

# PROPERTY-OWNING DEMOCRACY AND GLOBAL JUSTICE

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How do we justify property-owning democracy from a global justice perspective? This short paper outlines a diverse array of domestic justifications for property-owning democracy, and relates them to recent developments in the study of international inequality and international trade. It finds that far from there being an opposition between the domestic and the global demands of distributive justice, these can actually be construed as complementary. While an open economy is the best guarantee for continuing the rise in living standards in poor countries and the decline in global inequality, the rise in domestic inequality threatens to derail the project of a globally intertwined economy. Property-owning democracy, as defended by Rawls, is suggested as a timely corrective to the rise of domestic inequality, and defended over and above both welfare-state capitalism and liberal socialism as the preferred path towards greater global distributive justice.

**Keywords:** property-owning democracy; globalization; inequality; international trade; poverty relief; distributive justice.

Como justificar a democracia de proprietários a partir de uma perspectiva fundada na justiça global? Este breve artigo esboça um conjunto diverso de justificações internas para a democracia de proprietários e relaciona-as com recentes desenvolvimentos no estudo da desigualdade e comércio internacionais. Conclui-se que não só não existe uma oposição entre as reivindicações por justiça distributiva a nível global e doméstico, como estas podem ser entendidas como complementares. Ao passo que uma economia aberta é a melhor garantia para que prossiga o aumento do nível de vida nos países pobres e o declínio da desigualdade global, o aumento da desigualdade doméstica ameaça pôr em causa o projecto de uma

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economia globalmente conexiada. Propõe-se a democracia de proprietários, tal como defendida por Rawls, como um correctivo oportuno au aumento da desigualdade doméstica, e como a melhor via, por comparação com o Estado de bem-estar social capitalista e com o socialismo liberal, para a obtenção de uma maior justiça distributiva a nível global.

**Palavras-chave:** democracia de proprietários; globalização; desigualdade; comércio internacional; combate à pobreza; justiça distributiva.



## 0. Introduction

Up to now, the debate on property-owning democracy (POD) has largely turned away from questions of global justice. In their foreword to a recent volume on POD, Joshua Cohen and Joel Rogers contrast inquiries into the domestic development of POD with inquiries into global distributive justice:

[POD focuses on] domestic justice and institutions. For the past 15 years, much political philosophy has focused on global justice, especially global distributive justice – important subjects in view of the extraordinary importance of globalization, global politics, global inequality, and global poverty. Still, justice in a domestic society is a subject of great importance, and a focus on domestic institutions has much to be said for it. To be sure, it might be said that we simply cannot work out what a just domestic society is except as part of a larger argument about global justice; perhaps, for example, a global difference principle makes concern for the least advantaged in wealthier societies less pressing. But most reasonable ideas about global justice permit us to reflect, as a distinct practical matter, on principles and institutions for domestic justice. [...] Without minimizing the importance of global justice, [one] can make progress understanding just domestic institutions while abstracting from the global setting. (O'Neill and Williamson 2014, xiv)

It would however strengthen the case for POD if we could work out what a just domestic society is as part of a larger argument about global justice. The relation between the globally least advantaged and those least advantaged in domestic societies is at least as pressing as the domestic question, and POD fares all the better when it does not abstract away from the global setting. This paper will try to make headway in connecting both, by arguing that when we look at the facts of contemporary international economic cooperation, a strong case can be made for moving towards POD, as

its domestic egalitarianism is essential in order to sustain the spectacular decrease in global inequality and global poverty that has characterized the last couple of decades. POD is attractive not just to establish more egalitarian societies at home and reverse the staggering increase in domestic inequality that has accompanied the decrease in global inequality, but also to maintain support for an international division of labor that generates the greatest benefits for the globally least well-off. (Rodrik 2015; Bourguignon 2015; Milanovic 2011) The apparent trade-off between enhancing domestic distributive justice and enhancing global distributive justice is hence a false one, or so this short paper will argue.

In order to get at that argument, the paper will, like the debate on property-owning democracy, rely on some empirical arguments. Too often, it is assumed that arguing in favor of domestic justice implies some trade-off with global distributive justice claims. But when we look closely at international political economy, it becomes clear that economic cooperation is under the right circumstances no zero-sum game, so that an increase in domestic social justice can also lead to an increase in global distributive justice.

The paper will consist of three sections. The first section will briefly set out the case for property-owning democracy from a domestic perspective. In making this case, I will cast the net as wide as possible, outlining reasons that can be unearthed from Rawls' work pertaining to liberty, democracy and equality, as well as reasons stemming from the nature of property ownership. These latter reasons, I will argue, extend beyond the domestic context, so that they provide a *prima facie* case for extending equal property ownership globally. In the second section I will somewhat change tracks, and set out how global inequality has developed over the last couple of decades. Far from tempting us to establish a kind of world state to secure equal property ownership across borders, the data actually reveals that increased market-based globalization has generally given priority to the global worst-off, so that both global inequality and absolute global poverty are now decreasing. I will give some reasons for why this might be so, and pile onto them further reasons for why retaining open economies will in the foreseeable future continue to be the best strategy for effecting distributive justice across borders. The greatest danger to both global and domestic distributive justice is however also generated by such increased market globalization, and is that inequality within states as between the very richest and the very poorest is rapidly increasing. The third and last section will suggest some of the drivers behind this latter development. Fortunately, moving from wel-

fare-state capitalism towards property-owning democracy places a greater emphasis on not just a domestic reduction of inequality, but can retain what is important about international market competition. This has two global benefits. The first is that if real capital is more widely owned, political liberties are strengthened, and if that is realized, further trade liberalization can take place without costs to domestic inequality. The last section will hence argue that global justice must focus on POD, so that the domestic divergence between the very rich and the poor can be brought under control, and so that support for international market exchange can remain strong. In its focus on these two elements (sustaining growth in poor societies through trade and dispersing capital ownership), I will finally distinguish POD from both welfare-state capitalism and economic socialism as the preferred path that towards greater global and domestic distributive justice.

## 1. The case for property-owning democracy

To many readers' surprise, in John Rawls' 2001 'Justice as Fairness' restatement of his central political ideas, Rawls came out in decisive opposition to the policies of welfare-state capitalism. His political theory had often been read as a normative justification for the welfare-state capitalism that characterized late twentieth century social-democracies, but in 2001 Rawls interjected that "a property-owning democracy, [...] realizes all the main political values expressed by the two principles of justice, [while] a capitalist welfare state does not." While Rawls admitted that his remarks on this matter would remain "illustrative and highly speculative", he nevertheless proposed that his principles of justice required nothing less than a "[property-owning] democracy as an alternative to capitalism." (Rawls 2001a, 135–136) So what is a property-owning democracy, and how does it improve upon the failures of welfare-state capitalism? For Rawls, welfare-state capitalism failed because it

rejects the fair value of the political liberties, and while it has some concern for equality of opportunity, the policies necessary to achieve that are not followed. It permits very large inequalities in the ownership of real property (productive assets and natural resources) so that the control of the economy and much of political life rests in few hands. And although, as the name "welfare-state capitalism" suggests, welfare provisions may be quite generous and guarantee a decent social minimum covering the basic needs, a principle of reciprocity to regulate economic and social inequalities is not recognized. (Rawls 2001a, 138)

Upon close reading, Rawls thus found three reasons for favoring POD over welfare state capitalism, which correspond to his three principles of justice. The first reason concerns basic liberty and is where Rawls puts most of his money. It is that the 'fair value' of the political liberties, which are included under his first principle that guarantees equal basic liberties for all, cannot be adequately guaranteed for all under welfare-state capitalism. Unlike the other equal basic liberties Rawls sets out, the political liberties must have 'fair value', and not be merely secured formally, as they would through for example enforcement by the courts, because "the usefulness of the political liberties [is] far more subject to citizens' social position and economic means than the usefulness of other basic liberties." (Rawls 2001a, 150)

A substantive economic solution must thus be sought to the establish equal political liberties for all. This rather radical economic conclusion takes hold at the most fundamental level of Rawls' theory of justice as fairness. Because of this, its effects shape the direction of permissible social and economic inequalities, providing for lower-level second and a third reasons, which are that POD further ensures equality of opportunity and that it further ensures that inequalities are to the greatest benefit of the least well-off. Equal opportunity fairs better under POD because with a fairer value of political liberty offices are truly open to all, and the difference principle is better satisfied as roughly equal political power ensures the reciprocity in social relations required to give the most benefit to the least well-off. But what is POD exactly? In Rawls' words

property-owning democracy work[s] to disperse the ownership of wealth and capital, and thus [...] prevent[s] a small part of society from controlling the economy, and indirectly, political life as well. [...] Property-owning democracy avoids this, not by the redistribution of income to those with less at the end of each period, so to speak, but rather by ensuring the widespread ownership of productive *assets* and human capital (that is, education and trained skills) at the beginning of each period, all this against a background of fair equality of opportunity. The intent is [...] to put all citizens in a position to manage their own affairs on a footing of a suitable degree of social and economic equality. (Rawls 2001a, 139)

Simply 're-distributing' income streams after that income has been generated does not cut it, as each member of society must hold sufficient property to not be disadvantaged in terms of democratic political power. If not, and here Rawls is unusually political, "there may develop a discouraged and depressed underclass many of whose members are chronically depend-

ent on welfare. This underclass feels left out and does not participate in the public political culture. [...] Institutions must put in the hands of citizens generally, and not only of a few, sufficient productive means for them to be fully cooperating members of society on a footing of equality.” (Rawls 2001a, 140) Rawls also gives some institutional pointers about the kind of property that should be widely owned; at the very least fair equality of opportunity should be ensured through education and training, healthcare should be provided to all, and most issues surrounding gender fairness should be resolved by ensuring political independence for women through property ownership. So to sum up, because the large accumulations of wealth in “welfare-state capitalism permit a small class to have a near monopoly of the means of production,” (Rawls 2001a, 139) and “legislators and political parties [must] be independent of large concentrations of private economic and social power in a private-property democracy” (Rawls 2001a, 150), POD fits better with the fair value of political liberty, with equality of opportunity and with the difference principle. POD counters the failures of welfare-state capitalism by taxing away inequalities in property ownership through a progressive or inheritance tax, and by dispersing capital ownership widely in the shape of productive assets, human capital, public provisions or through worker-managed cooperative firms. While the precise shape of POD remains quite speculative, it shouldn’t merely redistribute income streams, but rather provide a roughly equal amount of both human and ‘real’ capital to each person.

Now another set of (complementing) arguments for POD than those employed by Rawls can be derived from a close analysis of the concept of property and its relation to political power. These arguments focus, unlike Rawls, more directly on the coercive power of the state apparatus employed to secure a stable regime of private property ownership, and goes as follows. Because state power is used to exclude those not holding a particular piece of private property, any such exclusion needs to be justified to every person excluded (Brettschneider 2012; Ripstein 2009; Flikschuh 2000; Hazenberg 2015). As private property apportions a part of what Kant dubbed the ‘external world’ to individual persons, it gives them hereby a *prima facie* reason to exclude others from using, owning, destroying or trading that particular part of the world. When state power is utilized to publicly enforce this exclusion, so the argument goes, those excluded deserve justification for this exclusion. When any person is thus excluded more than any other person, that person need to be given reasons for that exclusion, so that POD,

or an 'equal structure of freedom' becomes an attractive default justification of any private property arrangements.

Note that this argument does not necessarily limit itself to the domestic context. Where the Rawlsian case for POD is limited to the presumption of a 'closed political society', the justification owed to each excluded more by private property than the others can extend beyond borders (Abizadeh 2008; Flikschuh 2000; Hazenberg 2015). State borders also use coercion to exclude persons from owning any particular piece of the external world, so that those outside a domestic context where private property is held deserve a similar kind of justification.

But how is it possible to justify the exclusive nature of private property globally, when no public political culture, no basic political liberties, and no democratic institutions exist outside of the state? (Nagel 2005) Here, we might simply opt for the Rawlsian solution, and say that such exclusion through state borders is fully justified because the causes of wealth are wholly determined by national and cultural factors, as well as by the institutions of the state, so that no outsider can reasonably lay claim to any private property inside any domestic context. (Rawls 2001b) We might, with Rawls, on this basis further dream of the domestic end of capitalist economic growth, finding that there is nothing wrong with a POD becoming a stationary economy, or with opting for liberal socialism (Rawls 2001a, 64, 159). It would then be fully just for rich western states to finally turn off the engine of economic growth, as sufficient wealth is thought to exist within their borders for each citizen to have their primary goods. Now that the rich West has perched itself on a comfortable position of wealth, it can pull up the ladder and lean back, and look down on the global poor. I find this a dangerous and objectionable line of thought, and will show that there is in fact nothing in the idea of POD that requires us to pursue it. Most importantly, a mutually beneficial configuration of international economic growth can justify the exclusivity of private property across borders by decreasing global inequality. But order to do all that, allow me to briefly set out the how inequality has developed globally.

## **2. Globalization and Inequality**

So how does domestic equality relate to global equality, and what can be said about its development over time? It might firstly be worthwhile to get a sense of the scope of problems. Global inequality stands at about 90:1, which means that the average person in the global richest 10% earns about

90 times as much (26 000 dollar) as the average person in the global poorest 10% (270 dollar). When it comes to domestic inequality, no country approaches such spectacular levels; the highest ratio can be found in Brazil, and is about 50:1. Global inequality is hence about twice as big as any domestic inequality. Global poverty is moreover staggering. If we deviate from the usual measure of absolute poverty, which is about 1.25 dollar a day to come at a more realistic measure of 2.5 dollar a day, about 3 billion people live in absolute poverty, which is half of all the people in the world.

But while these figures might appear overwhelmingly depressing, there is much cause for optimism. Global inequality is, for the first time since empirical data on it is available, rapidly and momentarily declining. (Bourguignon 2015, 26) Some definitional matters are required to understand and properly contextualize this development. The first is that global inequality can be measured in different ways. The most readily available measurement looks at country GDP, and then weighs this GDP by the population within each country. The income of any person in the world thereby becomes the mere mean of the income of the country in which that person resides. The income of a person in China hereby becomes just the mean of what a Chinese person earns, and this measurement does therefore not take into account the domestic inequalities that inevitably obtain within countries. On this measurement, international inequality is consistently and spectacularly declining, so that the GDP of all countries in the world is moving closer together. Let us call this measurement ‘international inequality’ (II), as it measures the inequality in wealth between countries, even as it weighs such wealth by the population of each country. International inequality approaches a measure true global inequality, but cannot stand for it (Milanovic 2011). For if we want to know what true global inequality (GI) is, we must look at the real income of every individual in the world, and see how much the income of any one person differs from any other person, regardless of the state in which this or that person resides. This measurement is more nuanced but also more recent and therefore more tentative (Milanovic 2015), as it requires us to weigh the international inequality measurement to the inequality that obtain within countries. And when we do so, the picture becomes more complicated, as even though international inequality has rapidly declined, inequality within countries has rapidly increased.

We thus get a mixed, but nonetheless positively encouraging picture of global inequality. Global inequality, that is the domestic inequality weighted measurement, has starkly increased since the beginning of the 19<sup>th</sup> century



up until the last decade of the 20<sup>th</sup> century. (Bourguignon 2015) But since 1990, it has begun to decline rapidly, so much so that around 2011 we are back at 1900 levels. In a small matter of 20 years, the increase in global inequality that characterized most of our modern period has been nullified. But this is no cause for complacency, for two reasons. First, as said, domestic inequality has been rapidly increasing with the advent of a decrease in global inequality. The overall balance has been positive, but even as global inequality is decreasing, the perception of inequality that citizens have is that inequality is increasing. The second reason is that inequality at the extremes is also on the rise. Both the very poorest persons living in a small subset of extremely poor countries have not seen their prospects improve, while the very rich in each and every country have seen their fortunes increase spectacularly. The 2008 financial crisis has not halted this latter development, but, it now seems, only exacerbated it. The nuanced picture we get is thus that while global inequality has decreased overall as almost all poorer countries have steadily become richer and as very large swaths of very poor persons have seen their incomes rise spectacularly, inequality within almost all states is increasing while both the very poorest countries and the very richest individuals continue to separate themselves from the pack.

So what has driven this development? Unlike with the analysis of statistical data that underlies the picture of the development of global inequality, a clear answer to this question is much harder to come by. The most common answer is that globalization is the driver, as an increase in international market competition has taken place since 1990. The spread of technology, the increased scope of the market and the attendant liberalization of trade matter most in this story. According to recent research by Dani Rodrik (Rodrik 2015), only the industrialization of manufacturing leads to ‘unconditional convergence’, which means that, whatever else a country does, poverty is relieved by opening up to manufacturing. Note that no other factors, such as education, democratization or the spread of rights exhibit such unconditional convergence. In plain terms, the reason that global inequality has decreased is then because rich western states have allowed poorer states to manufacture goods and trade them across borders. Over the last decades, rich states have opened up their economies to the production of textiles abroad, and Asian, African and Latin-American countries have jumped on this opportunity. To continue the trend of decreasing global inequality, all things remaining equal, further liberalization of trade thus seems most promising, as many trade barriers remain, such as those on agriculture and on intellectual property protection (Bourguignon 2015, 153–158).

But while liberalization of trade and the spread of technology that characterizes globalization has driven the decrease in global inequality, it has also led to increasing domestic inequality within states as to the spectacular increase in the wealth of the world's very richest. As domestic economies have become subject to global market forces, overall country GDP has increased while large swaths of the rural poor have benefited spectacularly by entering manufacturing, but at the price of a shift of both economic and political power towards those most able to take advantage of the mobility required to operate on a global market, and at the price of governments subjecting themselves to the global market-led re-organization of domestic markets. International financial institutions, but also those persons with substantial capital have hereby become more able to capitalize on the mobile nature of their assets, while those whose capital remains tied to local factors have lost out. Put simply, if you can move your assets across borders without much loss, you win, and those with most capital to spend have been most able to do so, while the governments most willing to accede to this trend perform best, even as their societies become more unequal.

### **3. Global Justice and Property-owning democracy**

So does this mean that there is some kind of trade-off between global justice and domestic justice? Does the decrease in global inequality depend, as it has appeared over the last decades, on the increase in domestic inequality and the rise of a global plutocratic class? Fortunately, it doesn't appear to have to be this way. In fact, the more open an economy is (the more it liberalizes international trade), the larger the size of its government is, or the larger its domestic demand on a more generous set of public policies is. (Rodrik 1997, 52) As societies open up to international trade, the calls for greater government support in mitigating the risks to different classes in society also becomes greater. But if that holds true, then why has domestic inequality increased, and why has a global class of super-rich consolidated its power? Here, it helps to look at the development of state income and expenditure over time. As Thomas Piketty points out, (Piketty 2014, 39–40, 333–334) tax revenue as a share of total national income has historically never been higher in western states, making up between 30 (US) and 60 (Sweden) percent of national income. The share of resources devoted to governmental allocation has grown by 3 to 5 times over the last half century, so that the role of governments in the domestic economy has never

been greater. But at the same time, wealth owned by the state is in most developed countries insignificant, or even negative, as debts exceed public assets. Governments hence do not own the wealth they spread around, but merely act as temporary intermediaries between private property owners. In a sense, it becomes ever more difficult to argue that governments really control wealth, as they are fully dependent on the willingness of private holders to pick the state as a legitimate intermediary (Streeck 2014). Rather than dealing with zombie corporations or zombie banks, we thus seem to be dealing with zombie states.

Authors focusing on the domestic attractiveness of POD are hence right that regaining public control over property ownership and spreading it equitably around is required to salvage what is left of political liberty. In the model of welfare-state capitalism, no such public ownership is necessary, as the state merely acts as an intermediary that spreads wealth around. In a POD by contrast, the state does for political liberty reasons actively engage in publicly creating equitable private property ownership. While welfare-state capitalism dovetails with the further erosion of public ownership, and the expected attendant increase in capital inequality and a decrease in support for any kind of international trade, a move towards POD might be able to buck this trend. But then why go for POD and not instead for liberal socialism, where the state owns the means of production? Here, it becomes clear why Rawls remained indifferent to the choice between liberal socialism and POD (Rawls 2001a, 138–139), because he remained adamant that global justice did not matter, as he believed the causes of wealth lay in domestic cultural and institutional factors. As we saw in the discussion of global inequality, increased globalization has accompanied a decrease in global inequality, proving Rawls decisively wrong, if not conclusively in factual assertion, at the very least in the underlying moral sentiment. Pursuing growth is internationally significant, because it does not just spur domestic market competition, but an international division of labor. As the increased scope of the market through further trade liberalization is needed for ever more growth, and as the attendant re-allocation of manufacturing to poorer states is their best bet for both reducing poverty and for decreasing global inequality, POD, where the means of production remain in private hands, is to be much preferred over liberal socialism for global justice reasons. Please do note that for POD to remain compatible with global justice, distributing capital ownership that is both taxable and tradable is to be much preferred over capital that is not. Investing merely in human capital thus appears *prima facie* unwise, and it would for global justice reasons be pref-

erable to accompany POD by dispersing real (tradable) property widely, which would seem to include worker-owned cooperative firms. Such firms both disperse property ownership widely and allow its productive assets to be internationally traded and multi-nationally owned. POD, where large accumulations of wealth are limited for political reasons and distributed in the form of capital ownership to all, is thus the preferred alternative to both socialism and welfare-state capitalism, as it strikes a balance between the global justice need for international capitalism and domestic justice need for political control over the economy. It is thus that we must for both reasons of domestic and global justice advocate property-owning democracy, and regain the proper balance between international trade and domestic political liberty.

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