"The Distribution of Income and the Welfare Activities of Government"

by Milton Friedman

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This lecture, like the preceding, discusses the application of the general principles outlined in the two initial lectures to a number of specific problems of policy. The problems considered are, first, the distribution of income among individuals or families by size of income; second, a rag bag of social welfare measures that have been taken or proposed primarily as an indirect way of affecting the distribution of income. These problems touch on one of the main issues in the development of a collectivist sentiment in this century. A central element in that sentiment, at least in western countries, has been a belief in equality of income as a social goal and a willingness to use the arm of the state to promote it.

Two very different issues arise in evaluating egalitarian sentiment and egalitarian measures. One is normative and ethical: on what grounds, if any, can one justify state intervention to promote equality? The second is positive and scientific: what has been the effect of the measures actually taken?

1. The Ethics of Distribution

The ethical principle that would directly justify the distribution of income in a free market society is "To each according to what he and the instruments he owns produces", though it should be noted that the operation of even this principle implicitly depends on state action. Property rights are matters of law and social convention and there is no way to avoid state action in defining and enforcing them—as we have seen, this is one of the primary functions of the state. The final distribution of income and wealth under the full operation of this principle may well depend markedly on the rules of property adopted.

Let us waive this question and ask rather whether and how we can justify this principle in the abstract, and what its relation is to another principle that seems ethically appealing-equality of treatment. In part, the two principles are not contradictory – payment in accordance with product may be necessary to achieve true equality of treatment. Given individuals whom we are prepared to regard as alike in ability and initial resources, let some have a greater taste for leisure, others for marketable goods. Inequality of return through the market is then necessary to achieve equality of total return or equality of treatment. Much observed inequality is of this kind: differences in money income offset differences in other characteristics of the occupation or trade; in technical language, they are "equalizing differences" required to make the whole of the "net advantages", pecuniary and non-pecuniary, the same.

There is still another kind of inequality arising through the operation of the market that in a more subtle sense is also required to produce equality of treatment, or, to put it differently, to satisfy men's tastes. It can be illustrated most simply by a lottery. Consider a group of men who initially have equal endowments and who all agree voluntarily to enter a lottery with very unequal prizes. The resultant inequality of income is surely required to permit the individuals in question to make the most of their initial equality; to redistribute the income after the event is equivalent to denying them the opportunity to enter the lottery. This case is very much more important in practice than would appear by taking the notion of a "lottery" literally. Individuals choose occupations partly in accordance with their tastes for uncertainty. The girl who tries to become a movie actress rather than becoming a civil servant is deliberately choosing to enter a lottery, and so is the individual who invests in penny uranium stocks rather than government bonds.

Insurance is another obvious example. But even these examples do not indicate fully the extent to which actual inequality may be the result of arrangements designed to satisfy men's tastes. Given a great dislike for uncertainty, i.e., a great preference for equality, the very arrangements for paying and hiring people would be different. Instead of movie actresses being rewarded individually, there would tend to develop "cooperatives" of movie actresses, in effect providing insurance through the pooling of risks. Large diversified corporations combining risky and non-risky ventures would become the rule. The very form of organization of enterprises might well be different.

Indeed, this is one way to interpret governmental measures to redistribute income through progressive taxes and the like. It can be argued that for one reason or another – costs of administration perhaps – the market cannot produce the range of lotteries or the kind of lottery desired by the members of the community, and that progressive taxation is, as it were, a government enterprise to do so. I have no doubt that there is an element of truth in this as a matter of description. At the same time, the use of it to justify present taxation seems to me most tenuous, primarily because the taxes are imposed *after* it is already largely known who have drawn the prizes and who the blanks in the lottery of life, and the taxes are voted mostly by those who think they have drawn the blanks. One might, along these lines, justify one generation voting the tax schedules to be applicable to an as yet unborn generation – which would, I conjecture, yield much less progressive tax schedules than we have.

Though much of the inequality of income produced by payment in accordance with return reflects "equalizing" differences or the satisfaction of men's tastes for uncertainty — and a much larger amount than one might off-hand suppose — there can be little doubt that a large part is not to be explained in this way. This part reflects initial differences in endowment, both of human capacities and of property. And it is with respect to this part that the really difficult ethical issue arises.

It is widely argued in discussions of this issue that it is essential to distinguish between inequalities in personal endowments and in non-human wealth and between inherited wealth and acquired wealth. Differences in return because of differences in personal capacities or in wealth accumulated by the individual in question are, it is said, appropriate or at least not clearly inappropriate; differences due to inherited wealth, on the other hand, are regarded as inappropriate.

I believe that this distinction is untenable. Mr. X receives a high return because he inherited from his parents a peculiar voice for which there is a great demand; Mr. Y, because he inherited property. Is there any ethical difference? The sons of Russian commissars surely have a higher expectation of income — perhaps also of liquidation — than the sons of peasants. Is this any more or less justifiable than the higher income expectation of the son of an American millionaire; Or, on another tack, a parent has a choice whether to pass his wealth on to his child in the one form or the other. He can, for example, spend a given sum either to finance his child's education as, say, a physician or to set him up in business. Is there any reason to say the one is acceptable, the other not? Finally, it seems illogical to say that a man is entitled to what he has produced by personal capacities or to the return from the wealth he has accumulated but that he cannot pass it on to his children, that he may use it for riotous living but not give it to his child. For the latter is one way to use what he has produced.

The fact that these arguments against what I have called the capitalist ethic are invalid does not of course demonstrate that the capitalist ethic is an acceptable ethic. The more I have thought about it, the more difficult I have found it to justify either accepting or rejecting this ethic or to justify any alternative principle. I am led to the view that it cannot in and of itself be regarded as an ethical principle; that it must be regarded as instrumental or a corollary of some other principle such as freedom. I can perhaps bring out the fundamental difficulty by reporting a colloquy I had with my son when he was about 9 or 10 years old. Suppose, I said to him, there were four Robinson Crusoes, independently marooned on four islands in the same neighborhood. One happened to land on a very large and fruitful island which enabled him to live easily and well. The others happened to land on tiny and rather barren islands from which they could barely scratch a meager living. One day, they discover the existence of one another. Of course, it would be nice, and the best of all worlds, if the Crusoe on the large island invited the others to join him and share its wealth. But suppose he does not. Would the other three be justified in joining forces and compelling him to share his wealth with them? My son, after much cogitation, was inclined to say yes. Well then, I said to him, suppose you and three of your friends were walking along the street and you happened to spy and retrieve a $5 bill on the pavement. It would be nice, of course, if you divided it equally with them, or at least took them to the drugstore and treated them. But suppose you did not. Would the other three be justified in joining forces and compelling you to share the $5 equally with them? My son, after very little cogitation, said no. Being a consistent youngster, he also reversed his earlier answer about the Robinson Crusoes.

2. The Instrumental Role of Distribution According to Product

I have been considering payment in accordance with product as an ethical principle in the abstract; as if it served solely the function of achieving an appropriate distribution of income. In fact, its operative function in a market society is not primarily distributive, but allocative. As was pointed out in an earlier lecture, the central principle of a market economy is the achievement of cooperation through voluntary exchange. Individuals are induced to cooperate with others because they can in this way satisfy their own wants more effectively. But if the individual does not receive the whole of what he adds to the product he may be unwilling to enter into an exchange even though he can produce more in that way than in some other; that is, exchanges will not take place that would be mutually beneficial if each party received what he contributed to the aggregate product. Payment in accordance with product is therefore necessary in order that resources be used most effectively, at least under a system depending on voluntary cooperation. Given sufficient knowledge, it might be that compulsion could be substituted for the incentive of reward. It is dubious, however, that this is so, even aside from the impossibility of having enough knowledge. One may be able to shuffle inanimate objects around; one may compel individuals to be at certain places at certain times; can one compel individuals to put forward their best efforts? Put another way, the substitution of compulsion for cooperation changes the amount of resources available.

Though the essential function of payment in accordance with product in a market society is *allocative*, to achieve the most efficient use of resources, it is unlikely to be permitted to perform this function unless it is also regarded as yielding distributive justice. No society can be stable unless there is a basic core of value judgments that are unthinkingly accepted by the great bulk of its members. Some of its key institutions must be accepted as "absolutes", not simply as instrumental. I believe that payment in accordance with product has been, and, in large measure, still is, one of these value judgments or institutions.

One can perhaps demonstrate this best by examining the grounds on which the opponents of the capitalist system have attacked the distribution of income resulting from it. For it is a distinguishing feature of the core of central values that it is accepted alike by those who regard themselves as proponents and as opponents of the system.

The most far-reaching criticism has come from the Marxists. Marx argued that labor was exploited. Why? Because labor produced the whole of the product but got only part of it; the rest is Marx's "surplus value". Even though the statements of fact implicit in this assertion are accepted, the value judgment follows only if one accepts the capitalistic ethic. This is "exploitation" only if labor is entitled to what it produces. If one accepts instead the Ruskinian premise, "to each according to his need, from each according to his ability" – whatever that may mean – it is necessary to compare what labor produces not with what it gets but with its "ability" and what labor gets, not with what it produces, but with its "need".

Of course, the Marxist argument is invalid on other grounds as well. There is, first, the confusion between total product and marginal product. Even more striking, there is an unstated change in the meaning of "labor" in passing from the premise to the conclusion. Written out in full, the premises of the Marxist syllogism would run "Present and past labor produce the whole of the product. Present labor gets only part of the product." The logical conclusion is presumably "Past labor is exploited", and the inference for action is that past labor should get more of the product, though it is by no means clear how unless it be in elegant tombstones.

The achievement of allocative efficiency is the major instrumental role in the market place of distribution in accordance with product. But it is not the only instrumental role of the resulting inequality and may not even be its major one in a broader context. We have noted earlier the role that inequality plays in providing independent foci of power to offset the centralization of political power as well as the role that it plays in promoting civil freedom by providing "patrons" to finance the dissemination of unpopular or simply novel ideas. In addition, in the economic sphere itself, it provides "patrons" to finance experimentation and the development of new products – to buy the first experimental automobiles and TV sets, let alone impressionist paintings. Finally, it enables distribution to occur impersonally without the need for "authority" – a special facet of the general role of the market in effecting cooperation and coordination without coercion.

3. Facts of Income Distribution

A capitalist system involving payment in accordance with product can be and in practice is characterized by considerable inequality of income and wealth. This indubitable fact is frequently misinterpreted to mean that capitalism and free enterprise produce wider inequality than alternative systems and, as a corollary, that the extension and development of capitalism has meant increased inequality. This misinterpretation is fostered by the misleading character of most published figures on the distribution of income, in particular their failure to distinguish short-run from long-run inequality. Accordingly, it may be appropriate to record a few of the highlights about the facts of the distribution of income.

In the first place, it seems reasonably clear that capitalism leads to less inequality than alternative systems of organization and that the development of capitalism has greatly lessened the extent of inequality. Comparisons over space and time alike confirm this view. There is surely drastically less inequality in Western capitalist societies like the Scandinavian countries, France, Britain, and the United States, than in a status society like India or a backward country like Egypt. Comparison with communist countries like Russia is more difficult because of paucity and unreliability of evidence. But if inequality is measured by differences in levels of living between the privileged and other classes, such studies as we have suggest that inequality is less in capitalist than in Communist countries. Among the western countries alone, inequality appears to be less, in any meaningful sense, the more highly capitalist the country is: less in Britain than in France, less in the U. S. than in Britain – though these comparisons are rendered difficult by the problem of allowing for the intrinsic heterogeneity of populations; for a fair comparison, for example, one should perhaps compare the U. S., not with the United Kingdom alone but with the United Kingdom plus the West Indies plus its African possessions.

With respect to changes over time, the economic progress achieved in the capitalist societies has by and on the large meant a drastic diminution in inequality. As late as 1848, John Stuart Mill could write, “Hitherto it is questionable if all the mechanical inventions yet made have lightened the day’s toil of any human being. They have enabled a greater population to live the same life of drudgery and imprisonment, and an increased number of manufacturers and others to make fortunes. They have not yet begun to effect those great changes in human destiny, which it is in their nature and in their futurity to accomplish”.[1]

Clearly, no one could write this today about the advanced capitalist countries, though it still rings true about the rest of the world. The chief characteristic of progress and development over the past century has been to free the masses from back-breaking toil and to make available to them products and services that were formerly the monopoly of the classes, without in any corresponding way expanding the products and services available to the wealthy.

Detailed statistical evidence on these phenomena, in the form of meaningful and comparable distributions of income, is hard to come by, though such studies as have been made on this basis confirm the broad conclusions just outlined. Such statistical data, however, can be extremely misleading. In the first place, they cannot segregate differences in income that are equalizing from others. For example, the short working life of a baseball player means that the annual income during his active years must be much higher than in alternative pursuits open to him to make it equally attractive financially. But such a difference affects the figures in exactly the same way as any other difference in income.

In the second place, the income unit for which the figures are given is of great importance. A distribution for individual income recipients always shows very much greater inequality than a distribution for family units. And is the distribution that is relevant for families one in which the families are classified by total family income? or by income per person? or per equivalent unit? This is no mere quibble. Unless I am mistaken, the most important single factor that has reduced inequality of levels of living in this country during the past half century — far more important than progressive inheritance and income taxes— has been the changing distribution of families by number of children. The really low levels of living were the joint product of relatively low family incomes and relatively large numbers of children; not only has the average number of children declined but more important this has been accompanied by and largely produced by a virtual elimination of the very large family, so that families are now much more homogeneous with respect to number of children, Yet this change would not be reflected at all in a distribution of families by the size of total family income.

In the third place, and perhaps most important conceptually, the usual distribution of income compare two basically different kinds of inequality: temporary, short-term differences in income and differences in long-run income status. Consider two societies that have the same size distribution of annual income. Suppose in one there was great mobility and change so that the position of particular families in the income hierarchy varied widely from year to year while in the others there was great rigidity so that each family retained the same position year after year. Clearly in any meaningful sense the second would be the more unequal society. The one kind of inequality is a sign of dynamic change, social mobility, equality of opportunity; the other, of a status society. The confusion of these two kinds of inequality is particularly important precisely because competitive, free-enterprise capitalism tends to substitute the one for the other. Not only do non-capitalist societies tend to have wider inequality than capitalist, even as measured by annual income; but inequality in them tends to be permanent, whereas capitalism undermines status and introduces social and economic mobility.

4. Methods Available to Alter the Distribution of Income

The methods that have been most widely used to alter the distribution of income have been progressive income and inheritance taxation. Before considering their desirability, it is worth asking first a question of fact. Have they succeeded in their aim?

No conclusive answer can be given to this question and it should be emphasized that the judgment that follows is a personal, though I hope not utterly uninformed, opinion stated, for sake of brevity, more dogmatically than the nature of the evidence justifies. My impression is that these tax measures have had a relatively minor, though not negligible effect, in the direction of equality but have in addition themselves introduced essentially arbitrary inequalities of comparable magnitude. The tax rates are on paper both high and highly progressive.

But their effect has been dissipated in two different ways. First, part of their effect has been simply to make the pre-tax distribution more unequal. This is the usual incidence effect of taxation; by discouraging entry into activities highly taxed – in this case activities with large risk and nonpecuniary disadvantages – they raise returns in those lines. Second, they have stimulated both legislative and other provisions to evade the tax – expense accounts, other indirect ways of payment, conversion of ordinary income to capital gains, and so on; and so-called “loopholes” in the law such as percentage depletion, exemption of interest on state and municipal bonds, specially favorable treatment of capital gains, and so on in bewildering number and kind. The effect has been to make the actual rates imposed far lower than the nominal rate and, perhaps more important, to make the incidence of the taxes capricious and unequal. People at the same economic level pay very different taxes depending on the accident of the source of their income and the opportunities this opens to them to evade the tax. It may well be that if present rates were made fully effective, the effect on incentives and the like would be so serious as to cause a radical loss in the productivity of the society, so that tax avoidance has been essential for economic well-being; but if so, the gain has been bought at the cost of a great waste of resources, and of the introduction of widespread inequity. A much lower set of nominal rates, plus a more comprehensive base through more equal taxation of all sources of income could be both more progressive in average incidence, more equitable in detail, and less wasteful of resources.

A further factor that has reduced the impact of the progressive tax structure on inequality of income and wealth is that, by and on the large, these are not taxes on being wealthy but on becoming wealthy. They limit the use of the income from existing wealth but they even more strikingly impede – so far as they are effective – the accumulation of wealth. In consequence, part of their effect is to protect existing holders of wealth from the competition of new-comers.

In judging the desirability of progression, it seems to me important to distinguish two problems, even though the distinction cannot be precise in application: first, the raising of funds to finance the expenses of those governmental activities it is decided to undertake (including perhaps measures to eliminate poverty discussed below); second, the imposition of taxes for redistributive purposes alone. The former may well call for some measure of progression, both on grounds of assessing costs in accordance with benefits and on grounds of social standards of equity. But the present high nominal rates on top brackets of income and inheritance can hardly be justified on this ground — if only because their yield is so low.

I find it hard, as a liberal, to see any justification for progressive taxation solely to redistribute income. This seems a clear case of using coercion to take from some in order to give to others and thus to conflict head-on with individual freedom.

This does not mean that there is no justification for social action that will affect the distribution of income. Much of the actual inequality of income derives from imperfections of the market. And some of these have themselves been created by governmental action or could be removed by government action. There is every reason to adjust the rules of the game so as to eliminate these sources of inequality. For example, special monopoly privileges granted by government, tariffs, and other legal enactments benefiting particular groups are a source of inequality, the removal of which the liberal will welcome. Again, the extension and widening of educational opportunities has been a major factor tending to reduce inequalities. Measures such as these have the operational virtue that they strike at the sources of inequality rather than simply alleviating the symptoms.

5. Social Welfare Measures

The point of view that has led to the imposition of highly progressive taxation has also led to a wide variety of measures – or proposed measures – by government directed at promoting the "welfare" of particular groups, though sometimes rationalized in terms of neighborhood effects. These include such measures as social security, public housing, socialized medicine, minimum wage laws, farm price supports. It is out of the question to consider these measures here in full. I shall restrict myself rather to commenting on a number of them with two purposes: to show that their actual affects may be quite different from those intended; and to lay the basis for a suggested alternative way to accomplish one objective that seems common to them, the elimination of extreme poverty.

a. Public housing

One argument frequently made for public housing is based on the alleged *neighborhood effect*: slum districts in particular, and other low quality housing to a lesser degree, are said to impose higher costs on the community in the form of fire and police protection. This literal neighborhood effect may well exist. But insofar as it does, it alone argues, not for public housing, but for higher taxes on the kind of housing that adds to social costs since this would tend to equalize private and social cost.

It will be at once answered that the extra taxes would bear on low income people and that this is undesirable. But this answer means that public housing is proposed not on ground of neighborhood effects but as a means of helping low income people. But if this be the case, why subsidize housing in particular? If funds are to be used to help the poor, would they not be used more effectively by being given in cash rather than in kind? Surely, the families being helped would rather have a given sum in cash than in the form of housing. They could themselves spend the money on housing if they wanted so that they would never be worse off if given cash; and if they regarded other needs as more important, they would be better off. And the cash subsidy would solve the neighborhood effect as well as the subsidy in kind, since if it were not used to buy housing it would be available to pay extra taxes justified by the neighborhood effect.

Public housing cannot therefore be justified on the grounds either of neighborhood effects or of helping poor families. It can be justified if at all, only on grounds of paternalism; that the families being helped “need” housing more than they “need” other things but would themselves either not agree or would spend the money unwisely. The liberal will be inclined to reject this argument out-of-hand for responsible adults. He cannot completely reject it in the more indirect form in which it affects children; namely, that parents will neglect the welfare of the children, who “need” the better housing. But he will surely demand evidence much more persuasive and to the point than the kind usually given before he can accept this final argument as adequate justification for large expenditures on public housing, most of which is not even restricted to families with children.

Two examples in the area of housing illustrate how widely the actual effects of policies can differ from the intended effects. I understand that the income limitations quite properly imposed for the occupancy of public housing at the subsidized rentals which are charged have led in Chicago to a very high density of “broken” families in public housing projects— in particular of divorced or widowed mothers with children. In turn, this has raised serious difficulties and in some cases practically destroyed schools in the neighborhood. Children of broken families are especially likely to be “problem” children, and, whereas a school can readily absorb a few such children, it is very difficult for it to absorb a large number. Yet in some cases, I understand, broken families are a third or more of the total in a public housing project and the project may account for a majority of the children in the school. Had these families been assisted through cash grants, they would have been spread much more thinly through the community.

Another example is the effect of public indignation about conditions in “slum housing.” One can well sympathize with the indignation, yet one must recognize that its major effect is to make such housing even more expensive, which means lower in quality. The chance of being held up to public shame reduces the number of people who are willing to own and operate slum dwellings; generally, only people without children or from distant communities, or gangsters and the like, are willing to take the chance. The reduction in supply of landlords as always raises the return they can earn, and this occurs, of course, via a smaller supply of housing of this type than would otherwise be available.

The real problem is poverty. Both public housing and the indignation about slum housing are directed against symptoms, not the basic problem, which is why they are wasteful and ineffective or positively harmful.

b. Minimum wage-laws

Minimum wage laws are about as clear a case as one could hope to find of a measure whose effects are precisely the opposite of those intended by the men of good will who support it. Proponents of minimum wages quite properly deplore extremely low wage rates; they regard them as signs of poverty; and they hope, by outlawing wage rates below some specified level, to reduce poverty. In fact, of course, insofar as minimum wages have any effect at all, their effect is clearly to increase poverty. The state can prevent anyone being paid less than the legal minimum; it can hardly require employers to hire at that minimum all who were formerly employed at wages below the minimum. And it is clearly not in the interests of employers to do so. The effect of the minimum wage is therefore to make unemployment higher than it otherwise would be. Insofar as the low wage rates are in fact a sign of poverty, the people who are rendered unemployed are precisely those who can least afford to give up the income they had been receiving, small as it may appear to the people voting for the minimum wage.

c. Farm price supports

Farm price supports are another very similar example. Insofar as they can be justified at all on grounds other than the political fact that rural areas are overrepresented in the Electoral College and the Congress, it must be on the belief that farmers on the average are relatively poor. But even if this be accepted as a fact, farm price supports do not accomplish the intended purpose of helping the farmers who need help. In the first place, benefits are if anything, inverse to need: they are in proportion to the amount sold on the market and the poorer the farmer the less income he gets from selling his product, not only in absolute amount but in proportion to his total income. The poorer the farmer, in general the greater the proportion of his income is from products grown for his own use, which do not qualify for the benefits. In the second place, the benefits, if any, to farmers from the price support program are very much smaller than the total amount spent. This is clearly true of the amount spent for storage costs which do not go to the farmer at all — indeed the suppliers of storage capacity and facilities may well be the major beneficiaries. But it in equally true of the amount spent to purchase agricultural products. The main effect of the purchase program has simply been to keep more people on farms than would otherwise have remained and thereby to make farm output larger, not to improve the income per farmer.

d. The Alleviation of poverty

The extraordinary economic growth and wide distribution during the past century of the benefits of the free-enterprise, has enormously reduced the extent of poverty in any absolute sense in the capitalist countries of the West. But poverty is in part a relative matter, and even in these countries there are clearly many people living under conditions that the rest of us label as poverty.

One recourse, and in many ways the most desirable, is private charity. It is noteworthy that the hey-day of laissez-faire, the mid and late nineteenth century in Britain and the United States, saw an extraordinary proliferation of private eleemosynary organizations and institutions. One of the major costs of the extension of governmental welfare activities has been the corresponding decline in private activities.

But it can be argued that private charity is insufficient because the benefits from it accrue to people other than those who make the gifts – again, a *neighborhood effect*. I am distressed by the sight of poverty; I am benefitted by its alleviation; but I am benefited equally whether I or someone else pays for its alleviation; thus the benefits of other people's charity partly accrue to me. To put it differently, we might all of us be willing to contribute to the relief of poverty, *provided* everyone else did but not to contribute the same amount without such assurance. In small communities, public pressure can suffice to realize this proviso even with private charity. In the large impersonal communities that are increasingly coming to dominate our society, it is much more difficult for it to do so.

Suppose one accepts, as I do, this line of reasoning as justifying governmental action to alleviate poverty, to set, as it were, a floor under the standard of life of every person in the community. There remain the questions, how much and how. I see no way of deciding "how much" except in terms of the amount of taxes we — by which I mean the great bulk of us — are willing to impose on ourselves for the purpose. The question, "how", affords more room for speculation.

Two things seem clear. First, if the objective is to alleviate poverty, we should have a program directed at helping the poor. There is every reason to help the poor man who happens to be a farmer, not because he is a farmer but because he is poor. The program, that is, should be designed to help people as people not as members of particular occupational groups or age groups or wage-rate groups or labor organizations or industries. This is a defect of farm programs, general old age benefits, minimum wage laws, pro-union legislation, tariffs, licensing provisions for crafts or professions, and so on in seemingly endless profusion. Second, so far as possible the program should, while operating through the market, not distort the market or impede its functioning. This is a defect of price supports, minimum wage laws, tariffs, and the like.

The arrangement that recommends itself on purely mechanical grounds is a negative income tax. We now have an exemption of $600 per person under the Federal income tax (plus a minimum 10 percent flat deduction). If an individual receives $100 taxable income, that is an income $100 in excess of the exemption and deductions, he pays tax. Under the proposal, if his taxable income were - $100, i.e., his income was $100 less than the exemption plus deductions, he would pay a negative tax, i.e. receive a subsidy. If the rate of subsidy were, say, 25 per cent, he would receive

$25. If he had no income at all, and, for simplicity, no deductions, and the rate were constant, he would receive $150. But he might receive even more than this if he had deductions, for example, for medical expenses, so that his income less deductions was negative even before subtracting the exemption. And, of course, the rates of subsidy could be progressive just as the rates of tax above the exemption are. In this way, it would be possible to set a floor below which no man's net income (defined now to include the subsidy) could fall – in the simple example $150 per person. And this sum could be made whatever the community could afford.

The advantages of this arrangement seem clear: it is directed specifically at the problem of poverty; it gives help in the form most useful to the individual, namely, cash; it is general and could be substituted for the host of special measures now in effect; it makes explicit the cost borne by society; it operates outside the market; while it, like any other measures to alleviate poverty, reduces the incentives of those helped to help themselves, it does not eliminate that incentive entirely, as a system of supplementing incomes up to some fixed minimum would, since an extra dollar earned always means more money available for expenditure.

No doubt there would be problems of administration, but these seem to me a minor disadvantage, if they be a disadvantage at all. The system would fit directly into our current income tax system and could be administered along with it. The present tax system covers the bulk of income recipients and the necessity of covering all would have the by-product of improving the operation of the present income tax. More important, if enacted as a substitute for the present rag bag of measures directed at the same end, the total administrative burden would surely be reduced.

The major disadvantage of the proposal is very different: its political implications. It establishes a system under which taxes are imposed on some to pay subsidies to others. And presumably, these others have a vote. There is always the danger that instead of being an arrangement under which the great majority tax themselves willingly to help an unfortunate minority, it will be converted into one under which a majority imposes taxes on an unwilling minority for its own benefit. And because this proposal makes the process so explicit, this danger is perhaps greater than with other measures.

I see no solution to this problem except to rely on the self-restraint and good will of the electorate. This is, to paraphrase what Dicey once wrote, one of those roads which one cannot avoid entering but which, once embarked on, will lead to ruin if traversed too far, and yet one is hard put to it to know when or how to stop.

Writing about a corresponding problem — British old -aid pensions — in 1914, Dicey said, "Surely a sensible and a benevolent man may well ask himself whether England as a whole will gain by enacting that the receipt of poor relief, in the shape of a pension, shall be consistent with the pensioner's retaining the right to join in the election of a Member of Parliament."[2]

The verdict of experience in Britain on Dicey's question must as yet be regarded as mixed. England did move to universal suffrage without the disfranchisement of either pensioners or other recipients of state aid. And there has been an enormous expansion of taxation of some for the benefit of others which must surely be regarded as having retarded Britain's growth and so may not even have benefited most of those who regard themselves as on the receiving end. But these measures have, at least as yet, not destroyed either Britain's liberties or its predominantly capitalist system. And, more important, there have been some signs of a turning of the tide and of the exercise of self-restraint on the part of the electorate.

7. Conclusion: Liberalism and Egalitarianism

The heart of the liberal philosophy is a belief in the dignity of the individual, in his freedom to make the most of his capacities and opportunities according to his own rights, subject only to the proviso that he not interfere with the freedom of other individuals to do the same. This implies a belief in the equality of men in one sense; in their inequality in another. Each man has an equal right to freedom. But this is an important and fundamental right precisely because men are different, because one man will want to do different things with his freedom than another and in the process can contribute more to the general culture of the society in which many men live than another.

The liberal will thus distinguish sharply between equality of rights and equality of opportunity, on the one hand, and material equality or equality of outcome on the other. He may welcome the fact that a free society in fact tends toward greater material equality than any other yet tried. But he will regard this as a desirable by-product of a free society, not its major justification. He will welcome measures that promote both freedom and equality – such as measures to eliminate monopoly power and to improve the operation of the market. He will regard private charity directed at helping the less fortunate as an example of the proper use of freedom. And he may approve state action toward ameliorating poverty as a more effective way in which the great bulk of the community can achieve a common objective – though he will do so with regret at having to substitute compulsory for voluntary action.

The egalitarian will go this far, too. But he will want to go further. He will defend taking from some to give to others, not as a more effective means whereby the "some" can achieve an objective they want to achieve, but on grounds of "justice". At this point, equality comes sharply into conflict with freedom; one must choose. One cannot be both an egalitarian, in this sense, and a liberal.

Notes

1. *Principles of Political Economy* (Ashley edition), p. 751.
2. A. V. Dicey, *Law and Public Opinion in England*, second edition, (Macmillan, 1914), p xxxv.

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