

A Remark on Nozick's Libertarianism

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First Version: August 1, 2007, This Version: October 25, 2008

Harvard philosopher, the late Robert Nozick argued in his classic 1974 book titled "Anarchy, State and Utopia" that a distribution of income or resources is just so long as the distribution was brought about by free exchanges by consenting adults, even if large inequalities emerge from the process.

According to Nozick there are three sets of rules of justice, defining (1) how things not previously possessed by anyone may be acquired; (2) how possession may be transferred from one person to another; and (3) what must be done to rectify injustices arising from violations of (1) and (2). In Nozick's view, a distribution is just if it has arisen in accordance with these three sets of rules.

There is a wide literature on Nozick's libertarian view of the world. To elaborate on Nozick's argument, consider a society with 1001 people each with \$2. Suppose Michael Jackson (hereafter, MJ) is a member of this society. If each member of this society voluntarily pays \$1 to see MJ perform, the distribution of income will be such that MJ now has \$1002 and everyone else has \$1. Call this distribution of income, D1. According to Nozick this extremely unequal distribution of income is just and fair since no one was forced to pay \$1 to see MJ's performance. This distribution of income arose through voluntary exchange. In Nozick's view, one cannot argue that a given distribution of income is unfair without taking into account how that distribution of income emerged.

Nozick's argument is a powerful one. It is an argument that cannot be dismissed easily. However, there is something missing in Nozick's argument. For example, who determined that each person should pay \$1 for MJ's show. Couldn't they have paid 5 cents each to watch him, giving MJ a total income of only \$52, where it is assumed that \$52 is greater than what MJ would have obtained in his next best alternative activity? Call this distribution of income, D2. In a free market, the \$1 will be determined by the forces of demand and supply. Essentially, the patrons of MJ are given a take-it-or-leave-it offer of \$1 to watch MJ. They have zero bargaining power. If the 1000 members of this society could join forces with each other, they could bargain collectively with MJ to watch the show for a total fee of \$50. It is impatience and huge costs of coordination which prevents them from doing so. Alternatively, the government, much akin to a union, of this society could bargain with MJ on behalf of the other members of the society. Or the government could allow MJ to charge a price of \$1 per person but then require him to pay a tax of \$950 leaving him with \$52. The \$950 is then redistributed to the other 1000 members of the society.

The point is that Nozick cannot use apparent voluntary exchange to determine that a process was truly voluntary without taking into account the structure of power. In their

disparate and unorganized form, the other 1000 members of this society had very little power to negotiate with Michael Jackson. In this example, a benevolent government may then be seen as a social arrangement that mobilizes and empowers the other 1000 members of this society. While standard economics will argue that it is the forces of demand and supply that determines MJ's income under the income distribution D1, my argument is that there exists other social arrangements (e.g., a government acting on behalf of the workers) that transforms this interaction between the patrons and MJ into a bilateral monopoly situation, as opposed to a monopolist (i.e, MJ) interacting with several disorganized patrons. Under both distributions of income, D1 and D2, efficiency is preserved in the sense that the Michael Jackson show will go ahead. But reasonable minds may not agree that both distributions are fair.

That the two different distributions of income, D1 and D2, are consistent with an efficient allocation is akin to the second theorem of welfare economics which states that any efficient allocation can be supported as a competitive market equilibrium through lump-sum redistribution. Here the efficient market allocation under D1 is replicated under D2 by government taxation of MJ's profit which has the same effect as a non-distortionary lump-sum tax. Suffice it to say that when the government is not well-informed, the second welfare theorem may not hold.

Nozick argues for a minimal state that protects people against force, fraud, theft, and enforces contracts. Other than the taxes required for this minimal state to function, individuals' rights are violated, in Nozick's view, if the state transfers income from one person to another. But one could argue that the state, in the example above, bargains with MJ over the price of his show before he acquires his income. And in that sense, MJ's rights are not violated. What has changed with government intervention is the structure of power that previously enabled MJ to extract much more surplus from the group of disorganized patrons. In a democracy, one could argue that the government is given the authority to negotiate on behalf of a majority of the population, when such a majority votes for redistribution. To be sure, the government violates the rights of both MJ and the patrons, if it allocates to itself an amount in excess of the administrative cost of the redistributive program and a reasonable compensation for its officials.

For the sake of argument, I envisage two types of libertarians. For want of better expressions, I shall refer to them as instrumental/pragmatic libertarians and traditional libertarians. An instrumental libertarian may be hard pressed to argue against my reasoning above if he believed that that government was honest and would act in the interest of the 1000 patrons in the example above. In practice, however, s/he would argue against my position on the grounds that government bureaucrats or politicians cannot be trusted. I think that this is a fair and legitimate argument. However, this is an argument against the practice of redistribution but not against the principle thereof. In contrast, a traditional libertarian will not accept my position even if s/he believed that the government was honest. For a traditional libertarian like Robert Nozick, the principle of individuals entering into voluntary exchange without the interference of the state is a fundamental right of every human being. However, I submit that the principle of free contract or voluntariness need not be inconsistent with government intervention in view

of my argument that in a democracy the government could be seen as having been given the authority to negotiate on behalf of a majority of the population when such a majority votes for redistribution. The government solves the coordination problem of a majority poor similar to how its intervention changed the bargaining power between MJ and the 1000 patrons in the above example.

In addition to those who, through no fault of theirs, find themselves in unfortunate circumstances, I am arguing that people who participate in surplus-generating relationships, like the above relationship between Michael Jackson and his patrons, but get the short end in such relationships are entitled to redistributive programs since they played a role in generating such surpluses. Therefore, redistribution should not apply to able-bodied men and women who refuse to participate in surplus-generating relationships (e.g., able bodied men and women who refuse to work or are not actively looking for a job). In this respect, *workfare* dominates *welfare*. Of course, the practical implementation of redistributive programs is a different matter. However, the point of my argument is that redistribution need not mean that Ms. A's money is being taken to help Mr. B because all that money need not be Ms. A's money.

When libertarians like Nozick argue against government redistribution, they are not necessarily doing so based on any compelling logic but by appealing to the sense of fair-play and justice of other members of society: it is immoral to take someone's property without his/her consent. But in the same vein, one could argue that it is morally right to help the poor by changing the structure of power between labor and capitalists. As my example shows, it is not MJ's property which is being stolen. It is the structure of bargaining - over the surplus generated by the interaction of the two parties - that is altered by government intervention. To some extent, the argument on both sides (i.e., between the left and the right) is purely a matter of opinion. Indeed, in the preface of his book, Nozick admits that he "... does not present a precise theory of the moral basis of individual rights ..."

In two interesting papers, Rosen (1981, 1983) examined the phenomenon of superstars. He demonstrated that very high-income earners like top athletes, performers, writers, etc are not paid according to their absolute performance or productivity. Instead, they are paid on the basis of their relative productivity wherein very *small* differences in ability lead to *huge* differences in compensation. As Rosen (1981, 1983) correctly argued, superstars are found in activities where the technology of delivering the service makes it very easy for these actors like MJ in our example to reach millions of people at relatively little cost. In Rosen (1983) he observed that the activity "... must admit duplication of a kind so that a person – the superstar – can deliver services to many buyers simultaneously." Indeed, under such increasing returns, the standard neoclassical theory of marginal productivity does not hold and cannot account for income differentials. It would appear that redistribution from these high-income earners to low-income earners should have very little effect on incentives. Indeed, hearings on the 2008 financial crisis in the USA by the Oversight Committee of the House of Representatives revealed that the CEOs of investment banks got increases in salaries although their banks were failing or

performing poorly. This explains why Zingales and Rajan (2003) want capitalism to be saved from the capitalists.

I am sympathetic to the view that government redistribution could have an adverse effect on incentives and the government itself can be a Leviathan and a vampire. But so can the unfair distribution of any surplus have adverse effects on incentives via political unrest and predation by the poor. Unlike Robert Nozick's position, the issue is not whether there should be redistribution but rather whether redistribution should be small or large. Redistribution requires commonsense and pragmatism. For example, if a country's demographics, technological progress, and future growth prospects are such that a pay-as-you-go social security program will only be sustainable if benefits to the old are reduced or the retirement age is increased, then these hard and politically unpalatable considerations must be taken seriously. Sustainable and smart redistribution requires that some hard choices must be made. These hard choices do not mean zero redistribution, though.

Nozick had other arguments in his book that have been the subject of criticisms by several authors (e.g., Arrow, 1978). In this short piece, I have only tried to present a conceptual framework - somewhat related to but different from Arrow (1978, section 4) - for thinking about and responding to one of Nozick's main libertarian arguments.

References

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