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What is Equality? Part 2: Equality of Resources

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## I. THE AUCTION

In Part 1 of this essay we considered the claims of equality of welfare as an interpretation of treating people as equals. In Part 2 we shall consider the competing claims of equality of resources. But we shall be occupied, for the most part, simply in defining a suitable conception of equality of resources, and not in defending it except as such definition provides a defense. I shall assume, for this purpose, that equality of resources is a matter of equality in whatever resources are owned privately by individuals. Equality of political power, including equality of power over publicly or commonly owned resources, is therefore treated as a different issue, reserved for discussion on another occasion. This distinction is, of course, arbitrary on any number of grounds. From the standpoint of any sophisticated economic theory, an individual's command over public resources forms part of his private resources. Someone who has power to influence public decisions about the quality of the air he or she breathes, for example, is richer than someone who does not. So an overall theory of equality must find a means of integrating private resources and political power.

Private ownership, moreover, is not a single, unique relationship between a person and a material resource, but an open-textured relationship many aspects of which must be fixed politically. So the question of what division of resources is an equal division must to some degree include the question of what powers someone who is assigned a resource thereby gains, and that in turn must include the further question of his right to veto whatever changes in those powers might be threatened through politics. In the present essay, however,

I shall for the most part assume that the general dimensions of ownership are sufficiently well understood so that the question of what pattern of private ownership constitutes an equal division of private resources can be discussed independently of these complications.

I argue that an equal division of resources presupposes an economic market of some form, mainly as an analytical device but also, to a certain extent, as an actual political institution. That claim may seem sufficiently paradoxical to justify the following preliminary comments. The idea of a market for goods has figured in political and economic theory, since the eighteenth century, in two rather different ways. It has been celebrated, first, as a device for both defining and achieving certain community-wide goals variously described as prosperity, efficiency, and overall utility. It has been hailed, second, as a necessary condition of individual liberty, the condition under which free men and women may exercise individual initiative and choice so that their fates lie in their own hands. The market, that is, has been defended both through arguments of policy, appealing to the overall, community-wide gains it produces, and arguments of principle that appeal instead to some supposed right to liberty.

But the economic market, whether defended in either or both of these ways, has during this same period come to be regarded as the enemy of equality, largely because the forms of economic market systems developed and enforced in industrial countries have permitted and indeed encouraged vast inequality in property. Both political philosophers and ordinary citizens have therefore pictured equality as the antagonist or victim of the values of efficiency and liberty supposedly served by the market, so that wise and moderate politics consists in striking some balance or trade-off between equality and these other values, either by imposing constraints on the market as an economic environment, or by replacing it, in part or altogether, with a different economic system.

I shall try to suggest, on the contrary, that the idea of an economic market, as a device for setting prices for a vast variety of goods and services, must be at the center of any attractive theoretical development of equality of resources. The main point can be shown most quickly by constructing a reasonably simple exercise in equality of resources, deliberately artificial so as to abstract from problems we

shall later have to face. Suppose a number of shipwreck survivors are washed up on a desert island which has abundant resources and no native population, and any likely rescue is many years away. These immigrants accept the principle that no one is antecedently entitled to any of these resources, but that they shall instead be divided equally among them. (They do not yet realize, let us say, that it might be wise to keep some resources as owned in common by any state they might create.) They also accept (at least provisionally) the following test of an equal division of resources, which I shall call the envy test. No division of resources is an equal division if, once the division is complete, any immigrant would prefer someone else's bundle of resources to his own bundle.<sup>1</sup>

Now suppose some one immigrant is elected to achieve the division according to that principle. It is unlikely that he can succeed simply by physically dividing the resources of the island into  $n$  identical bundles of resources. The number of each kind of the nondivisible resources, like milking cows, might not be an exact multiple of  $n$ , and even in the case of divisible resources, like arable land, some land would be better than others, and some better for one use than another. Suppose, however, that by a great deal of trial and error and care the divider could create  $n$  bundles of resources, each of which was somewhat different from the others, but was nevertheless such that he could assign one to each immigrant and no one would in fact envy anyone else's bundle.

The distribution might still fail to satisfy the immigrants as an equal distribution, for a reason that is not caught by the envy test. Suppose (to put the point in a dramatic way) the divider achieved his result by transforming all the available resources into a very large stock of plovers' eggs and pre-phylloxera claret (either by magic or trade with a neighboring island that enters the story only for that reason) and divides this glut into identical bundles of baskets and bottles. Many of the immigrants—let us say all but one—are delighted. But if that one hates plovers' eggs and pre-phylloxera claret he will feel that he has not been treated as an equal in the division of resources. The

1. D. Foley, "Resource Allocation and the Public Sector," *Yale Economic Essays* 7 (Spring 1967); H. Varian, "Equity, Energy and Efficiency," *Journal of Economic Theory* (Sept. 1974): 63-91.



envy test is met—he does not prefer any one’s bundle to his own—but he prefers what he would have had under some fairer treatment of the initially available resources.

A similar, though less dramatic, piece of unfairness might be produced even without magic or bizarre trades. For the combination of resources that composes each bundle the divider creates will favor some tastes over others, compared with different combinations he might have composed. That is, different sets of  $n$  bundles might be created by trial and error, each of which would pass the envy test, so that for any such set that the divider chooses, someone will prefer that he had chosen a different set, even though that person would not prefer a different bundle within that set. Trades after the initial distribution may, of course, improve that person’s position. But they will be unlikely to bring him to the position he would have had under the set of bundles he would have preferred, because some others will begin with a bundle they prefer to the bundle they would have had in that set, and so will have no reason to trade to that bundle.

So the divider needs a device that will attack two distinct foci of arbitrariness and possible unfairness. The envy test cannot be satisfied by any simple mechanical division of resources. If any more complex division can be found that will satisfy it, many such might be found, so that the choice amongst these would be arbitrary. The same solution will by now have occurred to all readers. The divider needs some form of auction or other market procedure in order to respond to these problems. I shall describe a reasonably straightforward procedure that would seem acceptable if it could be made to work, though as I shall describe it it will be impossibly expensive of time. Suppose the divider hands each of the immigrants an equal and large number of clamshells, which are sufficiently numerous and in themselves valued by no one, to use as counters in a market of the following sort. Each distinct item on the island (not including the immigrants themselves) is listed as a lot to be sold, unless someone notifies the auctioneer (as the divider has now become) of his or her desire to bid for some part of an item, including part, for example, of some piece of land, in which case that part becomes itself a distinct lot. The auctioneer then proposes a set of prices for each lot and discovers whether that set of prices clears all markets, that is, whether there is only one purchaser

at that price and all lots are sold. If not, then the auctioneer adjusts his prices until he reaches a set that does clear the markets.<sup>2</sup> But the process does not stop then, because each of the immigrants remains free to change his bids even when an initially market-clearing set of prices is reached, or even to propose different lots. But let us suppose that in time even this leisurely process comes to an end, everyone declares himself satisfied, and goods are distributed accordingly.<sup>3</sup>

Now the envy test will have been met. No one will envy another's set of purchases because, by hypothesis, he could have purchased that bundle with his clamshells instead of his own bundle. Nor is the choice of sets of bundles arbitrary. Many people will be able to imagine a different set of bundles meeting the no-envy test that might have been established, but the actual set of bundles has the merit that each person played, through his purchases against an initially equal stock of counters, an equal role in determining the set of bundles actually chosen. No one is in the position of the person in our earlier example who found himself with nothing but what he hated. Of course, luck plays a certain role in determining how satisfied anyone is with the outcome, against other possibilities he might envision. If plovers' eggs and old claret were the only resources to auction, then the person who hated these would be as badly off as in our earlier example. He would be unlucky that the immigrants had not washed up on an island with more of what he wanted (though lucky, of course, that it did not have even less). But he could not complain that the division of the actual resources they found was unequal.

2. I mean to describe a Walrasian auction in which all productive resources are sold. I do not assume that the immigrants enter into complete forward contingent claims contracts, but only that markets will remain open and will clear in a Walrasian fashion once the auction of productive resources is completed. I make all the assumptions about production and preferences made in G. Debreu, *Theory of Value* (New Haven: Yale University Press, 1959). In fact the auction I describe here will become more complex in virtue of a tax scheme discussed later.

3. The process does not guarantee that the auction will come to an end in this way, because there may be various equilibria. I am supposing that people will come to understand that they cannot do better by further runs of the auction, and will for practical reasons settle on one equilibrium. If I am wrong, then this fact provides one of the aspects of incompleteness I describe in the next section.

He might think himself lucky or unlucky in other ways as well. It would be a matter of luck, for example, how many others shared various of his tastes. If his tastes or ambitions proved relatively popular, this might work in his favor in the auction, if there were economies of scale in the production of what he wanted. Or against him, if what he wanted was scarce. If the immigrants had decided to establish a regime of equality of welfare, instead of equality of resources, then these various pieces of good or bad luck would be shared with others, because distribution would be based, not on any auction of the sort I described, in which luck plays this role, but on a strategy of evening out differences in whatever concept of welfare had been chosen. Equality of resources, however, offers no similar reason for correcting for the contingencies that determine how expensive or frustrating someone's preferences turn out to be.<sup>4</sup>

Under equality of welfare, people are meant to decide what sorts of lives they want independently of information relevant to determining how much their choices will reduce or enhance the ability of others to have what they want.<sup>5</sup> That sort of information becomes relevant only at a second, political level at which administrators then gather all the choices made at the first level to see what distribution will give each of these choices equal success under some concept of welfare taken as the correct dimension of success. Under equality of resources, however, people decide what sorts of lives to pursue against a background of information about the actual cost their choices impose on other people and hence on the total stock of resources that may fairly be used by them. The information left to an independent political level under equality of welfare is therefore brought into the initial level of individual choice under equality of resources. The elements of luck in the auction we have just described are in fact pieces of information of a crucial sort; information that is acquired and used in that process of choice.

4. See, however, the discussion of handicaps below, which recognizes that certain kinds of preferences, which people wish they did not have, may call for compensation as handicaps.

5. See Part I of this essay (*Philosophy & Public Affairs* 10, no. 3 [Summer 1981]) for a discussion of whether equality of welfare can be modified so as to make an exception here for "expensive tastes" deliberately cultivated. I argue that it cannot.

So the contingent facts of raw material and the distribute of tastes are not grounds on which someone might challenge a distribution as unequal. They are rather background facts that determine what equality of resources, in these circumstances, is. Under equality of resources, no test for calculating what equality requires can be abstracted from these background facts and used to test them. The market character of the auction is not simply a convenient or ad hoc device for resolving technical problems that arise for equality of resources in very simple exercises like our desert island case. It is an institutionalized form of the process of discovery and adaptation that is at the center of the ethics of that ideal. Equality of resources supposes that the resources devoted to each person's life should be equal. That goal needs a metric. The auction proposes what the envy test in fact assumes, that the true measure of the social resources devoted to the life of one person is fixed by asking how important, in fact, that resource is for others. It insists that the cost, measured in that way, figure in each person's sense of what is rightly his and in each person's judgment of what life he should lead, given that command of justice. Anyone who insists that equality is violated by any particular profile of initial tastes, therefore, must reject equality of resources, and fall back on equality of welfare.

Of course it is sovereign in this argument, and in this connection between the market and equality of resources, that people enter the market on equal terms. The desert island auction would not have avoided envy, and would have no appeal as a solution to the problem of dividing the resources equally, if the immigrants had struggled ashore with different amounts of money in their pocket, which they were free to use in the auction, or if some had stolen clamshells from others. We must not lose sight of that fact, either in the argument that follows or in any reflections on the application of that argument to contemporary economic systems. But neither should we lose sight, in our dismay over the inequities of those systems, of the important theoretical connection between the market and the concept of equality in resources.

There are, of course, other and very different sorts of objection that might be made to the use of an auction, even an equal auction of the sort I described. It might be said, for example, that the fairness of an

auction supposes that the preferences people bring to the auction, or form in its course, are authentic—the true preferences of the agent rather than preferences imposed upon him by the economic system itself. Perhaps an auction of any sort, in which one person bids against another, imposes an illegitimate assumption that what is valuable in life is individual ownership of something rather than more cooperative enterprises of the community or some group within it as a whole. Insofar as this (in part mysterious) objection is pertinent here, however, it is an objection against the idea of private ownership over an extensive domain of resources, which is better considered under the title of political equality, not an objection to the claim that a market of some sort must figure in any satisfactory account of what equality in private ownership is.

## II. THE PROJECT

Since the device of an equal auction seems promising as a technique for achieving an attractive interpretation of equality of resources in a simple context, like the desert island, the question arises whether it will prove useful in developing a more general account of that ideal. We should ask whether the device could be elaborated to provide a scheme for developing or testing equality of resources in a community that has a dynamic economy, with labor, investment, and trade. What structure must an auction take in such an economy—what adjustments or supplements must be made to the production and trade that would follow such an auction—in order that the results continue to satisfy our initial requirement that an equal share of the resources be available to each citizen?

Our interest in this question is three-fold. First, the project provides an important test of the coherence and completeness of the idea of equality of resources. Suppose no auction or pattern of post-auction trade could be described whose results could be accepted as equality in any society much more complex or less artificial than a simple economy of consumption. Or that no auction could produce equality without constraints and restrictions which violate independent principles of justice. This would tend to suggest, at least, that there is no

coherent ideal of equality of resources. Or that the ideal is not politically attractive after all.

We might discover, on the contrary, less comprehensive gaps or defects in the idea. Suppose, for example, that the design for the auction we develop does not uniquely determine a particular distribution, even given a stipulated set of initial resources and a stipulated population with fixed interests and ambitions, but is rather capable of producing significantly different outcomes depending on the order of decisions, arbitrary choices about the composition of the initial list of options, or other contingencies. We might conclude that the ideal of equality of resources embraces a variety of different distributions, each of which satisfies the ideal, and that the ideal is therefore partially indeterminate. This would show limitations on the power of the ideal to discriminate between certain distributions, but would not for that reason show that the ideal is either incoherent or practically impotent. So it is worth trying to develop the idea of an equal auction as a test of the theoretical standing and power of the political ideal.

Second, a fully developed description of an equal auction, adequate for a more complex society, might provide a standard for judging actual institutions and distributions in the real world. Of course no complex, organic society would have, in its history, anything remotely comparable to an equal auction. But we can nevertheless ask, for any actual distribution, whether it falls within the class of distributions that might have been produced by such an auction over a defensible description of initial resources. Or, if it is not, how far it differs from or falls short of the closest distribution within this class. The device of the auction might provide, in other words, a standard for judging how far an actual distribution, however it has been achieved, approaches equality of resources at any particular time.

Third, the device might be useful in the design of actual political institutions. Under certain (perhaps very limited) circumstances, when the conditions for an equal auction are at least roughly met, then an actual auction might be the best means of reaching or preserving equality of resources in the real world. This will be true, particularly, when the results of such an auction are antecedently indeterminate in the way just described, so that any result the auction



reaches will respect equality of resources even though it is not known, in advance, which result would be reached. In such a case it may be fairer to conduct an actual auction than to choose, through some other political means, one rather than another of the results that an auction might produce. Even in such a case it will rarely be possible or desirable to conduct an actual auction in the design our theoretical investigations recommend. But it may be possible to design an auction surrogate—an economic or political institution having sufficient of the characteristics of a theoretical equal auction so that the arguments of fairness recommending an actual auction were it feasible also recommend the surrogate. The economic markets of many countries can be interpreted, even as they stand, as forms of auctions. (So, too, can many forms of democratic political process.) Once we have developed a satisfactory model of an actual auction (to the extent we can) we can use that model to test these institutions, and reform them to bring them closer to the model.

Nevertheless our project is in the main, within the present essay, entirely theoretical. Our interest is primarily in the design of an ideal, and of a device to picture that ideal and test its coherence, completeness, and appeal. We shall therefore ignore practical difficulties, like problems of gathering information, which do not impeach these theoretical goals, and also make simplifying counterfactual assumptions which do not subvert them. But we should try to notice which simplifications we are making, because they will be of importance, particularly as to the third and most practical application of our projects, at any later stage, at which we consider second-best compromises of our ideal in the real world.

### III. LUCK AND INSURANCE

If the auction is successful as described, then equality of resources holds for the moment among the immigrants. But perhaps only for the moment, because if they are left alone, once the auction is completed, to produce and trade as they wish, then the envy test will shortly fail. Some may be more skillful than others at producing what others want and will trade to get. Some may like to work, or to work in a way that will produce more to trade, while others like not to work or prefer



to work at what will bring them less. Some will stay healthy while others fall sick, or lightning will strike the farms of others but avoid theirs. For any of these and dozens of other reasons some people will prefer the bundle others have in say, five years, to their own.

We must ask whether (or rather how far) such developments are consistent with equality of resources, and I shall begin by considering the character and impact of luck on the immigrants' post-auction fortunes. I shall distinguish, at least for the moment, between two kinds of luck. Option luck is a matter of how deliberate and calculated gambles turn out—whether someone gains or loses through accepting an isolated risk he or she should have anticipated and might have declined. Brute luck is a matter of how risks fall out that are not in that sense deliberate gambles. If I buy a stock on the exchange that rises, then my option luck is good. If I am hit by a falling meteorite whose course could not have been predicted, then my bad luck is brute (even though I could have moved just before it struck if I had any reason to know where it would strike). Obviously the difference between these two forms of luck can be represented as a matter of degree, and we may be uncertain how to describe a particular piece of bad luck. If someone develops cancer in the course of a normal life, and there is no particular decision to which we can point as a gamble risking the disease, then we will say that he has suffered brute bad luck. But if he smoked cigarettes heavily then we may prefer to say that he took an unsuccessful gamble.

Insurance, so far as it is available, provides a link between brute and option luck, because the decision to buy or reject catastrophe insurance is a calculated gamble. Of course, insurance does not erase the distinction. Someone who buys medical insurance and is hit by an unexpected meteorite still suffers brute bad luck, because he is worse off than if he had bought insurance and not needed it. But he has had better option luck than if he had not bought the insurance, because his situation is better in virtue of his not having run the gamble of refusing to insure.

Is it consistent with equality of resources that people should have different income or wealth in virtue of differing option luck? Suppose some of the immigrants plant valuable but risky crops while others play it safer, and that some of the former buy insurance against un-

congenial weather while others do not. Skill will play a part in determining which of these various programs succeed, of course, and we shall consider the problems this raises later. But option luck will also play a part. Does its role threaten or invade equality of resources?

Consider, first, the differences in wealth between those who play it safe and those who gamble and succeed. Some people enjoy, while others hate, risks; but this particular difference in personality is comprehended in a more general difference between the kinds of lives that different people wish to lead. The life chosen by someone who gambles contains, as an element, the factor of risk; someone who chooses not to gamble has decided that he prefers a safer life. We have already decided that people should pay the price of the life they have decided to lead, measured in what others give up in order that they can do so. That was the point of the auction as a device to establish initial equality of resources. But the price of a safer life, measured in this way, is precisely forgoing any chance of the gains whose prospect induces others to gamble. So we have no reason to object, against the background of our earlier decisions, to a result in which those who decline to gamble have less than some of those who do not.

But we must also compare the situation of those who gamble and win with that of those who gamble and lose. We cannot say that the latter have chosen a different life and must sacrifice gains accordingly; for they have chosen the same lives as those who won. But we can say that the possibility of loss was part of the life they chose—that it was the fair price of the possibility of gain. For we might have designed our initial auction so that people could purchase (for example) lottery tickets with their clamshells. But the price of those tickets would have been some amount of other resources (fixed by the odds and the gambling preferences of others) that the shells would otherwise have bought, and which will be wholly forgone if the ticket does not win.

The same point can be made by considering the arguments for redistribution from winners to losers after the event. If winners were made to share their winnings with losers, then no one would gamble, as individuals, and the kind of life preferred by both those who in the end win and those who lose would be unavailable. Of course, it is not

a good argument, against someone who urges redistribution in order to achieve equality of resources, that redistribution would make some forms of life less attractive or even impossible. For the demands of equality (we assume in this essay) are prior to other desiderata, including variety in the kinds of life available to people. (Equality will in any case make certain kinds of lives—a life of economic and political domination of others, for example—impossible.) In the present case, however, the difference is apparent. For the effect of redistribution from winners to losers in gambles would be to deprive both of lives they prefer, which indicates, not simply that this would produce an unwanted curtailment of available forms of life, but that it would deprive them of an equal voice in the construction of lots to be auctioned, like the man who hated both plovers' eggs and claret but was confronted only with bundles of both. They both want gambles to be in the mix, either originally or as represented by resources with which they can take risks later, and the chance of losing is the correct price, measured on the metric we have been using, of a life that includes gambles with a chance of gain.

We may, of course, have special reasons for forbidding certain forms of gambles. We may have paternalistic reasons for limiting how much any individual may risk, for example. We may also have reasons based in a theory of political equality for forbidding someone to gamble with his freedom or his religious or political rights. The present point is more limited. We have no general reason for forbidding gambles altogether in the bare fact that in the event winners will control more resources than losers, any more than in the fact that winners will have more than those who do not gamble at all. Our initial principle, that equality of resources requires that people pay the true cost of the lives that they lead, warrants rather than condemns these differences.

We may (if we wish) adjust our envy test to record that conclusion. We may say that in computing the extent of someone's resources over his life, for the purpose of asking whether anyone else envies those resources, any resources gained through a successful gamble should be represented by the opportunity to take the gamble at the odds in force, and comparable adjustments made to the resources of those who have lost through gambles. The main point of this artificial con-

struction of the envy test, however, would be to remind us that the argument in favor of allowing differences in option luck to affect income and wealth assumes that everyone has in principle the same gambles available to him. Someone who never had the opportunity to run a similar risk, and would have taken the opportunity had it been available, will still envy some of those who did have it.

Nor does the argument yet confront the case of brute bad luck. If two people lead roughly the same lives, but one goes suddenly blind, then we cannot explain the resulting differences in their incomes either by saying that one took risks that the other chose not to take, or that we could not redistribute without denying both the lives they prefer. For the accident has (we assume) nothing to do with choices in the pertinent sense. It is not necessary to the life either has chosen that he run the risk of going blind without redistribution of funds from the other. This is a *fortiori* so if one is born blind and the other sighted.

But the possibility of insurance provides, as I suggested, a link between the two kinds of luck. For suppose insurance against blindness is available, in the initial auction, at whatever level of coverage the policy holder chooses to buy. And also suppose that two sighted people have, at the time of the auction, equal chance of suffering an accident that will blind them, and know that they have. Now if one chooses to spend part of his initial resources for such insurance and the other does not, or if one buys more coverage than the other, then this difference will reflect their different opinions about the relative value of different forms or components of their prospective lives. It may reflect the fact that one puts more value on sight than the other. Or, differently, that one would count monetary compensation for the loss of his sight as worthless in the face of such a tragedy while the other, more practical, would fix his mind on the aids and special training that such money might buy. Or simply that one minds or values risk differently from the other, and would, for example, rather try for a brilliant life that would collapse under catastrophe than a life guarded at the cost of resources necessary to make it brilliant.

But in any case the bare idea of equality of resources, apart from any paternalistic additions, would not argue for redistribution from the person who had insured to the person who had not if, horribly,

they were both blinded in the same accident. For the availability of insurance would mean that, though they had both had brute bad luck, the difference between them was a matter of option luck, and the arguments we entertained against disturbing the results of option luck under conditions of equal antecedent risk hold here as well. But then the situation cannot be different if the person who decided not to insure is the only one to be blinded. For once again the difference is a difference in option luck against a background of equal opportunity to insure or not. If neither had been blinded, the man who had insured against blindness would have been the loser. His option luck would have been bad—though it seems bizarre to put it this way—because he spent resources that, as things turned out, would have been better spent otherwise. But he would have no claim, in that event, from the man who did not insure and also survived unhurt.

So if the condition just stated were met—if everyone had an equal risk of suffering some catastrophe that would leave him or her handicapped, and everyone knew roughly what the odds were and had ample opportunity to insure—then handicaps would pose no special problem for equality of resources. But of course that condition is not met. Some people are born with handicaps, or develop them before they have either sufficient knowledge or funds to insure on their own behalf. They cannot buy insurance after the event. Even handicaps that develop later in life, against which people do have the opportunity to insure, are not randomly distributed through the population, but follow genetic tracks, so that sophisticated insurers would charge some people higher premiums for the same coverage before the event. Nevertheless the idea of a market in insurance provides a counterfactual guide through which equality of resources might face the problem of handicaps in the real world.

Suppose we can make sense of and even give a rough answer to the following question. If (contrary to fact) everyone had at the appropriate age the same risk of developing physical or mental handicaps in the future (which assumes that no one has developed these yet) but that the total number of handicaps remained what it is, how much insurance coverage against these handicaps would the average member of the community purchase? We might then say that but for (uninsurable) brute luck that has altered these equal odds, the average

person would have purchased insurance at that level, and compensate those who do develop handicaps accordingly, out of some fund collected by taxation or other compulsory process but designed to match the fund that would have been provided through premiums if the odds had been equal. Those who develop handicaps will then have more resources at their command than others, but the extent of their extra resources will be fixed by the market decisions that people would supposedly have made if circumstances had been more equal than they are. Of course, this argument does involve the fictitious assumption that everyone who suffers handicaps would have bought the average amount of insurance, and we may wish to refine the argument and the strategy so that that no longer holds.<sup>6</sup> But it does not seem an unreasonable assumption for this purpose as it stands.

Can we answer the counterfactual question with sufficient confidence to develop a program of compensation of that sort? We face a threshold difficulty of some importance. People can decide how much of their resources to devote to insurance against a particular catastrophe only with some idea of the life they hope to lead, because only then can they decide how serious a particular catastrophe would be, how far additional resources would alleviate the tragedy, and so forth. But people who are born with a particular handicap, or develop one in childhood, will of course take that circumstance into account in the plans they make. So in order to decide how much insurance such a person would have bought without the handicap we must decide what sort of life he would have planned in that case. But there may be no answer, even in principle, to that question.

We do not need, however, to make counterfactual judgments that are so personalized as to embarrass us for that reason. Even if people did all have equal risk of all catastrophes, and evaluated the value and importance of insurance differently entirely due to their different am-

6. The averaging assumption is a simplifying assumption only, made to provide a result in the absence of the detailed (and perhaps, for reasons described in the text, indeterminate) information that would enable us to decide how much each handicapped person would have purchased in the hypothetical market. If we had such full information, so that we could tailor compensation to what a particular individual in fact would have bought, the accuracy of the program would be improved. But in the absence of such information averaging is second best, or in any case better than nothing.



bitions and plans, the insurance market would nevertheless be structured through categories designating the risks against which most people would insure in a general way. After all, risks of most catastrophes are now regarded by the actual insurance market as randomly distributed, and so we might follow actual insurance practice, modified to remove the discriminations insurers make when they know that one group is more likely, perhaps for genetic reasons, to suffer a particular kind of brute bad luck. It would make sense to suppose, for example, that most people would make roughly the same assessment of the value of insurance against general handicaps, such as blindness or the loss of a limb, that affect a wide spectrum of different sorts of lives. (We might look to the actual market to discover the likelihood and the contours of more specialized insurance we might decide to use in more complex schemes, like the insurance of musicians against damage to their hands, and so forth.)

We would, in any case, pay great attention to matters of technology, and be ready to adjust our sums as technology changed. People purchase insurance against catastrophes, for example, against a background of assumptions about the remedial medical technology, or special training, or mechanical aids that are in fact available, and about the cost of these remedies. People would seek insurance at a higher level against blindness, for example, if the increased recovery would enable them to purchase a newly discovered sight-substitute technology, than they would if that increased recovery simply swelled a bank account they could not, in any case, use with much satisfaction.

Of course, any judgments that the officials of a community might make about the structure of the hypothetical insurance market would be speculative and open to a variety of objections. But there is no reason to think, certainly in advance, that a practice of compensating the handicapped on the basis of such speculation would be worse, in principle, than the alternatives, and it would have the merit of aiming in the direction of the theoretical solution most congenial to equality of resources.

We might now remind ourselves of what these alternatives are. I said in Part 1 of this essay that the regime of equality of welfare, contrary to initial impressions, does a poor job of either explaining or



guiding our impulse to compensate the severely handicapped with extra resources. It provides, in particular, no upper bound to compensation so long as any further payment would improve the welfare of the wretched; but this is not, as it might seem, generous, because it leaves the standard for actual compensation to the politics of selfishness broken by sympathy, politics that we know will supply less than any defensible hypothetical insurance market would offer.

Consider another approach to the problem of handicaps under equality of resources. Suppose we say that any person's physical and mental powers must count as part of his resources, so that someone who is born handicapped starts with less by way of resources than others have, and should be allowed to catch up, by way of transfer payments, before what remains is auctioned off in any equal market. People's powers are indeed resources, because these are used, together with material resources, in making something valuable out of one's life. Physical powers are resources for that purpose in the way that aspects of one's personality, like one's conception of what is valuable in life, are not. Nevertheless the suggestion, that a design of equality of resources should provide for an initial compensation to alleviate differences in physical or mental resources, is troublesome in a variety of ways. It requires, for example, some standard of "normal" powers to serve as the benchmark for compensation.<sup>8</sup> But whose powers should be taken as normal for this purpose? It suffers, moreover, from the same defect as the parallel recommendation under equality of welfare. In fact, no amount of initial compensation could make someone born blind or mentally incompetent equal in physical or mental resources with someone taken to be "normal" in these ways. So the argument provides no upper bound to initial compensation, but must leave this to a political compromise likely to be less generous, again, than what the hypothetical insurance market would command.

Quite apart from these practical and theoretical inadequacies, the

7. Cf. Amartya Sen, "Equality of What?," *The Tanner Lectures on Human Values*, Vol. 1 (Salt Lake City: University of Utah Press, 1980), pp. 197, 218.

8. The hypothetical insurance approach does not require any stipulation of "normal" powers, because it allows the hypothetical market to determine which infirmities are compensable.

suggestion is troublesome for another reason. Though powers are resources, they should not be considered resources whose ownership is to be determined through politics in accordance with some interpretation of equality of resources. They are not, that is, resources for the theory of equality in exactly the sense in which ordinary material resources are. They cannot be manipulated or transferred, even so far as technology might permit. So in this way it misdescribes the problem of handicaps to say that equality of resources must strive to make people equal in physical and mental constitution so far as this is possible. The problem is, rather, one of determining how far the ownership of independent material resources should be affected by differences that exist in physical and mental powers, and the response of our theory should speak in that vocabulary.

It might be wise (if for no other reason than as a convenient summary of the argument from time to time) to bring our story of the immigrants up to date. By way of supplement to the auction, they now establish a hypothetical insurance market which they effectuate through compulsory insurance at a fixed premium for everyone based on speculations about what the average immigrant would have purchased by way of insurance had the antecedent risk of various handicaps been equal. (We choose for them, that is, one of the simpler possible forms of instituting the hypothetical insurance market. We shall see, when we discuss the problem of skills, that they might well choose a more complex scheme of the sort discussed there.)

But now a question arises. Does this decision place too much weight on the distinction between handicaps, which the immigrants treat in this compensatory way, and accidents touching preferences and ambitions (like the accident of what material resources are in fact available, and of how many other people share a particular person's taste)? The latter will also affect welfare, but they are not matters for compensation under our scheme. Would it not now be fair to treat as handicaps eccentric tastes, or tastes that are expensive or impossible to satisfy because of scarcity of some good that might have been common? We might compensate those who have these tastes by supposing that everyone had an equal chance of being in that position and then establishing a hypothetical insurance market against that possibility.

A short answer is available. Someone who is born with a serious handicap faces his life with what we concede to be fewer resources, just on that account, than others do. This justifies compensation, under a scheme devoted to equality of resources, and though the hypothetical insurance market does not right the balance—nothing can—it seeks to remedy one aspect of the resulting unfairness. But we cannot say that the person whose tastes are expensive, for whatever reason, therefore has fewer resources at his command. For we cannot state (without falling back on some version of equality of welfare) what equality in the distribution of tastes and preferences would be. Why is there less equality of resources when someone has an eccentric taste that makes goods cheaper for others, than when he shares a popular taste and so makes goods more expensive for them? The auction, bringing to bear information about the resources that actually exist and the competing preferences actually in play, is the only true measure of whether any particular person commands equal resources. If the auction has in fact been an equal auction, then the man of eccentric tastes has no less than equal material resources, and the argument that justifies a compensatory hypothetical auction in the case of handicaps has no occasion even to begin. It is true that this argument produces a certain view of the distinction between a person and his circumstances, and assigns his tastes and ambitions to his person, and his physical and mental powers to his circumstances. That is the view of a person I sketched in the introductory section, of someone who forms his ambitions with a sense of their cost to others against some presumed initial equality of economic power, and though this is different from the picture assumed by equality of welfare, it is a picture at the center of equality of resources.

In one way, however, my argument might well be thought to overstate the distinction between handicaps and at least certain sorts of what are often considered preferences. Suppose someone finds he has a craving (or obsession or lust or, in the words of an earlier psychology, a “drive”) that he wishes he did not have, because it interferes with what he wants to do with his life and offers him frustration or even pain if it is not satisfied. This might indeed be some feature of his physical needs that other people would not consider a handicap at all: for example, a generous appetite for sex. But it is a

“preference” (if that is the right word) that he does not want, and it makes perfect sense to say that he would be better off without it. For some people these unwanted tastes include tastes they have (perhaps unwittingly) themselves cultivated, such as a taste for a particular sport or for music of a sort difficult to obtain. They regret that they have these tastes, and believe they would be better off without them, but nevertheless find it painful to ignore them. These tastes are handicaps; though for other people they are rather an essential part of what gives value to their lives.

Now these cases do not present, for particular people, borderline cases between ambitions and handicaps (though no doubt other sorts of borderline cases could be found). The distinction required by equality of resources is the distinction between those beliefs and attitudes that define what a successful life would be like, which the ideal assigns to the person, and those features of body or mind or personality that provide means or impediments to that success, which the ideal assigns to the person's circumstances. Those who see their sexual desires or their taste for opera as unwanted disadvantages will class these features of their body or mind or personality firmly as the latter. These are, for them, handicaps, and are therefore suitable for the regime proposed for handicaps generally. We may imagine that everyone has an equal chance of acquiring such a craving by accident. (Of course, for each person the content of a craving that would have that consequence would be different. We are supposing here, not the risk of any particular craving, but the risk of whatever craving would interfere with set goals in that way.) We may then ask—with as much or as little intelligibility as in the case of blindness—whether people generally would purchase insurance against that risk, and if so at what premium and what level of coverage. It seems unlikely that many people would purchase such insurance, at the rates of premium likely to govern if they sought it, except in the case of cravings so severe and disabling as to fall under the category of mental disease. But that is a different matter. The important point, presently, is that the idea of an insurance market is available here, because we can imagine people who have such a craving not having it, without thereby imagining them to have a different conception of what they want from life than what in fact they do want. So the idea of the imaginary in-

insurance auction provides at once a device for identifying cravings and distinguishing them from positive features of personality, and also for bringing these cravings within the general regime designed for handicaps.

#### IV. LABOR AND WAGES

Equality of resources, once established by the auction, and corrected to provide for handicaps, would be disturbed by production and trade. If one of the immigrants, for example, was specially proficient at producing tomatoes, he might trade his surplus for more than anyone else could acquire, in which case others would begin to envy his bundle of resources. Suppose we wished to create a society in which the division of resources would be continuously equal, in spite of different kinds and degrees of production and trade. Can we adapt our auction so as to produce such a society?

We should begin by considering a different sequence after which people would envy each other's resources, and the division might be thought no longer to be equal. Suppose all the immigrants are in fact sufficiently equal in talent at the few modes of production that the resources allow so that each could produce roughly the same goods from the same set of resources. Nevertheless they wish to lead their lives in different ways, and they in fact acquire different bundles of resources in the initial auction and use them differently thereafter. Adrian chooses resources and works them with the single-minded ambition of producing as much of what others value as possible; and so, at the end of a year, his total stock of goods is larger than anyone else's. Each of the other immigrants would now prefer Adrian's stock to his own; but by hypothesis none of them would have been willing to lead his life so as to produce them. If we look for envy at particular points in time, then each envies Adrian's resources at the end of the year, and the division is therefore not equal. But if we look at envy differently, as a matter of resources over an entire life, and we include a person's occupation as part of the bundle of his goods, then no one envies Adrian's bundle, and the distribution cannot be said to be unequal on that account.

Surely we should take the second, synoptic, point of view. Our final

aim is that an equal share of resources should be devoted to the lives of each person, and we have chosen the auction as the right way to measure the value of what is made available to a person, through his decision, for that purpose. If Bruce chooses to acquire land for use as a tennis court, then the question is raised how much his account should be charged, in the reckoning whether an equal share has been put to his use, in virtue of that choice, and it is right that his account should be charged the amount that others would have been willing to pay had the land been devoted to their purposes instead. The appeal of the auction, as a device for picturing equality of resources, is precisely that it enforces that metric. But this scheme will fail, and the device disappoint us, unless Adrian is able to bid a price for the same land that reflects his intention to work rather than play on it and so to acquire whatever gain would prompt him to make that decision. For unless this is permitted, those who want tomatoes and would pay Adrian his price for them will not be able to bid indirectly, through Adrian's decision, against Bruce, who will then secure his tennis court at a price that, because it is too low, defeats equality of resources. This is not, I should add, an argument from efficiency as distinct from fairness; but rather an argument that in the circumstances described, in which talents are equal, efficiency simply is fairness, at least as fairness is conceived under equality of resources. If Adrian is willing to spend his life at drudgery, in return for the profit he will make at prices that others will pay for what he produces, then the land on which he would drudge should not be used for a tennis court instead, unless its value as a tennis court is greater as measured by someone's willingness to invade an initially equal stock of abstract resources.

Now this is to look at the matter entirely from the standpoint of those who want Adrian's tomatoes, a standpoint that treats Adrian only as a means. But we reach the same conclusion if we look at the matter from his point of view as well. If someone chooses to have something inexpensive in his life, under a regime of equality of resources, then he will have more left over for the rest of what he wants. Someone who accepts Algerian wine may use it to wash down plovers' eggs. But a decision to produce one thing rather than another with land, or to use the land for leisure rather than production, is also the choice of something for one's life, and this may be inexpensive as



well. Suppose Adrian is desperate for plovers' eggs but would rather work hard at tilling his land than settle for less than champagne. The total may be no more expensive, measured in terms of what his decisions cost others, than a life of leisure and grape juice. If he earns enough by working hard, or by working at work that no one else wants to do, to satisfy all his expensive tastes, then his choice for his own life costs the rest of the community no more than if his tastes were simpler and his industry less. So we have no more reason to deny him hard work and high consumption than less work and frugality. The choice should be indifferent under equality of resources, so long as no one envies the total package of work plus consumption that he chooses. So long as no one envies, that is, his life as a whole. Of course, Adrian might actually enjoy his hard work, so that he makes no sacrifice. He prefers working hard to anything else. But this cannot provide any argument, under equality of resources, that he should gain less in money or other goods by his work than if he hated every minute of it, any more than it argues against charging someone a low price for lettuce, which he actually prefers to truffles.

So we must apply the envy test diachronically: it requires that no one envy the bundle of occupation and resources at the disposal of anyone else over time, though someone may envy another's bundle at any particular time. It would therefore violate equality of resources if the community were to redistribute Adrian's wealth, say, at the end of each year. If everyone had equal talents (as we have been assuming just now), the initial auction would produce continuing equality of resources even though bank-account wealth became more and more unequal as years passed.

Is that unlikely condition—that everyone has equal talent—absolutely necessary to that conclusion? Would the auction produce continuing equality of resources if (as in the real world) talents for production differed sharply from person to person? Now the envy test would fail, even interpreted diachronically. Claude (who likes farming but has a black thumb) would not bid enough for farming land to take that land from Adrian. Or, if he did, he would have to settle for less in the rest of his life. But he would then envy the package of Adrian's occupation and wealth. If we interpret occupation in a manner sensitive to the joys of craft, then Adrian's occupation, which must then be



described as skillful, craftsmanlike farming, is simply unavailable to Claude. If we interpret occupation in a more census-like fashion, then Claude may undertake Adrian's occupation, but he cannot have the further resources that Adrian has along with it. So if we continue to insist that the envy test is a necessary condition of equality of resources, then our initial auction will not insure continuing equality, in the real world of unequal talents for production.

But it may now be objected that we should not insist on the envy test at this point, even in principle, for the following reason. We are moving too close to a requirement that people must not envy each other, which is different from the requirement that they must not envy each other's bundles of resources. People may envy each other for a variety of reasons: some are physically more attractive, some more easily satisfied with their condition, some better liked by others, some more intelligent or able in different ways, and so on. Of course, under a regime of equality of welfare each of these differences would be taken into account, and transfers made to erase their welfare consequences so far as possible or feasible. But the point of equality of resources is fundamentally different: it is that people should have the same external resources at their command to make of them what, given these various features and talents, they can. That point is satisfied by an initial auction, but since people are different it is neither necessary nor desirable that resources should remain equal thereafter, and quite impossible that all envy should be eliminated by political distribution. If one person, by dint of superior effort or talent, uses his equal share to create more than another, he is entitled to profit thereby, because his gain is not made at the expense of someone else who does less with his share. We recognized that, just now, when we conceded that superior industry should be rewarded, so that Adrian, who worked hard, should be allowed to keep the rewards of his effort.

Now this objection harbors many mistakes, but they all come to this: it confuses equality of resources with the fundamentally different idea sometimes called equality of opportunity. It is not true, in the first place, that someone who does more with his initial share does not, in so doing, lessen the value of what others have. If Adrian were not so successful at agriculture, then Claude's own efforts would be rewarded more, because people would buy his inferior produce having

no better alternative. If Adrian were not so successful and hence so rich he would not be able to pay so much for wine, and Claude, with his smaller fortune, would be able to buy more at a cheaper price. These are simply the most obvious consequences of the fact that the immigrants form one economy, after the initial auction, rather than a set of distinct economies. Of course these consequences also follow from the situation we discussed a moment ago. If Adrian and Bruce have the same talents, but Adrian chooses to work harder or differently and acquires more money, then this may also decrease the value of Claude's share to him. The difference between these two circumstances, if there is one, lies elsewhere; but it is important to reject the claim, instinct in some arguments for equality of opportunity, that if people start with equal shares the prosperity of one does no damage to the other.

Nor is it true that if we aim at a result in which those with less talent do not envy the circumstances of those with more talent we have destroyed the distinction between envying others and envying what they have. For Adrian has two things that Claude would prefer to have which belong to Adrian's circumstances rather than his person. The desires and needs of other people provide Adrian but not Claude with a satisfying occupation, and Adrian has more money than Claude can have. Perhaps nothing that can be done, by way of political structure or distribution, to erase these differences and remove the envy entirely. We cannot, for example, alter the tastes of other people by electrical means so as to make them value what Claude can produce more and what Adrian can produce less. But this provides no argument against other schemes, like schemes of education that would allow Claude to find satisfaction in his work or of taxation that would redistribute some of Adrian's wealth to him, and we could fairly describe these schemes as aiming to remove Claude's envy of what Adrian has rather than of what Adrian is.

Important as these points are, it is more important still to identify and correct another mistake that the present objection makes. It misunderstands our earlier conclusion, that when talents are roughly equal the auction provides continuing equality of resources, and so misses the important distinction between that case and the present argument. The objection supposes that we reached that conclusion

because we accept, as the basis of equality of resources, what we might call the starting-gate theory of fairness: that if people start in the same circumstances, and do not cheat or steal from one another, then it is fair that people keep what they gain through their own skill. But the starting-gate theory of fairness is very far from equality of resources. Indeed it is hardly a coherent political theory at all.

The starting-gate theory holds that justice requires equal initial resources. But it also holds that justice requires laissez-faire thereafter, in accordance, presumably, with some version of the Lockean theory that people acquire property by mixing their labor with goods or something of that sort. But these two principles cannot live comfortably together. Equality can have no greater force in justifying initial equal holdings when the immigrants land—against the competing that all property should be available for Lockean acquisition at that time—than later in justifying redistributions when wealth becomes unequal because people's productive talents are different. The same point may be put the other way around. The theory of Lockean acquisition (or whatever other theory of justice in acquisition is supposed to justify the laissez-faire component in a starting-gate theory) can have no less force in governing the initial distribution than it has in justifying title through talent and effort later. If the theory is sound later, then why does it not command a Lockean process of acquisition in the first instance, rather than an equal distribution of all there is? The moment when the immigrants first land is, after all, an arbitrary point in their lives at which to locate any one-shot requirement that they each have an equal share of any available resources. If that requirement holds then, it must also hold on the tenth anniversary of that date, which is, in the words of the banal and important cliché, the first day in the rest of their lives. So if justice requires an equal auction when they land, it must require a fresh, equal auction from time to time thereafter; and if justice requires laissez-faire thereafter, it must require it when they land.

Suppose someone replies that there is an important difference between the initial distribution of resources and any later redistribution. When the immigrants land, no one owns any of the resources, and the principle of equality therefore dictates equal initial shares. But later, after the initial resources have been auctioned, they are each owned

in some way by someone, so that the principle of equality is superseded by respect for people's rights in property or something of that sort. This reply begs the question straightway. For we are considering precisely the question whether a system of ownership should be established in the first instance that has that consequence, or, rather, whether a different system of ownership should be chosen that explicitly makes any acquisition subject to schemes of redistribution later. If the latter sort of system is chosen, at the outset, then no one can later complain that redistribution is ruled out by his property rights alone. I do not mean that no theory of justice can consistently distinguish between justice in initial acquisition and justice in transfer on the ground that anyone may do what he wants with property that is already his. Nozick's theory, for example, does just that. This is consistent, because his theory of justice in initial acquisition purports to justify a system of property rights which have that consequence: justice in transfer, that is, flows from the rights the theory of acquisition claims are acquired in acquiring property. But the theory of initial acquisition on which the starting-gate theory relies, which is equality of resources, does not even purport to justify a characterization of property that necessarily includes absolute control without limit of time thereafter.

So the starting-gate theory, that the immigrants should start off equal in resources but grow prosperous or lean through their own efforts thereafter, is an indefensible combination of very different theories of justice. Something like that combination makes sense in games, such as Monopoly, whose point is to allow luck and skill to play a highly circumscribed and, in the last analysis, arbitrary, role; but it cannot hold together a political theory. Our own principle, that if people of equal talent choose different lives it is unfair to redistribute halfway through those lives, makes no appeal to the starting-gate theory at all. It is based on the very different idea that the equality in question is equality of resources devoted to whole lives. This principle offers a clear answer to the question that embarrasses the present objection. Our theory does not suppose that an equal division of resources is appropriate at one moment in someone's life but not at any other. It argues only that resources available to him at any moment must be a function of resources available or consumed by him at

others, so that the explanation of why someone has less money now may be that he has consumed expensive leisure earlier. Nothing like that explanation is available to explain why Claude, who has worked as hard and in the same way as Adrian, should have less in virtue of the fact that he is less skillful.

So we must reject the starting-gate theory, and recognize that the requirements of equality (in the real world at least) pull in opposite directions. On the one hand we must, on pain of violating equality, allow the distribution of resources at any particular moment to be (as we might say) ambition-sensitive. It must, that is, reflect the cost or benefit to others of the choices people make so that, for example, those who choose to invest rather than consume, or to consume less expensively rather than more, or to work in more rather than less profitable ways, must be permitted to retain the gains that flow from these decisions in an equal auction followed by free trade. But on the other hand, we must not allow the distribution of resources at any moment to be endowment-sensitive, that is, to be affected by differences in ability of the sort that produce income differences in a *laissez-faire* economy among people with the same ambitions. Can we devise some formula that offers a practical, or even a theoretical, compromise between these two, apparently competing, requirements?

We might mention, but only to dismiss, one possible response. Suppose we allow our initial auction to include, as resources to be auctioned, the labor of the immigrants themselves, so that each immigrant can bid for the right to control part or all of his own or other people's labor. Special skills would accrue to the benefit, not of the laborer himself, but of the community as a whole, like any other valuable resource the immigrants found when they landed. Except in unusual cases, since people begin with equal resources for bidding, each agent would bid enough to secure his own labor. But the result would be that each would have to spend his life in close to the commercially most profitable manner he could, or, at least if he is talented, suffer some very serious deprivation if he did not. For since Adrian, for example, is able to produce prodigious income from farming, others would be willing to bid a large amount to have the right to his labor and the vegetables thereof, and if he outbids them, but chooses to write indifferent poetry instead of farming full time, he will have

spent a large part of his initial endowment on a right that will bring him little financial benefit. This is indeed the slavery of the talented.

We cannot permit this, but it is worth pausing to ask what grounds we have for barring it. Shall we say that since a person owns his own mind and body, he owns the talents that are only capacities thereof, and therefore owns the fruits of those talents? This is, of course, a series of nonsequiturs. It is also a familiar argument in favor of the laissez-faire labor market we have decided is a violation of equality of resources when people are unequal in talent. But we could not accept it in any case, because it uses the idea of pre-political entitlement based on something other than equality, and that is inconsistent with the premise of the scheme of equality of resources we have developed.

So we must look elsewhere for the ground of our objection to taking people's labor as a resource for the auction. We need not, in fact, look very far; for the principle that people should not be penalized for talent is simply part of the same principle we relied on in rejecting the apparently opposite idea, that people should be allowed to retain the benefits of superior talent. The envy test forbids both of these results. If Adrian is treated as owning whatever his talents enable him to produce, then Claude envies the package of resources, including occupation, that Adrian has over his life considered as a whole. But if Adrian is required to purchase leisure time or the right to a less productive occupation at the cost of other resources, then Adrian will envy Claude's package. If equality of resources is understood to include some plausible version of the envy test, as a necessary condition of an equal distribution, then the role of talent must be neutralized in a way that no simple addition to the stock of goods to be auctioned can accomplish.

We should turn, therefore, to a more familiar idea: the periodic redistribution of resources through some form of income tax.<sup>9</sup> We

9. Notice that our analysis of the problem that differential talents presents to equality of resources calls for an income tax, rather than either a wealth or a consumption tax. If people begin with equal resources, then we wish to tax to adjust for different skills so far as these produce different income, because it is only in that way that they threaten equality of resources. Someone's decision to spend rather than save what he has earned is precisely the kind of decision whose impact should be determined by the market uncorrected for tax under this analysis. Of course, there might be technical or other reasons why a society



want to develop a scheme of redistribution, so far as we are able, that will neutralize the effects of differential talents, yet preserve the consequences of one person choosing an occupation, in response to his sense of what he wants to do with his life, that is more expensive for the community than the choice another makes. An income tax is a plausible device for this purpose because it leaves intact the possibility of choosing a life in which sacrifices are constantly made and discipline steadily imposed for the sake of financial success and the further resources it brings, though of course it neither endorses nor condemns that choice. But it also recognizes the role of genetic luck in such a life. The accommodation it makes is a compromise; but it is a compromise of two requirements of equality, in the face of both practical and conceptual uncertainty how to satisfy these requirements, not a compromise of equality for the sake of some independent value such as efficiency.

But of course the appeal of a tax depends on our ability to fix rates of taxation that will make that compromise accurately. It might be helpful, in that aim, if we were able to find some way of identifying, in any person's wealth at any particular time, the component traceable to differential talents as distinguished from differential ambitions. We might then try to devise a tax that would recapture, for redistribution, just this component. But we cannot hope to identify such a component, even given perfect information about people's personalities. For we will be thwarted by the reciprocal influence that talents and ambitions exercise on each other. Talents are nurtured and developed, not discovered full-blown, and people choose which talents to develop in response to their beliefs about what sort of person it is best to be. But people also wish to develop and use the talents they have, not simply because they prefer a life of relative success, but because the exercise of talent is enjoyable and perhaps also out of a sense that an

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dedicated to equality of welfare would introduce taxes other than income taxes. Such a society might want to encourage savings, for example. But these taxes would not be responses to the problem now under consideration. Should unearned (investment) income be taxed under the present argument? I assume that unearned income reflects skill in investment as well as preferences for later consumption, in which case that argument would extend to taxing such income. Since I am not considering, in this essay, the problem of later generations, I do not consider inheritance or estate taxes at all.



unused talent is a waste. Someone with a good eye or a skilled hand conceives a picture of what would make his life valuable that someone more clumsy would not.

So we cannot hope to fix the rates of our income tax so as to redistribute exactly that part of each person's income that is attributable to his talent as distinguished from his ambitions. Talents and ambitions are too closely intertwined. Can we do better by proceeding on a slightly different tack? Can we aim to fix rates so as to leave each person with the income he would have had if, counterfactually, talents for production had all been equal? No, because it is impossible to say, in any relevant way, what sort of world that would be. We should have to decide what sort and level of talent everyone would have equally, and then what income people exploiting those talents to different degrees of effort would reach. Should we stipulate that in that world everyone would have the talents that the most talented people in the real world now have? Do we mean, by "the most talented people," the people who are able to earn the most money in the actual world if they work single-mindedly for money? But in a world in which everyone could hit a high inside pitch, or play sexy roles in films, with equal authority, there would probably be no baseball or films; in any case no one would be paid much for exercising such talents. Nor would any other description of the talents everyone would be supposed to have in equal degree be any more help.

But though this crude counterfactual exercise must fail, it suggests a more promising exercise. Let us review our situation. We want to find some way to distinguish fair from unfair differences in wealth generated by differences in occupation. Unfair differences are those traceable to genetic luck, to talents that make some people prosperous but are denied to others who would exploit them to the full if they had them. But if this is right, then the problem of differential talents is in certain ways like the problem of handicaps we have already considered.

## V. UNDEREMPLOYMENT INSURANCE

Though skills are different from handicaps, the difference can be understood as one of degree: we may say that someone who cannot play

basketball like Wilt Chamberlain, paint like Piero, or make money like Geneen, suffers from an (especially common) handicap. This description emphasizes one aspect of skills, which is their genetic and, hence, luck component, at the expense of hiding the more intimate and reciprocal play we noticed between skills and ambitions. But it also points to one theoretical solution to the problem of identifying at least the minimum requirements of a fair redistribution policy responding to differences in skill. We may capitalize on the similarities between handicaps and relative lack of skill to propose that the level of compensation for the latter be fixed, in principle, by asking how much insurance someone would have bought, in an insurance sub-auction with initially equal resources, against the possibility of not having a particular level of some skill.

Of course, there is no actual insurance market against lack of what we ordinarily take to be skill, as there is an insurance market against catastrophes that result in handicap. For one thing, a person's level of skills is sufficiently fixed and known, at least roughly, before that person enters the insurance market, so that lack of skill is primarily a matter of history rather than future contingency. (There are other reasons as well, which we shall have to identify in a moment.) But let us nevertheless try to frame a hypothetical question something like the question we asked in the case of handicaps. Suppose an imaginary world in which, though the distribution of skills over the community were in the aggregate what it actually is, people for some reason all had the same antecedent chance of suffering the consequences of lacking any particular set of these skills, and were all in a position to buy insurance against these consequences at the same premium structure. How much insurance would each buy at what cost? If we can make sense of that question, and answer it even by fixing rough lower limits on average, then we shall have a device for fixing at least the lower bounds of a tax-and-redistribution program satisfying the demands of equality of resources.

There are several ways in which we might construct a hypothetical or imaginary insurance market of that sort. We might try to imagine, for example, that people are ignorant of the skills they actually have, though they know how many people will turn out to have each skill, and therefore what their own chances are. People might then be sup-

posed to insure against turning out to lack some particular skill at some particular level, either a very precise skill like the ability to capture September light at dusk in oil, or a more general skill, like a very good memory or a quick way with numbers. This model would be very like the model we constructed for handicaps, and would therefore provide theoretical continuity for our theory as a whole. We might even propose to integrate the two hypothetical insurance markets by taking seriously the suggestion that the lack of some skill is just another handicap, and simply asking how many so-called skills would find their way into a general market for catastrophe insurance.

But this model for the hypothetical insurance market for skills is subject to a certain objection. We noticed, in considering the hypothetical insurance market for handicaps the following difficulty. There is a certain indeterminacy in the issue of what ambitions and tastes someone who is handicapped would have if he were not, and this indeterminacy infects the question of how much of what insurance he would then buy. The indeterminacy is manageable in the case of ordinary handicaps, because generalizations are nevertheless possible. But it would not be manageable in the case of skills, because if we suppose that no one has any idea what talents he has, we have stipulated away too much of his personality to leave any intelligible base for speculation about his ambitions, even in a general or average way. The connection between talents and ambitions, which I described earlier, is much closer than that between ambitions and handicaps—it is, for one thing, reciprocal—and much too close to permit that sort of counterfactual speculation.

So let us suppose, not that people are wholly ignorant of what talents they have, but rather that for some other reason they do not have any sound basis for predicting their economic rent—what income the talents they do have can produce. Or even whether the economic situation will be such that these talents will find any employment at all. There are, of course, many different ways of imagining such a state of affairs, and it does not much matter, for present purposes, which we select. So let us fall back on our immigrants once again. Suppose that, before the initial auction has begun, information about the tastes, ambitions, talents, and attitudes toward risk of each of the immigrants, as well as information about the raw materials and

technology available, is delivered to a computer. It then predicts not only the results of the auction but also the projected income structure—the number of people earning each level of income—that will follow the auction once production and trade begin, on the assumption that there will be no income tax.

Now the computer is asked a further hypothetical question. Assume each immigrant knows the projected income structure but is ignorant of the computer's data base, except for its information about himself, and is therefore radically uncertain what income level his own talents would permit him to occupy. He supposes, in fact, that he has the same chance as anyone else of occupying any particular level of income in the economy, though he takes the number projected for that level into account. Assume that there is no monopoly in insurance, and that insurance firms offer policies of the following sort. Insurance is provided against failing to have an opportunity to earn whatever level of income, within the projected structure, the policy holder names, in which case the insurance company will pay the policy holder the difference between that coverage level and the income he does in fact have an opportunity to earn.<sup>10</sup> Premiums will vary with the level of coverage chosen, must be the same for everyone at any particular coverage level, and will be paid, not out of the policy holder's initial stock of resources (or clamshells) but rather from future earnings after the auction at fixed periods. How much of such insurance would the immigrants, on average, buy, at what specified level of income coverage, and at what cost?

That problem seems amenable, at least in principle, to the various types of analysis that economists devote to problems of decision making under uncertainty, and there is no reason to doubt that the computer could furnish an answer. Even without the computer's information and powers, we can make some general observations about what

10. Other forms for the insurance market we are imagining are possible, but those I have considered seem to produce roughly the same results. Amartya Sen has suggested to me, for example, that the insurer might offer a policy guaranteeing the named level of coverage to every policyholder, but making the premium depend on the economic rent people turn out to have. This would not, I think, produce different results from the arrangement I describe as elaborated in the next section, and I think it useful to consider, as I do there, why these elaborations would be necessary.

it is likely to predict. Economists make a rough distinction between two kinds of decisions under uncertainty. An insurance problem is posed when a small cost purchases reimbursement for an unlikely but serious loss. A gambling problem is posed when a small cost purchases a small chance of a large gain. Let us define a financially advantageous bet of either of these types as a bet such that the cost of the bet is less than the amount of the return if “successful”—if the covered risk eventuates or if the bet is won—discounted by the improbability of success. If I am offered insurance for \$1 against a loss of \$10 that is equally likely as not to occur, or a ten-to-one bet at any size that a coin flip will come up heads, these are both financially advantageous bets. A bet is financially disadvantageous if the cost of the bet exceeds the expected return so calculated. Let us say that someone is risk-neutral if he will accept any financially advantageous bet and reject any financially disadvantageous bet, no matter what the size or other character of the bet.

Commercial insurance companies and commercial bookmakers will offer only financially disadvantageous bets, of course, because their income must equal not only the expected return to the policy holders and bettors but also their costs, including opportunity costs. So if everyone were risk-neutral no one would buy insurance or bet on the numbers or pools. But almost no one is risk-neutral over the full range of his utility curve: for almost everyone the marginal utility of more money declines over at least part of the graph that pictures how his welfare behaves as a function of his income. It is fairly easy to see how this explains the phenomenon of commercial insurance (though of course any explanation of why rates for particular policies are what they are would require more detailed information about these utility functions and would be much more complex). Suppose there is a one-in-ten chance that my \$50,000 house will burn down in the next year, and I am offered full insurance at a cost of \$6,000. I am offered the choice, that is, between a certainty of \$44,000 (if I purchase insurance) and a gamble with an expected return of \$45,000 (if I do not). If the loss of my house would be more than nine times as serious as the loss of \$6,000 (because, for example, I could not find or borrow enough money to build a suitable house, my marriage would dissolve, and my children become delinquent) then it is worth my while to buy

the insurance, though it is a financially disadvantageous bet. It is much harder to explain gambles. (Kenneth Arrow, discussing gambling, quoted the preacher who reached a sticky point in theology and said that the problem was a very difficult one which the congregation should face firmly and then pass on.) It is perhaps necessary to suppose that gamblers either mistake the actual odds (because they think that luck is a lady) or attach value to uncertainty for its own sake; and though both these assumptions hold sometimes, it seems doubtful that they hold sufficiently often to explain how popular gambling is.

What can be said, against this background, about the two hypothetical insurance markets we have described? Our insurance market for handicaps is sufficiently like ordinary insurance markets and requires no special comment. But the hypothetical insurance market we just described for talents is different, in part because it seems, at first blush, to allow for decisions that look much more like gambles than insurance. For it might seem that many immigrants would leap at the chance to buy a policy that would protect them against not having the very highest income projected for the economy, and would pay them, if they do not, the difference between the great income and what they actually can earn. But in fact that policy would be a very poor wager indeed.<sup>11</sup> We take it as given that insurance at that level would be a financially disadvantageous bet. Otherwise it would not be offered by the insurance firm. So if it is a good bet, it is good on grounds of expected welfare rather than financial grounds, as is my insurance policy on my house. But the bet is much more likely to be silly than sound in welfare terms.

Since (unlike lottery tickets generally) the chances of “winning” are extremely high—very few immigrants will turn out to have that maximum earning power—the cost of the premium will be extremely high as well.<sup>12</sup> It will approach the value of the projected return if the

11. If I am wrong in this, the hypothetical insurance argument would insist on radical redistribution and substantial wealth equality. So the scheme would offer an argument for that consequence, on that assumption.

12. I have neglected the question of the technology that will be available for the insurance firms to decide and prove who has what level of talent, and the cost of that technology. I assume that the computer will have that information, as part of its technological data base, and will use it to predict the premium structure and other incidents of the contract of insurance. When I speak of



risk eventuates. So someone who buys this insurance faces an extremely high chance of gaining very little. Suppose he loses, however; suppose he is one of those who does have the maximum earning power. He is now in a much worse position than if he had never insured, because he must now work at close to his top earning capacity just to pay the high premium for his insurance on which he collected nothing—just, that is, to break even. He will be a slave to his maximum earning power.<sup>13</sup>

Now just how bad a bargain this is will depend upon facts not specified, including the question of how many people can be expected to have the talents necessary to earn at the highest level. But it is likely to be a very bad bargain in any case. It is very different from the situation that apparently tempts large numbers of people to make financially disadvantageous bets on vast lotteries, which is the prospect of a small chance of a large fortune in return for a very small certain cost. This insurance decision would be the very different financially disadvantageous bet of a very small chance of a very great loss in return for the very large chance of a very small gain, and nothing in the literature of the psychology of gambling (except perhaps the literature of Russian roulette) supports the idea that bets of that character would be popular.

Nor does the explanation of why people purchase ordinary financially disadvantageous insurance policies offer it any support either. I buy insurance on my house because the marginal utility loss of an uncompensated fire is so much greater than the utility cost of the premium. But considerations of marginal utility would, in anything, condemn rather than support any immigrant's bet that he would not have the skills necessary to earn the highest income. For that bet pits the almost certain prospect of a tiny and probably unnoticeable welfare gain against the tiny chance of an enormous welfare loss on financially disadvantageous terms. Of course, we make assumptions

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“winning” or “losing” the insurance bet, I mean qualifying for compensation or failing to qualify under the incidents the computer predicts.

13. He may also run the even graver risk of losing under the tests specified in the policy and yet not, in fact, having the ability to earn the covered level. I do not emphasize this risk because it assumes failures of technology about which it is impossible to speculate. I therefore assume, *arguendo*, that no one will be in that perilous position.

in presuming that almost no one would have a utility curve that would make that bet sensible in welfare terms. But it does seem plausible that almost no one would.

Does this argument prove too much? Does it prove that insurance against lacking skills, on the model we described, would almost always be a bad buy for almost everyone? If so, it would seem to follow that the hypothetical insurance device could not, after all, provide reasonable guides for redistribution through income tax. Or, perhaps worse, it might suggest that no such redistribution would ever be justified. But in fact the argument does not have this consequence, because the lower the income level chosen as the covered risk the better the argument becomes that most people given the chance to buy insurance on equal terms would in fact buy at that level. The argument becomes compelling, I think, well above the level of income presently used to trigger transfer payments for unemployment or minimum wage levels in either Britain or the United States.

The argument becomes stronger, as the chosen income level declines, for the following reasons. First, as the level declines, the odds that any particular person will have the talents necessary to earn that income, at full stretch, improve and, for a substantial section of income levels in normal economies, improve faster than the rate of that decline. Many more than twice as many people have the abilities necessary to earn the amount earned in the fiftieth percentile than in the ninety-ninth percentile of a normal income distribution. So the premium falls, and falls, at least over a considerable range, at a rate faster than the rate of the coverage. So, correspondingly, do the odds against “winning,” of course, but the situation grows steadily closer to the normal case of insurance, in which people incur a small certain loss to prevent an unlikely great loss whose marginal utility consequences are serious enough to justify on the welfare space a financially disadvantageous transaction. For even though the financial loss in falling from, say, the seventieth to the sixtieth percentile in income is vastly greater than the loss in falling from the fortieth to the thirtieth, the welfare consequences will probably, on average, be much worse for the latter drop.

As the income level covered drops, moreover, so the penalties of “losing” the insurance bet, by turning out to have the abilities to earn

at least that income, diminish in importance and, once again, at what seems likely to be a faster rate. Someone who “loses” in this sense must work hard enough to cover his premium before he is free to make the tradeoffs between work and consumption he would have been free to make if he had not insured. If the level of coverage is high then this will enslave the insured, not simply because the premium is high, but because it is extremely unlikely that his talents will much surpass the level that he has chosen, which means that he must indeed work at full stretch, and that he will not have much choice about what kind of work to do. Only one form of work, and that full time, will be likely to produce the income needed to pay the premium that is now his albatross. So his penalty has special welfare disadvantages not measurable in ordinary financial terms. It is these that make it appropriate to speak of his enslavement.

But as the level of coverage and hence the premium drop, these special welfare disadvantages are not simply mitigated, but entirely fall away. For it becomes likely that anyone who has the qualifications needed to earn at, say, the thirtieth percentile level will also have the talents to earn at a higher level, and so would retain a considerable freedom of choice about the character of work, and the mix of work and labor and additional consumption, that he prefers. Even if he just barely “loses” the insurance bet, and has exactly the talents needed to earn the level of income he covered, but no more, he will still probably retain a great freedom of choice. The premium will be small enough to sustain even if he works at a lower level of income than he could, particularly if he is willing to sacrifice consumer goods. There are, moreover, a greater variety of types of jobs that will produce a lower level of income than a higher (at least in most complex economies at least over a range of income levels) so that someone committed to earning as much as he can will have more choice of work, nevertheless, at that lower level. Even if he must work flat out, and has no choice in his work, his situation is very little worse than if he had taken no insurance. For if the coverage level is so low that almost everyone must earn it to have a decent life, he would have worked that way and practically that hard anyway, and if the premium is very low, as it then would be, he would not have to work much harder to cover it. He is not much differently enslaved by his talent

if he insures than he would be enslaved by his lack of talent if he did not.

The hypothetical insurance market might nevertheless produce apparent anomalies. Suppose two people, Deborah and Ernest, both purchase insurance at the sixtieth percentile level. Deborah is beautiful and could in fact earn at the ninetieth percentile as a movie star. They have otherwise the same talents and interests, and these other talents would not earn at the sixtieth level. Ernest recovers under his policy, but Deborah does not. She is faced with the choice of a movie career, which she detests, or trying to pay the premium and the other expenses of her life from whatever salary she could earn at jobs she and Ernest would both prefer. Ernest can have both such a job and compensation under his policy, and is therefore much better off.<sup>14</sup> Is this unfair? Deborah is, as it turns out, enslaved by her singular talent. But this is because she ran the risk described in the text by purchasing insurance at a coverage level commanding a high premium and such that few jobs could produce income approaching that level. Ernest ran the same risk, but had better option luck. The anomaly is therefore only a further (and more complex) example of the undesirable welfare risks of insurance at a high level. If Deborah and Ernest had purchased insurance at a lower level, the premium would have been lower and Deborah would have had a much better choice of jobs other than a film career. They would still fare differently, but the difference would be much less, and would (arguably) then be an appropriate mark of the fact that Deborah had an option Ernest did not. In any case, this unfairness, if it is unfairness, would disappear in any plausible translation of the hypothetical insurance market into an actual tax scheme of the sort described in the next section.

## VI. TAX AS PREMIUM

Now let us assume that the computer fixes the average coverage level that would be reached in the hypothetical insurance market, and declares some premium to be the premium that level would command. The premiums would be a sufficiently small proportion of the coverage so that (for the average person) the expected welfare of insuring

14. Thomas Scanlon provided this example.

would be higher than the expected welfare of not doing so. Can we translate that hypothetical insurance structure into a tax scheme? Can we base tax rates on the assumed premium, and then redistribute by paying those who do not have the ability to earn at the assumed coverage level the difference between that level and what they can earn?

We might assume that any tax system constructed to model the hypothetical insurance market in that way would suffer from serious defects. First, it seems unfair that everyone, rich and poor alike, should pay the same tax, but this would seem to be the consequence of modeling tax rates on hypothetical premiums. Second, the requirement that both the incidence and amount of payments from the fund depend on what the recipient could earn if willing seems inefficient and troublesome in a variety of ways. It might be very expensive to enforce that requirement, and in practice the requirement will tempt some people to cheat by hiding their abilities under a bushel. In any case, even honest people cannot know what they might earn at a given occupation without trying, and in the case of some professions, trying is impossible without half a lifetime of preparation. So a battery of new tests to discover latent talent would be necessary, and these would be vulnerable to many sorts of mistakes.

But these objections make certain assumptions about what the hypothetical insurance market would be like, and these assumptions are both unjustified and probably false. For suppose the insurance firms had offered, in place of the flat rate premium for a given coverage that the objections assume, a premium fixed as an increasing percentage of the income the policy owner turns out to earn. The premium of someone who barely earns the average coverage amount would be less than the premium the insurance market would have fixed on a flat-rate basis, though the premium of someone who earns much more would be much greater. The insurance firms would have reason to offer this different scheme if the total premiums paid would be more, and the immigrants buying insurance would also have reason to accept it if the change increased their expected welfare under the conditions of equal risk we have stipulated. Since we assume declining marginal utility of money over the range in question, as part of the assumptions on which we speculate that insurance would be

bought at all, these conditions will be met. Immigrants would prefer a “bet” under which the cost of the bet will be an increasing function of their income, and will prefer it by enough to provide profit for the insurance firms even counting the increased administrative costs of a progressive premium scheme.

The firms would also have reason to reduce what insurers call the “moral hazard” of such insurance—the risk that insurance will make the covered even more likely to occur or the level of recovery higher if it does—and to pass on part of their savings to policy holders as inducements to accept the necessary constraints. One technique insurers now use for that purpose is co-insurance. First-person automobile policies provide, for example, that the owner must assume the first several hundred dollars of damage before the insurer makes up the balance. Co-insurance in our story means that if one of the immigrants is unable to earn the average coverage amount, he will receive somewhat less than that amount as compensation. Of course people will buy insurance at a higher coverage level with co-insurance than without, though at a lower premium than the higher amount would otherwise attract, which means that the average coverage level would be higher than under a scheme with no co-insurance. But if substantial savings for the insurance firm would result from reducing the moral hazard (and popular resentment about welfare cheats under present welfare schemes in the United States, for example, supposes that they would), then the savings in premium along the range should also be substantial, which argues that the presumed coverage would indeed be higher under a co-insurance regime. How much co-insurance would obtain—by how much the payment to those who fail to earn the covered amount would fall short of that amount and what the effect on the premium structure and the presumed coverage level would be—depends only on information that has already been given to the computer.

The problem and the cost of accuracy in determining people’s actual abilities to earn are made less pressing for the insurer by co-insurance. It sharply reduces the motives people have for not earning at least the covered amount in order to claim that they cannot earn it. But the insurer has another device for reducing the cost of accuracy enough to lower premiums and so make the device attractive to policy



holders. Since policy holders will almost always have more information about their abilities and opportunities than the insurer will, there is room for joint savings by assigning the burden of proof to the policy holders. This burden will be more severe for coverage at the higher levels, I expect, than at the lower, because it is often difficult to prove that one could not have had a career for which special training or education or experience is necessary unless one has undertaken these. But if I am right that the average coverage level would be relatively low, we need not pursue that problem. At the lower levels the proof will be easily provided by attempts to find employment that have failed, or by evidence of less than average general physical and mental abilities, and so forth.

So the actual insurance profile the computer would predict is likely to be much more complex than the simple structure our defective tax system copied. If the immigrants translate this more complex insurance profile into a tax scheme they reach a more recognizable pattern of tax. They might establish a graduated income tax financing transfer payments in the amount of the difference between the average coverage level less the co-insurance factor and what an applicant can plausibly argue is the highest income he can in fact command. This exercise, of course, neither need nor should stop at this point. Further reflection about the hypothetical insurance market might develop further refinements or adjustments to the corresponding tax scheme. And we might decide that a tax scheme should differ from the best approximation of that hypothetical market for other reasons. We might decide that a tax scheme so closely modeled on that market is offensive to privacy, or too expensive in administrative costs, or too inefficient in other ways. We might decide, for these or other reasons, that a scheme that tied redistribution to actual earnings rather than to ability to earn, for example, was a better second-best approximation to the ideal of mimicking the insurance market than any other scheme we could develop.

But I want to put aside, for this essay, any further study of these issues, because we have carried them far enough, I think, to justify turning instead to the question waiting in the wings. Is the general approach sensible? Is a tax scheme constructed as a practical translation of a hypothetical insurance market, which assumes equal initial

assets and equal risk, a proper response to the problem of differential talents under equality of resources?

It might be criticized from two standpoints: either that it does not justify enough redistribution, or that it justifies too much. The latter objection seems the weaker of the two. Recall the competing constraints we discovered. Equality requires that those who choose more expensive ways to live—which includes choosing less productive occupations measured by what others want—have less residual income in consequence. But it also requires that no one have less income simply in consequence of less native talent. Any objection that the transfer payments guided by the hypothetical insurance market are too great must show a lively danger that the first of these requirements has been given insufficient weight. But if the hypothetical insurance market justifies the selection of a particular level as the average assumed coverage, this argues strongly for the probability that any particular immigrant is ready to work at one of the occupations that could produce income at that level rather than have a lesser income, if the choice were available. Otherwise he would have run too great a risk by taking on a premium that makes sense only for someone ready to earn the income needed to support it, particularly if the average level is sufficiently low so that the odds were great that he would have to do exactly that. He may be ready to do so because a wide range of occupations, suiting very different personalities, would produce that level of income, or because that level is necessary to lead what popular culture considers an acceptable style of life, or, more probably, both together. Of course, this favorable counterfactual would not, in fact, hold in the case of everyone who lacks appropriate talents, or does not find a job in the employment market for some other reason. Some such immigrants would not have taken insurance at the average coverage level even if it were available. But this presents a question of valuing the relative importance of the two constraints on a theory of redistribution for differential talents. Taking the average coverage level as decisive, which we have done, is an appropriate way of weighting them equally.<sup>15</sup> It supposes that it is at least no worse to err on the

15. As in the case of handicaps, I have chosen to make premiums and therefore tax payments turn on the average coverage level as a simplifying device. I might, of course, have chosen either the median or the mode of coverage se-

side of redistributing to someone who would not have insured than to deny redistribution to one who would have. Someone may be able to show that this is wrong, and thereby justify taking, as the standard for redistribution through taxation, a lower figure such that the odds are very strong, possibly even overwhelming, that any particular person would have insured at that level. But I do not know of any arguments for that view. Perhaps the difference between the average coverage level and some lower level of that sort would not be very great. Perhaps, that is, utility curves of most people would look very much alike for the lower percentiles of possible coverage. But this is one of the legion of quasi-technical questions that I make no attempt to discuss here.

The opposite objection, that transfer payments based on the average coverage level are not enough, is more difficult to answer. It might be supported in two different ways. It might be said that the hypothetical insurance approach is the wrong approach through which to attempt to compromise the two requirements we discovered; or that the hypothetical insurance approach is the right approach but requires transfer payments at a higher level. The second argument presumably agrees with the objection just described, that the two requirements of equality in wage structure are not of equal weight, but insists that it is much worse to deny payments to someone who would have insured than to award them to someone who would not have done so. It insists, in other words, that the level of assumed coverage chosen should be some level such that it is very unlikely that anyone would have insured above that level. Once again, it is worth noticing that this level might not be much above the average coverage level. We saw, earlier, reasons why almost no one would insure at a very high income level in any case. But once again I shall not explore the technical issue raised, but simply set the suggestion aside until the substantive argument, in favor of special deference to one requirement of equality in wage structure over the other, has been made.

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lected in the hypothetical market instead of the average or mean. It is an interesting question whether either of these would be better. I chose the average on the assumption that our assessment of the chance of error in particular cases (the chance that the "premium" extracted differs from what the individual in question actually would have paid in the hypothetical market) should reflect the amount as well as the fact of that difference.

But we must now state and consider the important argument that the hypothetical insurance market is altogether the wrong approach to the problem of reconciling these two requirements, because it undervalues the transfer payments that those whose talents are not in great demand should receive. The hypothetical insurance market approach aims to put such people in the position they would have been in had the risk of their fate been subjectively equally shared. But it does not make them as well-off in the end as those whose talents are in more demand, or those with similar talents lucky enough to find more profitable employment. Some people (movie stars and captains of industry and first basemen) in fact earn at a rate far beyond the rate of coverage any reasonable person would choose in an insurance market, as our inspection showed. The hypothetical insurance market approach is beside the point (it might be said) exactly because it provides no answer to someone who is unable to find a job, points to the movie star and declares, perfectly accurately, that he would do that work for that pay if asked. The fact that no one would buy coverage at a movie-star level in an equal insurance market simply underscores the injustice. The movie star had no need to buy that insurance. He won his life of luxury and glamor without it. The brute fact remains that some people have much more than others of what both desire, through no reason connected with choice. The envy test we once seemed to respect has been decisively defeated, and no defensible conception of equality can argue that equality recommends that result.

This is a powerful complaint, and there is no answer, I think, but to summarize and restate our earlier arguments to see if they can still persuade with that complaint ringing in our ears. Let us return to the immigrants. Claude cannot argue, on grounds of equality, for a world in which he has the movie star's income. The immigrants cannot create a world in which everyone who would be willing to work movie-star hours can have movie-star pay. If Claude is unhappy with his situation, even after the tax scheme is put into play, he must propose a world in which no one will have such an income and his income will be relatively (and perhaps absolutely) higher in consequence. But whichever such world he proposes will be changed not only for those who under our scheme would have more than he does, but for everyone else as well, including those who for one reason or another, in-

cluding their preferences for work, leisure, and consumption, will have less. If, for example, no one can earn movie-star wages, people who wish to watch movies may perhaps find very different fare available which, rightly or wrongly, they will not regard as highly as what they now have. It is, of course, impossible to say in advance just what the consequences of any profound change in an economic system would be, and who would gain or lose in the long run. These changes could not be properly charted along any one simple dimension. They could not be measured simply in the funds or other “primary goods” available to one or another economic class, for example. For they also affect the prices and scarcity of different goods and opportunities that members of any particular class, even economic class, will value very differently from one another. That is exactly why the immigrants chose an auction, sensitive to what people in fact wanted for their lives, as their primary engine for achieving equality.

So though Claude may truly say that the difference between him and the movie star does not reflect any differences in tastes or ambitions or theories of the good, and so does not in itself implicate our first, ambition-sensitive requirement of equality in wage structure, he could not recommend any general change in relative economic positions that would not wreak wholesale and dramatic changes in the positions of others, changes which do implicate that requirement. Of course, this fact does not in itself rule out any changes that Claude might propose. On the contrary, the status quo achieved by laissez-faire production and trade from an equal start has no natural or privileged status, as I have been at pains to emphasize, particularly my argument against the “starting-gate” theory of equality. If Claude can show that a proper conception of equality of resources recommends some change, the fact that many people from all ranks would be then worse-off, given their particular tastes and ambitions, provides no objection, any more than the fact that Claude is worse-off without some change in itself provides an argument in favor of that change. I mean to emphasize only that Claude needs some argument in favor of the change he recommends which is independent of his own relative position. It is not enough for him to point to people, even those of the same ambitions and tastes as himself, who do better as things are.

The argument from the hypothetical insurance market is such an argument. It contrasts two worlds. In the first those who are relatively disadvantaged by the tastes and ambitions of others, vis-à-vis their own talents to produce, are known in advance and bear the full consequences of that disadvantage. In the second the same pattern of relative disadvantage holds, but everyone has subjectively an equal antecedent chance of suffering it, and so everyone has an equal opportunity of mitigating the disadvantage by insuring against it. The argument assumes that equality prefers the second world, because it is a world in which the resources of talent are in one important sense more evenly divided. The hypothetical insurance argument aims to reproduce the consequences of the second world, as nearly as it can, in an actual world. It answers those who would do better in the first world (who include, as I said, many of those who would have more money at their disposal in the second) by the simple proposition that the second is a world that, on grounds independent of how things happen to work out for them given their tastes and ambitions, is more nearly equal in resources.

The availability of that argument is no bar to the production of other arguments showing how some further change would improve equality of resources still further. Let me remind you, however, that it is hard to anticipate how great a motive we should have to search for further arguments if the hypothetical insurance argument were in fact accepted and enforced in, for example, our immigrant case. That would depend, among other things, on how high a level of income could be shown to be the average coverage level in that society. It might be that wealth disparities would be so greatly reduced by the features of the economy we have already described that we would be much less troubled than we might suspect in advance by the wealth inequalities that would remain. Indeed it might be that the costs in overall efficiency of even those features would be so great that those who are prepared to compromise equality of resources either for general utility or in service of some strategy of making the worst-off as well-off as possible, would argue that even that much equality would be condemned by their more embracing conception of justice.

Of course, many of the political philosophers and theorists who object to inequality are concerned, not simply with how poor those at



the bottom are in absolute terms, but with what might be called the moral costs of a society with substantial wealth inequality, costs that remain, and indeed are sometimes exacerbated, when the position of the least well-off is sharply improved but the inequality remains. It would be a mistake, however, to suppose that the bizarre and mutually dependent attitudes about wealth that mark our own society—the ideas that the accumulation of wealth is a mark of a successful life and that someone who has arranged his life to acquire it is a proper object for envy rather than sympathy or concern—would find any footing in an economic system that is free of genuine poverty and that encourages people, as the initial auction encourages them, to see bank account wealth as simply one ingredient among others of what might make a life worth living. For in our world, these attitudes are sustained and nourished by the assumption that a life dedicated to the accumulation of wealth or to the consumption of luxuries—a major part of whose appeal lies just in the fact that they are reserved for the very rich—is a valuable life for people given only one chance to live. That proposition comes as close as any theory of the good life can to naked absurdity.

It is no doubt an important question for social psychology and intellectual history how that proposition finds a footing in any society. It has, after all, been condemned in all literature or any other form of art taken seriously for very long in even deeply capitalistic communities, and though I understand the possibility, that its rejection in art might be parasitic upon its unthinking acceptance in life, the protests of even the most popular forms of art nevertheless deepen the mystery. My present point is much more banal than any attempt to solve that mystery. It is simply this: that we are so ignorant about the complex genealogy of the implausible attitudes about wealth that we find among us, which those who point to the moral costs of the market system deplore, that we would do wrong to assume in advance that these same attitudes will rise in a market system whose very point is to encourage the kind of reflective examination about costs and gains under which these attitudes would seem most likely to shrivel and disappear.

But it is nevertheless important to try to discover arguments showing that equality of resources, as a distinct ideal, would recommend

erasing even those wealth differentials that the hypothetical insurance argument would permit, and this project is not threatened by my uncertainty whether we should feel dismayed, or find our intuitions undermined, if we did not in fact discover any. I do not doubt that such arguments can be found, and it is part of my purpose to provoke them. But it is worth mentioning certain arguments that do not seem promising. It might be said, for example, that equality of resources would approve a different world still, in which people had in fact equal talents for production, more than either of the other two I described, so that we ought to strive to create a system in which wealth differences traceable to occupation were no greater than they would be in that world. There is an important point locked in that claim, which is that an egalitarian society ought, just in the name of equality, to devote special resources to training those whose talents, as things fall out, place them lower on the income scale. That is part of the larger question of an egalitarian theory of education, which I have not even attempted to take up here. But the more general point suffers from the fact that we could not even begin to replicate the wealth distribution that would hold in that different world without making assumptions about the mix of talents that everyone in that world would share in equal abundance, and no specification of the mix could be neutral amongst the various ambitions and tastes in the real world in which we attempt that replication.

Suppose someone says simply (and with creditable impatience) that equality of resources just *must* prefer a world in which people have more nearly equal wealth than they are likely to have in a world of free trade, even against a background of equal initial wealth and even as corrected by the hypothetical insurance market. To deny that (it might be said) is simply to prefer other values to equality, not to state an acceptable conception of equality itself. That is, of course, exactly what my arguments have been meant to challenge. Once we understand the importance, under equality of resources, of the requirement that any theory of distribution must be ambition-sensitive, and understand the wholesale effects of any scheme of distribution or redistribution on the lives which almost everyone in the community will want and be permitted to lead, we must regard with suspicion any flat statement that equality of resources just must be defined in a

way that ignores these facts. Equality of resources is a complex ideal. It is probably (as the various arguments we have canvassed in this essay suggest) an indeterminate ideal that accepts, within a certain range, a variety of different distributions. But this much seems clear: any defensible conception of that ideal must attend to its different dimensions, and not reject out of hand the requirement that it be sensitive to the cost of one person's life to other people. The present suggestion, that genuine theories of equality must be concerned only with the quantity of disposable goods or liquid assets people command at a particular time, is a piece of pre-analytic dogma that does not, in fact, protect the boundaries of the concept of equality from confusion with other concepts, but rather thwarts the attempt to picture equality as an independent and powerful political ideal.

## VII. OTHER THEORIES OF JUSTICE

It is hardly worth repeating how far the remarks here fall short of a full theory of equality of resources even under simple and artificial conditions like those of the immigrant society. I have said nothing, for example, about how far equality, properly understood, constrains people from giving to others what they are entitled to keep and use for themselves. That question includes, of course, the troublesome issue whether those who have amassed wealth through sacrifices in their own lives should be allowed to pass this on as extra wealth for their children. Nor have I said anything about what accommodation an equal distribution of resources should make for radical changes in people's minds about how they wish to spend their lives. Is someone entitled to a fresh stock of resources when he rejects his former life and wants a fresh start? Suppose he is a profligate who has wasted his initial endowment and now finds himself with less than he needs to provide even for basic needs in later life.

These questions are of great theoretical interest, and of central practical importance when we come to ask what the requirement of an equal start, which in our immigrant world could be satisfied by an equal initial auction, would mean for the real world. I have also set aside the entire issue of equality of political power, for another occasion, though as I noticed at the beginning it is quite illegitimate to

regard political equality as an issue entirely distinct from economic equality. Nevertheless we have, I think, covered enough ground here so that it might be useful to contrast the direction in which we are traveling with those taken by certain prominent theories of justice now in the field.

It should be reasonably plain how the conception of equality defended here contrasts with equality of welfare, the theory considered in Part 1 of this essay. There is nothing in the idea of an equal initial auction, followed by trade and production constrained by taxation mimicking hypothetical insurance markets, that either aims at equality in any concept of welfare or makes convergence toward such equality likely. Indeed, there is no place in the theory, as developed so far, even for comparisons of the welfare levels of different people. The theory does make use of the idea of individual utility levels, for example in the calculations it recommends about how people would behave in certain hypothetical markets. But these calculations use only the rather antiseptic concept of utility proposed by von Neumann and Morgenstern, among others, rather than any of the more complex and judgmental conceptions of welfare that are necessary for interpersonal comparisons, whose shortcomings I discussed in Part 1.

There might well be interesting connections between the theory described here and some form of utilitarianism, which commands the maximization of some concept of welfare overall rather than equality in its distribution. Of course our theory as a whole could not be expected to maximize any concept of welfare across society, except under special and quite extravagant assumptions about individual utility functions. The assumption that people should enter economic activity with equal initial resources, for example, would count as a dubious theorem for a utilitarian, rather than as a cardinal axiom. Nevertheless the idea of an equal auction for goods and services, from the base of an equal abstract distribution of economic power, might seem to suggest a utilitarian strain in the theory, because an auction would promote overall utility better than a more mechanical division of available goods into equal lots. I do not think that this mild similarity, insofar as it does exist, is entirely accidental. On the contrary utilitarianism owes part of its appeal, I think, to the fact that in certain circumstances a distribution that maximizes overall marginal utility

from an intuitively fair basic distribution would also be recommended by the present conception of equality. This is even more plainly true of the wealth-maximization theory of justice, which is a cousin of utilitarianism, and is presently popular among academic lawyers. This theory argues that, at least in certain circumstances, a distribution that maximizes marginal wealth is fair. The circumstances in which the wealth-maximization theory seems intuitively plausible<sup>16</sup> are in fact just the circumstances in which our conception of equality would probably recommend the decision that in fact maximizes wealth. The overall fit between our conception of equality and the wealth-maximization theory, indeed, is likely to be closer than the fit of our conception of equality with utilitarianism.<sup>17</sup> But in both cases, so far as the present argument holds, the connection is one-way only. A distribution that fits the two theories is fair because equality, and not the maximization of either utility or wealth, recommends it.

There are also at least superficial connections between the theory of equality of resources suggested here and various forms of the Lockean theory of justice in private property, particularly in Robert Nozick's distinguished and influential version. Of course the differences, even on the surface, are more striking. There is no place in a theory like Nozick's for anything like the idea of an equal distribution of abstract economic power over all the goods under social control. But both Nozick's theory and equality of resources as described here give a prominent place to the idea of a market, and recommend the distribution that is achieved by a market suitably defined and constrained. It may be that those parts of Nozick's arguments that seem intuitively most persuasive are based on examples where the present theory would reach very similar results.

The famous Wilt Chamberlain example is a case in point. Nozick supposes an equal distribution of wealth, followed by uncoerced trades to mutual advantage in which each of many people pays a small sum

16. As it often does, I think, in hard cases at common law when those who would benefit and those who would lose by the introduction of any new rule of law are or must be assumed to be classes roughly equal in their command over resources. See R. Posner, "The Ethical and Political Basis of the Efficiency Norm in Common Law Adjudication," *Hofstra Law Review* 8 (1980): 487.

17. R. Dworkin, "Why Efficiency?" *Hofstra Law Review* 8 (1980): 563.

to watch Chamberlain play basketball, after which he grows rich and wealth is no longer equal. Equality of resources would not denounce that result, considered in itself. Chamberlain's wealth reflects the value to others of his leading his life as he does. His greater wealth, at the end of the process, is of course traceable mainly to his greater talent, and only in small part, we may assume, to the fact that he is willing to lead a life that others would not be. But almost no one would have purchased, in the hypothetical insurance market we described, insurance against not having talents that would provide such wealth. That insurance would be, for almost everyone, a strikingly irrational investment. So our discussion would not justify taxing any of Chamberlain's wealth for redistribution to others not so fortunate, if we attend only to the fact, as Nozick does, that others have much less wealth than he does.

But our discussion left open, as Nozick's did not, that arguments justifying such redistribution might be found in a more thorough study of the actual circumstances in which wealth like Chamberlain's is accumulated. Suppose Chamberlain plays his game, not in a community whose only wealth disparity lies in his enormous wealth against the equal wealth of all others, each of whom has only slightly less than the most equal distribution we can imagine, but in Philadelphia in the early 1970s. Now a great many people earn less than the average presumed coverage of a plausible hypothetical insurance market for that society, so even if we assume that the complex wealth differences we find are all traceable to lack of talent rather than lack of an equal start (which is absurd), we are still required to put in place a tax system for redistribution to them, and Chamberlain will be required to contribute to that system. Indeed, since our argument justified the conclusion that premiums in the hypothetical insurance market would lie at progressive rates, based on income realized, Chamberlain would be required to contribute more than anyone else, both absolutely and as a percentage of his income. When the discussion is broadened in this way, equality of resources travels very far from the boundaries of the nightwatchman state.

The difference between the use the two theories make of the market is therefore clear enough. For Nozick the role of the market in justifying distributions is both negative and contingent. If someone has justly



acquired something, and chooses to exchange it with someone else in return for the latter's goods or services, then no objection can be taken, in the name of justice, to the distribution that results. The history of the transaction insulates it from attack and, in this negative way, certifies its moral pedigree. There is no room, in this theory, for hypothetical markets of any form, except in the special case of restitution for demonstrated injustice in the past. For Nozick does not use the market (as, for example, some wealth-maximizers do) simply to define another of what he calls "patterned" theories of justice. Justice consists, not in the distribution that a fair market of rational persons would reach, but in the distribution that has actually, as a matter of historical contingency, been reached by a process that might, but need not, include any market transactions at all.

Under equality of resources the market, when it enters, enters in a more positive but also more servile way. It enters because it is endorsed by equality, as the best means of enforcing, at least up to a point, the fundamental requirement that only an equal share of social resources be devoted to the lives of each of its members, as measured by the opportunity cost of such resources to others. But the value of actual market transactions ends at just that point, and the market must be abandoned or constrained when analysis shows, from any direction, that it has failed in this task, or that an entirely different theoretical or institutional device would do better. Hypothetical markets are plainly of comparable theoretical importance to actual markets for this purpose. We are less certain about their results, but have a great deal more flexibility in their design, and the objection that they have no historical validity is simply beside the point.

I shall try to say something, finally, about the connections and differences between our conception of equality of resources and John Rawls' theory of justice. That theory is sufficiently rich to provide a question of connection at two different levels. First, how far do the arguments in favor of equality of resources, as described, follow the structure of argument Rawls deploys? How far do they depend, that is, on the hypothesis that people in the original position Rawls described would choose the principles of equality of resources behind the veil? Second—and independently—how far are the requirements

of equality of resources different from the two principles of justice that Rawls suggests people in that position would in fact choose?

It is obviously better to start with the second of these questions. The comparison in point is that between equality of resources and Rawls' second principle of justice, whose main component is the "difference" principle which requires no variation from absolute equality in "primary goods" save as works to the benefit of the worst-off economic class. (Rawls' first principle, which establishes what he calls the priority of liberty, has more to do with the topics I have set aside as belonging to political equality.) The difference principle, like our conception of equality of resources, works only contingently in the direction of equality of welfare on any conception of welfare. If we distinguish broadly between theories of equality of welfare and of resources, the difference principle is an interpretation of equality of resources.

But it is nevertheless a rather different interpretation than our conception. From the standpoint of our conception, the difference principle is not sufficiently fine-tuned in a variety of ways. There is a conceded degree of arbitrariness in the choice of any description of the worst-off group, and this is, in any case, a group whose fortunes can be charted only through some mythical average or representative member of that group. In particular, the structure seems insufficiently sensitive to the position of those with natural handicaps, physical or mental, who do not themselves constitute a worst-off group, because this is defined economically, and would not count as the representative or average member of any such group. Rawls calls attention to what he calls the principle of redress, which argues that compensation should be made to people so handicapped, as indeed it is, in the way I described, under our conception of equality. But he notes that the difference principle does not include the principle of redress, though it would tend in the same direction insofar as special training for the handicapped, for example, would work to the benefit of the economically worst-off class. But there is no reason to think that it would, at least in normal circumstances.

It has often been pointed out, moreover, that the difference principle is insufficiently sensitive to variations in distribution above the worst-off economic class. This complaint is sometimes illustrated with

bizarre hypothetical questions. Suppose an existing economic system is in fact just. It meets the conditions of the difference principle because no further transfers of wealth to the worst-off class would in fact improve its position. Then some impending catastrophe (for example) presents officials with a choice. They can act so that the position of the representative member of the small worst-off class is worsened by a just noticeable amount or so that the position of everyone else is dramatically worsened and they become almost as poor as the worst-off. Does justice really require the much greater loss to everyone but the poorest in order to prevent a very small loss by them?

It may be a sufficient reply to such questions that circumstances of that sort are very unlikely to arise, and that in fact the fates of the various economic orders are or can easily be “chained” together so that improvements in the worst-off class will in fact be accompanied by improvement in at least the other classes just above them. But this reply does not remove the theoretical question whether, in all circumstances, it is really and exclusively the situation of the worst-off group that determines what is just.

Equality of resources, as described here, does not single out any group whose status has that position. It aims to provide a description (or rather a set of devices for aiming at) equality of resources person by person, and the considerations of each person’s history that affect what he should have, in the name of equality, do not include his membership in any economic or social class. I do not mean that our theory, even as so far detailed, claims any impressive degree of accuracy for those devices. On the contrary, even in the artificially simple case we treated, we several times had to concede speculation and compromise, and sometimes even indeterminacy, in the statement of what equality would require in particular circumstances. But the theory nevertheless proposes that equality is in principle a matter of individual right rather than group position. Not, of course, in the sense that each has a predetermined share at his disposal regardless of what he does or what happens to others. On the contrary, the theory ties the fates of people together in the way that the dominant devices of actual and hypothetical markets are meant to describe. But in the different sense that the theory supposes that equality defines a relation among citizens that is individualized for each, and therefore can

be seen to set entitlements as much from the point of view of each person as that of anyone else in the community. Even when our theory helps itself to the idea of an average utility curve, as it does in the construction of hypothetical insurance markets, it does so as a matter of probability judgments about particular people's particular tastes and ambitions, in the interests of giving them what they are, as individuals, entitled to have, rather than as part of any premise that equality is a matter of equality between groups. Rawls, on the other hand, assumes that the difference principle ties justice to a class, not as a matter of second-best practical accommodation to some deeper version of equality which is in principle more individualized, but because the choice in the original position, which defines what justice even at bottom is, would for practical reasons be framed in class terms from the start.<sup>18</sup>

It is impossible to say, a priori, whether the difference principle or equality of resources will work to achieve greater absolute equality in what Rawls calls primary goods. That would depend upon circumstances. Suppose, for example, that the tax necessary to provide the right coverage for handicaps and the unemployed has the long-term effect of discouraging investment and in this way reducing the primary-goods prospects of the representative member of the worst-off class. Certain individual members of the worst-off group who are handicapped or who are and will remain unemployed would be better off under the tax scheme (as would, we should notice, certain members of other classes as well) but the average or representative member of the worst-off class would be worse off. The difference principle, which looks to the worst-off group as a whole, would condemn the tax, but equality of resources would recommend it nevertheless.

In the circumstances of the familiar bizarre questions just described, when a just noticeable loss to the representative member of the worst-off class, from a just base, could be prevented only by very substantial losses to those better off, the difference principle is committed to preventing that small loss even at that cost. Equality of resources, on the contrary, would be sensitive to quantitative differences of just the sort that those who take objection to Rawls' theory

18. J. Rawls, *A Theory of Justice* (Cambridge, MA: Harvard University Press, 1971), p. 98.

on that account believe should matter. If the base is an equal division of resources, this means, not that any transfer to the worst-off group would work to the long-run loss of that group, which it might or might not, but that any such transfer would be an invasion of equality because it would be unfair to others. The fact that those at the bottom do not have more would not indicate that it is impossible to give them more, but rather that they have all that they are entitled to have. If some economic catastrophe is now threatened, a government that allows a much greater loss to fall on one citizen, in order to avert a much smaller loss to a second, would not be treating the former as an equal, because, since equality in itself requires no further special attention to the second, that government must have more concern with his fate than it has for the fate of others. So if the loss threatened to the financially worst-off is indeed really inconsequential to him, as the bizarre question assumes, then that is an end of the matter.

But it does not follow that equality of resources turns into utilitarianism in the face of examples like these. It is, in fact, sensitive to more, or at least different, quantitative information than either the difference principle or utilitarianism is. For suppose the impending catastrophe threatens the worst-off group, not with a trivial loss as in the original question, but with a substantial loss, though not as great, in aggregate, as the loss threatened to those better-off. Equality of resources must ask whether the calculations of the hypothetical insurance market, and of the tax scheme in force, took adequate account of the risk of the threat now about to materialize. It might not have. The possibility of a substantial loss from the unexpected quarter, if it had been anticipated, might have led the average buyer in that market to purchase either catastrophe or unemployment insurance at a higher level of coverage, and this fact might affect an official's present decision about how to distribute the coming loss. He might be persuaded, for example, that allowing the loss to fall on those better-off, in spite of the overall welfare loss, would reach a situation closer to the situation all would have been in had the tax scheme better reflected what people would have done in the hypothetical market with that additional information.

Such contrasts in the practical advice that the difference principle and equality of resources offer in particular circumstances are in fact

myriad, and these examples are meant only to be suggestive of others. These contrasts are organized around the theoretical distinction I have already noticed. The difference principle is tuned to only one of the dimensions of equality that equality of resources recognizes. The former supposes that flat equality in primary goods, without regard to differences in ambition, taste, and occupation, or to differences in consumption, let alone differences in physical condition or handicap, is basic or true equality. Since (once the priority of liberty is satisfied) justice consists in equality, and since true equality is just this flat equality, any compromise or deviation can be justified only on the grounds that it is in the interests of the only people who might properly complain of the deviation.

This uni-dimensional analysis of equality would plainly be unsatisfactory if applied person by person. It would fall before the argument that it is not an equal division of social resources when someone who consumes more of what others want nevertheless has as much left over as someone who consumes less. Nor that someone who chooses to work at a more productive occupation, measured by what others want, should have no more resources in consequence than someone who prefers leisure. (It would fall before such arguments, that is, unless it were converted into a form of equality of welfare through the doubtful proposition that equality in primary goods, in spite of different consumption or occupational histories, is the best guarantee of equality of welfare.)

So (as Rawls, as I said, makes plain) the difference principle does not tie itself to groups rather than individuals as a second-best accommodation to some deeper vision of equality that is individualistic. Any such deeper vision would condemn the difference principle as inadequate. It ties itself to groups in principle, because the idea of equality among social groups, defined in economic terms, is especially congenial to the flat interpretation of equality. Indeed, the idea of equality as equality among economic groups permits no other interpretation. Since the members of any economic group will be widely diverse in tastes, ambitions, and conceptions of the good life, these must drop away from any principle stating what true equality among groups requires, and we are left with only the requirement that they must be equal in the only dimension on which they can, as groups,



possibly differ. The tie between the difference principle and the group taken as its unit of social measure is close to definitional.

We must be wary in rushing from this fact to conclusions about Rawls' theory of justice as a whole. The first of his principles of justice is plainly meant to be individualistic in a way that the difference principle is not, and any evaluation of the role of the individual in the theory as a whole would require a careful analysis of that principle and of the manner in which the two principles might work in harness. But insofar as the difference principle is meant to express a theory of equality of resources, it expresses a theory different in its basic vocabulary and design from the theory sketched here. It might well be worthwhile to pursue that difference further, perhaps by elaborating and working out in more detail the differences between the consequences of the two theories in practical circumstances. But I shall turn instead to the first of the two issues of comparison I distinguished.

I have tried to show the appeal of equality of resources, as interpreted here, only by making plainer its motivation and defending its coherence and practical force. I have not tried to defend it in what might be considered a more direct way, by deducing it from more general and abstract political principles. So the question arises whether that sort of defense could be provided and, in particular, whether it could be found in Rawls' general method. The fact that equality of resources differs in various ways, some of them fundamental, from Rawls' own difference principle is not decisive against this possibility. For perhaps we might show that the people who inhabit Rawls' original position would choose, behind the veil of their ignorance, not his difference principle, but either equality of resources or some intermediate constitutional principles such that, when the veil was lifted, it would be discovered that equality of resources satisfied these principles better than the difference principle could.

I hope it is clear that I have not presented any such argument here. It is true that I have argued that an equal distribution is a distribution that would result from people's choices under certain circumstances, some of which, as in the case of the hypothetical insurance markets, require the counterfactual assumption that people are ignorant of what in fact they are very likely to know. But this argument is different from an argument from the original position in two ways. First,

my arguments have been designed to permit people as much knowledge as it is possible to allow them without defeating the point of the exercise entirely. In particular, they allow people enough self-knowledge, as individuals, to keep relatively intact their sense of their own personality, and especially their theory of what is valuable in life, whereas it is central to the original position that this is exactly the knowledge people lack. Second, and more important, my arguments are constructed against the background of assumptions about what equality requires in principle. It is not intended, as Rawls' argument is intended, to establish that background. My arguments enforce rather than construct a basic design of justice, and that design must find support, if at all, elsewhere than in those arguments.

I do not mean to suggest, however, that I am simply agnostic about the project of supporting equality of resources as a political ideal by showing that people in the original position would choose it. I think that any such project must fail. Or rather that it is misconceived, because some theory of equality, like equality of resources, is necessary to explain why the original position is a useful device—or one among a number of useful devices—for considering what justice is. The project, as just described, would therefore be too self-sustaining. The device of an original position (as I have argued at length elsewhere)<sup>19</sup> cannot plausibly be taken as the starting point for political philosophy. It requires a deeper theory beneath it, a theory that explains why the original position has the features that it does and why the fact that people would choose particular principles in that position, if they would, certifies those principles as principles of justice. The force of the original position as a device for arguments for justice, or of any particular design of the original position for that purpose, depends, in my view, on the adequacy of an interpretation of equality of resources that supports it, not vice versa.

19. R. Dworkin, *Taking Rights Seriously* (Cambridge, MA: Harvard University Press, 1977), chap. 6.