is facilitated by the concentration of wealth, firms might be forced to choose between greater agency-induced managerial inefficiency on the one hand, and the forgoing of scale economies and specialization by small firms managed by financiers less suited to management on the other. Where diffuse corporations do survive, moreover, the fact that no one could afford to buy a large stake in a publicly traded firm (due to wealth equalization) might eliminate the threat of takeovers, another potential check on managerial misbehaviour. Finally, larger investors, able to invest more resources in researching their portfolio allocations, may be responsible for a substantial part of the information (for example, that encapsulated in stock prices) which small investors and financial institutions use to allocate their own capital. In that case, a levelling of wealth could lead to inferior information generation and thus inferior allocation of capital. The same result could occur if confiscatory taxes make investors care less about the return on their investments, as a result of which they devote less attention to seeking out projects promising the highest returns.

If such views are correct, it means that a cost of equalizing the distribution of wealth is that society will enjoy less output from a given stock of wealth, and this factor would once again moderate the demand of the average citizen for wealth equalization. However, it is possible that large individual owners are not necessary to efficient capital allocation and monitoring. Holmstrom and Tirole (1993) argue that by reducing stock-market liquidity, concentrated ownership actually reduces the level of market monitoring and thereby the informativeness of firms' market values. Diamond (1984) shows how banks may monitor firms on behalf of their depositors with the aim of protecting their reputation for meeting promised interest payments, and Easterbrook (1984) suggests that investment bankers perform a similar function for purchasers of securities when they monitor the stock issues that they underwrite. In competing for reputations as investment monitors for their clients, financial intermediaries, including also the managers of mutual funds, may provide monitoring services to investors, however small and equal they may be. By pooling the funds of small investors, intermediaries can also amass quantities of capital to which substantial control rights may adhere, and may be potential principals in takeovers.

Before leaving the area of finance, a short digression on less private solutions to the levelling problem might be in order. It has been suggested that a more centralized investment system and a strong state role could serve as a remedy to the potential problems due to low wealth concentration. In the limit, wealth could be equalized by 'socializing' it, giving each adult citizen an equal claim on a collectively-owned capital stock and an equal share of the 'social dividend' that it generates. This, however, raises its own agency problems, as I have argued elsewhere. Since no individual could appropriate the benefits from monitoring investment choices by using the information obtained to arrange a superior individual portfolio, there would tend to be limited monitoring of public funds managers, so that inferior funds allocation and performance could be expected.[10]

2.9 The 'Lottery' Factor

One of the most important reasons why self-interested voters may be reluctant to move too far towards the levelling of wealth even when a majority would benefit in static terms is that non-wealthy voters might prefer to leave open the possibility that they or their heirs could be wealthy in the future. I might be in the third wealth quintile today, but there remains some chance that I, my children, or my grandchildren, will be in the first quintile one day. Comparing a regime in which I will always enjoy the same average level of wealth to one in which I will have modest wealth with large probability and great wealth with a smaller one, which one I favour depends on my attitudes towards risk, my conjecture regarding the dead-weight loss from levelling, what weight I place on the welfare of my heirs, and the probabilities I associate with my (and/or their) occupation of various positions in an unequal distribution of wealth. That a wealth levelling scheme would insure me against extreme poverty would weigh in its favour, but it is not enough to preclude my preferring the uncertain lottery. In line with Friedman and Savage's conjecture about utility, people may desire both insurance against very bad outcomes and gambling on very good ones. This could lead to the co-existence of a 'social safety net,' or minimum income programme, with relatively limited taxation of fabulous fortunes: the very combination that is in fact so widely observed.

Favouring uncertain and unequal wealth does not require love of risk. If one's perceived likelihood of having any given level of wealth equals the proportion of the population at that wealth level, then one's expected wealth equals the average wealth. With risk-aversion, the expected utility of the wealth lottery is then necessarily less than that of having the average existing wealth level with certainty. On the other hand, the lottery will be the preferred alternative if the redistributive programme is expected to produce a dead-weight loss in average wealth which exceeds the subjective risk premium associated with the lottery. But willingness to accept uncertainty in view of a high expected cost of making wealth more equal seems more akin to the cost-of-levelling considerations discussed in previous subsections than to the affirmative preference for a lottery discussed in the previous paragraph.

One other reason why a lottery may be preferred seems more akin to that preference, although it departs somewhat from the rationality assumption of the rest of this section. Preference for a lottery could result from high, including unrealistic, subjective probabilities of wealth. Unrealistic expectations of success and love of risk are perfect substitutes in generating preference for a lottery.

2.10 Substitutability of Wealth and Income Taxes

One issue not expressly considered so far is that of finding a preferred *mix* of income and wealth taxes. Under the assumption that it is income and leisure, not wealth *per se*, that concerns voters, there will be different combinations of the two types of tax that achieve equal levels of income equality although possibly very different levels of inequality of wealth. The combination of tax rates that maximizes expected present discounted utility need not be the one that minimizes wealth inequality at the resulting level of inequality of income. If taxes on income are in some sense more efficient, because they affect choice on the income-leisure but not the intertemporal margin (because labour supply is less elastic than savings supply, or because income is less easily concealed than wealth), it may be preferable to redistribute through progressive income rather than through progressive property taxation. In this connection, it should be noted that taxing the returns on property income redistributes effective wealth just as surely as does taxing the wealth base itself.[11] In this sense, the level of effective wealth redistribution in industrial market economies is understated when only wealth and estate taxes are considered.[12]

2.11 Acknowledging Ignorance

It is reasonable to assume that the general public is at least as uncertain as are professional economists regarding the effects of any particular set of policies. When we consider the plethora of instruments that might be used to foster a desired distribution of wealth and aggregate level of savings, and the lack of knowledge of the likely effects of many of the possible settings and combinations of these instruments, then the degree of informedness on which citizens act becomes even more doubtful. For example, even if a certain set of taxes can be expected to reduce savings, there may well be some combination of mandated savings or taxes to create investment funds that would offset this tendency quite effectively. Noting that the Pareto efficiency of the outcome is irrelevant to the voter, and in view of the immense gap between the wealth of the average citizen and *per capita* average wealth, the possibility of making the average citizen better off in the long run is difficult to rule out. Rather than the citizenry rationally rejecting greater equalization of wealth out of enlightened self-interest, then, it may be more plausible to suppose that the average citizen can neither envisage many alternatives nor independently evaluate them. This being the case, the acceptance of a highly unequal distribution of wealth might be rational due more to the riskiness of replacing something known with something radically unknown than because of a preference for one known alternative over another.

3 IDEOLOGY, VALUES AND BELIEFS

In the last section, it was assumed that people's preferences regarding the redistribution of wealth were governed solely by rational concern for their own consumption and leisure, and perhaps that of their heirs. Valuations of the societal distribution of wealth as an object in its own right, and of competing principles upon which it might be arranged or judged, were there assumed absent. In this section, such valuations will be taken into account. The historical role of ideologies in shaping social policies regarding the distribution of wealth will also be discussed. Finally, I will discuss the relationships between values and ideologies on the one hand, and beliefs about ostensibly objective matters such as the impact of property rights upon productivity on the other.

3.1 Egalitarianism

Among the more obvious factors affecting distributive policies in industrialized societies are the valuation of equality as a good in its own right, and the related if distinct notion that those who have are morally obligated to help those who do not. Although it is difficult to say what effect these values have had, their frequent articulation in policy discussions, and the embracing of them by both religious and secular cultures, means that the possibility of an effect cannot easily be ruled out.[13] Even the cynical position that egalitarianism is merely a rhetorical device of those pursuing non-altruistic agendas makes sense only if appeal to this device has the power to influence outcomes. Whereas dynamic economic considerations induce self-interested citizens to curb their appetites for the short-term benefits of wealth levelling, egalitarianism and the norms of social responsibility may have something of an opposite effect.

3.2 The Moral Legitimacy of Wealth

Opposing the ideal of equality is the belief that a person is entitled to do what he wishes with the fruits of his labour. This idea is deeply entrenched in many cultures, its influence extending far beyond its intellectual expression by writers such as Locke. The idea that the wealthy have attained their wealth by exceptional cleverness, energy, daring or talent and that no one has a right to take it away, vies powerfully with competing notions that wealth results from the exploitation of the less fortunate or from immoral dealings. Even luck, for example in inheritance or in a lottery, is popularly viewed as a legitimate basis for property. So long as a large proportion of those with little wealth feel that they would be entitled to keep any fortune they might themselves come into, the ideological legitimacy of wealth must constitute a powerful barrier against proposals for redistribution.

3.3 Functionalist Justifications

A close cousin of the notion of personal entitlement to wealth is the belief that private property is a requirement of a free and prosperous society. Elements of this belief include the argument that the right to retain property is needed to motivate effort and savings, and the idea that a free press and political activity require that private citizens have independent control of a sufficient quantity of resources (Friedman, 1962). Formally, the two ideas appear to belong to different planes: whereas the notion of a moral right to property is a purely metaphysical one that cannot be empirically falsified, the idea that society needs property to achieve certain ends posits a relationship between institutions and outcomes that is in principle testable. In fact, though, the evidence said to support that hypothesized relationship falls sufficiently short of being conclusive[14] that the beliefs that people hold about the utility or functionality of the institution of property are to a significant degree subjective, with plenty of room for moral predilections and ideological influences to creep in. For those of the non-poor who feel vaguely uneasy about the moral implications of sharp inequalities of wealth, for example, the supposition that property serves a crucial social role and must accordingly be tolerated provides a source of comfort (or resolution of cognitive dissonance) that only the exceptionally disciplined and honest mind may be capable of resisting.

3.4 Amenity Value

Still another close relative of the moral legitimacy of wealth is the amenity value of the existence of wealthy individuals and families. Popular culture provides abundant evidence that ordinary people derive pleasure from the existence of very rich ones whose luxuries they can vicariously enjoy: witness the fascination that Robin Leach, the host of a popular television programme 'Life-styles of the Rich and Famous' has with royalty, or the attention focused on big lottery winners. There is nothing irrational, in neo-classical terms, in deriving utility from the existence of a few kings and queens, or similar symbols of wealth; it is but a matter of preference. If such preferences dominate tastes for equality, electorates may spurn redistribution, even when it is in most voters' material interests.

3.5 Endogeneity

An important aspect of the way in which ideologies and values influence social policy is that those who participate in the shaping of opinions on these matters often have their own interests at heart. Although revolutionary movements have sometimes won popular support by advancing counter-ideologies, Marx's argument that the ideology of the common people tends to be that prescribed for them by the elites has plausibility in other cases. In economic terms, one can posit a derived demand for influence over values as a way of advancing one's interests. If there is a resource cost to such influence, then those with greater ability to pay may well achieve a disproportionate amount of influence. This possibility thus belongs among both the ideological and the political explanations for inegalitarian democracy, and will be mentioned again in the next section.

3.6 Indeterminacy and Path Dependence

One can accept the idea that ideologies serve the interests of various social groups, without supposing that the ideological positions emerging in a society can be perfectly predicted on the basis of its social structure. Ideologies, like other creations of the human mind, are shaped by a variety of factors, including the backgrounds and temperaments of influential individuals, the evolution of factions, the interplay with competing ideologies, and so on. Hysteresis in ideological evolution may be such that if one position emerges dominant within a sector of a certain society, it may preclude the significant influence of an alternative ideology which, under slightly different circumstances, might have been a contender for support by exactly the same groups.

A possibility that seems worthy of discussion in this connection is that universal suffrage may not yet have been the downfall of inegalitarian property partly because an ideology of egalitarian capitalism has yet to have its day on the historical stage. Neither of the two dominant strains of ideology seeking to appeal to or act on behalf of those without substantial assets – Marxism, and the non-revolutionary complex of the welfare state and unionism – has given centrality to the redistribution of property. The dominant version of Marxism, represented by communist orthodoxy, focused on the collectivization of property and state management of the economy, with redistribution at best a prelude, confined largely to agriculture. The non-revolutionary labour movement, on the other hand, accepted not only the basic organizational arrangements of capitalism, but also its institutions of property, only attempting to alter the distribution of wealth at the margins by raising wages and increasing job security. That movement's political counterpart, the welfare state, focused on progressive taxation and legislative protection of the poor and workers, without frontally attacking the distributing of property. An ideology accepting the market economy and private property but espousing a radical equalization of that property could have found intellectual support in classical welfare economics.[15] But the more progressive thinkers within the economics mainstream never emulated Karl Marx in founding political movements, and the discipline's radical reformers have been far outnumbered by its ideological conservatives.

Of course, the idea that the right leaders or opportunities were all that was lacking for the creation of a politically powerful movement of egalitarian pro-property marketeers must be examined with some scepticism. Marx's arguments against Mill's view that distribution and economic mechanism can be separated imply that there are inherent conflicts between equality and capitalism. His beliefs that the capitalist employment relationship would fail without a pool of unemployed, and that the danger of losing one's capitalist status must be present to motivate capital accumulation and innovation, bear some scrutiny.[16] Perhaps more important are political obstacles to radical transformation of capitalist democracies. Even in Sweden, where social democrats of Marxian lineage controlled the government for many decades, government desisted from nationalizing industry and took only tentative steps to modify traditional production relations in the direction of greater worker empowerment. The fact that the 'capitalist class' does not follow Marx's prediction of shrinking with industrial concentration, and that large numbers of small business owners, self-employed professionals and farmers, for example, instead continue to exist, also poses a major political problem for would-be wealth redistributors in a democracy, and helps to explain why totalitarian power and expropriation went hand-in-hand in the communist states. This leads us from the ideological arena to that of politics, which is the subject of the next section.

4 THE WEALTHY HIJACK THE POLITICAL PROCESS

The last set of explanations of the survival of unequal distributions of wealth in democracies considered in this chapter are those that would explain the failure of the majority to redistribute property from the wealthy minority by positing that the wealthy, who have a material interest in preventing redistribution, are able to control the political process by virtue of their wealth. Four kinds of argument will be discussed. First, the wealthy may control political outcomes by buying the votes of citizens or of their representatives. Second, the influence of the wealthy may be disproportionate to their numbers because they are better able to afford the costs of participating in political activity. Third, the wealthy may have leverage beyond their numbers because they can cause economic distress that citizens blame on politicians. Finally, wealthy citizens may control political outcomes indirectly, by using their wealth to influence the outlook of other citizens.

4.1 Money Talks

The inclusion of the possibility of financial inducements can radically alter the outcome of formal voting models. Suppose that a majority is needed to determine policy on matters of wealth distribution, and that only the upper 20 per cent of the population is wealthy enough to suffer direct losses if a particular redistributive proposal is passed. If those just under the 20 per cent mark experience only small gains from the proposal, they might be dissuaded from voting for it by a relatively small direct transfer from the wealthy. If the wealthiest 20 per cent can buy support from just over 30 per cent of the population at a lower cost than the financial loss from redistribution, it is in their collective interest to do this.

However, outright payments of the kind suggested in the last paragraph are illegal, and if the ballot is secret compliance could not be ascertained, so votes could not be effectively bought (the buyer would have no idea what was obtained with the payment). Although direct vote-buying will still occur under some circumstances, it is unlikely to be a major factor in the more developed democracies.

A more promising way for wealthy citizens to bend the political process is by buying the support of elected representatives. Organizations representing propertied interests can help to fund the campaigns of candidates whom they later expect to be able to influence, and can threaten to withhold their support in the next election if the candidates do not act as expected. This approach might fail if ordinary citizens were well informed and believed that their interests did not coincide with those of the wealthy; in that case candidates would know that they could not be re-elected if they voted for the policies favoured by wealthy backers. Even then failure need not be automatic, because a self-interested politician might value both cash and re-election, and his votes could thus be swayed from the position that maximized his probability of re-election by a combination of campaign support and a bribe.

Attempts to influence representatives might fail if citizens were sufficiently well informed and rational,[17] but could succeed if citizens were poorly informed or non-rational. If citizens have difficulty determining when representatives are acting in their own interests, then image-making advertising could have an important impact on their views, in which case the level of campaign financing could be more decisive than the candidate's voting record in determining re-election prospects. Purchase of influence through campaign finance has been of central concern to political reformers in the USA.

4.2 Weighing In

In the examples above, groups of wealthy people collectively spend portions of their wealth to control political outcomes. Wealthier individuals disproportionately affect these outcomes even without such expenditure, however. Participating in the political process requires non-pecuniary resources such as time to become informed of the issues and go to the polls, and an education to make it easier to understand the issues. Wealthier voters may participate more in the political process because they have more to lose.

Numerous studies report on an association between income and voting. For example, Wolfinger and Rosenstone (1980) analysed over 88 000 responses to a 1972 US Census Bureau survey and found that the proportion who reported having voted in that year's election rose steadily from 46 per cent for those with incomes under $2000 to 86 per cent for those with incomes over $25 000. A quick calculation based on the data presented by those authors showed that while 55 per cent of respondents had incomes below $10 000, the median *voter* would have been found in the $10 000 to $14 999 income group. In addition, both time and financial resources are typically required to stand for office successfully, and it has repeatedly been found that members of the US Congress have incomes and net worths substantially above the average of their constituents.

4.3 'Capital Strikes'

A third way in which the wealthy can disproportionately influence political outcomes is by using their control over resources to affect the short-run performance of their economies in ways that citizens will blame on government. Suppose that an administration, voted into office for four years, begins to implement measures that owners of large enterprises strongly oppose. If the latter can credibly threaten to reduce investment or employment creation, shift capital overseas, and so forth, they may be able to induce the government to desist from those measures.

4.4 Investing in Belief and Value Formation

A final way in which the wealthy attain disproportionate influence overlaps with the area of values discussed in Section 3. The resources of wealthy individuals or their organizations could be used to influence the public perception and attitudes so as to protect their interest. They may be able to affect both beliefs about objective matters, such as the importance of property rights and incentives to improve the performance of the economy, and values, such as perceptions of the equity of unequal property. By altering citizens' preferred programmes, these forms of influence affect outcomes in a manner that is not susceptible to control by ballot secrecy, limits on campaign contributions or other similar methods. As mentioned above, there may be a demand for influence over values as a way of protecting or advancing specific interests; with their greater ability to pay, the wealthy may well achieve a disproportionate amount of influence.[18]

4.5 What About Free Riding?

All of the methods discussed in this section are subject to free-rider problems. Although it may be in the interest of wealthy people as a group to use their resources to influence political outcomes, self-interested wealthy individuals might prefer to keep their own resources and let other group members bear this burden. Yet wealthy individuals, business groups and organizations supported by the wealthy are active in the political process, as are many non-wealthy individuals who are subject to the same free-rider problem. Possible explanations include the familiar possibility that organizations tie contributions to a collective good to their provision of purely private goods (Olson, 1965), and that collectively preferred behaviour is the equilibrium of a repeated game (Fudenberg and Tirole, 1991). Although economists may eschew 'sociological' explanations, the possibility that individuals internalize group concerns need not be ruled out.

5 COMBINING THE EXPLANATIONS

Numerous explanations for the apparent stability of democratic inegalitarian capitalisms, and in particular of the limited redistribution of wealth by non-wealthy majorities, have been discussed under the differing headings of the last three sections. In this section, I try to bring together factors of all three types and gauge the rough importance of each. While I can provide little in the way of scientific argument to support the numbers that I offer,[19] even a subjective attempt at quantification will be useful as an aid to drawing out the implications of the discussion in the section that follows.

5.1 Some Guesstimates

As between the material, ideological and political explanations for forgoing redistribution, I suspect that the first type are of somewhat more importance, but not overwhelmingly so. My guess is that the fear that the kinds of measure required to substantially level wealth would have negative long-term consequences for the expected income levels of the average citizen explains something like 35 per cent of the observed forbearance in redistribution, while a further 10 per cent of the observed forbearance is a consequence of the 'lottery'-related desire to preserve the possibility of becoming wealthy, which may be overestimated by many people.

Although I do not think it quite as important as fear of the unknown, the material consequences of levelling, popular acceptance of the right to hold property obtained through various non-criminal routes seems to me to be at least the next most important factor explaining the absence of more radical redistribution. I thus assign 20 per cent of the total explanation of that phenomenon to the 'moral legitimacy of wealth'. The degree to which the social legitimation of property has been effective has varied over time and from place to place; for example, it may play a larger role in explaining tolerance for wealth inequality in the USA than it does in most countries of Europe. The 20 per cent estimate should thus be seen as an average across cases.

Given the credence I attach to the aforementioned factors, the belief that more radical redistribution has not occurred simply because the wealthy hijack the political process must be judged to be greatly exaggerated. Nevertheless, there is no lack of evidence to support the idea that wealthier citizens do disproportionately influence political outcomes by financing campaigns, rewarding representatives who tilt towards their interests, and threatening to economically sabotage uncooperative administrations. A 15 per cent share of the overall explanation for non-redistribution seems about right for this factor. Differences in political participation due to wealth also appear to deserve some explanatory weight, among other reasons because of their effect on the position of the median voter in the distribution of wealth. Perhaps 10 per cent of observed non-redistribution is explained by these differences.

I save the final 10 per cent of my explanation for idiosyncrasies in the history of ideas and social movements. If the existence of major political and intellectual movements favouring a market economy with private but relatively equalized property would lead to substantial and long-lasting redistribution of wealth, and if the non-existence of such movements is an artefact of social and intellectual history, then these idiosyncrasies may provide a large part of the explanation for why more wealth has not been redistributed. If, by contrast, such movements could never have succeeded or had lasting effects, and/or if their absence has simply been the logical result of the wise recognition that attempting to combine markets with equalized property is hopelessly fraught with contradictions, then this factor deserves no explanatory weight. In my view, experience provides no firm basis for choosing between these opposing interpretations. The devotion of more intellectual effort and policy experimentation to devising an egalitarian market system might one day lower its perceived costs to the point where strong majorities could be built up for such a system, or it might never do so. And such a system may or may not prove to be economically and politically viable. Assigning an appreciable, but still modest share, of responsibility for the stability of highly unequal distributions of wealth in industrial democracies to the historically constrained efforts in these directions therefore seems reasonable to me.

5.2 Support for 'Right' and 'Left' Views

In the introduction, I referred to a right-wing position which explains forbearance from radical redistribution by asserting that unfettered property rights are in most citizens' interests, and to a left-wing position according to which extreme inequalities of wealth survive in democracies because the political process is hijacked by the wealthy. My composite explanation, parameterized by the guesstimated weights just offered, supports the right-wing position insofar as a little over a third of the observed stability of inegalitarian democracy is attributed to fears of negative economic consequences of redistribution. It supports the left-wing view insofar as a 15 per cent share of the explanation is assigned to direct manipulation of political outcomes by those with wealth. If we add the 10 per cent share attributed to greater political participation by the wealthy, and that fraction (say, a third or so) of the moral legitimacy of wealth factor that may be attributable to the influence of the wealthy on opinion formation, the degree to which my guesses explain non-redistribution by disproportionate influence type factors approaches the explanatory power I attach to material concerns. The 'lottery' motive, path-dependence in the history of ideas and what is left of the moral legitimacy factor form a third group of factors outside the right and left-wing spheres, together carrying almost as much explanatory weight as the first two sets of causes.

6 SOME IMPLICATIONS

6.1 Welfare

The welfare implications of the durability of unequal wealth distribution, and of the proposed composite explanation of that durability, vary with individual or family wealth. The analysis is consistent with the presumption that redistributing wealth can help some of the least wealthy citizens in the short run. However, I have found agnosticism about the necessary costs of achieving an egalitarian market economy to be the only scientifically tenable position. Thus, using present discounted values of lifetime utility streams to take longer-term effects into account, my analysis leaves open the possibility that less wealthy citizens may either benefit from or be hurt by levelling. Whether an individual gains or loses is also partly a function of her preferences with respect to intertemporal substitution and risk.

When arguments other than income and leisure are permitted to enter into individuals' utility functions, we encounter the possibility that non-wealthy persons feel better off without redistribution even though they would be wealthier with it, because they would get disutility from redistributing what they believe rightfully belongs to the current owners.

By the same token, wealthy individuals could prefer redistribution if they adhered to a sufficiently egalitarian value system.[20]

To go beyond the impacts on individuals and say something about the welfare impact on *society* requires one to have a social welfare function. If well-being or utility is interpersonally comparable and if the social welfare function is additive and places equal weight on each individual's utility, the benefits of redistribution depend on the relative cost to the rich (or opponents of redistribution) and benefits to the poor (or proponents). With a social welfare function of this type, the doctrinaire right-wing view, which is that practically everyone benefits from inequality, implies that welfare declines with redistribution unless the few who could be helped would be helped in a very big way (as is perhaps possible if they are the poorest and their marginal utility of income is very high), and the counterpart left-wing view would be that social welfare rises unless the few losers lose more than the winners gain (which declining marginal utility of income makes unlikely).

Under my composite explanation, welfare may similarly rise or fall with redistribution. On the one hand, the disproportionate political influence of the rich leaves open the possibility that the majority would benefit from redistribution, but have been deterred from doing so. On the other hand, this influence may in some instances be superfluous, due to concerns about the long-term consequences of redistribution and normative support for inequality. It should also be remembered that majority support for a proposal would not imply that it improves social welfare, since support or opposition reflect only the sign and not the magnitude of each voter's anticipated welfare gain or loss. Declining marginal utility of income magnifies the gains and moderates effective losses under the usually assumed correlation of wealth and redistributive preferences. However, the exact costs and benefits depend heavily on the unknown true cost of the best feasible levelling mechanism.

6.2 Policy Inferences and the Benevolent Ruler

Policy inferences may follow from welfare inferences, but of course depend on who is making the policy and their objectives. If we adopt the purely normative approach of assuming a ruler seeking to maximize social welfare, then the point to be emphasized is that the discussion can be seen as mandating neither maintenance of the status quo nor the initiation of radical redistribution. It leaves open the possibility that more redistribution could be be either beneficial or harmful, on balance, and does so because of fundamental uncertainty about what forms of redistribution can be designed and what their costs will be. This would seem to justify support for uncertainty-reducing research and experimentation. The amounts of each would depend upon the social welfare function to be used and the expected returns to the enterprise. Experimentation could be justified not only as a means of gathering further information, and hence reducing uncertainty, but also because with available evidence providing no more support for maintaining than for replacing the status quo, a case can be made for a mixed approach.

If there is a high cost to policy change, and if social risk-aversion is sufficiently great, however, truly massive and radical experimentation may be ruled out, since the analysis leaves possible a wide range of consequences with a diffuse dispersion of probabilities. While this need not hold for local experiments or smaller changes on a larger scale, if global radical change is the only way to improve social welfare (for example, because capital flight will be the consequence of redistribution in isolated or even national-level jurisdictions), little will be gained from these experiments. In this case, uncertainty and risk-aversion may trap the benevolent, rational ruler in an inferior position from which, in view of his ignorance, movement cannot be justified. Economists and other social scientists, who have heretofore devoted limited effort to the enterprise, might ultimately provide an escape from such a predicament through pure research that leads to uncertainty-reducing knowledge. Even indirectly related research, such as that on financial markets and intermediation, can help here, provided that its results are brought to bear on an issue with which researchers at present rarely concern themselves.

6.3 Strategic Implications I: Strategies of the Poor

The left-wing explanation for the so far stable marriage between unequal property and political democracy could pose a problem for the strategists of a hypothetical Egalitarian Market Party. If the influence of wealthy citizens prevents the majority from enacting redistributive policies, the Egalitarian Marketeer could be faced with a dilemma: levelling can only be supported by a levelled polity, but a levelled polity cannot exist prior to the enactment of levelling policies. If an egalitarian outcome is important enough, the strategist might have to contemplate a temporary departure from democracy in order to achieve it. Egalitarian democrats would thus confront a philosophical dilemma requiring them to decide what trade-offs they would accept between their twin objectives.

Although the composite explanation favoured in this chapter does not rule out such a dilemma, it does open up the possibility of avoiding a trade-off between democracy and equality. Efforts to design more socially efficient levelling mechanisms and to educate citizens about their potential, it suggests, *could* (if successful) radically alter the balance of forces favouring the status quo, as they could sharply reduce fears of negative economic consequences. More effective organizing by egalitarians might also weaken the moral legitimacy of inequality. Finally, and most straightforwardly, an economic democrat could contemplate institutional change, including lowering the costs of political participation, making voting mandatory, reforming campaign finance laws, and tightening conflict-of-interest requirements in order to significantly reduce the political advantages of wealth.

6.4 Strategic Implications II: Strategies of the Wealthy

From a right-wing standpoint, no defence of the status quo is necessary. With the preponderance of the public being rational, democracy being effective and inequality being socially beneficial, the efforts of those misguided (or pernicious) enough to be egalitarians can cause no lasting harm. Any experimentation with egalitarian policies will be only temporary, since the public will soon see its damaging effects.

Other 'pro-wealthy' positions are possible, however. Those with a less neo-classical faith in citizen rationality may worry about leftist political gains and about public 'befuddlement' of so lasting a nature that one dangerous experiment is simply succeeded by another. A wealthy individual might also judge the right-wing view to be mistaken on the facts – that is, inequality is *not* beneficial to the non-wealthy – but might still hope for the perpetuation of inequality for reasons of self-interest. Such an individual could hope that the non-wealthy are *irrationally* persuaded by conservative ideologies and by false predictions of the catastrophic effects of redistribution, as well as the continued success at manipulating outcomes in the political arena. Opposing the sorts of reform mentioned in the previous subsection would be a reasonable stance in this case.

6.5 The Future of Inegalitarian Democracies

What does the analysis imply about the future of democratic inegalitarian capitalism? Following the collapse of Soviet-style socialism, with uncertainty about the future course of Scandinavian social democracy and other variants of the welfare state, and with a plethora of ongoing crises of economic restructuring, crime, urban blight and family instability, one can expect both short-term caution and eventually a reinvigorated search for ways of modifying the existing industrial market systems. Whether this search will matter much depends largely on how successful the design of and experimentation with new forms of an egalitarian market economy can and will be. A basic argument of this analysis is that we have little basis for making firm predictions. With sufficient will to find a way of mixing equality, markets and democracy, society may ultimately find that the trade-offs between productivity and inequality are not what they were once thought to be. Indeed, the purely hypothetical neo-classical belief that one can achieve any desired market equilibrium by redistributing initial endowments may point towards a recipe for equity and efficiency that far surpasses what has been achieved to date using income taxation and transfers. By the same token, nothing in our experience rules out the possibility that conservatives correctly intuit the necessity of relatively unconstrained private wealth accumulation to a prosperous and free society. The question will not be settled by rhetoric but by experience, with theory also having a role to play since, without it, it is impossible to interpret what we have observed and what we will observe in the future.

Notes

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1. Even in Sweden, the top 1 per cent of households were estimated to own 19.5 per cent of total household wealth in 1983; roughly comparable figures were 23 per cent for the top 1 per cent UK households in 1980, and 32 per cent for the top 1 per cent of US households in 1983 (Wolff, 1986, 1987).
2. Banting (1991) reports that wealth taxes exist in roughly half of the OECD countries.
3. Equally right-wing views, perhaps, would be that no-one is entitled to confiscate another's rightfully gained property, or that the existing distribution is defensible because it cannot be Pareto-improved upon. I use the stronger claim in the text for its sharper expository contrast.
4. The concept of wealth I have in mind is inclusive of the values of such things as housing, life insurance policies and pensions. Including a capitalized value for expected public benefits, such as US social security payments, would reduce the degree of skewness but leave a qualitatively similar distributive profile. Whether this is or is not to be viewed as part of personal or household wealth is not important to most of what follows.

5. Computations are based on total net wealth data in Wolff (1987, p.79), and on population data in the US census bureau's *Current Population Reports*. Estimates of household wealth distribution are taken from Wolff (1986) and are actually based on 1983 rather than 1981 data. Capitalized values of projected social security benefits are not incorporated in the relevant wealth estimates.
6. It has sometimes been suggested that the reason we do not see more redistribution is that it is understood that to permit unlimited redistribution is to open up a Pandora's Box of shifting redistributive coalitions resulting in insecure property rights and thus in lower generation of wealth. But it is hard to see how a constraint not to redistribute at all, or to redistribute 'very little', would be more easily agreed upon than would one such as 'redistribute by a linear progressive formula, if at all' which would equally keep the lid on that box while dominating the first two constraints from the standpoints of most voters (ignoring considerations to be introduced below).
7. Technically, one could model the situation as a repeated game and invoke a first-best solution based on uniform commitment to saving optimally unless there is evidence of defection, and switching to some kind of collective penalty when such evidence arises (Fudenberg and Tirole, 1991). Given the coordination problems inherent in such a solution, though, it has little relevance to a society of more than trivial size. It is far more plausible to imagine a collective solution based on a centralized enforcement mechanism, such as the forced savings scheme mentioned in the text.
8. Labour supply effects are ignored here because they are ambiguous and can be conjectured to be of second-order effect. While lower productivity and the reduction in the marginal utility of income attributable to eliminating the option to save would tend to reduce the amount of labour supplied, lower wealth would tend to increase it.
9. Those with a comparative advantage in managing business enterprises, that is, may not be those best able to finance them. Agents of both types may therefore benefit by specializing and trading with one another. See Fama and Jensen (1985).
10. This is the crux of the argument made in Putterman (1993). Note that the argument is strongest in the setting of this section, where we have assumed that individuals act strictly on their material interests.
11. The capitalized value of a post-tax income stream will be far less than that of the pre-tax stream when the latter is taxed at a substantial rate, that is.
12. Of course, actual concern about inequality of wealth-holding may be motivated by factors other than income and leisure alone. There may be a perception, e.g., that wealth confers power on its holders over and above the disposable income they can reap from it.

    In discussion, Karl Moene made the extremely useful observation that the political forces favouring redistribution may wish to preserve a concentrated distribution of wealth so that opposition to taxation and other limitations on property rights will be confined to a small proportion of the citizenry.
13. Consider Tullock's (1983) very sceptical discussion of redistribution, which

allows that some people may be genuinely sympathetic towards those less fortunate than themselves, and that such sympathies may affect their behaviour.

14. Consider, for example, the argument of Roemer (1994) that the failure of state socialism, while suggesting that a combination of dictatorship, central planning and public ownership is unsatisfactory, implies nothing about the potential of egalitarian institutions when combined with democracy and a market economy.
15. I refer especially to the theorem that any Pareto optimum is a competitive equilibrium, a theorem whose interpretation includes the idea that one can achieve any distribution of income one desires using the decentralized market if one starts with an appropriately selected set of endowments. To egalitarians, *redistributing* an *inappropriately selected* set of endowments comes quickly to mind. The cardinal utilitarian suggestion that social welfare is maximized by an equal distribution of income, since marginal utility declines in income, would also have prompted such an approach.
16. I have already referred to the mainstream reincarnation of Marx's argument about unemployment, and the efficiency wage theory of Shapiro and Stiglitz (1984); see also its left-handed twin in Bowles (1985). While Marx's linking of concentration of capital to the tendency towards larger enterprises has been significantly undermined by the advent of the modern corporation, the idea that the distribution of private fortunes tends to be highly skewed in a market economy remains hard to assail.
17. For example, suppose that politicians begin with prior ideological positions and can be moved from those positions by bribes, but at a steeply increasing cost per unit of movement. Then ultra-rational citizens might thwart anticipated efforts to 'buy' lower levels of redistribution by voting for politicians who favour *more* redistribution than they in fact desire, so that the post-bribe redistribution policy would be the one that they prefer. Since the wealthy would then incur both the costs of bribery and their losses through redistribution, they would be better off desisting from such actions.
18. I say 'may' rather than 'will' because, while the rich have a greater ability to pay, the poor may have a stronger felt need to exert influence for their own ends (the marginal utility of wealth being a declining function of its level). Also, the cost of winning people over could vary depending on the ideology in question. In a society marked by abject and painful exploitation of the many by the few, it may cost far more to convince the many that the system is in their interest than to convince them that it is not. This may feed back into the choice of institutions or of degrees of exploitation: if it is more economical for the elite to maintain their supremacy by a combination of material concessions and rhetoric than by rhetoric alone, we can expect to see such concessions alongside efforts to convince the public that the system is good. (On voluntary redistribution as a way to preempt revolution, see Grossman, 1994; for a related discussion, see Eaton and White, 1991.)
19. It is possible to imagine more rigorous exercises; for example, one might posit some functional form for utility, borrow parameter estimates – including those pertinent to risk-aversion – from other studies, and then, assuming that only expectations of the dead-weight loss from redistribu-

tion matter to citizens, impute what those expectations must be in view of observed levels of redistribution. Or using estimates of the dead-weight loss, one could impute the risk aversion parameters. Such exercises might be illuminating even though they would be sensitive to the many assumptions they would require. Handling disproportionate political influence and values in the same framework would be considerably more difficult.

20. Of course, this paragraph raises fundamental questions about the basis for evaluating wellbeing. Advocates of a less subjectivist approach would doubtless argue that individuals are better off being well-fed than malnourished, even if they had been convinced that their state of malnutrition was right and proper.

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