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The Egalitarian Earnings Subsidy Scheme

STUART WHITE*

How should society structure income redistribution so as to correct for ineliminable inequalities in marketable talent? This article explores the strengths and weaknesses of an 'egalitarian earnings subsidy scheme' (ESS) in which individuals receive (or pay) a subsidy (or tax) for each pound earned based on the difference between their earnings potential and their society's average earnings potential. ESS corrects for brute luck inequality in earnings potentials in a well-targeted fashion; implements an attractive conception of reciprocity; and, in contrast to an alternative lump-sum tax proposal, does not entail the 'slavery of the talented'. However, any practicable version of ESS may undermine at least one other egalitarian objective – that of maintaining equality of status amongst unequally talented citizens. As a status-friendly alternative, we might try to approximate ESS through a more conventional redistribution scheme using taxes and subsidies that implicitly 'tag' low- and high-ability individuals. While it is difficult to draw any firm policy conclusions, it seems clear that the idea of talent-based taxes and subsidies on the model of ESS should occupy a more prominent place in our thinking about tax–benefits policy to tackle earnings inequality.

A core claim of contemporary egalitarianism is that it is unjust for individuals to be disadvantaged relative to others through no fault of their own.[1] There is much controversy as to exactly what 'metric' of advantage/disadvantage it is appropriate to adopt in elaborating this claim, but many egalitarians accept that an individual's degree of access to income and wealth is at least a proximate indicator of advantage. They also recognize that differential brute luck in the genetic and/or social lotteries leaves people with highly unequal endowments of talent or ability which, in the right economic context, will swiftly translate into highly unequal degrees of life-time access to income and wealth. From this follows one of the fundamental policy recommendations of contemporary egalitarianism: opportunities and rewards must be consciously structured so as to limit the extent of brute luck inequality in earnings potentials.

Now to some extent this objective can be pursued through the resolute application of what we may call 'endowment egalitarianism'. This involves

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[1] See G. A. Cohen, 'On the Currency of Egalitarian Justice', *Ethics*, 99 (1989), 906–44.

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structuring access to education and training so as to ensure that individuals enter the market-place with endowments of productive ability that are as equal as possible. However, even under a thorough-going regime of equal educational opportunity, significant inequalities in talent endowments, and thus in earnings potentials, will remain, reflecting underlying genetic differences and the residuum of sociological effects on the distribution of talent that are probably ineliminable outside of a society that has abolished the family. To control for the significant levels of inequality in earnings potential that remain, we will therefore have to supplement endowment egalitarianism with some form of 'transfer egalitarianism'. Very crudely, the egalitarian will have to tax and redistribute earned incomes in some form in order to correct for the residual inequality of talents. But we then face the question: what is the most ethically desirable form of transfer egalitarianism?

One proposal, which has been frequently canvassed, if only to be rejected, in the discussions surrounding both Rawls's maximin criterion and Dworkin's ideal of equality of resources, is that of the lump-sum transfer scheme, or LSS for short.[2] Under LSS, the state evaluates each individual's earnings potential, compares it to the average, and then assigns each individual a lump-sum grant or tax equal to the difference between them. With this system in place, everyone is enabled or constrained to attain the same level of after-tax income if they work a full working year in their highest paying job. LSS is to be distinguished from conventional redistribution schemes which do not base tax and subsidy rates on earnings potentials but on observed earnings performances. Much contemporary policy discussion focuses on the merits and demerits of different conventional redistribution schemes. However, LSS and conventional redistribution do not exhaust the possibilities. A third proposal is what I shall call the egalitarian earnings subsidy scheme, or ESS for short. Under ESS, the state makes an evaluation of individuals' respective earnings potentials as it does under LSS, but then, in place of a lump-sum grant or tax, it assigns each individual a special earnings subsidy or tax rate (so many pence per pound earned) so that his or her after-tax income–leisure schedule is identical to that of someone with average earnings potential. My aim in this article is to take a closer look at this third, less familiar proposal.

In Sections I–II, I set out these three types of transfer scheme in more detail,

[2] See John Rawls, 'Some Reasons for the Maximin Criterion', *American Economic Review, Papers and Proceedings*, 64 (1974), 141–6, p. 145; and 'Reply to Alexander and Musgrave', *Quarterly Journal of Economics*, 88 (1974), 633–55, pp. 654–5; Richard Musgrave, 'Maximin, Uncertainty, and the Leisure Trade-Off', *Quarterly Journal of Economics*, 88 (1974), 625–32, pp. 630–2; Ronald Dworkin, 'What is Equality? Part 2: Equality of Resources', *Philosophy and Public Affairs*, 10 (1981), 283–345, pp. 311–12; Philippe Van Parijs, *Real Freedom for All: What (If Anything) Can Justify Capitalism?* (Oxford: Oxford University Press, 1995), pp. 60–5; and Brian Barry, 'Survey Article: Real Freedom and Basic Income', *Journal of Political Philosophy*, 4 (1996), 242–76, pp. 270–3. I have benefited from reading a longer version of Brian Barry's 'Real Freedom and Basic Income', a paper presented to a meeting of the London School of Economics Rational Choice Group, November 1995. I shall refer to this paper below as 'Real Freedom and Basic Income B'.

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and make a preliminary case for the superiority of ESS over both LSS and conventional redistribution. I show how, in its ideal form, ESS corrects for brute luck inequalities in talents in a much more accurately targeted fashion than either of the rival types of scheme. Section III then develops the ideal-theoretic case for ESS further by showing how it also provides a way of giving institutional expression to an ethically attractive conception of reciprocity.

ESS is likely to meet two kinds of objection that are frequently made of LSS (and which motivate its near universal rejection). First, at the level of high principle, it might be objected that ESS, like LSS, entails the 'slavery of the talented' – that, like LSS, it inequitably constrains the talented to work relatively long hours in unpleasant jobs in order to achieve modest levels of income. In Section IV, I show that while this objection is perfectly valid in relation to LSS, it is not valid in relation to ESS (though ESS is compatible with significant inequalities between individuals in opportunity for combining income and satisfying work, a fact that may call for some sensitivity in the implementation of ESS or for appropriate supplementary transfer schemes).

Secondly, it will be objected that ESS, like LSS, requires the state to possess an implausibly large amount of detailed information about individuals' earnings potentials. I argue in Section V that while the informational requirements of an ideal ESS are indeed implausibly great, it may still be possible to institute a rough approximation of ESS based on a partitioning of the population into a small number of discrete ability groupings.

However, even if such a scheme is practicable and retains an advantage over conventional redistribution in terms of tackling inequality of earnings potential in a well-targeted fashion, a third anxiety, less familiar from the literature on LSS, would immediately arise. If any practicable version of ESS necessarily involves an explicit division of individual citizens into discrete ability groupings, then one might wonder whether any practicable version of ESS is compatible with maintaining a healthy spirit of 'civic egalitarianism' – a spirit of mutual respect and a rough parity of esteem between citizens. If it is not, then ESS will introduce an insidious inequality of status into society that is both inimical to community, and ultimately, perhaps, no less threatening to the interests of the less talented than limited earnings potential. Section VI elaborates this anxiety and offers some tentative thoughts on how it might be resolved.

Concluding in section VII, I caution against drawing any firm policy conclusions. Even if the objection discussed in Section VI is decisive, we could perhaps try to approximate ESS through a more conventional redistribution scheme using taxes and subsidies that implicitly 'tag' high- and low-ability individuals. But the desirability of this remains open to question, particularly since I do not fully consider all of the possible objections to ESS (or to approximations of ESS) in this article. What does seem clear, however, is that talent-based taxes and subsidies on the model of ESS should occupy a more prominent place in our thinking about tax policy to tackle earnings inequality.

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I. TACKLING INEQUALITY OF EARNINGS POTENTIAL

Imagine that we want to eliminate brute luck inequality in capabilities for well-being and agency.[3] Brute luck inequalities in capability may arise from at least three sources: (1) unequal inheritances of external assets; (2) unequal endowments of acquisition ability – the ability to acquire income and wealth through the productive deployment of one's talents; and (3) unequal endowments of conversion ability – the ability to convert income, wealth and other goods into levels of well-being and agency. For purposes of this article, we will bracket (1) and (3), and focus our attention on (2). We will also assume that all brute luck inequality in acquisition ability reflects genetic differences or the ineliminable consequences of differences in social background. It is thus not possible to reduce inequality in these endowments directly through, for example, a restructuring of access to education and training. To correct for the effects of these inequalities on capabilities for well-being and agency, we must therefore introduce a redistributive scheme of some sort that transfers resources from the more to the less talented so as to eliminate the significant residual inequality in earnings potentials that would continue to exist even under perfectly meritocratic conditions.

To help fix ideas, imagine that we have two persons, Alf and Betty. The maximum that Alf can reasonably be expected to earn in a full working year given his exogenously-determined ability endowment is £25,000, while the maximum that Betty can reasonably be expected to earn over the same period given her endowment is £80,000.[4] Clearly, there is a significant inequality between Alf and Betty in earnings potential, and thus, in their accessible bundles of income and leisure. This is depicted in Figure 1, where Alf's trade-off between income and leisure, when working at his peak-ability wage rate (the highest wage rate he can reasonably be expected to command given his ability endowment) is given by the line *XZ*, and Betty's trade-off is given by the line *YZ*.[5] All the combinations of income and leisure on line *YZ*, and in the space

[3] In focusing on capability for well-being and agency as the underlying metric of egalitarian concern, I broadly follow Amartya Sen (see his *On Ethics and Economics* (Oxford: Basil Blackwell, 1987), and *Inequality Reexamined* (Oxford: Oxford University Press, 1992)). To facilitate the exposition of other ideas, I here assume that justice requires us to *eliminate* brute luck inequality in capability for well-being and agency. This may in fact be too strong, but I think the main claims of the article depend only on accepting that justice requires that we at least *limit* brute luck inequalities in capability for *both* well-being and agency *to a significant extent.*

[4] What do I mean by saying that these are the maximums which they can *reasonably* be expected to earn? In part, I mean that in calculating their earnings potentials for purposes of specifying their subsidy/tax rate, we should disregard those high-paying jobs which Alf or Betty, given their ability endowments, might be able to get, but which they have an understandable reason of conscience for not wanting to do, such as being a designer of new weapons systems. I further elaborate the notion of maximum reasonable earnings potential in fn. 21 below.

[5] I am assuming that Alf and Betty can in principle work any length of time between zero hours per year and a full working year (so their income–leisure schedule is continuous) and that wage rates are constant with length of time worked (so their income–leisure schedules are not kinked or curved).

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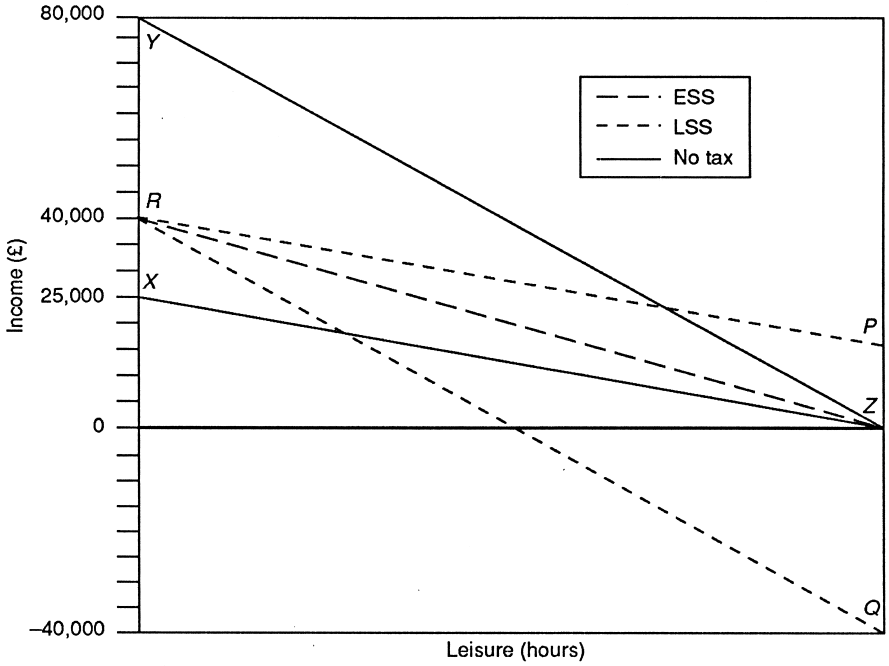


Fig. 1. Alf and Betty under no tax–benefit system, LSS and ESS

between lines *XZ* and *YZ*, are in principle accessible to Betty but not to Alf. Thus, working at their respective peak-ability wage rates, Betty gets more income than Alf for any given length of time worked; and if Betty takes a job below her peak-ability wage rate, perhaps because she finds a lower paid job more intrinsically satisfying, she can still get more income than Alf for any given length of time worked, even if he still works at his peak-ability wage rate in a job that he finds rather unpleasant. Betty is thus better off than Alf in terms of opportunities for combining income with leisure and, by extension, achieving job satisfaction. Assuming that capability for well-being and agency increases with access to income, leisure and satisfying jobs, and at the same rates for both parties (which is equivalent to assuming that there are no inequalities in conversion abilities), then Betty's superiority in income–leisure space translates directly into a superiority in the space of capability. It is this inequality, deriving from the brute luck inequality in endowments of talent, that we wish to address.

One proposal for addressing this inequality, which has featured prominently in recent discussions of egalitarian justice, is the *lump-sum transfer scheme* (LSS). Under LSS, the state evaluates each person's maximum reasonable earnings potential, compares it to the average, and then assigns each individual a lump-sum tax or grant equal to the difference between them. Thus, if the

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average maximum reasonable earnings potential in the society in which Alf and Betty live is £40,000 over a full working year, then, under LSS, Betty would be liable to a lump-sum tax of £40,000 per year, while Alf would get a lump-sum grant of £15,000 per year. Working a full working year at their respective peak-ability wage rates, each is then constrained or enabled to attain an after-tax income equal to that which someone with average earnings potential would obtain when working at his/her peak-ability wage rate for this same length of time. This is illustrated in Figure 1, where we see that with the move to LSS Alf's peak-ability income–leisure schedule shifts from *XZ* to *RP*; while Betty's shifts from *YZ* to *RQ*; given these schedules, each will now end up with £40,000 if he or she works a full working year at his or her peak-ability wage rate.

So is LSS what we are looking for? Some commentators certainly think that, though the scheme may ultimately be impracticable, it is in principle the appropriate egalitarian policy. Taking this position in a recent review essay, Brian Barry writes:

> Under a lump-sum scheme, the less talented would receive a credit, which would mean that by working at their most lucrative available job they would finish up with an average income. This would put them on a par with the talented in terms of opportunities. Since equal choice sets constitute equal freedom, we would seem to have achieved it by implementing the lump-sum tax proposal.[6]

However, while the first sentence of this excerpt is correct, the conclusion expressed in the second and third sentences is too hasty. For if LSS equalizes earnings potentials in the very specific sense that under such a scheme people like Alf and Betty will end up with the same level of after-tax income if they both work a full working year at their respective peak-ability wage-rates, it certainly does not equalize earnings potentials in the more fundamental sense of giving them access to the same set of income–leisure bundles. Referring once again to Figure l, we can see that whereas in the absence of the lump-sum redistribution scheme Betty's peak-ability income–leisure schedule lay entirely outside of Alf's, under LSS, Alf's schedule lies entirely outside of Betty's, indicating that while Alf has access to all the income–leisure bundles that are accessible to Betty, he also has access to bundles that Betty does not. His 'opportunity', 'choice set', 'freedom', is consequently larger than Betty's. Consider, as a striking example of this, that under LSS Betty now has to work well over half a full working year (to be exact, l1/16 of a full working year) to achieve a level of after-tax income, £15,000, that Alf can obtain without doing any work whatsoever. More generally, whereas in the absence of any tax-transfer system Betty has exclusive access to all the income–leisure bundles in the triangle *XYZ* of Figure 1, under LSS, Alf has exclusive access to all the bundles in the triangle *PQR*. It is not too difficult to show that these triangles are equal in area. Thus we see, in this simple example, that the effect of switching to LSS is not to equalize access to income–leisure bundles and thus capability,

[6] See Barry, 'Real Freedom and Basic Income', p. 271.

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as was intended, but to *reverse exactly the original inequality*. There is a clear sense in which, under LSS, Alf dominates Betty in income–leisure space and by extension capability space, to exactly the same extent that Betty dominates Alf in the absence of any transfer scheme.

LSS actually seems, then, to be a distinctly odd institutional response to inequality in earnings potentials – it makes the talented as badly off relative to the untalented, in terms of access to income and leisure, as the untalented are relative to the talented in the absence of any transfer scheme. But what are the alternatives? One suggestion is that we just drop the whole idea of focusing redistributive taxation on earnings potentials, and place subsidies or taxes on earnings performances.[7] We place taxes on people who earn over a certain amount, and give subsidies, financed from these taxes, to people who earn below a certain amount. This is the conventional redistribution approach, of which the negative income tax proposal is a good example.

The switch in focus from taxing/subsidizing earnings performance rather than earnings potentials means, however, that the tax–benefit system will not be very accurately targeted at specifically redressing *brute luck* inequality in earnings performances. Those who have high earnings potentials, but who choose to work only for relatively short periods and/or in low wage jobs (because these jobs are seen as more intrinsically satisfying than high wage jobs), will tend to receive income subsidies even though their relatively low earned income is a matter of life-style choice rather than brute bad luck. Imagine, for example, a third character, Charles, who has the same earnings potential as Betty, but who chooses to work in the same job as Alf, well below his peak-ability wage rate. He consequently ends up with a below average earnings performance and, under a type of negative income tax scheme, along with Alf gets a subsidy paid for by the likes of Betty (whom we assume works at or close to her peak-ability wage rate). But why should Betty be paying any subsidy towards someone who has access to exactly the same jobs and income–leisure bundles as she does? If Charles has lower income than Betty for a given number of work hours, then that is a reflection of Charles's choices, and not a matter of bad brute luck, and so there would seem to be no justice-based reason for transferring any income to Charles from Betty.[8] However, conventional redistribution schemes do not make a distinction between a low-earning Charles who has no justice-based claim to an income transfer from high-earning Betty, and a low-earning Alf who does.

[7] Another alternative which I do not consider in this article is what we might call 'Partial LSS'. Under Partial LSS, we simply give more modest lump-sum subsidies to the untalented, and impose more modest lump-sum taxes on the talented, relative to LSS as described above.

[8] More precisely, there is no justice-based case for compensation here if Betty and Charles have the same earnings potentials *and* the same opportunity for combining income (and/or leisure) with work satisfaction. If Charles takes the low-paid job because, unlike Betty, and as a matter of bad brute luck, he finds his peak-ability job highly unpleasant, then there would be a justice-based case for (some) compensation. I briefly discuss the implications of such inequalities for ESS in the closing paragraphs of Section IV.

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There is, however, another alternative to LSS, albeit one that has not been widely considered in recent theoretical discussions.[9] We could say: for every pound that someone with Alf's earnings potential actually earns, we will give him/her an earnings subsidy of 60p; and, for every pound that someone with Betty's maximum reasonable earnings potential actually earns, we will require him/her to pay 50p in tax. No subsidy is paid, and no tax is due, however, until each respectively chooses actually to work and earn some income; and the final amount of the subsidy or tax that each is eligible for will depend entirely on how much income he/she chooses to earn, though the *rate* of subsidy or tax per pound earned will remain the same for each of them regardless of how long or at what wage-rate they choose to work, being based on an estimate of their respective earnings potentials.

In terms of Figure 1, the effect of such a proposal is to shift Betty's peak-ability income–leisure schedule down from *YZ* to the hatched line, *RZ*, and to shift Alf's peak-ability income–leisure schedule, *XZ*, up to this same hatched line. The effect of the proposal is thus to give Alf and Betty the same peak-ability income–leisure schedule – the peak-ability income–leisure schedule of someone with their society's average maximum reasonable earnings potential. Thus, as under LSS, each will again end up with the same level of after-tax income if each works at his/her peak-ability wage rate for a full working year. But in addition, and in stark contrast to LSS, they will now attain the same level of after-tax income for *any* length of time worked at their respective peak-ability wage rates. Putting the same point in reverse, each will have to work the same length of time at his/her peak-ability wage rate as the other to attain the same level of after-tax income that the other achieves when working at this wage rate. For example, whereas under LSS Alf could obtain £15,000 without doing any work, while Betty had to work over half a full working year to get this level of after-tax income, under ESS each has to work the same length of time (in this example, 3/8 of a full working year) at their respective peak-ability wage rates to obtain this level of after-tax income. Since their peak-ability income–leisure schedules now coincide, Alf and Betty (and Charles) have access to exactly the same set of income–leisure bundles, and, to this extent, have the same capabilities for well-being and agency.

Moreover, while ESS thereby serves to prevent the emergence of unjust

[9] There is a passing mention of the proposal in note 11 (p. 631) of Musgrave's 'Maximin, Uncertainty, and the Leisure Trade-Off'. The proposal is also considered in Robert van der Veen, *Between Exploitation and Communism: Explorations in the Marxian Theory of Justice and Freedom* (Gröningen: Wolters-Noordhoff, 1991); Walter Bossert and Marc Fleurbaey have recently deployed the axiomatic techniques of social choice theory to discuss the properties of a family of ESS-type policies in 'Redistribution and Compensation', *Social Choice and Welfare*, 13 (1996), 343–55; and a formal analysis of the properties of an ESS-type scheme is also provided by Frank Vandenbroucke in 'Egalitarian Justice, Ideal Reciprocity, and Information: A Formal Exploration' (unpublished paper, April 1998). A similar proposal (to finance a system of earnings subsidies from a tax on transfers of external wealth) is discussed by Robert Sugden in 'Measuring Real Freedom' (paper prepared for conference on Philippe Van Parijs's *Real Freedom for All*, University of Warwick, May 1996).

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inequalities in earnings performances resulting from the brute luck inequality of talents, it will not eliminate those inequalities that are a reflection of life-style choice rather than brute bad luck in the distribution of talents. If a talented individual like Charles chooses to work below his peak-ability wage rate, or for a limited number of hours, then, in contrast to what happens under a conventional redistribution scheme, his low earnings performance will not entitle him under ESS to any income-boosting subsidy. Given that Charles's underlying ability endowment and earnings potential are equal to Betty's, he will in fact still get taxed, like Betty, at the rate of 50p on every pound he earns, and the consequent difference between his level of after-tax income and that of Betty, working a full working year at her peak-ability wage rate, will be an exactly proportionate reflection of the fewer hours, and/or the lower wage rate at which, he chooses to work. If, for example, he were to work for half the hours of Betty, or at 50 per cent of their peak-ability wage rate, it is easy to show that he would end up with exactly half the level of after-tax income which she obtains (working a full working year at her peak-ability wage rate).

This, then, is the *egalitarian earnings subsidy scheme* (ESS) to which I referred in the introduction. The essence of ESS may be captured by a simple function:

$$Y_i = (1 + s_i)W_iH_i \tag{1}$$

where Y_i is the level of after-tax income of individual, i, W_i is the individual's wage rate in whatever job he/she happens to be working in, H_i is hours worked by the individual, and s_i is the subsidy rate applied to each pound that individual, i, earns. The formula for s_i itself may be simply given as:

$$s_i = (T^* - T_i)/T_i \tag{2}$$

where T^* stands for the society's average maximum reasonable earnings potential over, say, a full working year, and T_i stands for the individual's own maximum reasonable earnings potential over this same period.[10] Where $T^* > T_i$, s_i will thus be positive; and where $T^* < T_i$, s_i will be negative (i.e., the individual will face an earnings tax).

It is most important to keep in mind that a full scheme of egalitarian redistribution would require, in addition to ESS, other redistributive schemes to address inequality in initial endowments of external wealth and in conversion abilities.[11] Moreover, if these other schemes are not up and running, then implementing ESS by itself could quite conceivably exacerbate brute luck

[10] Equivalently, one might express s_i as the difference between the societally average peak-ability wage rate and the individual's peak-ability wage rate, divided by the individual's peak-ability wage rate.

[11] Moreover, while LSS is inappropriate as a device for tackling inequality in earnings potential, nothing I have said so far rules out the use of lump-sum taxation and transfers in tackling these other inequalities.

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inequalities in capability.[12] ESS is being proposed here as only *one* component of a full egalitarian scheme, targeted at one specific, albeit very important, source of inequality in capability, and not as a full and self-sufficient scheme of egalitarian redistribution in itself.

II. FINANCING, INCENTIVES, AND INVOLUNTARY UNDEREMPLOYMENT

Before developing the case for ESS further, and considering some important objections to it, a few more introductory remarks are in order.

First, it must be admitted that ESS does have one potentially significant drawback compared to LSS. This is that ESS, in its pure incarnation, is not necessarily self-financing in the way that LSS is. Since under LSS the tax liabilities we place on one group, and the subsidy entitlements we give to members of another, are lump-sums calculated as the difference between individuals' earnings potentials and the average earnings potential across this same set of individuals, the sum total of tax liabilities and of grants will necessarily add up to the same amounts. But under ESS, even if we generously assume that everyone works at their peak-ability wage rate (i.e., that there is no underemployment), the sum of total tax liabilities and of subsidy entitlements will only equate if members of the two groups, optimizing against the income–leisure budget constraint that is now common to them, choose to work a number of hours that cause these two sums fortuitously to balance out against each other. If individuals' income–leisure preferences are identical, then this outcome is assured (for everyone will work the same number of hours). But if their preferences differ, this outcome cannot be guaranteed, and the scheme may consequently fall into deficit (or, just as conceivably, go into surplus). This outcome is even more likely once we allow for the possibility of underemployment.

There are two possible responses to this problem. The first is to try to ensure that ESS is in self-financing equilibrium at, or very close to, the first best subsidy/tax rates (the rates which satisfy the formula given in Equation 2 above) by trying to ensure that people work the same number of hours at, or as close as they can get to, their peak-ability wage rates. This might be done by direct legislative requirement or, following the model suggested by Joseph Carens, by socializing citizens into a sufficiently strong sense of productive obligation that they choose to work a socially-defined full working year at, or as close as they can get to, their respective peak-ability wage rates.[13] I shall not try to show this

[12] Imagine, for example, that there are two individuals, Dan and Edna. Dan has a much higher earnings potential than Edna, but also much poorer conversion ability (he suffers from a debilitating physical handicap that limits his mobility). In a *laissez-faire* world without any tax–benefit system, Dan is to some extent compensated for his poor conversion ability by his high earnings potential. If we now introduce ESS without also introducing a scheme of compensation for poor conversion ability then we may well make Dan even worse off relative to Edna than he was in the *laissez-faire* world. I thank Peter Vallentyne for this point and for pressing me to clarify the place of ESS in relation to a complete scheme of egalitarian redistribution.

[13] See Joseph Carens, *Equality, Moral Incentives, and the Market* (Chicago: University of Chicago, 1980).

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here, but I believe this response is insufficiently sensitive to individuals' interests in autonomy and integrity.[14] This leaves us with a second response. If necessary, we can adjust the scheme's subsidy/tax rates away from their first-best levels until, given the underlying pattern of individuals' income–leisure preferences, the scheme arrives at a self-financing equilibrium. Just how far we would have to move the subsidy/tax rates away from their first-best levels to achieve this equilibrium is an open question. However, any scheme akin to ESS will achieve a self-financing equilibrium at subsidy/tax rates quite close to these levels as long as there are no sizeable and systematic differences on the average in income–leisure preferences, or in propensities to underemployment, between individuals of different ability levels. For the purposes of this article I shall conveniently assume that these conditions do in fact obtain, and will therefore discuss ESS as if the first-best subsidy/tax rates apply. But I acknowledge that these conditions may not always hold, and that if, as a result, we had to move the scheme's earnings subsidy/tax rates very far from their first-best levels, then, as the scheme consequently became less well-targeted at correcting for brute luck inequality in earnings performance, this might at some point call into question the suggested ethical superiority of ESS over a more conventional redistribution scheme.

Proposals for egalitarian redistribution are frequently objected to on the grounds that they will undermine incentives to work and invest in human capital. ESS, however, appears not to fare too badly in this regard. As far as work incentives are concerned, the effect of ESS is to give everybody the same peak-ability after-tax wage rate. Faced with this wage rate, some people will choose to work more than they would in the absence of any transfer scheme, while others will work less. The direction and extent of change for any given individual, talented or untalented, will depend on how the conventional substitution and income effects happen to balance out in that particular instance. The direction of the aggregate effect on labour supply, relative to a no subsidy/tax baseline, is theoretically indeterminate. Turning to human capital, it is important to bear in mind that in estimating an individual's maximum reasonable earnings potential for purposes of assigning her an earnings subsidy/tax rate, we take into account what she could potentially earn after undertaking the level of training that is reasonable given her underlying ability endowments. A naturally talented individual who could earn a lot after undertaking all the training of which she is capable, can choose to forgo this training, but this will not affect her (relatively high) estimated earnings potential or the (relatively high) earnings tax she will have to pay. If she consequently earns well below her potential, she will end up with a relatively low level of after-tax income. While ESS suppresses differences in final incomes across the ability range, we thus see that it retains differences in final incomes between differentially educated people at a given level in the ability range, and so does

[14] For criticism of Carens along these lines, see J. Donald Moon, review of Carens, *Ethics*, 94 (1983), 146–50.

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not deprive people at any given level in the ability range of a material incentive to invest in human capital.

However, what if an individual gets trained and is then unable to get a job which reflects her increased earnings potential?[15] To meet this problem we would have to supplement ESS with a system of underemployment subsidies. Under such a system, those who, through no fault of their own, end up in jobs that pay below their earnings potential would receive an underemployment subsidy based on the difference between the wage rate in the job that they are currently constrained to take and their peak-ability wage rate. Those who are voluntarily underemployed, i.e., who choose to work below their peak-ability wage rates, would be ineligible for any such subsidy, and would just be taxed or subsidized at their usual respective rates.[16]

Such, then, are the main features and qualities of ESS in its ideal form. In the next section, I shall develop the ideal-theoretic case for ESS further by showing how it provides a way of implementing an ethically attractive conception of reciprocity. I shall then consider, in Section IV whether ESS is vulnerable to the objection, often levelled at LSS, that it entails the so-called 'slavery of the talented'; and, following this, in Section V, whether the informational requirements of ESS are simply too enormous for it to be a practicable scheme, whatever its merits in principle might be. Having responded to and, I hope, defused these objections (albeit only partially and, in the latter case, somewhat speculatively), I shall then examine a third and final criticism of ESS in Section VI: that ESS, in any practicable form, is incompatible with a healthy spirit of civic egalitarianism.

III. ESS AND THE PRINCIPLE OF RECIPROCITY

Reciprocity is widely regarded as an important condition of a just society. In the economic sphere, the principle of reciprocity is satisfied when there is a proper proportionality between the incomes that individuals receive from the community and the productive contributions that they make to it, i.e., when there is a morally appropriate balance between what they 'take out' and what they 'put in'.

But what is a 'proper proportionality' between incomes and productive contributions? We could simply say that individuals should receive incomes in strict proportion to the value of their respective productive contributions. However, since the talented are likely to make higher-value contributions for

[15] This question also arises in relation to LSS as Brian Barry points out in 'Real Freedom and Basic Income B', Section VIII.

[16] To be more specific, the appropriate level of the underemployment earnings subsidy, u_i, may be given as (3): $u_i = (T_i - C_i)/C_i$, where T_i is again the individual's maximum reasonable earnings potential over a full working year, and C_i is the maximum she can earn over a year in the job she is currently constrained to take. And the individual's final income is then given by (4): $Y_i = (1 + u_i)(1 + s_i)W_iH_i$.

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a given length of time worked (this is, after all, what makes them 'talented'), this understanding of reciprocity would directly conflict with the egalitarian commitment, which I take as a given in this article, that we are to prevent or correct for inequality in final incomes deriving from the brute luck inequality of talents. One way of amending the proposal so as to respect this egalitarian constraint is to make incomes proportional, not to the value of the individual's contribution, but rather, to the degree to which she chooses to realize her potential to contribute value, or what one may call her *contribution capacity*.

Realizing one's contribution capacity has two dimensions to it. The first has to do with the length of time one chooses to work. The second has to do with the value to the community of the service you choose to provide when working for a given length of time. Someone who works a full working year providing the highest value service she can, given her endowment of ability, is fully realizing her contribution capacity. One chooses to realize one's contribution capacity to only a partial extent by choosing to work for less than a full working year and/or by choosing to provide a service to the community whose value is less than the highest value service you could provide. According to the conception of reciprocity being advanced here, two individuals who both realize their contribution capacities to the same extent – for example, produce 80 per cent of the maximum value they could contribute over a given period – should receive the same level of final income. The underlying intuition is that since each has made, within the bounds of his/her ability, an equal effort to benefit the community, each is deserving of equal reward from the community. Similarly, if two individuals choose to realize their respective contribution capacities to unequal extents, then they are deserving of proportionately unequal rewards, and thus, to proportionately unequal final incomes.[17]

Now, so long as we are willing to accept that market-determined wage rates are an accurate measure of the value to the community of a given labour service (or we are willing implicitly to adjust the wage rates attached to specific jobs through job-specific taxes and subsidies so that these rates correspond to our assessment of the value to the community of the relevant labour services)[18] then

[17] A fully egalitarian conception of reciprocity would also weight contributions to take account of unequal opportunities for satisfying employment between individuals, but I set aside this complication here. As I note at the end of Section IV, in an ideal scheme of egalitarian redistribution we would probably have to supplement ESS with a scheme to compensate for inequalities in individuals' respective opportunities to combine income and work satisfaction.

[18] One might object that market wage rates are not always an accurate measure of the relative value to the community of labour services. Two things may be said in response to this objection. First, some activities which we intuitively think are valuable might be better paid, and others which we intuitively regard as less valuable might be less well paid, if the distribution of purchasing power were more equal, as it would be under an ESS. Secondly, if, with a more egalitarian distribution of purchasing power, we still thought that certain activities were not paid in accordance with our judgement of their value to the community, then we would remain free as a community to supplement ESS with wage subsidies to those jobs we think are underpaid (taxes for those we think are overpaid). For further relevant discussion of the use of wage rates to assess the value to the community of labour services,

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an ideal ESS will institute a distribution of final incomes that fully satisfies this conception of reciprocity.

For instance, under ESS all those who work a full working year at their respective peak-ability wage rates will get the same level of after-tax income, which will also be the highest level of income attainable in the community. On the assumption that wage rates are a true reflection of the value to the community of a given labour service, this outcome of an ideal ESS satisfies the requirement that those who fully realize their contribution capacity should receive the same (and highest) level of reward. Secondly, if some individuals decide instead to work half a full working year at this same peak-ability wage rate, or to work a full year at 50 per cent of their peak-ability wage rate, they will all receive only half the after-tax income as those who continue to work a full year at their peak-ability wage rate. Given the same assumption about the relationship between wage rates and the value of labour services to the community, this satisfies the requirement that those who choose to realize their contribution capacity only partially should receive a proportionately lower level of reward than those who realize their contribution capacity in full.

Thus, given the assumption that wage rates are an accurate reflection of the value to the community of labour services, ESS not only provides a well-targeted way of compensating for brute luck inequality in earnings potentials and capability, but, in the process, also provides a way of implementing a certain conception of reciprocity that arguably stands as an intuitively appealing criterion of justice in its own right.

IV. DOES ESS ENSLAVE THE TALENTED?

It is often objected that schemes like LSS, which apply special taxes on those with above average earnings potentials, entail the 'slavery of the talented'. The burdens of such schemes, it is argued, fall with inequitable heaviness on the shoulders of the talented, who are forced by the imposition of special taxes to work extra-long hours in jobs they may ardently dislike.[19] In this section I will show how this objection, while substantially valid in relation to LSS, does not appear to be valid in relation to ESS.

It may help to start by separating out two distinct objections to LSS which are usually run together in the objection that it entails the 'slavery of the talented'. The first objection focuses on how this kind of scheme allegedly affects the respective income–leisure trade-offs of the talented and the untalented. According to this *work duration objection*: under LSS (or ESS), the

(F'note continued)
see David Miller, 'Two Cheers for Meritocracy', *Journal of Political Philosophy*, 4 (1996), 277–301, especially pp. 284–90, 294–8.

[19] See especially Dworkin, 'Equality of Resources', pp. 311–12, and Van Parijs, *Real Freedom for All*, pp. 60–5.

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talented have to work longer hours than the untalented to obtain almost any given level of after-tax income. Concretely, the very talented, like Betty in our first example, may have to work very long hours even to achieve a relatively modest level of final income, while the untalented, like Alf, can obtain similar levels of final income while doing little or no work. The second objection focuses on how the scheme allegedly affects their respective trade-offs between income and job satisfaction. According to this *unpleasant job objection*: under LSS (or ESS), the talented are more likely than the untalented to have to work in jobs they find unpleasant in order to obtain a given level of income (or, to be more exact, a given combination of income and leisure). Put the two objections together, and we have the image of the talented sweating away for long hours in jobs they dislike, while the untalented bathe in the sun, or else use their lump-sum grants to subsidize taking jobs that pay well below their peak-ability wage rates, but which they enjoy tremendously. Do these objections actually apply to LSS? And, if so, do they carry over to ESS?

The work duration objection was at the heart of our case against LSS in Section I. It is, as I hope to have shown in Section I, a perfectly valid objection to LSS. Looking back at Figure 1, we can easily see that for almost any level of after-tax income that is accessible to Betty, Alf can achieve that same level of income working fewer hours than Betty. This is unfair to Betty. But the work duration objection is completely defused by the switch to ESS. Under ESS, the talented and untalented face the same trade-off between income and leisure when both working at their respective peak-ability wage rates, or, indeed, when both working at any given percentage below their respective peak-ability wage rates. In terms of Figure 1, both Alf and Betty, working at (or at the same percentage below) their peak-ability wage rates, have to work the same hours to achieve any given level of after-tax income. So, in this particular respect, ESS clearly does not entail the 'slavery of the talented'.

This leaves us with the unpleasant job objection. In the case of the LSS, I think this objection does apply – as a knock-on effect of the validity of the first objection. Because, under LSS, their peak-ability income–leisure trade-off is so poor relative to that of the untalented, the talented simply cannot afford to be as choosy as the untalented about the kind of job they are willing to take. To attain almost any level of income (or, more exactly, any combination of income and leisure) that is accessible to both parties under LSS, the talented have to work closer to their peak-ability wage rates than the untalented do. If we assume that the talented and the untalented have an equal probability of finding jobs which pay at or close to their respective peak-ability wage rates relatively unpleasant, then it follows that under LSS the talented will face, on average, a worse trade-off between income and work satisfaction than the untalented.[20] The

[20] If the talented have a higher probability of finding jobs at or close to their peak-ability wage rates satisfying than do the untalented, as seems plausible in contemporary circumstances, then LSS does not clearly leave the talented, on average, worse off than the untalented in terms of opportunity to combine income/leisure and work satisfaction. However, as I shall explain below, we do not have

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talented are more likely to have to sacrifice work satisfaction, by doing an unpleasant job, to attain a given level of income (more exactly, to attain any given combination of income and leisure) than the untalented; or, to put the same point in reverse, they are likely to have to give up more income (or leisure) than the untalented to enjoy any given level of work satisfaction. For example, returning once more to the case depicted in Figure 1, Alf could choose under LSS to take a satisfying job at 50 per cent of his peak-ability wage rate and still end up with an after-tax income of £27,500 per year. But if Betty took a similarly satisfying job at 50 per cent of her peak-ability wage rate, she would end up with an after-tax income of exactly £0 – she would only just pay off her lump-sum tax liability of £40,000 per year. To attain the same level of after-tax income as Alf attains over a full working year when he works at 50 per cent of his peak-ability wage rate, she cannot in fact afford to take a job below 84 per cent of her peak-ability wage rate. Thus, Betty's opportunity to trade off income for work satisfaction, by working in satisfying jobs below her peak-ability wage rate, is much more limited than Alf's.

Precisely because it meets the work duration objection, however, I think ESS also meets the unpleasant job objection. As we have seen, ESS gives the talented and untalented the same income–leisure trade-off when they both work at their peak-ability wage rates. If, in order to avoid an unpleasant job, a talented individual then works at a certain percentage below her peak-ability wage rate, she will get a proportionately lower level of final income for any length of time worked (for example, if she works at 60 per cent of her peak-ability wage rate then, for any length of time worked, she will end up with 60 per cent of the final income she would have got working at her peak-ability wage rate). But under ESS exactly the same is also true of the untalented individual. If he works at a given percentage below his peak-ability wage rate because he finds his peak-ability job so unpleasant, he too will see his final income reduced by a proportionate amount for any length of time worked. Under ESS, the talented and the untalented are thus both free to take jobs below their peak-ability wage rates if they find lower paid jobs more satisfying, but, for any given level of voluntary underemployment (employment at a given percentage below their respective peak-ability wage rates), they can expect the same reduction in final income. To go back to the previous example, if Alf takes a really satisfying job at 50 per cent of his peak-ability wage rate under ESS, he will end up with £20,000 if he works a full year in that job. If Betty takes a similarly satisfying job at 50 per cent of her peak-ability wage rate, then under ESS she too will end up with this level of after-tax income if she works the same length of time. Thus

(F'note continued)
to assume that the talented have any advantage in terms of access to satisfying work in order to rescue ESS from the unpleasant jobs objection. The equal probability assumption in the main text may be unrealistic, at least in contemporary circumstances, but it helps clarify the inherent structural advantage of ESS over LSS with regard to this objection.

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ESS appears to impose on a talented individual like Betty exactly the same opportunity cost in terms of income (and/or leisure) for taking a relatively low paid, but intrinsically satisfying job, as it does for an untalented individual like Alf. In this respect too, therefore, it does not look as if ESS can be said to entail the 'slavery of the talented'.

However, one very important closing caveat is in order. Although ESS does not generate any systematic inequality in access to income, leisure and work satisfaction between the talented and untalented, it certainly does not guarantee equality of access to all of these goods across all individuals. Any two people under ESS will have access to the same combinations of income and leisure, but one of them, talented or untalented, may find jobs at or close to her peak-ability wage rate intrinsically satisfying while another, talented or untalented, may only find jobs some way from her peak-ability wage rate at all intrinsically satisfying (or, indeed, may find no jobs at all intrinsically satisfying). Thus, potentially significant inequalities in capability for well-being could remain under ESS even though, strictly speaking, it does not entail the 'slavery of the talented'.

It is hard to say how severe this problem is likely to be in practice. Given universal access to a high level of education and training (assumed throughout this article), and assuming that everyone has a reasonably wide range of jobs open to them at or close to their peak-ability wage rate,[21] perhaps everyone will be able to find employment at or close to their peak-ability wage rate that is tolerably satisfying, or at least not positively unpleasant. But this is pure speculation (and, even if true, does not rule out some remaining degree of inequality in access to satisfying work and capability for well-being). Disadvantage in access to satisfying work can be seen as akin to a handicap in an individual's conversion ability and thus as something that ultimately requires its own scheme of compensatory transfers to run alongside ESS. I shall not discuss what this system of transfers might look like here, but suffice it to say that if it is not in place then, as the closing paragraph of Section II would suggest, the case for ESS, in its pure form, is correspondingly weakened.[22] For the

[21] This assumption may well be too strong. Particularly worrying is the possibility that some people may in fact have 'spikey' earnings profiles: whether talented or untalented, these people can do one job at their peak-ability wage rate and their next highest paying job is at a wage rate substantially lower than this, say at 50 per cent of their peak-ability wage rate. If these people find their peak-ability jobs very unsatisfying, then, under ESS as we have thus far described it, they will face a very drastic trade-off between income and leisure on the one hand and work satisfaction on the other. To handle this problem, we would almost certainly have to amend our understanding of what constitutes an individual's maximum reasonable earnings potential, disregarding earnings spikes in determining each individual's appropriate rate of earnings subsidy or taxation for ESS (unless and until the individuals in question choose to work at the spikes). Brian Barry considers this problem in relation to LSS in 'Real Freedom and Basic Income B', Section VIII. I thank Alan Patten for helping me to see how it also applies to ESS in its simplest form.

[22] The case for conventional redistribution is correspondingly strengthened in this situation. I think policy makers would need to give consideration to possible *hybrid schemes* which would try to strike a fair balance between preventing the inequity associated with ESS (unequal work satisfaction at given levels of income and/or leisure) and preventing the inequity associated with conventional

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moment, however, having acknowledged this potential problem with ESS, I shall put it to one side in order to focus on another potential problem. This problem arises in thinking about how to respond to the following feasibility objection: ESS, even if desirable in principle, requires far too much information to be considered a practicable option for reform.

V. ARE THE INFORMATIONAL DEMANDS OF ESS IMPLAUSIBLY GREAT?

At one level I think there is nothing to be done in the face of this objection other than to concede it.[23] An ideal ESS scheme, reaping all the ethical advantages I have discussed above, would involve placing each individual along some continuum of earnings potential, and then applying an appropriate, highly individualized rate of earnings subsidy/tax to every pound she earns. It would also require very exact assessment of just how far a percentage shortfall between a person's current wage rate and her maximum reasonable wage rate is due to occupational choice, and how far due to involuntary underemployment. The idea that a state, today or ever, could possess and effectively process this level of information is clearly in the realms of science fiction.

It does not follow, however, that because we cannot introduce an ESS in its ideal form, we cannot institute a rough approximation of the scheme that would reap at least some of the ethical advantages associated with the scheme in its ideal form. At the risk of sounding a little like H. G. Wells or Aldous Huxley (in the moments when they were writing parodies of Utopias), let me try to elaborate how this might conceivably work.

First, egalitarian social planners would have to institute a set of intelligence and capacity tests so as to divide people up into a relatively small number of ability groupings. Having left people in these groupings to go out and earn for a number of years, during which time the planners would collect data on their earnings performances, the planners would then use this information to arrive at some assessment of the groups' respective earnings potentials. The planners might, for example, specify the earnings potential for members of group *X* in terms of the mean or median wage rate which members of group *X* have earned at during the preceding years.[24] The planners would then assign each ability

(F'note continued)
redistribution (forcing a person with high pre-tax income, like Betty in Section I, to subsidize a person with low pre-tax income even when the second person, like Charles in Section I, faces the same, or perhaps an even better, set of trade-offs between income, leisure and work satisfaction). I thank G. A. Cohen and Peter Vallentyne for stimulating me to think harder about this potential problem with ESS.

[23] For a rejection of LSS on these grounds, see Barry, 'Real Freedom and Basic Income', pp. 270–3. See also Rawls, 'Reply to Alexander and Musgrave', pp. 654–5.

[24] For related, but more developed ideas, see John Roemer, 'A Pragmatic Theory of Responsibility for the Egalitarian Planner', in Roemer, *Egalitarian Perspectives* (Cambridge: Cambridge University Press, 1994), pp. 179–96.

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grouping a specific earnings subsidy/tax rate which the tax authorities would henceforth apply to every pound which members of these groups earned so as to equalize average earnings performance across the groups. In a very simple version of this kind of scheme we might, for example, divide the population into three sub-groups: those whose ability and earnings potential is clearly and significantly below average; those whose ability and earnings potential does not clearly and/or significantly deviate from the average; and those whose ability and earnings potential is clearly and significantly above average. We would then give members of the first group an earnings subsidy on each pound earned, and members of the third group, a special tax on each pound earned, with those in the intermediate group (perhaps the vast majority of the population) receiving no special subsidy and paying no special tax.

Clearly, any such scheme would only be a very crude approximation of the ESS which I have discussed and defended in Sections I–IV, and, as an approximation, it would involve some people being over/undertaxed or over/undersubsidized relative to the ideal.

VI. ESS AND THE SPIRIT OF CIVIC EGALITARIANISM

Let us assume that such a scheme would nevertheless still retain a net advantage over a conventional redistribution scheme in correcting, in a well-targeted fashion, for brute luck inequality in earnings performance. Even if this generous assumption is granted, there remains one vitally important consideration that we have so far overlooked. This concerns the possible – likely? – impact of any practicable version of ESS on the spirit of what we may call civic egalitarianism. To see the nature and extent of the problem clearly, we must first step back for a moment and briefly reconsider the nature of this thing we call 'egalitarianism'.

'Egalitarianism' should not be understood as referring reductively to the resourcist egalitarianism with which we have been concerned thus far in this article – the egalitarianism that talks the language of income, wealth, jobs, taxation and so on. Egalitarianism is properly understood in terms of a cluster of ethical commitments, which include, but go beyond, this resourcist egalitarianism. Also important, for instance, is what we may call *civic egalitarianism*. A civic egalitarian aspires to a society in which, independently of holdings of wealth and income, of jobs, of abilities, of education, of gender, of race, of religion – the list could obviously go on – people are regarded by each other as being worthy of equal respect, and in which there is a rough parity of esteem amongst citizens.[25] This would be a society without regularized patterns of contempt and/or resentment between members of different social groups; in which one citizen does not prejudge, seek to avoid or do down another

[25] See David Miller, 'What Kind of Equality Should the Left Pursue?' in Jane Franklin, ed., *Equality* (London: Institute for Public Policy Research, 1997), pp. 83–99; and Debra Satz, 'Inequality of What and Among Whom?' (paper prepared for delivery at the Annual Meeting of the American Political Science Association, San Francisco, September 1996).

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because he/she belongs to a social group differentiated according to the sort of criteria I outlined a moment ago. Following ethical socialists like R. H. Tawney, we might conceptualize the good society as one in which there is a healthy, mutually reinforcing symbiosis between civic and resourcist egalitarianisms: in which civic equality underpins, through the spirit of fellowship it engenders, resourcist egalitarian policies which, in turn, help to maintain the conditions for civic equality and fellowship; and in which we affirm resource equality and civic equality as independent, if mutually supportive, goods.[26]

The troubling challenge to ESS which we then have to address is simply this: by requiring the state publicly to categorize citizens into ability groupings in order to assign them appropriate earnings subsidy/tax rates, is it not likely that any practicable version of ESS will undermine the spirit of civic egalitarianism? Surely, the critic charges, the explicit public categorization of individuals on the basis of ability is bound to have a profound effect on the way in which citizens regard and interact with each other. Casting a wary eye back to the dystopias depicted by Wells and Huxley, we can picture a society in which highly taxed 'alphas' peer down with contempt at modestly taxed 'betas', who in turn peer down with contempt at heavily subsidized 'gammas', who themselves stare up in resentment at betas and, especially, alphas.[27]

There is, of course, no logical incompatibility between the idea that persons are to be regarded with equal respect, and the idea that we should, to use George Akerlof's phrase, 'tag' individuals according to ability endowments.[28] Indeed, it is precisely because we endorse the principle of equal concern and respect at one level that we wish to equalize earnings potentials in the first place, and so get involved, via ESS, in the whole business of 'tagging'. The critic's claim is not one about the logical relations between these concepts, but a claim about the possible socio-cultural effects of public classification into ability groupings on the respect and esteem in which citizens hold each other. The claim is that their attitudes towards each other would change in ways that are incompatible with the kind of parity of esteem that is integral to civic egalitarianism. By so undermining the spirit of civic egalitarianism, ESS would deprive the citizens of a given society of an intrinsic communitarian good (the good of Tawneyesque 'fellowship'); might thereby jeopardize its own political stability over time; and, in the meantime, could well have a detrimental effect on the self-respect of less talented citizens and, in this way, serve directly to increase the inequality in capability that it is intended to reduce.

In response, a proponent of ESS can say at least two things. First, the introduction of such a scheme is only politically feasible if there is fairly widespread egalitarian sentiment in the community to begin with. Will this

[26] See especially, R. H. Tawney, *Equality* (London: Allen & Unwin, 1964 [1931]).

[27] See Aldous Huxley, *Brave New World* (London: HarperCollins, 1994 [1932]).

[28] See George A. Akerlof, 'The Economics of "Tagging" as Applied to the Optimal Income Tax, Welfare Programs, and Manpower Planning', in Akerlof, *The Economic Theorist's Book of Tales* (Cambridge: Cambridge University Press, 1984), pp. 45–68.

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sentiment not work to neutralize the allegedly divisive and stigmatizing effects of explicitly splitting the citizenry up into discrete ability groupings? Secondly, there is an important distinction between ability in a comprehensive sense, and ability as it specifically affects earnings potential. One can, for example, have low earnings potential but still be a very talented parent or friend. The ability groupings characteristic of a practicable version of ESS relate, of course, to ability in the second, restricted, sense and there is no reason why people should regard these ability classifications as imparting a public judgement on individuals' abilities understood in the comprehensive sense.[29]

Ultimately, this disagreement may turn on the extent to which one thinks that there is an innate propensity for human beings to engage in invidious comparisons of themselves with others, to try to build up their sense of self-worth by displaying themselves not merely as good in some important respect, but as better than others in some such respect. If one is pessimistic on this point, then one will see ESS, in its practicable form, as offering too much rich material on which this regrettable human propensity can go to work. If one is more optimistic, then the two responses canvassed above will seem more persuasive. It is far from clear, then, that a practicable version of ESS is necessarily incompatible with civic egalitarianism; but a decisive rebuttal of this claim will depend on successfully defending a controversial view of human nature.

VII. CONCLUSION: A CASE FOR IMPLICIT TAGGING?

Our story is not quite finished. Even if the egalitarian does ultimately have to reject a scheme closely akin to ESS in view of its incompatibility with civic egalitarianism, ESS might conceivably still have a role to play in guiding the design of a more conventional redistribution scheme. In particular, the egalitarian can perhaps try to approximate ESS within the framework of a more conventional redistribution scheme by means of various taxes and subsidies which indirectly 'tag' individuals of high and low ability.[30] Such *implicit tagging* will obviously be less exact than under a genuine ESS, but nor will it threaten to undermine the spirit of civic egalitarianism. One possibility here, as a means of implicitly tagging high earnings potential for the purposes of higher taxation, is some form of graduate tax. At the other end of the earnings scale, possibilities include wage subsidy schemes or generous earned income tax credits as ways of implicitly tagging those of low earnings potential for purposes of earnings subsidization.[31] Subsidy schemes of this kind can be distinguished

[29] I owe these responses to Martin Wilkinson.

[30] It is this form of implicit tagging that Akerlof discusses in the 'The Economics of "Tagging" '.

[31] For relevant discussion of wage subsidies and earned income tax credits, see David Ellwood, *Poor Support: Poverty in the American Family* (New York: Basic Books, 1988), pp. 113–16, and Edmund Phelps, *Rewarding Work: How to Restore Participation and Self-Support to Free Enterprise* (Cambridge, Mass.: Harvard University Press, 1997).

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from negative income tax or basic income schemes in which any attempt at even the implicit tagging of those with low earnings potential is abandoned.[32]

Given how far we are into the realm of second-best thinking at this point, however, it would be rash to draw any firm conclusions for public policy. Before drawing any such conclusions we would certainly need, for example, to give much more consideration to the objection, provisionally set to one side at the end of Section IV, that an ESS-type scheme would place unfair burdens on those who are disadvantaged in having access to satisfying work, an objection that may also apply to any rough approximation of ESS based on graduate taxes and wage subsidies. Yet the fact that we cannot draw any firm policy conclusions at this stage should not worry us unduly. What is more significant at the end of this long discussion is that the idea of a talent-based tax–subsidy system still seems to have some potential policy relevance. Talent-based taxes/subsidies have generally been dismissed as a matter of principle. But that is probably because we usually think of such taxes/subsidies on the model of LSS. ESS, by contrast, has clear and significant merits as a way of tackling unjust inequality in earnings, and while the objections to it, or to any attempted approximation of it, are strong, they are not so strong as to warrant this familiar stance of outright dismissal. Talent-based taxes and subsidies, on the model of ESS, should feature more prominently in our deliberations about how to tackle earnings inequality.

[32] I leave aside here the question of whether an unconditional basic income is appropriate as part of a policy for tackling brute luck inequality in external wealth, as distinct from inequality in earnings potential. For an argument of this sort, see Van Parijs, *Real Freedom for All*, especially pp. 30–57, 89–130.

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