

(Mis)understanding the Fine Print of the
Social Contract

—

The Pluralist and Deliberative Politics of
Taxation

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Field B: Welfare State, Inequality and Quality of Life

PhD Thesis Drafts

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Abstract

I wonder: why, in the richest of countries, in the most enlightened of times (current day [Organisation for Economic Co-Operation and Development \(OECD\)](#)-world), are our welfare states so constrained and inefficient, our democracies so confused and distorted? I ask: if a hypothetical, superior political process (deliberative democracy) ruled our polity, would we think better and fairer about the institutions of the mixed economy and would we opt for a hypothetical, superior tax regime ([Progressive Consumption Tax](#) (p. 309) (PCT), [Land Value Tax](#) (p. 313) (LVT) and [Negative Income Tax](#) (p. 314) (NIT))?

And so I test: if given the possibility to deliberate well-informed, fairly and thoroughly (a deliberative poll), will randomly selected, ordinary voters understand the mixed economy differently (better) and prefer a different tax (PCT, LVT and NIT)?

If, in fact, they do, welfare state research will have a lot more to explain, and deliberative democracy will have shown its stripes.

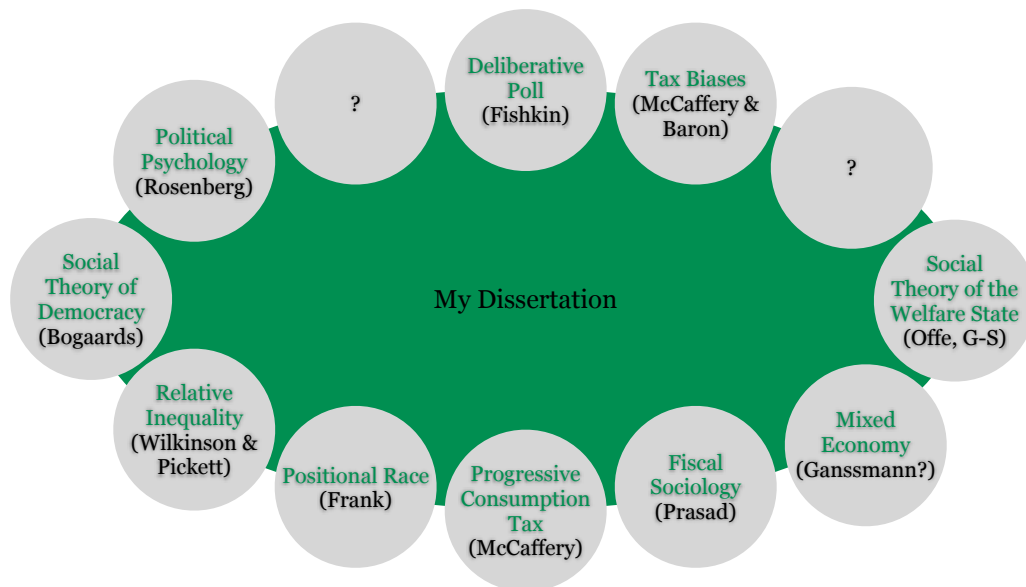


Figure 1: Academic Fields and Advisors for this Dissertation

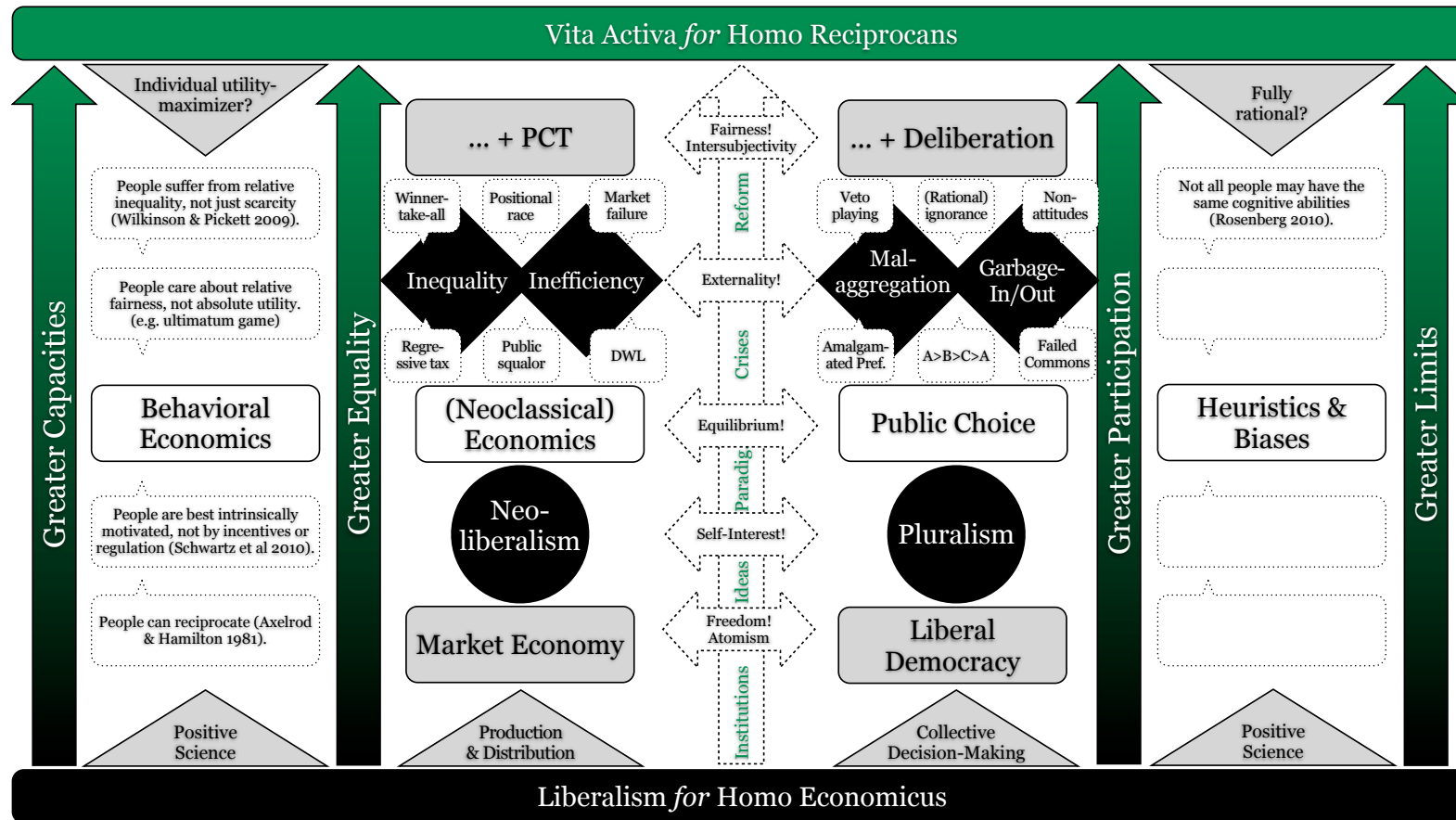


Figure 2: Mindmap of this Dissertation

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Table 1: Commented Table of Contents

#	Title		Function	Content	p.	%
1	Introduction		Introduction	Lays out the structure of the dissertation.	1	95
I	The Puzzle		Proposal	Explicates the research gap. The current crises and performance of both established democracy and welfare states can only be understood, when compared with desirable and doable hypotheticals in democratic fora and tax.	6	
2	Wanted		Foundations	Lays out the structure, epistemology, ontology and axioms of the dissertation. Social scientists must ask not just what <i>is</i> , but what <i>could</i> be (First Order Theory) and explain why it is not (Second Order Theory). Such hypotheticals must be desirable and doable. Desirable and doable are defined.	6	95
3	The Economy	Mixed	Theoretical Back-ground	Explains for which ends, and by which means market and plan can coexist. Welfare states are properly understood as mixed economies, where government supplements market outcomes by coercive plan.	63	90

#	Title	Function	Content	p.
4	Three Crises	Empirical Back-ground	<i>References empirical and theoretical findings on the intertwined crises of democracy, the welfare state and equality.</i> Established democracies are constrained, gridlocked and confused. Welfare states are unsustainable and/or defunct. Economic inequalities are widening.	150 65
5	Tax Matters	Literature Review	<i>Explains how tax matters to the mixed economy, welfare state and democracy.</i> Mixed economies rely on efficient and equitable taxation. Democratic government always faces trade-offs in designing welfare states. Voters must understand these alternatives, and all materially possible designs must be available for voters.	178 80
6	Hypotheticals Matter	Critique of the Literature	<i>Without appreciating doable and desirable hypotheticals, social science becomes latently affirmative.</i> This is especially true for welfare state research. Absent a critical comparison to a hypothetical ideal mixed economy, the second-order account of welfare fails to explain most of the current shortcomings.	233 60

#	Title	Function	Content	p.
7	Testing the Hypotheticals	Research Design	<i>Describes the positive research design to make the hypotheticals empirically falsifiable.</i> Under a different (deliberative) democratic process, a random sample of ordinary voters will understand the mixed economy differently and prefer a different (progressive consumption, land-value) tax.	263 65
II	The Crime Scene of Tax	Theory	<i>Reviews mainstream economic thinking about desirable and doable taxation.</i> The first order theory of tax asks, and answers what the most desirable, but doable tax is.	284
8	Desirable Tax	Theory (Review)	<i>Reviews mainstream economic thinking about efficiency and equity of taxation.</i> A desirable tax offers one of the higher possible trade-offs between efficiency and equity.	284 80
9	Doable Tax	Theory (Analysis)	<i>Lists factual complications and contradictions of taxation.</i> A doable tax is personal, falls on inelastic bases, has a well-defined incidence, least affects liquidity choices and is agnostic towards the source of income.	291 85

#	Title	Function	Content	p.
10	Better Tax	Theory (Synthesis)	Evaluates real and hypothetical taxes on the aforedeveloped criteria of desirability and doability. A Progressive Consumption Tax (p. 309) (PCT) and LVT emerge as by far the best, most desirable and doable taxes. Other, existing taxes violate efficiency, equity, or both and display manifold unintended consequences and unavoidable loopholes.	305 85
III	The Crime Scene of Democracy	Theory	Reviews normative, theoretical and empirical political science on democracy. The first order theory of democracy asks, and answers what the most desirable, but doable form of democracy is.	364
11	Desirable Democracy	Theory (Review)	Briefly reviews normative political theory on democracy. A desirable form of democracy provides effective participation, control of the agenda, voting equality and enlightened understanding (Dahl 1989).	364 10

#	Title		Function	Content	p.	
12	Doable Democracy	Democ-	Theory (Analysis)	<i>Briefly reviews public choice theory and political psychology. Some likely micro- and macropolitical dynamics divert real existing, formally democratic government from normative desiderata. Doable democracies face different, sometimes unattractive, trade-offs between participation, deliberation and political equality (Fishkin 2009). In complex societies, the dysfunctions and trade-offs may be harsher, still.</i>	365	10
13	Better Democracy	Democ-	Theory (Synthesis)	<i>Briefly reiterates the deliberative theory of democracy, and describes prominent institutional designs. Deliberative democracy promises to overcome many of the trade-offs and dysfunctions of pluralist democracy, by stressing intersubjective understanding and communicative action in lieu of pre-social preferences and power in speech.</i>	368	10

#	Title	Function	Content	p.
IV	The Investigation	Theory (Original)	<i>Develops a second order theory of democratic choice of tax.</i> Deliberative democracy is a good <i>method</i> to test one explanation for the absence of a better tax. Deliberative democracy is also <i>more</i> than a method: deliberation and PCT/LVT are conceptually related. Tax is a good <i>case</i> to test deliberative democracy. Tax is also <i>more</i> than a case: it is <i>the</i> social contract in capitalism.	373 10
14	Why Not?	Theory (Original)	<i>Reviews and develops alternative second order explanations for why we do not have a better tax.</i> We may not have a better tax, because progressive taxation is plagued by a global cooperation problem, because of path dependency, because of domestic political dysfunctions or, simply, because people do not want it. I try to falsify only the last explanation, and theorize how different democratic processes may alter, suppress or confuse the will of the sovereign.	373 55

#	Title	Function	Content	p.
15	Tax Choice Under Pluralism	Theory (Hypotheses)	<i>Hypothesizes falsifiable, popular misunderstandings of tax and the mixed economy that may divert voters away from the PCT and LVT.</i> Voters incorrectly think 1. that a mixed economy cannot have an arbitrary savings rate, 2. that nominal variables reflect actual savings, 3. that a mixed economy cannot have an arbitrary state-market mix, 4. that non-natural persons can be taxed and 5. fail to aggregate different taxes, indirect taxes and “social contributions” .	386 35
16	Common Grounds	Theory (Outlook)	<i>Develops conceptual and theoretical linkages between the PCT, LVT and deliberative democracy.</i> The PCT/LVT and deliberative democracy embody and enforce a similar standard of justice as fairness (Rawls 1971). The PCT/LVT enable the kind of equality on which deliberative democracy relies. The PCT/LVT and deliberative democracy both build, and require deep cooperation.	393 15

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Part I

The Puzzle

Chapter 2

Wanted: Desirable and Doable Hypotheticals

“One should always look for a possible alternative, and provide against it. It is the first rule of criminal investigation.”

— Sherlock Holmes in Conan Doyle’s *The Adventure of Black Peter* (1904: 567)

In this crime story of the welfare state, tax and democracy, I follow Holmes’ advise and attempt to rule out all possible alternatives. The first alternative to be ruled out is — counterintuitively — that, in Margaret Thatcher’s words, *there is no alternative*. Before a criminal investigation of a corpse can begin in earnest, detectives have to show that it was not, in fact, a natural death. Put another way, they must demonstrate that the deceased person *might* have lived on, had not someone or something intervened.

To proceed by the method of elimination is always to conceive of such hypothetical outcomes, and then, to falsify them. Still, hypotheticals ¹ are rarely invoked in social scientific explanations: ever hear of an empirical sociologist or political scientist comparing the continental welfare state (Esping-Andersen 1990) or Westminster democracy (Lijphart 1999) to a *non-existent* alternative? We can see why few empirical social scientists would ask such a question: to say that taxation could be more efficient and equitable, and to suspect that someone (for example, the rich) or something (for example, capitalism) is preventing it from being so reeks off conspiracy theory.

Forensics, in some ways, has it easier: if a coroner diagnoses heart failure

¹ By hypothetical, I mean an alternative state of the (*dependent variable*) world. In history (recently reviewed by Bunzl 2004) and political science (for a methodological appraisal, see Fearon 1991), the similar term “*counterfactual*” sometimes refers to alternative (*independent variable*) events in the past. I ask what *could be*, not what *would be*.

from old age as the cause of death, there is no murder. If the autopsy reveals a coronary artery ruptured by a bullet, natural death is out of the question.

Just *which* social ills are unavoidable and thereby the social scientific equivalents to a natural death is, unfortunately, more contentious. Plausibly, without the bullet, an otherwise healthy person might have lived to see another day, but writ on a societal level, such hypothesizing about alternative, preferable outcomes is hard. Would democracy *not* always fall short of its ancient ideal, because we can no longer all meet and debate in person? Would taxation *not* always be wasteful, because it suppresses otherwise pareto-improving exchanges? Would welfare *not* always be a drag on growth, because it dampens incentives?

Empiricism “*We cannot know*”, might reply the empiricist (Bacon 1620; Locke 1689a; Hume 1739) because such hypotheticals can, by definition, not be experienced with our senses and nothing can be induced from them.

Whatever democracy, taxation and welfare *could be*, we cannot know.

Similarly, positivists might find these hypotheticals unknowable, either because absent, they *have been* falsified (Comte 1842; Durkheim 1895), or, because absent, they *cannot* be falsified (Popper 1934).

Idealism “*We know only through ideas*”, might respond the idealists (broadly Kant 1781; Hegel 1807), including the ideas invoked in these questions.

Whatever democracy, taxation and welfare *could be*, is beside the point, because our knowledge of them exists independent from their factual or hypothetical reality.

Specifically, interpretive sociologists (Weber 1897) might argue that the above questions may contain in them already one of several, cultural perspectives, ideas or terminologies in which all answers, too, would be have to be phrased. “Waste”, “growth” and “incentives” rather than objective things, already are cultural reality (compare Béland and Cox 2010).

Constructivism “*Asks who?*”, might retort the constructivist (Berger and Luckmann 1966; Paul 1984), because these are not questions about an objectively knowable world, but rather, the act of asking these questions and of invoking these concepts *makes* that social world.

Whatever democracy, taxation and welfare *could be*, is beside the point, too, because legitimacy, efficiency, equity — or any other criteria — *become* real, as we think, demand and reject them.

Rationalism “*We can know*”, might announce the rationalists (Descartes 1637; Spinoza 1662; Leibniz 1704) — “*but hypothetical or actuality do not matter, either way*”.

Whatever democracy, taxation and welfare *could be*, we can know by deductive reasoning, without relying on our experience — or absence thereof.

Clearly, *none* of these epistemologies (or ontologies?) taken to the extreme, can help investigate those desirable, and doable hypotheticals upon which I have stumbled. Welfare, taxation and democracy certainly are ideas, but they are also bound by empirics. They are accessible to deductive reasoning, but such reasoning can make a social world, as much as it seeks to explain it. What I need, is a **pragmatic and contingent middle way** (p. 9).

Equally clearly, such a cartoonish overview of epistemological traditions does not suffice to ground this dissertation. Fortunately, this is — as promised — a pedestrian thesis and I will not abscond into any philosophy of science. Unfortunately, I am also largely ignorant of these theories of knowledge, and can only provide a provisional epistemology that seems to work for democracy, taxation and welfare.

I take no pride in my epistemological ignorance, but I am weary of the obliviousness of these, and other meta-(meta?)-concerns. In a slightly different context, Noam Chomsky has observed that “ontological questions are generally beside the point, hardly more than a form of harassment” (1997: 132). As harassments go, I have found that such epistemological and ontological debates often arouse what would appear to be deeply-felt passions in even the drowsiest of graduate seminars. This fervor always struck me as eerily performative (compare Goffman 1959; Butler 1997), as if, in addition to — or as *part of* ² — *doing gender* (West and Zimmerman 1987), we were also *doing social science*.

If only to stick to my limited last, I prefer a social science that serves people other than its researchers, and accordingly sympathize with pragmatist epistemologies, where human problems are primary and reified “philosophical fallacies” (Dewey 1929) take a back seat to the problems they were invented to solve. In Wikipedia’s apt description of an (ecologically) pragmatist epistemology: “inquiry is how organisms can get a grip on their environment.” (retrieved in March 2013).

² Not to put too fine a point on it, but the language of these epistemological mudfights is conspicuously evocative of gender: quantitative research is frequently referred to as *hard science*, and qualitative and ideational approaches are often considered *soft, understanding perspectives*.

Even though, because hypotheticals are hardly invoked in the social sciences, are hard to specify, and are harder to know about I must devote this chapter to explicating the *epistemology* (p. 9), *axiology* (p. 18) and *ontology* (p. 41) of my research.

2.1 The Epistemology of Hypotheticals

3

“If they can get you asking the wrong questions, they don’t have to worry about the answers.”

— Thomas R. Pynchon (*1937)

Detective shows often confine the forensic medicine to some expository dialogue between coroner and inspector at the morgue. I need a little more exposition here, stretching over several chapters of welfare economics, normative political theory and public choice, before the empirical action even begins. Again, I merely proceed by the method of elimination. To open an investigation, I must first know if there are alternative welfare states, taxes, and democracies out there, and if so, what they are.

Surely, to suggest that we might learn something about the world by asking what is *not* appears to be an odd epistemology. Natural scientists probably do not spend much time thinking up, say, a counterfactual universe without gravity, and explaining why it is not (or maybe that *is* what they do at the Large Hadron Collider?!). Positive social science, at least, needs to pose these why-not-questions, because, unlike physics, it is concerned with *who* or *what* made the world the way it *is* ⁴.

Positive sociology, political science, and this dissertation, all ask such second-order questions. Even to pose them, we need all the possible first-order answers of how the world *could* be, but is not. The hypotheticals I establish in the following chapters are these first-order *non*-answers.

2.1.1 First-Order Questions

Hypotheticals must be *materially doable* (p. 41), and — if you allow some humanist bias — they must also be at least somewhat *normatively desirable*

³ This section is based, in part, on earlier, unpublished work which I submitted to the Hertie School of Governance in Held (2012). I have labelled said work as early drafts of this dissertation, and have since revised and expanded it.

⁴ Physicist Krauss (2012) has pointed out that strictly speaking, *why* questions are teleological: they imply purpose. Positive social science — as physics — need not assume such purpose, and therefore better ask *how* questions. I use the two interchangeably.

(p. 18). Those criteria both raise inquiries of the first order, asking what is normatively good and what is positively possible, respectively.

Normative (or prescriptive) social science asks such first-order questions as how to emancipate people (critical theory, maybe from Gramsci to Adorno, Horkheimer and Habermas), what makes rule legitimate (political theory from Aristotle to Dahl) or what allocation might be fair (distributive justice including Friedman and Rawls) and even what makes an economy rich (economics from Smith to Hicks). Even these apparently normative and first-order questions turn into positive and second-order questions when their underlying assumptions on human nature are tested or problematized, respectively (more on that *constructivist* twist on p. 7).

Positive social science asks few, if any, first-order questions, because as it asks about the social world (for example,, health insurance), it seeks to explain the social conflict of *answering* a first-order question (for example, how to spread risk). To the extent that nominally *social* sciences have carved out positive research agendas of the first order (for example, cognitive psychology, behavioral economics), they cease to be social science but revert to a natural science of some ideally *physically* rooted phenomenon (for example, neuroscience). Tautologically, if the social sciences are to be concerned with explaining social choice, they know *no* positive first-order questions, because first-order status negates choice ⁵.

The aspects of the social world under study here are welfare, taxation and democracy. To the extent that these social choices hinge on last reasons, they raise normative first-order questions. These first-order questions of efficiency and equity, fairness and legitimacy have been widely discussed, and I will reference them only briefly in this dissertation.

But welfare, taxation and democracy also raise two kinds of positive questions ⁶ :

⁵ To deny such social choice, and to *reduce social science to purported positive first-order questions* easily feeds into an ideological affirmation of the status quo (Chapter 6, p. 233).

⁶ Formal logic and empirical finding are not as neatly divided as I make them out to be. Frequently, formal models generate the hypotheses that empirical works set out to falsify. Conversely, inconsistent empirical findings inspire new, better formal modeling.

Still, in the way of this boundary-blurring also lie ad-hoc fallacies. When formal logic and empirical finding become too closely enmeshed, the resulting hypotheses may become unfalsifiable. Popper (1976) has thus criticized (some) Darwinism for being unfalsifiable, because any possible observed biological trait must, tautologically, have been adaptive for otherwise it could not have survived — a critique that has since been (mis)appropriated by creationists.

More relevant here, much of the modern infatuation (and outrage) with general equilibrium economics, might be explained by a similar, unhappy but popular conflation of brilliant formal logic (Walras 1874; Debreu and Arrow 1954) with murky assumptions

A Priori Knowledge There may only be finite or even unique ways to organize these institutions that abide by *formal logic*, per reasoned, *a priori knowledge*.

For example, a welfare state financed solely by printing money may be an economically illogical institution (possibly resulting hyperinflation resembles a pyramid scheme). Similarly, taxing judicial persons, such as corporations, may be economically nonsensical because such organizations are no moral subjects and the incidence would be arbitrary (Chapter 9). As a last example, a democratic aggregation mechanism may not be able to maximize both majority rule and proportional representation, simply because the two criteria conflict.

Knowledge about what is logically possible or impossible flows from a *rationalist* epistemology (p. 8).

A Posteriori Knowledge These formally logical designs may be further limited by empirical, first-order findings on human nature or other material conditions, per experiential, *a posteriori* knowledge.

For example, a welfare state financed by extracting and burning fossil fuels may soon run into physical constraints if we observe limited resources and related global warming. Similarly, a fully-planned economy (instead of taxation) may, amongst other things, dramatically overestimate the cognitive ability of human planners to centrally aggregate and process dispersed information. Lastly, a democracy modeled on ancient Athens, but with universal suffrage and in globally integrated economies may fail simply because human beings interact too slowly to listen to every fellow human on the planet, let alone to get anything done.

Knowledge about what is empirically possible or impossible flows from an *empiricist* epistemology (p. 7).

These are, admittedly, uncontroversial constraints and ludicrous suggestions — I want to keep the more interesting problems for later — but they illustrate an important point: there probably *are* some first-order, positive limits the social world faces, even though we may know little and disagree a lot about them.

Crucially, we may disagree on whether a given question is of the first or second order. The social sciences, in particular, have a habit of reassigning

on human nature on which that logic supposedly operates, thereby morphing equilibrium economics from tentative model to hermetic ideology (Cassidy 2010 tells the entire, sad story).

first-order questions to second-order status: *that* is the project of constructivism (for example, Berger and Luckmann 1966) and *related epistemologies* (p. 7) to see social phenomena not as “things *in* the world, but perspectives *on* the world” (Brubaker 2002: 174 on ethnicity, emphasis in the original) or as contested and consequential second-order *answers*. Still, even a die-hard idealist or constructivist may concede some irreducibly positive, first-order questions, and to those, the social sciences offer no answers.

So it is with welfare, taxation and democracy. Their design probably faces some — albeit uncertain and contested — positive limits of the first order. To ask about these limits is, emphatically, *not* a question for the social sciences. Instead, *nominally* social scientific, but formally mathematical-logical disciplines such as equilibrium economics⁷ and public choice ask about the internal consistency of such societal institutions, based on assumptions on *human and other nature* (p. 11), which are in turn hypothesized and falsified by such natural sciences as evolutionary psychology (a.k.a. sociobiology), social psychology (initially Kahneman and Tversky 1979), cognitive science, or even physics. I suggest two examples of such first-order, positive substrates relevant to my subject matter:

1. The first theorem of welfare economics is often invoked as a first-order constraint on welfare state interventions or taxation (the *Deadweight-Loss (DWL)*), and it also shines through in some radical defenses of pluralist democracy (for example, Caplan 2007). The theorem states that over any *given* distribution, free competition equilibrates at pareto optimality⁸ and that therefore, no allocative intervention can make anyone better off without making someone else worse off. It is a mathematically formulated argument about some internal consistency of the market mechanism: given certain (*heroic*) *assumptions* (p. 75), market equilibria *cannot* be pareto-improved.

As such, the theorem is just that, an exercise in formal logic, not more: not empirical claim (no “proof” that *actual* markets pareto-optimize) and not normative statement (no justification for pareto-optimization over existing distributions as desirable). But the first theorem is also

⁷ I assume economic production to be approximately described by mainstream (neo-classical?) textbook economics (including Mankiw 2004; Frank and Bernanke 2004), expanded by some ventures into welfare economics (Hicks 1939; Samuelson 1954), game theory (founded by von Neumann and Morgenstern 1944; Nash 1951, expanded by Axelrod and Hamilton 1981, recently summarized by Kleinberg and Easley 2009) and network theory (for example, Mandelbrot and Hudson 2004, Merton 1968b also recently summarized by Kleinberg and Easley 2009).

⁸ Demonstrated first graphically by Lerner (1944), mathematically by Lange (1934), Debreu and Arrow (1954) and others.

not less: properly understood, it *is* a first-order constraint and invites *no* second-order critique.

2. Similarly, homo economicus is often invoked in the field of welfare (“*knaves*” as in LeGrand 2003), taxation (“*people react to incentives*” as in Mankiw 2004: 24) and democracy (“*rationally irrational*” as in Caplan 2007). The concept implies that human beings make rational, self-interested and utility-maximizing decisions (maybe first Mill, Smith, recently including Robbins 1976 on rational choice, all summarized in Persky 1995). The ideological campaign (and backlash) wrought by homo economicus and its offspring notwithstanding, it is, properly understood, merely a *falsifiable*⁹ assumption about human nature that welfare, taxation and democracy might have to heed if it were, in fact, correct. But even if it were true, homo economicus would be just that, an empirically verified model: no more (no normative claim of how we *should* be), but also no less (no socially contingent phenomenon in need of deconstruction).

2.1.2 Second-Order Questions

As forensics informs a criminal investigation, the first-order answers provide the reference for the second order inquiries. These ask who or what decides first-order answers, or, metaphorically, who or what brought about the observed forensic outcome (see Table 2.1, p. 15). Second-order inquiries seek to criticize, explain or test the *social conflict* over first-order questions.

Social science asks plenty of those questions on welfare, taxation and democracy.

It asks, for example, why and how welfare states — a first-order *answer* — evolve(d): because modernization replaced inherited, familial status with citizenship and the market (Titmuss 1974; Marshall 1950), because industrialization required an appeased, reliable and healthy workforce (Flora and Alber 1981; Wilensky 1975), because workers gained power (Korpi 1983; Jessop 2002), because institutions prevail (for example, Rothstein 1998), because ideas matter (for example, Stiller 2009) because initial class cleavages lead to different degrees of commodification (Esping-Andersen 1990) or because capitalism comes in variants (Hall and Soskice 2001)¹⁰.

⁹ And falsified, it has been: for example, Alvard (2004) on fairness, not utility, Zak (2004) on reciprocity, not self-interest, Kahneman et al. (1982) and Simon (2001) on biased and bounded, not complete rationality.

¹⁰ For a good overview of social theories of the welfare state, see Brooks and Manza (2007) .

So it is with the second-order theories of taxation: it arose as proto-states extracted the resources enabled by, and necessary for greater economies of scale in their state-making and war-making (Tilly 1985), it (sometimes) erodes to lower levels as internationally mobile factors of production and consumption arbitrage over different national rates (recently reviewed in Genschel and Schwarz 2010), it persists at similar levels as domestic politics prevents roll-back (Swank and Steinmo 2002), or it changes bases and schedule in response to these pressures (Kemmerling 2009).

And so, too, it is with the second-order theory of pluralist democracy: states introduced popular rule, because the costs of otherwise considered illegitimate extraction became prohibitive (Tilly 2006), democracy belongs to a broader syndrome of emancipating modernization, including a market economy and corresponding rational and self-expression values (Inglehart and Welzel 2005) or the sequential development of citizenship (instead of other, pre-modern statuses) entailed democratic rights (Marshall 1950).

These are variations on the questions of sociology: what binds us together (social integration), and what keeps us apart (social inequality ¹¹). These are also the questions of political science: how do power, norms, ideas and institutions rule human interactions? These second-order questions are open to all epistemologies, including the the anti-positivist traditions of *idealism* and *constructivism*. They can also be — as seems to be currently en vogue ¹² —, *but need not be*, entirely *empiricist* or, *rationalist* inquiries.

And important questions, they are, asking us, that lone “hypercultural” species (Henrich 2003), how we make our own history. In our rich time and in our unequal place, welfare, taxation and democracy may just be *the* historical battlegrounds, on which these sociological and political forces operate.

This dissertation develops a second-order theory of social change to explain the defeats these institutions have suffered in late capitalism, and tests it empirically ¹³.

The distinction between first-, second-order, normative and positive questions summarized in *Table 2.1* (p. 15) matters for at least two reasons:

¹¹ The first question of sociology, according to Dahrendorf (1966: 66).

¹² In 2012, a political scientist, paraphrasing Wittgenstein (1998), described the current expectations in German political sciences to me thus: “whereof one cannot measure, thereof one must be silent”.

The same political scientist also opined — maybe slightly in-jest — that “excellence is finishing on time”, referring to the *Bremen International Graduate School of Social Sciences* (BIGSSS) application for federal excellence initiative funding.

¹³ For the distinction between first-order and second order questions, I am indebted to Claus Offe, who first suggested I should develop a second-order theory of social conflict on tax choice.

		First-Order Questions	Second-Order Questions
Normative Questions		What <i>should</i> (not) be? Subject: Last Reasons Disciplines: Philosophy, Morality, (...)	Who/what <i>should</i> (not) decide first-order answers? Subject: Ideology Disciplines: Postcolonialism, Critical Theory, (...)
	Formal Logic	What <i>could</i> (not) be? Subject: Formal Models Disciplines: Equilibrium Economics, Evolutionary Theory (...)	Who/what <i>could</i> (not) decide first-order answers? Subject: (Formal) Models Disciplines: Public Choice, Structuralism, Historical Materialism (...)
Positive Questions		What <i>is</i> (not)? Subject: Observations of the Physical World Disciplines: Behavioral Economics (...)	Who/what <i>does</i> (not) decide first-order answers? Subject: Observations of the Social World Disciplines: Empirical Political Science, (...)
	Empirics		

Table 2.1: Overview of First, Second-Order, Normative and Positive Questions

1. Clearly addressing one of these questions at a time, and striving to keep them separate makes for better social science. With these categorically different questions come different goals, languages and methods. With blurring or negating these categories come “politics-based evidence making” (The Economist 2012), apolitical ignorance or both.
2. Because positive social science — including this dissertation — is out to explain the second-order decision on first-order questions, it must consider some first-order theory *first*.

2.1.3 First Order Theory *First*

I am ultimately interested in the second-order questions of welfare, taxation and democracy, but proceeding by the method of elimination, I must first ask and answer the first-order questions: what *should* and *could* welfare, taxation and democracy look like.

Consider the two alternatives, that I must rule out before any second-order questions can be raised:

No Desirable Hypothetical. If I could find only the presently observed design of welfare, tax and democracy to be at least somewhat desirable, there would be no social conflict to be explained, much like there is no

need for a political science of wearing sunscreen. (I partly take this [later](#), p. 18).

In the crime story metaphor, if the corpse in question had previously run amok shooting innocents, rupturing that persons coronary artery with a bullet might be have been self-defense or the last resort, and the only desirable course of action. No *further* criminal investigation may be necessary.

No Doable Hypothetical. If I could find only the presently observed design of tax and democracy to be materially doable, there would be no social conflict to be explained, much like there is no need for a sociological theory of gravity.

In the crime story metaphor, if said deceased suffered from an irreparable birth defect that caused the heart failure, no outcome but death is materially possible. In that case, too, no criminal investigation will be necessary.

Conceiving such to-be-ruled-out hypotheticals raises normative (desirability) and positive (doability) questions of the *first-order*. These first-order questions cannot, as I explained above, be answered by social sciences (alone), but I must instead reference other disciplines, much like a detective hears forensic evidence.

If these ancillary disciplines reveal one, or several such desirable and doable hypotheticals that I cannot rule out, the non-occurrence of such hypothetical welfare, taxation and democracy beg a second-order explanation just as the observed arrangement requires explanation. In fact, the two are the same thing: to explain the presence of the present arrangement is to explain the absence of all absent arrangements.

For illustration, consider the inverse scenario, in which I find no desirable and doable hypotheticals in welfare, taxation and democracy. If that were the case, there would be no second-order decision to be explained, because without such hypotheticals, there is no human choice.

If however, there *are* desirable and doable hypotheticals, any second-order question always invokes these hypotheticals.

2.1.4 Fallacies and Risks

To be sure, this reasoning is not logically watertight and might turn into an argument from ignorance: even if I find no reason why hypotheticals should, or could not be, they might still be undesirable or impossible for some

other reason. Absence of evidence, here, too, does not constitute evidence of absence.

The same problem must plague medical forensics: no evidence of natural death does not prove a violent death and any conclusion to the contrary might cause an unnecessary murder investigation. In practice, this possible fallacy simply raises the question of where you place the burden of proof, because you can err either way: if you take absence of evidence of violent death as evidence of natural death, you might foreclose a necessary investigation and let someone get away with murder. Tellingly, when it comes to human corpses we place the burden of proof on the status quo: if the cause of death cannot be established — if there is *no* evidence of natural death — the prosecution customarily opens an investigation.

The positive social science of welfare, tax and democracy seems to have adopted a somewhat laxer standard. Here, much empirical work implicitly places the burden of proof on the hypothetical: without evidence that the hypothetical is normatively desirable and materially possible, the fundamental status quo of welfare and tax needs no social explanation. Conveniently, as hypotheticals go, they rarely produce conclusive evidence of their desirability and doability. Maybe, this is just the skepticism that positivism calls for — or maybe, [hypotheticals matter](#), and such social science invariable turns latently affirmative ([Chapter 6](#), p. 233).

Either way, I here place the burden of proof on the status quo. If I find no reasons to the contrary, I assume that there *are* several doable and desirable designs of tax and democracy, and require social science to explain the *absence* of all but the presently observed design. If we apply the standard of forensics, any second-order theory of social change must be able to explain how the social conflict under study resulted in the non-occurrence of these alternative designs, especially the attractive ones.

I still want to shoulder part of the burden of proof. In tax, I can only plausibilize the hypotheticals by reviewing reputable work by others, and deduce my case from reasonable assumptions about human nature, and the economy. I must rely mostly on a [rationalist](#) epistemology (p. 8). Natural experiments — the [empiricist](#) gold standard — are unavailable, and all others suffer from limited external validity: a modern economy does not fit in the laboratory and equilibrium simulations poorly model such inframarginal institutional changes. In democracy, I similarly plausibilize the hypotheticals, but I can also point to and undertake some preliminary experimental tests.

To suggest, as I do, that there are desirable and doable hypotheticals in tax and democracy, must remain a preliminary proposition open to falsification. To the Popperian scientist, there is always some absence of evidence, and therefore, no evidence of absence. If these particular hypotheticals turn

out to be undesirable or impossible, so collapses any second-order hypothesis I might wager later, but, I hope, we will still have learned something.

Not only the advancement of science depends on such falsification, the history of progressive causes is also littered with what might charitably be called “false positives”. My chosen hypotheticals — deliberative democracy and progressive taxation of (unimproved) land value and (postpaid) consumption, too, may inspire such false hopes. They, too, should be approached with great care, especially, when they necessitate constitutional or otherwise reform of liberal democracy, as deliberative democracy may one day do. Tax reform, at least, should be open to falsification and is not an end in itself, especially because it thoroughly hinges on economic contexts and human motivation.

Then again, by any historical standard — once-hypotheticals failed (for example, socialism) and successful (for example, universal suffrage) alike — here are some fairly incremental reforms as carefully liberal in their *normative axioms* (p. 18) as they are conservative about *ontological possibilities* (p. 41).

2.2 Axioms for Desirable Hypotheticals

“I believe in clear-cut positions. I think that the most arrogant position is this apparent, multidisciplinary modesty of ‘what I am saying now is not unconditional, it is just a hypothesis,’ and so on. [...] I think that the only way to be honest and expose yourself to criticism is to state clearly and dogmatically where you are. You must take the risk and have a position.”

— Slavov Zizek and Glyn (2003: 45)

Normatively desirable hypotheticals are preferable to others if we assume a basic humanist, or critical intention of positive social science and policy analysis to improve human lives.

From a strictly positivist point of view, this is the flimsiest of epistemological decisions I take: we might learn just as much about the social world from the nonoccurrence of bad outcomes, as from the nonoccurrence of good outcomes ¹⁴.

¹⁴ For example, Tilly’s work on the genesis of the state might be construed as learning from the (almost) no-longer-occurrence of Hobbesian anarchy. He might have said — although he presents his argument differently — that the un(!)-desirable hypothetical of atomistic war is no longer observed because, luckily, through a process of extraction and violence-production, supercharged by economies of scale, once fearsome racketeers nilly-willy evolved into states with an effective monopoly on the legitimate use of force (Tilly 1985).

My bias for desirable hypotheticals might be epistemologically arbitrary, but it is — again — pragmatic: there may just be so many undesirable, but doable counterfactuals (why *not* return to workhouses rather than welfare, tariffs rather than taxation and mob rule rather than liberal democracy?) that it becomes plainly easier to pick amongst the supposedly fewer, attractive hypotheticals. Moreover — if mostly implicitly — modernization theory, (structural) functionalism and related traditions might have convincingly explained away some of those graver regresses of civilization. Lastly — only slightly tongue-in-cheek —, on a second look at the factual horror chamber of welfare, tax and democracy, there might not be *that* many even less desirable, doable hypotheticals left.

What then, makes for desirable hypotheticals?

Emphatically, hypothetical tax, welfare and democracy, and with them, this research, hinge on last reasons. Desirable tax and welfare are rational, efficient and fair. Democracy, too, must be these things and more: emancipatory, equal and deliberative.

Unfortunately, these last reasons sometimes conflict, and they do not even flow from any single ethic. What makes my hypothetical tax, welfare and democracy desirable is, instead, a hodgepodge of mongrels from quite distinct normative theories. I here list five of them and show how they apply to taxation, welfare and democracy:

Virtue Ethics Tax, welfare and democracy are not desirably merely to the extent that they constitute, or foster *virtue* inherent to human action and character (from Aristotle, Plato, St. Thomas Aquinas to Schwartz and Sharpe 2006). At least under neoclassical dictum, tax and welfare are desirable to the extent that they *do not* depend on, nor improve human virtue, but efficiently orchestrate our selfish demons (compare Smith 1776). Liberal democracy, similarly, is desirable to the extent that it sidesteps questions of personal virtue and guarantees an agnostic process for all people, no matter the quality of their character (compare Dahl 1989).

And yet, I rely on virtue ethics when I praise markets and states for letting us reap *non-zero-sumness* (p. 49), that supposed destiny of our nature (for example, Wright 2000). The case for deliberative democracy, too — as all virtue ethics — implies a *telos* of human life, to the extent that it posits intersubjective understanding or *communicative action* as a last reason (Habermas 1984).

Consequentialism Tax, welfare and democracy are also not desirable merely by the outcomes they produce, be they utility (Bentham 1789; Mill

1863) or even self-interest (Rand 1957). Attractive consequences, especially different aggregate functions of utility ¹⁵ go a long way to justifying taxation and welfare, but I would not bet the farm on them. Even if, say, relative inequality were empirically unrelated to “subjective happiness” (as Kalmijn and Veenhoven 2005 seem to imply), and progressive taxation therefore not a maximizer of aggregate happiness, at least two other reasons would remain:

1. Straightforwardly, we might wish to maximize consequences *other* than some measure of hedonistic gain, including equality, growth, knowledge or liberty.

Utilitarianism — as other consequentialisms — side-step entirely the question of how the desired consequences would be measured, and who would do the observing ¹⁶. Utilitarianism merely posits an *ideal observer* (Rawls 1988) — such as Veenhoven’s subjective happiness — and does not allow us to problematize the conditions under which consequences are enumerated, or measured ¹⁷.

2. More fundamentally, progressive taxation — or some other policy — may remain attractive not because of *any* distribution or measurement of consequence, but because equality might be inherently *virtuous*, or the goods it can buy (including universal health care) may be a matter of *deontological* rights.

The consequentialist case for democracy is even thinner: as Dahl (1989: 176) reminds us, equal intrinsic worth of humans *alone* might be achieved by a benevolent dictator. Only in conjunction with (deontological? virtuous?) personal autonomy does it require democratic rule.

And yet, hypotheticals about taxation and welfare, and even democracy cannot ignore consequences, especially *aggregate utility* (p. 284) and its

¹⁵ For example, logarithmically diminishing returns to wealth, according to Bernoulli (1738).

¹⁶ Similarly, utilitarianism characteristically side-steps the *distribution* of utility. For example, Mill famously suggested to maximize “the greatest good for the greatest many”, which might be understood to imply constant marginal returns, thereby equating equity with efficiency. Before him, Bernoulli suggested that utility might be a logarithmic function of wealth, implying diminishing marginal returns. Crucially, no matter the specific aggregative function, utilitarianism reduces *distributive justice* to a merely positive question about human psychometrics, from which one or another *hedonic calculus* (originally Bentham 1789: Chapter 4) must follow.

I return to these, and other distributive norms when I discuss *optimal taxation* (p. 284).

¹⁷ John Rawls, ever the critic of utilitarianism, has instead suggested an *ideal, original position* under which these decisions can be fairly made.

fair distribution (p. 287).

Deontological Ethics Tax, welfare and democracy are also not merely desirable to the extent that they abide by some set of absolute rights and duties.

On the one hand, most such deontological ethics are not specific enough to inform choices of tax, welfare and democracy. For instance, the Golden Rule — *do unto others as you would have done to yourself* — may not tell us much about what we should tax, when we should intervene in the market or how we should count votes. Kant’s similar categorical imperative is equally mum on these matters, maybe because his is a philosophy and deals with *man* in the singular, not *men* in the plural as Arendt demanded of political theory¹⁸. Natural rights theories (from Grotius), be they liberal (from Locke 1689b to maybe Rawls 1993), spinoff (right-)libertarian (diverse, prominently Hayek 1944, Nozick 1974) concerned with negative freedoms *from* (for example, false imprisonment), or positive freedoms *to* (for example, human dignity, both Berlin 1969) provide more guidelines, but they, too, are limited. Natural rights theories, and especially liberalism, set outer limits on what a government or person must not do *to*, or must not fail to do *for* the bearers of these rights, but they are too digital for a normative ethic of welfare, taxation and democracy. For example, market interventions may be either permissible (freedom-to) or illegitimate (right-libertarianism), but natural rights do not offer much qualifications in-between. It is of course the great appeal of natural rights that they are unconditional (as in: “*Human dignity shall be inviolable*”, German Basic Law 1948) and pre-social (as in: “*... that all men are created equal*”, US Declaration of Independence 1776), but that makes them a little too lofty for inherently social, and contingent institutions as welfare and taxation. There may, for example, be many

¹⁸ Writes Arendt, maybe *the* proto-deliberative theorist:

“*Ohne Gleichartigkeit gäbe es keine Verständigung unter Lebenden, kein Verstehen der Toten und kein Planen für eine Welt, die nicht mehr von uns, aber doch immer noch von unseresgleichen bevölkert sein wird. Ohne Verschiedenheit bedürfte es weder der Sprache noch des Handelns fr eine Verständigung.*”
— Hannah Arendt (1958)

And, similarly, in the english translation:

“*Men in plural [...] can experience meaningfulness only because they can talk with and make sense to each other and themselves.*”
— Hannah Arendt (1958: Prologue)

(or no) taxes that allow for *life, liberty and the pursuit of happiness* (*ibid.*), but it would be a stretch to argue that these natural rights are best respected or least harmed by any particular tax on consumption, income or wealth. Crucially, too, many collective decisions in late capitalism must balance one persons liberty, against another persons pursuit of happiness, or similar rival natural rights.

Contract theories (from Hobbes, Rousseau to Rawls 1971) are more specific still, by prescribing a decision-making process or condition to balance and protect rival rights. While this may suffice to specify a desirable democracy (authoritatively Dahl 1989 on *liberal, pluralist* polity), contract theories still recede into procedural norms on taxation and welfare. Dahl — but not Rawls, as we shall see! — may inform us about how we should decide between, say, an income or a consumption tax, but abstains from substantive judgement. When, however, the very quality of the (second-order) decision process over these tax choices is in question — as it is in this dissertation — evaluating first-order hypotheticals by a procedural standard risks infinite regress: a tax is good if the process was good, and the process is good if the tax is good, which is good if . . . and so on.

On the other hand, tax and welfare especially, are institutions that negotiate and trade off competing rights and duties, rather than strictly abide by them. Natural rights to, say, property *and* health care, offer no all-or-nothing propositions in taxation. Instead, one tax may encroach *less* on property than another, or at a greater (utilitarian) gain in health care than another.

In sum, deontological ethics, and especially its popular, liberal, contractual and procedural representatives are both not specific enough, and too demanding for desirable hypotheticals in welfare, taxation and democracy.

And yet, I cannot do without deontological ethics, especially not without liberalism. Even if governments *could* expropriate some owners at supposedly minimal welfare losses — as the Eurogroup has allowed (encouraged?) the Cypriot government to proceed in 2013 with big savers — it should not do so (nor be allowed to), because protection of confidence is a deontological right. Similarly, even if democratic rule found executive pay excessive, and anticipated no *DWL* fallout, it should not — as Switzerland did in 2013 — regulate *uncoerced exchanges* (Nozick 1974) even between CEOs and shareholders, when a less intrusive policy (tax!) is available, simply because liberal states do not do that.

Ethics of Care Lastly, tax, welfare and democracy are, for the most part, *not* desirable because they establish caring relationships, as some (difference?) feminists have demanded (Noddings 1984; Gilligan 1982). Whether we like it or not — in fact, we *should* like it — our world is ruled by abstractions, too, and to these must respond our institutions of tax, welfare and democracy. Absent a regress to lower, poorer levels of functional differentiation — or some yet unforeseen explosion in human capacity — we depend on wide-ranging abstractions such as a price system to orchestrate at least some of our relationships by mutual self-interest¹⁹. Ethics of care govern *individual*, *concrete* and *personal* relationships, and not those anonymously expressed in price signals, or some other abstraction. Taxation, welfare and democracy, however, *have* to ontologically respond to such abstractions, and to that extent, cannot be informed by a normative ethic that insists otherwise.

And yet, I cannot abandon an ethic of care entirely. For once, *caring* reminds me that we may have other, more intimately personal capacities (or duties?) for goodness and desirable taxation, welfare and democracy may consequently have to leave room for caring to flourish. For example, I imply an ethic of care when I later suggest that taxation should respect the promises of (mutual) care in marriage and family and not discourage, nor commodify such unions. More broadly, a good welfare system might have to carve out realms where such necessarily *priceless* care can be extended — not *exchanged*! —, and might have to reallocate resources to those, especially women, who spend much of their energy caring for others, without compensation. Something akin to ethics of care are also implied by some proponents of deliberative democracy, maybe including those who stress the importance of story-telling in democratic participation (Poletta 2006). Deliberative formats may also raise ethical questions of care simply because they make people engage with other people. Intersubjective understanding certainly requires the kind of personal relationships to which ethics of care supposedly apply.

I know then, that I know nothing — at least nothing consistent — about what makes tax, welfare and democracy desirable. That might be a socratic moment, but not a happy one for me or this dissertation. It frustrates me that I can summarize these ethics this only in the crudest of terms, and that I fail to synthesize them. Such ignorance is troubling, too, for research as

¹⁹ I later return to medium-term dependence on such arguably impoverished interactions in *modernity* (p. 47) and suggest a *contingent homo economicus* (p. 55).

this, based on a social science education as devoid of normative theory as mine: clearly, these theories matter for tax, welfare and democracy as for any scholarship about them. Tracking down the choices and controversies in tax, welfare and democracy to different ethics is important work that I have to do without, resting this work on quite murky foundations.

All I can offer is a modicum of argumentative transparency, by labeling any downstream axioms in tax, welfare and democracy with the roughly appropriate normative ethics from which they flow.

Because none of the above ethics are sufficient, but each of them necessary to formulate desirable tax, welfare and democracy, I subscribe neither to virtue, nor consequentialist, nor deontological, nor care ethics but pick and choose amongst them. I guess that makes me an ethical pragmatist of sorts, if a confused one.

Pragmatic Ethics — not identical with pragmatism, and never to be confused with realism or *Realpolitik* — may best enumerate what makes tax, welfare and democracy desirable, for at least two reasons:

1. In pragmatic ethics, morality can progress over time (Dewey 1932), much as science advances through iterative inquiry. Such tentative morality implies neither relativism, nor inaction: there may still be absolute values out there, we just cannot be sure that we have distilled them yet, but should act on whichever approximation we have tentatively arrived at.

Tax, welfare and democracy, too, are such inherently tentative and contingent enterprises. For example, when comprehensive income taxes were introduced to more neatly bifurcated class societies, the ethical quandaries of taxing labor and capital incomes might not have been foreseeable: labor income generally accrued to poor workers, capital incomes to rich capitalists, end of story. Similarly, as universal suffrage was wrung from the *ancien regimes* and liberal democracy enshrined to fend off mob rule around the same time, the limits of a merely electoral and pluralist democracy in a complex world might not have been conceivable. So too, no doubt, will the reforms of tax, welfare and democracy I suggest here reveal their blind spots, come progress.

Acknowledging that our moral understanding may be imperfect, or even somewhat historically contingent, also in no way restricts us to the status quo under which this understanding was reached. Pragmatic ethics can be quite radical, maybe *because* it accepts its

own tentativeness and contingency: we can “transform the character of our relation to social and cultural worlds we inhabit rather than just to change, little by little, the content of the arrangements and beliefs that comprise them.” (Unger 2007: 6-7). I am inspired by such *anti-necessitarianism* (Unger 1987), even if — or because? — tax, welfare and democracy are not the stuff of revolution, but rather the “indispensable if insufficient [...] piecemeal and cumulative change in the organization of society” (Unger 1987: xix). I am keenly aware that especially reformed tax and welfare, but even deliberative democracy will, at best, progress as little further to a point where we — probably our progeny — can better conceive morality, and undertake further tentative transformations we cannot even dream of.

2. Pragmatic ethics are also, as the name implies, intensely practical. Pragmatic ethics cannot be conceived of in other than practical terms:

“Consider what effects, that might conceivably have practical bearings, we conceive the object of our conception to have. Then, our conception of these effects is the whole of our conception of the object.”

— Peirce (1878: 293)

This *pragmatic maxim*, as it became later known, works well, especially for tax and welfare. The proverbial proof of their ethical pudding, too, lies in the eating. For example, a tax on income or consumption becomes good or bad greatly by how it work in practice: what **virtues** it curtails, what **utility** it wastes or what **rights** it hurts — very little of which can be read in the Platonic idea of either of those alone.

Admittedly, such pragmatic ethics are fairly amorphous, and they do not constitute any of the clear-cut positions that Zizek and Glyn demand in the above. They merely provide the normative theory under which I can organize, and justify the following hodgepodge of axioms for desirable hypotheticals in tax, welfare and democracy. Here then, are my positions.

2.2.1 Liberal Limits and Procedure

Desirable hypotheticals in tax, welfare and democracy are liberal. They do not infringe on the most extensive basic liberties compatible with similar liberty for others (Rawls 1971), a liberal formulation of the *Golden Rule* of

reciprocity. These include the political and civil liberties enshrined in various liberal constitutions, but, following Rawls *do not* extend to unencumbered private property of the means of production or unlimited freedom of contract, as libertarians would have it.

Desirable hypotheticals in tax, welfare and democracy must be liberal both in the substance of, as well as in the process by which they bring social chance.

Substantively, these regimes must not constrain the lifestyles of people, except if and to the extent that such choices conflict with — as Rawls posited — the choices others. This is, for example, a very real concern in making consumption taxes progressive, or in taxing savings, both without dictating consumption baskets or prescribing a financial biography. Similarly, democratic fora should encourage “*alternative* conceptions of the common good” (Cohen 1989: 18, emphasis added) rather than promote a specific social change, even if such a coherent scientific agenda *could* be found. This insistence on a plurality of lifestyles and ideas of the good distinguish a desirable hypothetical from totalitarian zeal and hermetic ideology.

Procedurally, desirable hypotheticals rely on democratic advocacy, not armchair guardianship to become real. No matter, say, the [consequentialist](#) (p. 19) value of a [PCT](#), its introduction must respect, as Dahl has highlighted, *both* ([deontological!](#)) intrinsic equality (1989: 84) *and* (liberal!) personal autonomy (1989: 97ff). In his influential formulation (Dahl 1989: 109ff.), it can only be realized by a democratic process marked by at least:

1. effective participation,
2. voting equality at the decisive state,
3. enlightened understanding and,
4. control of the agenda and
5. inclusiveness

These criteria imply a fairly conventional catalogue of *negative* rights, or freedoms *from* and a standard formulation of democratic process (but not substance). Together, these liberal norms take precedence over any of the other, below axioms for desirable hypotheticals: in Rawls’s formulation for his *Theory of Justice*, violations of any of these rights “cannot be justified or remedied by other [...] advantages” (1971: 81). They cannot be traded off other benefits, but can only be limited when they come in conflict with one another, as for example, freedom of speech and defamation legislation may.

I posit these rights deontologically, but I also think **pragmatically** (p. 24) that for the foreseeable future, these norms may be our best, if tentative and minimal bet of what people and government should *never* do to people. Maybe, liberal and other deontological norms can also serve under some kind of precautionary principle in ethics: given at least some uncertainty over, or contradiction within other normative ethics — especially consequentialism — we should accept liberal limits to policy because they might help reduce some downside risks.

2.2.2 Rational Preferences

Desirable hypotheticals in tax, welfare and democracy are based on, rely on and help express rationally coherent preferences.

Von Neumann and Morgenstern (1944) have axiomatized rational coherence thus:

Completeness For any two alternatives, A and B , we either ordinally prefer A to B , or B to A or are indifferent between A and B .

Transitivity For every three alternatives A , B and C , where we prefer A over B and B over C , we must prefer A over C .

Continuity For every three alternatives A , B and C , where we prefer A over B over C , there is a lottery comprised of a known number of A -lots and C -lots between which and B we are indifferent.

And, most controversially,

Independence If between two alternatives A and B , we prefer A , given a third option, X , we still prefer A over B .

Such **von-Neumann-Morgenstern (vNM)**-rational actors can be said to have *well-formed, ordinal* preferences over given alternatives, and can, by von Neumann and Morgenstern's work, express equivalent, unique and *cardinal* preferences over these alternatives. That is, if an actor can *rank* alternatives **vNM**-rationally, she can also assign them a set of equivalent real numbers, such as willingness to pay. von Neumann and Morgenstern's transformation of ordinal preferences into cardinal utility can be roughly imagined thus: ²⁰ An agent is offered many lotteries with known probabilities of the alternative outcomes in question. If the agent is **vNM**-rational, her ordinal preferences dictate her choice between *any* such known probabilities revealing her *expected* utility function, including those probabilities where she is indifferent

²⁰ Caveat: the mathematics escape me.

between alternatives. Probabilities being cardinal, the agent's choices between them reveal her cardinal utility from the alternatives. A **vNM**-rational agent's ordinal preferences can thereby always be expressed in some cardinal utility function, and vice versa: if an agent has a cardinal utility function over ordinally preferred alternatives, she must be **vNM**-rational.

Crucially, cardinal *utility* thus revealed need not be a linear function of some cardinal *value*: agents *expected utility* may differ from the *expected value* of some outcome, where its value is merely multiplied by its probability. Agents, can, for example be risk averse and display a correspondingly concave utility function ²¹.

In the social sciences, expected utility theory — as its brethren the first theorem of welfare economics — often arouses great passions: it is either considered elegant and self-evident, or vulgar and misleading. Here too, I must briefly explicate its status:

1. Expected utility theory is *a priori* knowledge (p. 11) of the first-order flowing from a **rationalist** epistemology (p. 8). It implies no (first-order, empirical) observations of actual human decision making ²². As other exercises in formal logic, it is not up to social scientific debate.
2. Expected utility theory invites *no* intersubjective comparisons (such as those on which the first theorem of welfare economics rest). Any talk of *aggregate* expected utility is meaningless, absent additional assumptions. That said, expected utility theory can provide no justification for any particular aggregation or comparison of individual utility, but once such aggregation has been accomplished on other grounds (for

²¹ Maybe because they experience logarithmically diminishing returns to utility, as Bernoulli (1738) suspected.

²² In fact, **vNM**-rationality has a fairly poor empirical track record. Behavioral economics, cognitive psychology and related empirical disciplines demonstrate that “humans are not well *described* by the rational-agent model” (Kahneman 2011: K7094, emphasis added).

As far as these findings concern *cognition*, they do not pose great problems. Notably, the research in this field I am aware of does not suggest that humans would be *categorically* incapable to be **vNM**-rational, or form otherwise coherent preferences. Kahneman, for one, suggests that we think fast but sloppily most of the time (under “system I”), but can also think slowly and thoroughly (under “system II”). In fact, prospect theory and other behavioral economics proceed by comparing actual human decisions to *a priori* **vNM**, or otherwise rational choice. If no one else, at least the people doing this research must be able to think rationally.

I **ontologically** (p. 41) accept these conditional limits of human rationality and suggest — as Kahneman (2011: K7094) — we build *rational* institutions that help us make better decisions (p. 55).

example, by democratic rule), it can posit rationality for and guide decisions based on such aggregated preferences.

Why now, readers may ask, does any of this matter?

Expected utility theory matters a great deal for desirable hypotheticals in tax, welfare and democracy. In tax and welfare it suggests the very necessary and sufficient (!) conditions under which it even makes sense to speak of utility, or its manifold incarnations in (cardinal!) economics. Markets can work their hypothesized magic of pareto-optimization under the first theorem of welfare economics if, and only if people can express their preferences *vNM*-rationally. If people displayed, say, preferences between good *A* and *B* depended on a luxury good *C* becoming available in a market (Frank 2010), the whole intellectual artifice of “utility” and any pursuant neoliberal imperatives with it, may crumble. Tax and welfare may have to step in, to rectify the original irrationality. Conversely, to justify any of my desired welfare interventions into the market economy is to argue for enhanced expected utility: assuming (reasonably, I think), that people prefer an *A* of no insurance premium, livelong health, to a *B* of some insurance premium, cared-for sickness, to a *C* of some insurance premium, livelong health, to a *D* of no insurance premium, uncared-for sickness, but suggesting that, when they give the probabilities and their risk aversion some thought, people (should) find *B* to be of maximal expected utility, is to invoke von Neumann and Morgenstern.

The case is even clearer in democracy. On the one hand, *vNM*-rationality specifies what can be accepted as ordinal preference inputs (votes), if their bearers (citizens) are to have some consistent expected utility in the face of risky choice (strategic voting!). On the other hand, these *vNM* axioms must also be accepted by any democratic aggregation mechanism — even if, absent meaningful intersubjective comparisons, von Neumann and Morgenstern cannot justify any particular mode of aggregation. As I hypothesize later, popular tax choice under pluralism may well be plagued by irrational, inconsistent preferences of voters, and suboptimal choice in tax may, in part, be attributed to an aggregation mode that exploits these flawed preferences. Conversely, it appears that even assuming *vNM*-rational voters, aggregative democracy alone may not be able to produce minimally attractive decisions.

Expected utility theory not only serves me to elucidate such *a priori* consequences, my normative conviction goes further and deeper. To speak of rationally maximizing utility, as I wish to do, *is* to imply von Neumann and Morgenstern, at least for now. Without their axioms for rationality, we do not know what we are talking about when we say “utility”, and conversely, without their formulation of utility, we do not know what we are talking

about when we say “rationality”. If the two are to mean anything, I suspect, they must be related in the terms that von Neumann and Morgenstern have worked out.

2.2.3 Pragmatic Utilitarianism

Desirable hypotheticals in tax, welfare and democracy maximize outcomes that are valuable to people.

Unfortunately, such a utilitarian axiom raises more questions than it answers, including:

1. How do we aggregate value over different people?
2. How can we know what people value?

I cannot explore these questions in full, let alone answer them. Yet, to suggest desirable tax, welfare and democracy *without* raising these questions would be charlatantry. Without at least a tentative and pragmatic response to these questions, there can be no meaningful talk about their *consequences* (p. 19).

Question 1 is easier to dismiss (if not answer), so I will deal with it first.

2.2.3.1 The Problem of Aggregation

Utilitarianism runs into an empirical, or even ontological problem when it comes to aggregating value over different people: it posits an ideal observer capable of comparing value between people ²³. Sadly (or not?) such an ideal observer is not readily available (Rawls 1988), and we do not even know whether such intersubjective comparison is ontologically possible.

This is not to say that absent an *ideal* observer, we are off the hook. We *should* care about other people with whatever roundabout empathy we can muster, but, strictly speaking, we should *not* do it for utilitarian reasons. The last reasons for which we should care about the consequences of others are precisely not consequentialist, but may be, for instance, deontological (equality!), virtuous (charity!) or caring (empathy!).

Utilitarianism *cannot*, as Bentham (1789) might have hoped, reduce distributive justice to an empirical question, it can merely provide the cardinal language in which we can ask about taxation and welfare. Still, as I have

²³ Only consequentialist ethics that rely on *subjective* consequences run into this problem. A (state) consequentialism seeking to minimize, say, CO2 emissions, is defined in aggregate terms already. If minimal emissions are *the* last reason, it does not matter, for example, who sacrifices how much. Of course, it would be hard to justify such a consequentialism with no reference to subjective consequences and it may become arbitrary.

argued above, only (cardinal) utilitarianism can speak to the kind of aggregation that especially taxation and welfare require. What we must do then, is to problematize — not presume — ideal observation, as Rawls 1988 has demanded. In his *Theory of Justice*, Rawls, too, has suggested the mode for such observation that I choose here, and discuss further [later](#) (p. 37).

2.2.3.2 The Problem of Utility

Question 2 on utility is even thornier. Behavioral economics, decision science and related disciplines present empirical findings that question whether humans have any *consistent* sense of utility, let alone a cardinal one. This poses much harder questions for institutional design than the cognitive heuristics and biases, because from a utilitarian perspective there can be no such a thing as “flawed emotions”. Whatever people *feel* — no matter how inconsistent — are the last, and only consequences about which a utilitarian cares. Certainly to a utilitarian, flawed *cognition* can and should be mitigated to improve its consequences, but there are no last reasons to correct human *emotion*, precisely because these *are* the last reason ²⁴.

I cannot here discuss at length the empirical findings on human emotion, but illustrate the questions it raises drawing only on some of Kahneman’s findings in prospect theory. I suspect that related approaches will pose similar questions. In his recent summary, Kahneman (2011) poses at least two empirical critiques of vNM-like human utility:

1. Humans express their utility in inconsistent, non-vNM-preferences. For example, people are not just *risk averse* — as a convex utility function might explain —, they are also *loss averse* (Kahneman and Tversky 1979). From any given reference point, they seem to reap more hedonic gain from avoided *losses*, than from equally-sized missed *gains*. As people make choices, their reference points can shift, and with that, their preference over the original choice can even *reverse*: Kahneman and Tversky (1979) find that when people have acquired mugs, they often accept only selling prices *higher* than their buying prices.

All of this spells trouble for vNM-consistent preferences, and especially cardinal utility — or willingness to pay — on which orthodox economics relies: prospect theory “is in many ways the least satisfactory of those considered since it allows individual choice to depend upon the context in which the choices were made” (Grether and Plott 1979: 634).

²⁴ Readers may note that I allow utilitarianism to collapse a normative question into an empirical question — a conflation that I later criticize in other arguments. This conflation is, in fact, inherent to utilitarian arguments.

Such deviations from consistent utility may also affect judgments of fairness in real life labor markets, as Kahneman (2011: L5248) notes. If confirmed, these findings may become relevant to macroeconomic policy and hypotheticals in welfare and taxation, too. If, for example, a wage cut by any given amount causes more hedonic loss than a raise by the same, or even a higher amount creates hedonic gain, *creative destruction* (Schumpeter and Swedberg 1942) may not be a utility optimum, even if it nominally were a positive-sum gain²⁵. Instead, from a utilitarian perspective, a general bias to conservatism may be warranted. Similarly, taxation might have to be revamped to account for loss aversion. Speculatively, if people suffered inordinate hedonic losses when parting with market earnings, taxation might have to be *less* progressive than otherwise desirable. We might also have to *time* taxation so that it minimizes the *apparent* if not the real sense of loss. For instance, withholding taxes at the source rather than a comprehensive **Personal Income Tax** (p. 307) (**PIT**), or generally indirect rather than direct taxes may be loss-aversively utilitarian, even if they were conventionally inefficient.

Interestingly, then, the equity implications of loss aversion are unclear. Clearly, however, the abstractions of orthodox economics, and with it, conventional desiderata for hypothetical tax and welfare, are incapable of adequately capturing prospect theory, or other non-**vNM**-utility.

2. More generally — or equivalently? — people may not only be unable to express consistent preferences, but there may be no such thing as well-defined utility, or subjective well-being.

Kahneman (2011: 7056), for one, describes three different operationalizations of subjective well-being²⁶:

- (a) Experienced well-being, reported *as* hedonic states occur.
- (b) Remembered well-being, reported *after* some interval of hedonic states.

²⁵ Note that current macroeconomic policy aims to curb exactly the kind of downward wage rigidity that we might expect from loss-averse workers. Inflation is set at a positive rate to hide *real* wage cuts at *nominally* constant rates. Of course, as buying power decreases, workers *will* eventually experience some hedonic loss, even though they may not readily attribute it to real wage cuts. Speculatively, if loss aversion loomed large, as utilitarians, we should cherish (!) downward wage rigidity and make sure that it operates effectively, even if we thereby forego gains elsewhere in the economy.

²⁶ ... not to be confused with the debate over happiness as a state, or a trait (for example Stones et al. 1995).

- (c) Hypothetical well-being, reported as the hedonic gain or loss ascribed to some non-outcome ²⁷.

If there were *one* such thing as subjective well-being, these three operationalizations — and especially 2a and 2b, falsifiable *within-subjects* — should yield the *same* hedonometer. Trivially, remembered well-being should simply be the time-integral of experienced well-being. Alas, it is not, as people seem to ignore duration and instead remember some (peak-end) *average* (Kahneman 2011: K7056). What then, do we — and happiness researchers — mean, when we talk about subjective well-being? Clearly, none of the operationalizations alone can be satisfactory (pun intended) (see Kahneman 2011: K7056), but together, they do not add up to any *one* concept: they are just inconsistent. Utilitarianism, and with it, orthodox economics and consequentialist hypotheticals in welfare, tax and democracy face another empirical dead-end.

2.2.3.3 The Emptiness of Utilitarianism

These twofold empirical dead-ends of utilitarianism pose not merely academic conundrums, they raise very fundamental problems in welfare and taxation. Orthodox economics — especially the welfare kind — and many of the concepts I take for granted here all revert back to an empirically untenable assumption of *vNM*-consistent, subjective consequences. To say that an economy grows is to say that the net subjective consequences of people are improving along their *vNM*-preferences. To say that an economy has a positive savings rate is to say people are foregoing part of their *vNM*-preferences now, and store them in some material (a house) or immaterial (a patent) form that will be *vNM*-preferable in the future. To a utilitarian economist — almost a pleonasm! — there is no *objective* value, other than *vNM*-ranked

²⁷ For example, a quadriplegic might be asked how much happier she would be without her medical condition.

subjective preferences, handily reported as utility, or willingness to pay. ^{28 29}

There may then be no *no* uncontested, objectifiable basis to value human choices and activity, as orthodox economics and much of the following desiderata in welfare and taxation. Even if we subscribe to utilitarianism, we may not be able to reduce desirability to an unambiguous empirical question.

³⁰ Rather, it appears, asking about preferences, or other subjective con-

²⁸ This problem also plagues public choice and finance: to a utilitarian economist, there is *no* known value to public goods (such as defense), because by definition, markets do not operate on public goods and can thereby not extract an exchange value to approximate subjective preferences over such goods. Instead, governments usually undertake some form of **Cost-Benefit Analysis (CBA)** to make production decisions. As part of such **CBA** bureaucrats must assign (or survey) at least the supposed benefits.

This problem is readily apparent when comparing some macroeconomic indicators between countries, or even just over time. An economy-wide savings rate, for example, must either ignore publicly held fixed capital or statisticians must impute the value of these (ostensible) investments out of thin air. At least by the standards of exchange valuation, there is *no* definitive value of, say, a public investment into basic research even though it would clearly be important to know about the expected future utility of these and other projects when gauging a savings rate.

²⁹ This problem may plague *all* subjective theories of value in economics, whether defined by the labor saved by, or put into a good (Smith 1776; Ricardo 1817; Marx 1867), or the utility enjoyed by the marginal consumer buying it and expressed in her willingness to pay (for example, Walras 1874). Either way, “labor” and “marginal utility” must be defined by **vNM**-consistent preferences. Labor, after all, is nothing but an unattractive choice, which we make in return for the right to make some other, more attractive choice. Similarly, being a marginal consumer is to say that relative to all other economic choices (say, another good), buying the good in question at the given price is a **vNM**-preferred choice.

This radically relative conception of subjective value has been criticized as circular reasoning: the ordinal preferences for a good over all other goods is determined by relative, cardinal price for all other goods, which in turn are determined by the ordinal preferences for each of those goods over all other goods (confer Mattick 1978).

³⁰ Entropy may be the one, unambiguously physical phenomenon to measure human activity. As per the second law of thermodynamics, entropy — colloquially: disorder — increases in any isolated system, including the universe. Life, however, *internally* increases and maintains order, by consuming negative entropy, that is, increasing *external* entropy elsewhere in the universe (for example, consider what our bodies do to a black forest cake as we metabolize it) (confer Schrödinger 1944).

Valuable economic activity, too, may be conceived of as creating and maintaining order locally, by further increasing disorder elsewhere (for example, consider the human by-products of making a black forest cake). Incidentally, some sources of negative entropy for economic activity may be better than others, the carbon-cycle of our planet being a particularly poor choice to dump entropy.

However, even if our local entropy-decreasing *could* be measured, it would presumably leave much to be desired in the way of policy guidance. Building a planetary reservoir of frozen black forest cakes may be an impressive achievement in negative entropy, but people will probably get tired from the desert after a while. Maybe, even a physical concept as

sequences, always begs *more* questions (confer Kahneman 2011), including about the *kind* of preference consistency, or the *kind* of subjective satisfaction — about all of which we must find some kind of agreement.

Empirically, then, desirability cannot be reduced to a measurement of *pre-social* preferences, because these preferences, along with all that we may deduce from them, are only socially defined. Willy-nilly, first-order inquiries into the utility of some choice have a habit of turning into second-order questions on the social conditions under which said utility was defined, measured and expressed.

What then, are we to make of this emptiness of utilitarianism?

Should we just abandon it and go for other ethics, instead? Surely, some caution is warranted, and we should back up normative claims with other ethics, because if nothing else, utilitarianism runs into these empirical dead-ends ³¹.

I maintain that no matter these contradictions, we should stick to (some) form of utilitarianism, because normatively as ontologically, the world demands of us risky choices, that to choose one alternative is to negate another, and that as individuals and as societies, we must be willing and able to meaningfully trade-off desired outcomes. The only way to do this at a scale, and under risk is to compute, as best we can, expected utilities. Welfare and taxation, especially, ontologically presume, as much as they seek to improve comparable and consistent subjective consequences. If we are to make meaningful normative choices between factual and hypothetical welfare and tax, we must have a notion of utility.

But — is that not cheating? After all, I am justifying hypothetical taxation, welfare and democracy with last reasons that I know to be unconvincing, but posit them anyway because without them, I cannot justify hypothetical (or any!) taxation, welfare and democracy. Admittedly, I am cheating, but I like to call it ethical pragmatism, instead. I accept that in utilitarianism, as elsewhere, our moral judgements may be imperfect and tentative, but, to progress to greater clarity, must rely on them anyway, for three reasons:

1. Pragmatically, we must rely — in part — on utilitarian ethics because, for now, we are ontologically as empirically faced with a world that

entropy can only serve as a necessary, but not a sufficient criteria for value: whatever of value we produce will probably be fairly ordered, but not everything ordered we could produce would be valuable to us. In other words, even physics cannot help us get around the utilitarian problem of subjective consequences.

³¹ Decision scientists (for example, Kahneman 2011), happiness researchers (for example, Veenhoven 2000) and whoever else presumes and/or questions subjective consequences and so much as hints at normative implications should, if only for the sake of argumentative clarity, out themselves as closeted utilitarians.

— in part — works according to it. If you want to get something (deontologically?) good done today, you will probably have to appeal to popular notions of utility, no matter how ill-conceived they might be as last reasons.

2. Pragmatically, it is a safe bet that whatever we will deem good in the future, will, among other things, probably require not only negative entropy, but more specifically, *stuff* that people prefer, including shelter, food and clothing. Of course, we may be less certain about many other things that people ostensibly now prefer — luxury cars, computers carved out of solid aluminum, espresso machines — and end up producing (future) utility, that does not hold up on (future) ethical reflection. Still, we should better be safe with *some* attractive subjective consequences, rather than sorry without *any* such utility.
3. Lastly, and also pragmatically, we can further — but not perfect — our ethical understanding of subjective consequences by problematizing, then improving those very social conditions under which we empirically seem to be forming our preferences. If utility is, in fact, *not* pre-socially given, we can meaningfully *talk* about it.

Of course, *that* is cheating, too. By problematizing the social conditions of forming preferences, I have just reassigned a first-order question (utility) to second-order status, a move I otherwise despise. To do this in a normative ethic, is really just to rephrase the question: after all, to *what*, if not a utilitarian standard, do you hold the social condition of preference-formation?

I allow myself this trick not because it resolves the controversy, but simply to organize my discussion of welfare, tax and democracy.

Welfare and taxation, are — by definition — the realms in which the social conditions of preference formation are *not* problematized. Here, I ontologically assume, and normatively require preferences to be (largely) pre-social.

Democracy, in turn, is *the* social condition under which we form preferences in intersubjective deliberation ³². Here, I ontologically assume, and normatively require preferences to be (largely) social.

³² I return to this distinction when I discuss deliberative democracy in [Chapter 13](#) (p. 368). Assuming and enabling social, rather than pre-social preferences is an important tenet of deliberative theory and practice.

2.2.4 Justice as Fairness

Desirable hypotheticals in welfare, tax and democracy are just if they treat people fairly.

Justice — especially *distributive* justice — deals with *men in the plural* as Arendt demanded of political theory, and regulates competing claims between people. As we have seen, some of the previous ethics tell us little about how to resolve conflicts *between* different bearers of rights, virtue, consequences or care, respectively. Deontological liberalism provides some digital rules, but these tend to be either minimal, or overly restrictive. Consequentialist utilitarianism promised to make aggregation an empirical matter, but cannot do so convincingly. Crucially, neither of these ethics suggests how conflicts over the meaning of, or conflicts between competing claims can be resolved.

Here again, I turn to John Rawls to provide a meta-standard for finding desirable hypotheticals.

In his influential “Theory of Justice”, he provides that standard: *justice as fairness*. Ever the liberal (and similar to above-mentioned Cohen 1989), he suggests *no* definite desiderata, but instead proposes a thought experiment under which moral claims have to qualify to be admissible for consideration. In his thought experiment, Rawls imagines an *original position*, where deliberators know nothing about their endowments, status and power in the real world. Only moral claims that can be defended under such a *veil of ignorance*, suggests Rawls, may — but need not be — just.

Oddly, this imagined original position is *almost* a liberal procedure for justice, or a normative claim of the *second* order — but not quite. The veil of ignorance, is, of course, materially impossible and operates only metaphorically. Justice as fairness, is, instead, an *end-state theory of (distributive) justice* (Fried 1999: 1007). Genially, Rawls has thereby crafted a standard of *substantive* justice, avoiding both the contingency of immediate imperatives (“[shellfish] shall be an abomination to you”, Leviticus 11: 8, KJV), the nihilism³³ under procedural prescriptions (“Law to Rectify the Destitution of the People and the Empire”, Berlin 1933) and the vagueness of substantive universalisms (“life, liberty and the pursuit of happiness”, US Declaration of Independence 1776). If ever there can be a synthesis between natural and

³³ Walter Benjamin has revealed the nihilism of legal positivism: “law-making (...) implies power (...) which implies violence”, (Benjamin 1927: 12, own translation). In the German original:

“Rechtsetzung ist Machtsetzung und insofern ein Akt von unmittelbarer Manifestation der Gewalt.”

— Benjamin 1927: 12

positive law, it must be similar to Rawls.

Rawls' Theory of Justice suits me, because as a liberal proposal, it lets me "economize on moral disagreement" (Gutmann and Thompson 2004: 7, K226). Moreover, both Rawls' original position and the distributive justice he deduces from it, align neatly with deliberative democracy and progressive taxation of (postpaid) consumption, as I argue [later](#) in [Chapter 16](#) (p. 393).

2.2.5 Meta trade-offs

These are the axioms for desirable hypotheticals in tax, welfare and democracy. I hope they will garner wide-spread support.

Admittedly, the aforementioned axioms are woefully unspecific to design the institutions of tax, welfare and democracy. For the time being, they must remain so. I develop them into domain-specific desiderata in later chapters.

The aforementioned axioms have also not resolved all conflicts between initial, tentative desiderata nor have they resolved the contradictions between different ethics.

I suggest two modes of resolving such conflicts.

1. In part, I resolve these conflicts *by hierarchy*. Following Rawls, desirable hypotheticals must be liberal and must maintain the most extensive basic liberties compatible with similar liberty for others. Such norms — as is typical for deontological ethics — are *categorical*: these liberties are either given, or not. Such categorical values may also conflict, as for example, freedom of speech and human dignity may, in cases of alleged defamation. In these cases, desirable hypotheticals are those arrangements that satisfy *both* freedom of speech and human dignity until and unless they conflict. Crucially, neither norm is superior and they cannot be continuously traded off one another: there is no *amount* of cardinally "more" free speech that would justify a cardinal loss in human dignity. Categorical values defy trade-offs. What we must look for, instead, are *intersecting sets* in a figurative Euler diagram, as in [Figure 2.1](#) (p. 39).

All remaining values must be reconciled within this intersect of categorical values of liberalism. Here too, even supposedly outsized cardinal gains in any of the remaining values cannot be traded off nominal violations of categorical values.

2. In part, I resolve these conflicts by offering trade-offs. This works only for values that are continuous in their realization, as may be the case for the tired conflict between equity and efficiency in taxation. I suggest

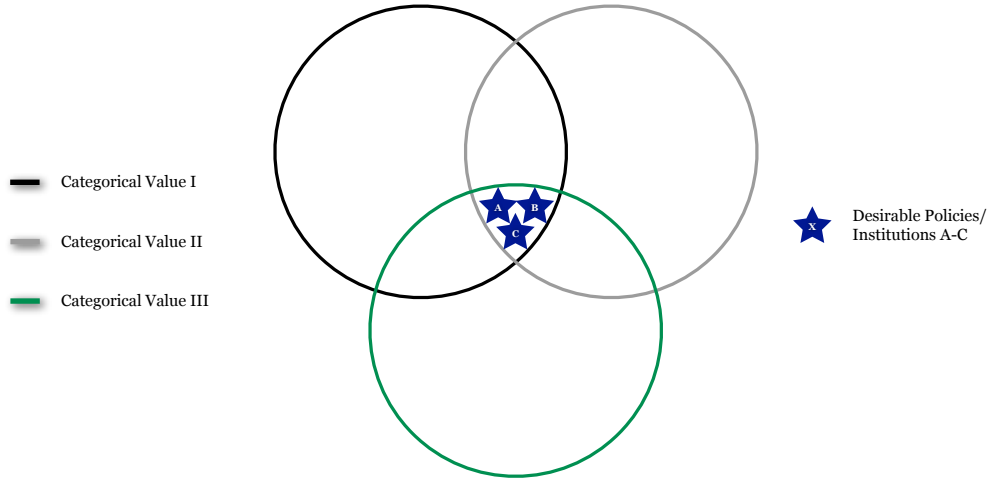


Figure 2.1: Euler Diagram of Three Values

that the trade-offs offered by such conflicting, continuous values depend crucially on the institutional context under which these trade-offs have to be engaged. Calling trade-offs, and designing the conditions thereof can be illustrated well in a diagram of **Production Possibility Frontiers (PPFs)**, frequently used in economics to illustrate different possible baskets of goods that can be produced by an economy. Because paper as this is two-dimensional, **PPF** diagrams frequently only show two goods, but the abstraction carries to any number of n goods in a basket. I adapt the traditional **PPF** in Figure 5.1 (p. 182).

What are competing goods in a **PPF** diagram are here competing values I and II . Let us assume for the sake of simplicity that these values can be easily measured and are ratio scaled. More of each value is better. The four **PPFs** are comprised of those possible combinations of values I and II which are *furthest* from the origin, and thereby strictly preferable over all possible policies *under* the **PPF**. As in a static model of the economy, the **PPFs** are exogenously determined by a priori, and posteriori limits of the first order. In addition, I argue, these exogenous limits are modified by *institutions* 1 through 4. Policies A through J are defined by specific combinations of continues value 1 and 2, along the respective institutions which modify what is logically and empirically possible in this world.

Figure 5.1 illustrates different policy choices. The simplest kind of trade-off is that between two policies along a linear **PPF**, as between A and B on

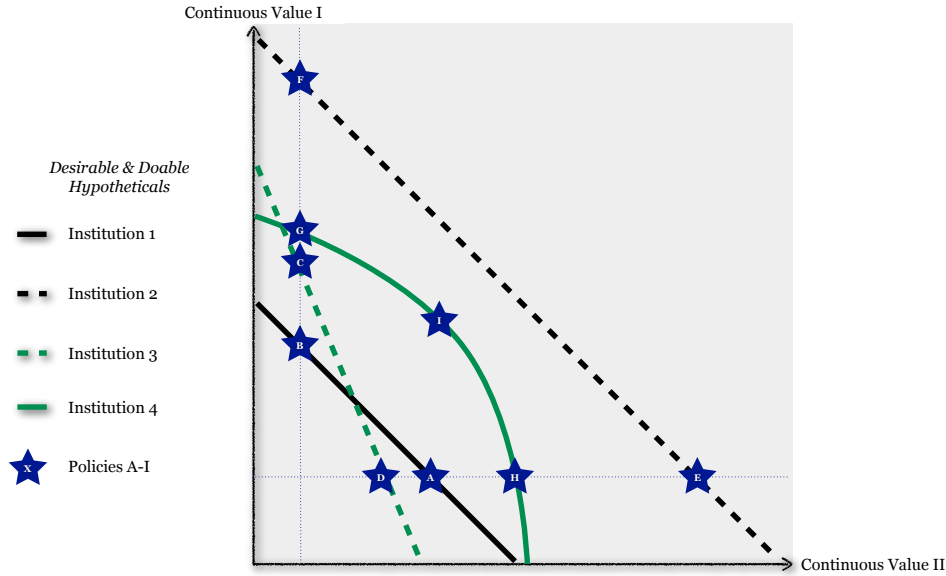


Figure 2.2: Production-Possibility Frontiers of Two Competing Values

1. A straight PPF implies that the values are substituted at a constant rate: any increase in I will require a decrease in II by the same amount. The choice between A and B , as all other points on 1 is a zero-sum proposition. As we shall see, trade-offs in welfare, taxation and democracy are frequently, if implicitly, presented as such zero-sum choices. Alternatives of this sort are inevitable, but they are also normatively less interesting. Once values I and II are reduced to the same scale, the choice along the resultant PPF becomes trivial or even arbitrary ³⁴.

PPF 4 is curvilinear, and more interesting. Here, the rate of substitution varies over different levels of I or II . For example, around G , you have to give up relatively little in I to gain relatively much in II . The reverse is true around H , and substitution is roughly constant around J . The trade-offs between I and II are non-zero-sum: you can gain more than you lose. Assuming a reasonable aggregate indifference curve (linear or convex), optimal policy will probably lie around J . As we shall see, concave or other curvilinear PPFs abound in welfare, tax and democracy. Recognizing the convexity

³⁴ In the technical terms of introductory economics, individual preferences are expressed in *indifference curves*, that is, the lines along those combinations of I and II between which a person is indifferent. The intersection between the aggregate of these indifference curves would be the optimal policy point(s). If the aggregate indifference curve is curvilinear and reasonably simple, there will be one or few such points. If, however, the aggregate indifference curve is *linear* and scaled as the PPF, *all* policies along the PPF intersect with an identical indifference curve, and there are an infinite number of ideal policy points.

of trade-offs offered by any given institution, or, if possible, moving from lower, linear PPF 1 to a higher, convex PPF 4 will be important to identify desirable hypotheticals.

PPFs 1 and 3 are both linear, but they have different slopes. At any level of I , compared to PPF 1 you have to sacrifice more in I to increase II . The moves *along* curve 3 are otherwise as normatively uninteresting as those along PPF 1 — the two are just scaled differently — but the choice *between* these two institutions will be very consequential. Compared to institution 1, institution 3 will always make it costlier to increase value II . There are many such consequential choices of institutions in tax, welfare and democracy.

PPFs 1 and 2 both have the same slope, but 2 is further from the origin. By definition, all policies along this higher curve are preferable to all policies on the lower curve — to everyone³⁵. This is the most important of institutional choices to be made.

2.3 The Ontology of The Doable Hypothetical

3

“But what is government itself, but the greatest of all reflections on human nature?”

— James Madison (1788: 143)

Doable hypotheticals are preferable to others because, in Dahl’s words, “we must avoid comparing ideal oranges with actual apples” (1989: 84).

Deciding just what can, and cannot be done is hard. If asked as a positive first-order question, the answer is sometimes empirically unclear. If turned into a second-order question — as the social sciences are prone to do — the answer becomes politically contested. Both extremes do not serve us well:

1. When all inquiries into the social world are reduced to positive, first-order questions the social sciences effectively abolish themselves and make the status quo epistemologically endogenous, as in: *social inequality is inevitable human nature, because if it were not, it would not be observed*, or “the Laws of commerce are the laws of Nature, and therefore the laws of God.” (Burke as cited in Marx 1867: 834).

³⁵ Technically, again, *no matter the indifference curve*, the higher, but equally-sloped PPF will always be preferable.

2. Conversely, when such inquiries assign all positive questions to second-order status, the social sciences hermetically seal themselves off from other disciplines and turn critique into futile, infinite regress, as in: “*social being [...] determines [...] consciousness*” (Marx 1859: Preface), including, one might add, Marxist consciousness.

Instead, the social sciences — and especially policy analysis — should find a middle ground, taking on *one second-order question at a time*, while provisionally leaving all other questions to first-order status.

I here ask second-order questions about the welfare state, taxation and democracy and I therefore assume these *institutions* to be malleable. *Not* under study here are *human nature* (p. 42) or the *modern condition* (p. 47), especially of developed states and late capitalist economic production. I assume these to be constant in the medium run and reasonably approximated in the following sections.

2.3.1 Human Nature

Any second-order prescription for how to organize production, distribution and decision making rests on assumptions about human nature. For evolutionary anthropology, psychology, behavioral economics and other offspring of now disreputable (Wright 1994) sociobiology (Wilson 1975) this is a positive first-order question about our prehistoric baggage: what behavioral, cognitive and emotional dispositions might have been adaptive in the environment of our evolution, and what do we observe today?

2.3.1.1 Evolution and Morality

Maybe, evolution deserves to be the master ontology of life, and therefore, of human life, too. Because I sometimes refer to such Neo-Darwinian arguments (Wright 1994) and hear them often misunderstood I must reiterate the ontological status of the theory of evolution:

1. Evolution may dispose us to think, feel and act in certain ways, but does not determine us to do so (*deterministic fallacy*).
2. Evolution yields more (“gradual” according to Neo-Darwinism) or less (“punctuated” according Eldredge and Gould 1972) stable *equilibria* between environmental conditions and (more or less) adaptive traits of organisms. It does not necessarily yield *optimal* configurations, just survival of the relatively fitter. Conversely, not all biological features

that are observed are necessarily adaptive, but may simply be side consequences of other, adaptive features or developmental vestiges (Gould and Lewontin 1979).

Or, in Bryson’s succinct formulation, “life wants to be, but it doesn’t want to be much” (Bryson 2003).

3. Evolution is a “nonmoral” process (Gould 1982). It may tend towards greater complexity and cooperation, including human-like intelligence (Wright 2000), or it may just pursue a random walk, departing from a “left wall” (Gould 1994: 4) of “simple beginnings” (Gould 1977: 7), and inevitably bring some complexity, including *homo sapiens* as a freak outlier (Gould 1996). Either way, even if evolution *were* directional, it would not be along any moral dimension intelligible to humans. This cuts both ways:

- (a) to praise evolutionary results is to fall for a “*naturalistic fallacy*” (Moore 1903, as cited in Wright 2000: K5987)
- (b) to criticize them on any moral basis is to commit a “*moralistic fallacy*” (Davis 1978).

Within these ontological limits, evolution serves me well in this dissertation, because as a materialist, positive and first-order perspective it allows me to limit my second-order inquiries on taxation and democracy.

Unfortunately, evolutionary logic has a way of straying beyond the positive, of encroaching on and negating normative questions, precisely because it purports to explain all life, including human life. For example, if exclusive fitness were operative in human evolution, does that not, as Social Darwinism suggested, imply that humans *are* unequal, end of story? More fundamentally — and less obviously ideological — if all our flesh, including our brain tissue, evolved in an aimless process, does that not, as overzealous neuroscientists like to test, imply that whichever subjective experiences of consciousness and free will that flesh reports must be wholly illusory, and all questions of morality therefore beside the point? If we were merely organic, delusional robots, as Wright (2000: Chapter 23) provocatively asks, what would be wrong with unplugging a few?

This pedestrian thesis is not the place for another mind-body debate, and I am equally awed and outmatched by these and other “hard problem(s) of consciousness” (Chalmers 1995). Still, I must ask the reader to allow me a crude bit of lay metaphysics.

For starters, positive questions on consciousness — including the downstream issue of free will — easily run into seemingly obvious logical problems.

If consciousness were positively illusory, who would be left to do the observing? Conversely, if consciousness were some positive emergent neuronal phenomenon, would not precisely that physical genesis negate subjective experience? Either way, infinite regress ensues. Perhaps, as James Trefil muses, consciousness “is the only major question in the sciences that we don’t even know how to ask” (1997: 15) and maybe, therefore, we need not be bothered, for now.

More fundamentally, whatever we may learn about the (aptly named) “neural *correlates* of consciousness” (for example, Koch 2004, emphasis added) none of this positive research can, or ever should negate, or infringe on normative questions. The first-order positive questions of natural science, and the first-order normative questions of the social sciences should be kept neatly apart, because they are **Non-Overlapping Magisteria (NOMA)** (Gould 1997). Akin to science and religion, first-order positive and normative questions, too are distinct “domain(s) where one form of teaching holds the appropriate tools for meaningful discourse and resolution” (Gould 1999: 3):

“The magisterium of science covers the empirical realm: what the Universe is made of (fact) and why does it work in this way (theory). The magisterium of religion extends over questions of ultimate meaning and moral value. These two magisteria do not overlap, nor do they encompass all inquiry (consider, for example, the magisterium of art and the meaning of beauty).

— Steven Jay Gould (1999: 6)

No matter then, how hard-nosed a question we may ask about our evolved nature, these positive inquiries must never be mistaken for, or negate normative questions, because these fall into categorically different realms:

“Our failure to discern a universal good does not record any lack of insight or ingenuity, but merely demonstrates that nature contains no moral messages framed in human terms. Morality is a subject for philosophers, theologians, students of the humanities, indeed for all thinking people. The answers will not be read passively from nature; they do not, and cannot, arise from the data of science. The factual state of the world does not teach us how we, with our powers for good and evil, should alter or preserve it in the most ethical manner.”

— Stephen Jay Gould (1982: 43)

Ought may imply can (Kant 1794: 65), but they are still not the same thing. However much constricted positive science may find us to be, these

limits of what we *can* do must never drown out the imperative *ought*. Perhaps, tautologically, to be human and not another animal, is to arrogantly insist that, in spite of the limited and banal flesh we are made off, we *ought* to be conscious, we *ought* to have free will and we *ought* to say “ought”.

Maybe, this is the this-wordly obedience to Jesus Christ that Dietrich Bonhoeffer meant — and died for — when, faced with fascism he chose “costly discipleship” (Bonhoeffer 1937): “Only he who shouts for the jews is permitted to sing Gregorian chants” (Bonhoeffer 1933 as cited and translated in de Gruchy 1999: 35). Fascism, after all, was the modern ideology to radically negate any “ought” for whichever group (“race”!) was supposedly biologically superior, and de-facto militarily stronger. Perhaps, such rejection of “ought”, too, makes the “banality of evil” that Hannah Arendt (1963) recognized in an Adolf Eichmann on the stand in Jerusalem. Eichmann, after all, might “excuse[...] himself on the ground that he acted not as a man but as a mere functionary [...] since after all, someone had to do it” (Arendt 1963: K286f.). Such *acts of state* defy *ought*, because, to an “unthinking” Eichmann (K187f. : Arendt1963) history — as evolution — just *is*.

Such lay metaphysics might be crude, but they are *not* entirely beside the point of welfare, taxation and democracy. As I argue later, a milder, but similar conflation of *can* and *ought*, of second-order positive, and first- and second-order normative questions plagues some social science, especially when it *lacks hypotheticals* (Chapter 6, p. 233). In the social sciences, too, the line between an emerged, evolved, “grown order” and a “made order” is sometimes blurred, negating political *oughts* — and not always as elegantly and explicitly as by (Hayek 1973: 37).

2.3.1.2 Evolution and Institutions

We need not confine evolutionary explanations to our biology alone, or, conversely, reduce all behavior, cognition and emotion to some strictly physical (genetic) reason. Instead, we can apply evolutionary explanations to *culture* and *institutions*, too.

In fact, the tired — and often unproductive — nature vs. nurture controversy is moot: we are neither blank slate ³⁶ for behaviorism to condition or society to write on, nor a physically determined animal, but essentially *both* nature and nurture. Our bodies and culture-ready brains genetically *co-evolved* with co-adaptive memes (Dawkins 1976) to make us the “hyper-cultural species” that we are (Henrich and Henrich 2007: K175). Relatively ill-equipped in instincts, we need to *learn* (or *imitate*) what to eat and hunt

³⁶ ... *aka. tabula rasa* or *homo sociologicus*, as Dahrendorf (1965) quipped.

— and how to build a blast furnace. Perplexingly, it is in our *nature* to rely on *culture*: as our brain allowed us to learn easily, our culture developed cooking, and our digestive tract adapted to broken-down proteins, as illustrated in Figure 2.3 (p. 46, Henrich and Henrich confer 2007).

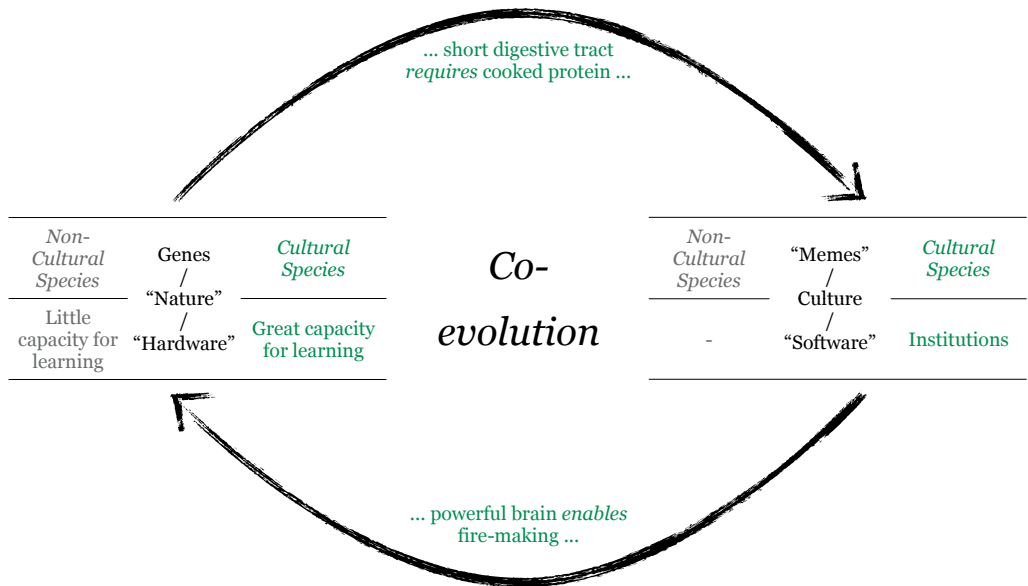


Figure 2.3: The coevolution of nature and culture, with some examples

Own illustration, based on Henrich and Henrich (2007: K120ff)

This is the evolutionary blockbuster of humans: we moved the locus of our evolutionary adaptation from genes to memes (Dawkins 1976). Instead of “hard-coding” all adaptive traits, we learn (or imitate) the more complex and more malleable software of culture (Boyd and Richerson 1985, Henrich and Henrich 2007: K196ff), written not in *deoxyribonucleic acid (DNA)*, but coagulated into institutions.

Paradoxically, as the naturally hypercultural species, we might gain some leeway from our biology, but simultaneously loose it to culture, because evolved culture too, must be (co-)adaptive to our biology, environment and, crucially, our *past*, path dependent culture (*evolutionary anthropology*, for example, Wright 2000). As sociologists like to say about institutions — the coagulates of culture — culture, too, may *enable us as it constrains us* (for example, Hodgson 2006: 3).

Here lurks another positive first-order dead end: if present culture is, by definition, sufficiently (co-)adaptive to persist, does that not imply that any new, improved culture could and *would* emerge by said evolutionary process if, *and only if*, it were (co-)adaptive to our nature and environment

and sufficiently incremental from past culture? If, therefore, culture and institutions, too, were strictly positive phenomena unamenable to human will, would the social sciences and political critique not be completely beside the point?

Hardly so. Here, as in all evolutionary arguments, the *can* need not, and must not eclipse the *ought*. We may not be able to make arbitrary institutions, but, axiomatically, we *can* build *progressive* institutions: they help us achieve normative ends, by first responding to our evolved cultural and natural dispositions, then transcending them. At least since Enlightenment dawned, we get to make our own history (a little), and build or break (some) institutions as an act of will — that is **ethical pragmatism** (p. 24).

To build institutions is to emancipate ourselves from the meaningless process that bore us as expendable containers of “selfish genes” (Dawkins 1976) and to heed that call for morality, that we among the earth’s animals may hear clearest, because through institutions, we *can* turn reflexive on our innate behavior, cognition and emotions.

2.3.2 The Modern Condition

Maybe this is as good a definition of modernity as any: the project by which we reflect on what might be innate to our existence and inevitable about our physical world, and deliberately build institutions accordingly. Thus advises a machiavellian (1532) Mandeville to turn “private vices by dextrous management of a skillful politician (...) into public benefits” (1714: 213), thus threatens a somber Hobbes (1651) our inner wolves with an even more powerful metaphorical beast, and thus asks us a moralizing Smith (1776) to receive from others “from their regard to their own interest” — or any number of other “idea[s] of the world as open to transformation, by human intervention” (Giddens 1998: 94).

Modernity, as evolution, is often misused or misunderstood, and so again, I must briefly clarify its ontological status for my purposes:

1. The modern project need not be confined to a specific location or era, nor need it be one-directional or linear, but it might arise in different places at different times, it might wax and wane, explode and collapse. While Europe and North America in the early 21st century may constitute high points in this project, the modern project is not wedded to any specific historical context or even the institutions which it bore, but rather, modernity is a *cultural* and *cognitive* phenomenon (Jones 2003: 26, emphasis added).

2. The modern project need not be inherently good nor necessarily lead to desirable outcomes: modernity may well bear alienation (Adorno 1966), or even lead to catastrophe (Bauman 1989) and not all of its (ongoing) advances may yield progress.

However, the inverse is true: to think progress implies a modern mind-set, and to get it done requires modern institutions.

3. It should be redundant to say that my dissertation ontologically assumes a modern condition, because tautologically, sociology is about finding answers to the questions modernity raises (Harriss 2000: 325), and “postmodern sociology [therefore] an impossibility” (Miles 2001: 169).

And yet, “modernity” seems to be a concept fallen out of fashion, superseded by (occasionally loose) talk of various post-isms (for example, Lyotard 1984, Baudrillard) or second and reflexive modernities (for example, Beck et al. 2003).

Whatever the value of these and other contributions, in welfare, taxation and democracy I find no contradictions that would require such categorical labels or the nascent theories they stand for. In fact, I suspect that a thoroughly *modern* analysis of welfare, taxation and democracy may resolve many of those contradictions which reflexive modernity prematurely identifies, and clarify some of the uncertainties in which postmodernity revels. For instance, maybe, equipped with a rational and deep understanding of the mixed economy and externalities, we find that “de-nationalization” (Beck and Grande 2007) and “risk society” Beck (1992) are neither inevitable, nor particularly descriptive but simply avoidable and unsurprising cooperation problems, instead.

I here reflect on many dysfunctions of the presently observed, undoubtedly modern institutions of welfare, taxation and democracy, but I need not get “all meta” about modernity, because precisely such “reflexivity is a modern, not postmodern set of attitudes and practices and that ritualized postmodern caviling against modernity is ahistorical and inaccurate, not to mention dispiriting” (Sica 1997: 1119).

Also, as I promised earlier, this *is* a pedestrian thesis.

What then, are these indispensable modern institutions that I here assume as ontological entities, that which defines the “doable”?

2.3.2.1 States and Markets

For the production and distribution of goods, they are state plan (but not *nation state*) and market exchange (but not any particular *x-capitalism*). For collective decision making, they are a state equipped with an effective monopoly on the use of force and devoted to some popular participation (compare Giddens 1998: 96).

These two, states and markets, both *brought* and *constitute* the modern condition: they hyper-charged functional differentiation (Smith 1776) to reach near-planetary breadth (for example, international trade, citizenship) and near-universal depth (for example, commodification, family law), they altered or replaced much of the evolved culture (for example, kin) and institutions (for example, tribe) adaptively fit only at smaller scale (Diamond 1997), replaced such mechanical by organic solidarity (Durkheim 1893) and bore a social world that is complexly interacting (for example, Merton 1968a, 1936).

These two are also the meta-institutions that both define and allow welfare, taxation and democracy. Welfare and taxation exist only, as I explain later, in mixed economies of both market exchange and state plan. Taxation and democracy alike, to become real, must be enforced by a state with an effective monopoly on the use of force.

As all modern institutions, state and market are based on a particular model of human nature, in this case, a

1. rational and
2. individual
3. utility-maximizing

homo economicus (maybe first in Mill 1848). The state gets an amoral, but opportunistic *homini lupus* to behave by threatening monopolistic force (as in Hobbes 1651). The market, in turn, lures a self-seeking, but rational “butcher, [...] brewer, or [...] baker” into providing “our dinner” — and all else — “from their regard to their own interest” (Smith 1776).

2.3.2.2 Non-Zero-Sumness

But, as other modern institutions, state and market not only assume this human nature, they also allow *homo economicus* to transcend her own limits. As *individual* utility-maximizers, she runs into problems whenever her supposed selfishness prevents otherwise mutually advantageous interactions. This rough typology specifies the class of games which *homo economicus* is ill-equipped to solve:

1. *Zero-sum* games display constant sums of payoffs over all cells, or possible interactions. One player's gains equal another player's losses: the cake does not grow, but is only sliced up differently. By definition, a zero-sum game is pareto optimal: no one can be made better off, without making someone else worse off ³⁷.

Terms of trade, the ratio of units of goods that a country has to export for any unit of imports, is an oft-cited (rare) example of zero-sumness in advanced economies.

A trivial example of zero-sumness, theft, (without spillovers) is illustrated in Table 2.2: all cells yield the same \sum payoffs = 2.

2. *Non-zero-sum* games have different sums of payoffs, or possible interactions. One player's gains are not equal to another player's losses: the cake can grow or shrink. Positive-sum games are equivalent to negative-sum games, because the absence of a loss (a negative-sum outcome) is a gain (a positive-sum outcome). For the sake of simplicity, I often refer to only gains or positive-sum outcomes, but mean all non-zero-sum games. Crucially, non-zero-sumness does not imply that gains are shared equally, or at all. Non-zero-sum games need not even imply (weak) pareto-improvements, if one player loses less than another gains in a Kaldor-Hicks-improvement (Kaldor 1939; Hicks 1939).

Non-zero-sum games further break down into:

- (a) *Games of total harmony* are situations in which self-interested players will Nash-equilibrate at an interaction that reaps all non-zero-sumness ³⁸. By definition, a game of total harmony offers pareto improvements: at least one player *can* be made better off, (at least) without making someone else worse off.

Under some assumptions, opening up to free trade famously is such a game of total harmony (Ricardo 1817). It is roughly illustrated in Table 2.3: at \sum payoffs = 6, the north-western cell

³⁷ Critics of economic growth (but not **Gross Domestic Product (GDP)**!) should carefully ponder the implications of such a scenario: a world with no economic growth is a world where *all* human interactions are zero-sum. Empirical literature on, for example, rentier economies, have chronicled the corrupting influence that zero-sumness may have on a political process, when all decisions create *nothing but* winners and losers (Beblawi 1990).

³⁸ *Strategies*, or players' moves, form a *Nash equilibrium* if they are mutually *best responses*. Best responses, in turn, are the utility-maximizing move for a player, *given* the other player's choice. *Dominant strategies* are those best responses that maximize payoffs over *all* choices of the other player(s). The *social welfare optimum* is realized under those combinations of strategies that maximize the aggregate payoffs of all players. Kleinberg and Easley (2009) provide a great introduction into game theory and its basic concepts.

Table 2.2: Theft as a Zero-Sum Game

		<i>Player A</i>	
		Does not steal	Steals
<i>Player B</i>	Does not steal	1	2
	Steals	0	1

Player A and Player B both have a good. They can steal from each other, or not steal. By heroic assumption, theft has no interaction costs and does not erode trust or security. Payoffs are units of enjoyment of goods. Higher is better. As always, cardinal numbers are examples, only ordinal relations matter.

yields the highest, social optimum and it is also the only (!) set of mutually best responses, and thereby, the unique Nash equilibrium. In short: trade and other games of perfect harmony should take care of themselves.

- (b) *Cooperation problems* plague non-zero-sum situations where the social welfare optimum is not also (at least) a Nash equilibrium. Here, at least one player may gain more than all others stand to loose. Such games cannot be Pareto-, but only Kaldor-Hicks improved.

The canonical example of a cooperation problem, a **Prisoner's Dilemma (PD)**, is given in **Table 2.4**: here the socially optimal (smallest) payoff $\sum \text{payoffs} = 2$ prison years its in the north-western cell, but it does not constitute a mutually best response. In fact, no matter what the other player does, one is always better off betraying: the south-eastern cell is not only a mutually best response and thereby the Nash equilibrium, but even a mutually *dominant* strategy at a dismal aggregate prison sentence of $\sum \text{payoffs} = 6$ years.

The **PD** and related cooperation problems can model many of the economic and political challenges facing us today, including global warming (for example, Stern 2006) and herding in financial markets (from Keynes 1936 to Banerjee 1992). I also identify **PD**-style problems in welfare, taxation and democracy.

Table 2.3: Ricardian Trade as a Game of Perfect Harmony

		<i>Home</i>	
		Trade	Autarky
<i>Rest of the World</i>	Trade	4 2	3 1
	Autarky	1 1	1 1

Home country and Rest of the World can decide to open up to trade or remain under autarky. Because both countries have different opportunity costs, as per Ricardo’s theorem of comparative advantage, they both stand to gain from trade, if possibly unequally. Payoffs are the baskets of goods to be consumed. Higher is better. As always, cardinal numbers are examples, only ordinal relations matter. Trade cannot be adequately modeled in two-dimensional payoff-matrix with only two players because, trivially, if one player reverts to autarky, the other player must also choose autarky because there is no trading partner left. I ignore that problem here by assuming that the rest of the world will always find some exogenous trading partner.

Table 2.4: The Prisoners’ Dilemma as a Cooperation Problem

		<i>Prisoner A</i>	
		Stays Silent	Betrays
<i>Prisoner B</i>	Stays Silent	1 1	2 0
	Betrays	0 2	3 3

Prisoner A and Prisoner B are both arrested, but police has insufficient information for a conviction. The two are separated, and police offers both independently the same leniency deal: if one betrays the other, she will go free, and the other prisoner goes to jail for 2 years. If both betray one another, they will both go to jail for 3 years. If they both stay silent, they will only be charged with a minor crime and get 1 year in jail. Payoffs are years in jail. Lower is better. As always, cardinal numbers are examples, only ordinal relations matter.

Table 2.5: Security as a Prisoners’ Dilemma

		<i>Homo homini ...</i>	
		... ovis	... lupus
<i>Homo homini ...</i>	... ovis	22	30
	... lupus	31	11

Two homo sapiens are both living in a Hobbesian primordial state of war. They can either be peaceful *obis* (latin: sheep), or violent *lupus* (latin: wolves) to their fellow men. To be violent is costly, but promises a meal of sheep-like humans, or at least their resources (food, shelter). If you are eaten, or, more benignly, robbed of food and shelter as a peaceful sheep, you receive no payoff, because either way, you must die or starve. If two wolves meet, both engage in costly violence but receive no extra resources. Payoffs are utility, as in food or shelter. Higher is better. As always, cardinal numbers are examples, only ordinal relations matter.

If we are to reap the (great) benefits of non-zero-sumness, homo economicus must be able to successfully play these classes of games. She should do well in games of perfect harmony that cater to her selfish utility maximization, but might flounder cooperation problems. As a maximizer of *individual* utility, she cannot see the bigger picture of aggregate welfare.

Such is, for example, the logic of a Hobbesian war of everyone against everyone: all would be better off if they ceased fighting, but in a world where everyone is armed and angry, any individual homo economicus better not be a pacifist. In fact, security may be modeled as a PD, as in Table 2.5.

In a more realistic model with many players instead of just two, the cooperation problem may only exacerbate. If you were the only wolf amongst many sheep, violence may be especially cheap, because your potential victims are plenty and helpless. Conversely, being a lone sheep amongst many wolves will be especially risky for the sheep, and costly for the wolves who need to be competitively violent. At such a larger scale, the PD of security evolves into an arms race with ever costlier, but fruitless violence: the original tragedy of the commons (Hardin 1968).

Naturally “stuck in-between” (Lehrer 2012) the selfishness of homo economicus and our capacity for altruism³⁹, as ever the “hypercultural species”

³⁹ Altruistic behavior, according to Wilson (2012) and before him Darwin (1859), is an emergent property of the *group*, following group selection. According to mainstream sociobiology (and initially Wilson 1975), altruism emerges at the *individual* level by a

(Henrich and Henrich 2007: K175), cooperative exploitation of non-zero-sumness, as much else, does not come to us robotically, or by instinct as it does to the eusocial insects (Wilson 2012). In humans, such cooperation is *contingent* on culture or institutions.

2.3.2.3 The Genesis of Cooperation

Luckily for us, history listened to Hobbes and brought such an institution for large-scale cooperation, when it bore those powerful *Leviathans*, whom we have since successfully trained into rule-of-law, and even democratic states.

Two theories of the genesis of states are instructive here:

1. Maybe, states are simply the largest remaining of pre-historic, atomistic racketeers who threatened *with* well as *protected from* violence (Tilly 1985: 182). These initially small-scale racketeers morphed into proto-states and then states as new technology, and — equivalently — economies of scale allowed them to produce and distribute violence at a larger scale, for lower cost (Tilly 1985).
2. Or maybe, (nation!) states grew out of kinship ties and our capacity for genetic nepotism (Hamilton 1964; Axelrod and Hamilton 1981), as the initially real blood lines became ever thinner and eventually illusory and fake, yet effective (van Den Berghe 1981; Gellner 1983).

The two stories need not be mutually exclusive, but may instead complement one another. After all, Tilly’s materialist account of state genesis does not so much explain away the cooperation problem, but reverts it to the level of individual thugs who make up the racketeering mafia. As Coppola’s “Godfather” (1972, 1974, 1990) trilogy illustrates, even in the 20th century, successful organized crime is not easy, and hinges on trust. Anecdotally, in the case of the Corleone organization, cooperation is built on family ties, alluding to theories of inclusive fitness as nepotism. Maybe, economies of scale and first genetic, later imagined nepotism *both* drove state making, only at different levels.

Against this backdrop, the development of governance in the modern era, including sequentially security, the rule of law, democracy and welfare (compare Marshall 1950) is a project of *both* consolidating, and steering a powerful but dangerous monopoly on violence or illusion of kinship, respectively. Absent such training, states are quite scary beasts, as Hobbes’s frontispiece of *The Leviathan* illustrates. Both theories of their genesis imply a slippery slope. Supercharged by economies of scale in the production of

strategy of inclusive fitness or genetic nepotism, helping others as they are related.

violence, those monopoly producers of violence may tend towards parasitic government. “Imagined communities” (Anderson 1983), in turn, enabling cooperation by increasingly fabricated nepotistic sentiment, may always risk turning exclusive, or even fascist if the quasi-biological notions run loose.

Here again, the modern age has borne deliberate (meta?-)meta-institutions to govern an evolved structure, including constitutions, rule of law and democracy. However, all these modern additions to statehood should not distract from its defining innovation: an effective monopoly on the use of force, without which we are back to a very, very dismal square one. “You cannot get to Jefferson and Madison without going through Thomas Hobbes” — in Iraq (Diamond 2004), or elsewhere.

Modern markets, and the intricate games of perfect harmony they provide for homo economicus to solve and thrive, too, depend on this monopoly of force. From property rights, to contract law and fiat money, commerce always rests on effective enforcement: to enter any such deals in the first place, you must believe that really, *pacta sunt servanda*, that promises *will* be kept — or made to be kept, anyway.

It is, in fact, this shadow of violence that enables markets in the first place, that allows us to *transform* cooperation problems into games of perfect harmony, and thereby, to *solve* them.

States and markets are, the atomistic reading of Hobbes and Smith aside, a feat of great cooperation. Almost magically, they freed us off that Malthusian curse, by which our geometric population growth must always outstrip our *arithmetic* economic growth, and starve us ⁴⁰. The modern escape from that iron law of population (or resources, or carbon, and so on) *was, is and will* be to make economic growth above-linear, too: to reap non-zero-sumness, to functionally differentiate and to harvest economies of scale. If at different altitudes of abstraction, these all imply the same prescription: cooperation *is* our one ticket out of hardship and subsistence (a notion to which I return in the [later](#) in [section 5.4](#), p. 221).

2.3.3 Contingent Homo Economicus

To think about welfare, taxation and democracy, then, homo economicus is both inescapable and inadequate.

⁴⁰ Malthus (1798) might have been correct only about some periods of human history, and anyway, was anachronistic in his time, when functional differentiation was already well under way.

2.3.3.1 Inescapable Homo Economicus

As an ontological model, homo economicus is inescapable, because it comes part and parcel with the meta-institutions of state and markets. To think of coercive power or supply and demand is to invoke an individual utility-maximizer. By extension, to ponder welfare, taxation and democracy, too, implies this view of human nature, for if we were neither *individual* nor *utility maximizers*, altruism, allocation and decision making would come to us automatically. Alas, it does not.

Materially Possible. Moreover, market and state, along with their view of human nature are good ontologies for a second-order inquiry into welfare, tax and democracy because market and state, if nothing else, are materially possible under first-order theory.

Market and the state may not be the only materially possible means to organize cooperation, but they are the only (meta-)institutions that have demonstrably orchestrated large-scale production and distribution of many kinds of goods. They, and the [sources of wealth](#) (p. 153) they tap into are the *only known* way to prosperity.

For now, only states can solve commons problems (Hardin 1968: for example), and only markets efficiently and credibly gather, process and signal dispersed information (Hayek 1931). Other institutions to facilitate cooperation, such as kinship (van Den Berghe 1981; Axelrod and Hammond 2006) or even the nuclear family (on which the conservative/continental welfare state still relies heavily, according to Esping-Andersen 1990) and community (Ostrom 1990) are often narrow in scope and reach. Self-organizing scientists (for example, The Human Genome Project), programmers (for example, Linux OS) and web-users (for example, Wikipedia) have lately accomplished impressive achievements, but their mode of production seems to complement state and market, rather than replace it: scientists are often paid state salaries, free software runs on commercial hardware, and wikipedians need day jobs. These goods, incidentally, are also all common or public goods, the non-state production of which we are only just beginning to understand (Ostrom 1990).

Eventually, great hopes set in volunteerism, a communal “governing the commons” (Ostrom 1990) or some other alternative mode of production, distribution and decision-making may come to fruition. In the meantime, we must stick to at least a bit of state and market, the two meta-institutions which, empirically, have civilized whichever aspects of homo economicus we might positively harbor into the intricately complex interdependency of the modern world.

This interdependency is, as I have explained, the very *condition* of our prosperity. Modernity and its riches, we can only hope, are here to stay (Diamond 2005) and any first-order ontology, must — as states and markets do — abide by its conditions. The modern economy is, and *needs to be* so functionally differentiated that no subset of people can ever organize, let alone meet all their material needs in isolation. Only elegant abstractions, such as global price systems, can enable this feat of cooperation. Likewise, modern society is so complex that no large share of society can ever comprehend, let alone decide on all matters of the polity. Only some people, some of the time, can comprehend in some detail and decide on some matters. In modernity, autarky is regress ⁴¹.

Small-scale, intimate interactions, such as of the ancient polis or the pre-historic tribe will not, and should not return. Any ontology or policy that purports a return to such simpler times does not, as it might claim, provide an *alternative* to state or market, but instead merely defines away the question which these meta-institutions *have* answered and threatens to roll back modernity.

Logically Consistent. Homo economicus and the meta-institutions it inspired also make for a good ontology for hypotheticals, because whatever its shortcomings, at least, we have a *logically consistent understanding* of states and markets, and know something about how they work, and how they fail. If you assume some homo economicus in us, an appeasing Leviathan, and the pareto-improving qualities of free markets, are, in fact, logically consistent.

These abstractions ride on a lot of (heroic) assumptions, but at least, they clarify our thinking and generate falsifiable hypothesis. That is more than can be said about suggested remedial institutions such as “governance”, “Big Society” (Cameron 2011) or a philanthropic “Third Sector” (Anheier 2002). These, as many other recent contenders of states and markets, are shrouded in impenetrable *Newspeak* (“problem solving”, “community” and “giving back”, respectively) (p. 257), they lack a coherent (*any?*) model of human nature, and give no account of their successes and failures.

Civil society, in particular, is yet only negatively defined (it is *not* the state, *not* the market and *not* the family), its mode of production (volunteerism?) is underspecified and its vaguely optimistic ignorance of structure and material interest border on (hegemonial?) ideology. Here, too, defin-

⁴¹ Such regressive states of disorganization can still be observed in much of the developing world (confer Clark 2007; Easterly 2006), war zones (on the Iraq example, Baker III and Hamilton 2006) or wherever else human culture has regressed back to or stalled in innate (kin-, clan-) modes of cooperation (on the southern italian example, Putnam et al. 1993)

ing away the contradictions of modernity will not solve them, it will merely render the advocated institutions inaccessible to critique and improvement.

2.3.3.2 Inadequate Homo Economicus

Yet, homo economicus is the kind of quasi-evolutionary concept that blurs theory and data, and easily eclipses *ought* with *is*. Less metaphysically, it is also plainly inadequate to investigate welfare, taxation and democracy because these projects, as states and markets, more generally, are, and always have been plagued by precisely these selfish demons of our nature.

Logically Incomplete. Homo economicus is logically incomplete as a first-order ontology, because it cannot explain the initial nucleus of cooperation from which states and markets must have sprung.

The infinite regress of an ontology inhabited only by homo economicus is evident in the competing (or complementing) theories of state genesis referenced earlier. Tilly's (and similar) stories of state-making-as-organized-crime do not so much explain *Leviathan*-level cooperation, as they merely relegate it to the level of nascent racketeers: just *how* these thugs initially ganged up, we do not know. van Den Berghe's (and related) stories of polities-as-extended-kinship, likewise, do not so much explain *Imagined Communities*, as they simply relegate it to a sociobiological explanation of reciprocal altruism: just *how* reciprocal altruism emerged at a *group* level, in an evolution of *individual*-borne genes and memes, we do not know, and even sociobiology is unsure ⁴².

Whatever their genesis, states, markets and modernity may well *need* such nuclei of cooperation to sustain themselves, even today. In fact, much of their current crises might be described as the inevitable wreckage of pure homo economicus.

This dissertation, too, chronicles the limits of homo economicus as much as it ontologically rests on this view of human nature.

Empirically Incomplete. Luckily for us, this rational, individual utility-maximizing model of human nature may also be incomplete — but not entirely incorrect — on all counts: humans may be hard-wired altruists (for example, Zak et al. 2004), are only boundedly rational (Simon 1999; Kahneman 2011), poor planners of utility (summarized in Gilbert 2006), think in

⁴² Altruistic behavior, according to Wilson (2012) and before him Darwin (1859), is an emergent property of the *group*, following group selection. According to mainstream sociobiology (and initially Wilson 1975), altruism emerges at the *individual* level by a strategy of inclusive fitness or genetic nepotism, helping others as they are related.

relative, not absolute terms (Frank 2005) and display diminishing marginal utility (Ng 1997; Veenhoven 2000; Nickell et al. 2008).

Homo economicus provides, in other words, at least an *incomplete* description of human nature.

Domain-Specific Homo Economicus. Nevertheless, and because homo economicus is both inescapable and inadequate to investigate welfare, taxation and democracy, we should make this model of human nature and its related (meta-)institutions *domain specific*.

Even if, as I suspect, there are no alternatives to state or market in *some* realms of modern society, we need not “economicize”, commodify or regulate *all* aspects of life. Instead, different tasks call for different modes of production, distribution, decision making and associated views of human nature, as summarized in Table 2.6.

	View of Human Nature	Mode of Production	Mode of Distribution
State	Individual Utility Maximizer	Command & Plan	Command & Plan
Market	Individual Utility Maximizer	Exchange / Price System	
Kinship	Inclusive Fitness	Genetic Nepotism	
Community	Group Selection	Identity	
Civil Society	?	?	?

Table 2.6: Modes of Production, Distribution and Human Nature
Own summary, but similar to Schmitter (1985: 52f.).

At the economy or industry level, markets may be our best bet, but perhaps not at the firm or team level, where we can tap into other human motivations. Similarly, a state may need to impose health and safety standards, but not a teacher’s lesson plan (as Schwartz and Sharpe alarmingly report). Market and state, along with their impoverished view of human nature, *can* be applied selectively, to some domains. As alternatives become

available ⁴³, market and state can recede ⁴⁴. For the time being, I suspect, the domains exclusive to market and state will remain considerable.

In this dissertation, I constrain homo economicus to the realm of the market, and summarize welfare and taxation policies to remedy, as well as make do with its shortcomings. In democracy, by contrast, I find a realm in which homo economicus can no longer be accommodated, but where we must instead find new (deliberative) institutions to tap into other, better angels of our nature.

2.3.3.3 No New Man

Neither policy nor social scientific ontologies can ask for a *new man*. For better (see above) or for worse (for example, Schwartz and Sharpe 2010) ⁴⁵ state and market made their own humans: as we live under hierarchy and competition, we adapt to it. In the OECD-world and in our time, many people (including me) will expect and respond to incentives and regulation. Consequently, political institutions have to reckon with homo economicus, even if — and because — it is partly of their own making.

Good policy and good social scientific ontology does not ask for a new man, but makes do with the women and men we have now, but at the same time, recognizes that for our “hypercultural” species (Henrich 2003), homo economicus, as other views on our indeterminate nature will always be highly *contingent on institutions*.

None of this is to preclude a study or reform of human nature, modern society, states or markets. Rather, such a contingent ontology is, to me, the *only* way to study these meta-institutions and their incarnations in welfare, taxation and democracy. *Some*, ontologically contingent homo economicus

⁴³ For example, the [Basic Income Guarantee \(BIG\)](#) is a courageous suggestion to, among other things, decommodify *and*, because it is no longer means-tested, “de-regulate” the livelihood (for example, Offe 2009) and allow volunteerism.

⁴⁴ As Keynes had promised:

“The day is not far off when the economic problem will take the back seat where it belongs, and the arena of the heart and the head will be occupied or reoccupied, by our real problems — the problems of life and of human relations, of creation and behavior and religion.”

— John Maynard Keynes (n.d.)

⁴⁵ Schwartz and Sharpe (2010) show how excessive regulation (the mode of states) and incentives (the mode of markets) can crowd out intrinsic motivation, “Practical Wisdom” and other, better angels of our nature. Unfortunately, this ship has probably sailed. Still, their insistence on a broader, human capacity to “do well by doing good” and crusade against dehumanizing choice is important.

can clear our hazy eyes, but *too much*, ontologically endogenous homo economicus will blind our “sociological imagination” (Mills 1959). Contingency and domain-specificity lead the middle way between the hermetic ideology of utopias, and the apolitical mindlessness of *TINAs*.

Also, none of this is to proclaim state and market as the “end of history” or to blazon homo economicus as “the last man” (Fukuyama 1992). Rather, state and market along with their homo economicus are the *only* place to start from, if we want to write, or make history in welfare, taxation and democracy today. Precisely because our nature is contingent on institutions, that is where we must start: institutions are *all we got*, “just because institutions are the kinds of things that can be changed directly, whereas cultures and psychological dispositions are less subject to collective intervention and experimentation” (Warren and Pearse 2008: 3). States and markets are those prime meta-institutions through which we can make, and remake the institutions of welfare, taxation and democracy. Through them, we respond to the homo economicus in all of us, and unfold our greater capacities.

And transcend the limits of homo economicus, we must. Clearly, we face grave problems in [organizing production and distribution, and in reaching collective decisions](#) (Chapter 4, p. 150). Clearly, too, disintegration is not an option: that way lies regress and hardship. And clearly, further rational-functional or identity-embellished integration is not an option: that way lie democratic deficits, and exclusionary identity politics.

These are the challenges cut out for us. To fail them, to fail these cooperation problems of non-zero-sumness, is to fail specifically as a human being, the one “conspicuously exceptional” species (Frank 2011: 85) that is *socially capable* of great cooperation, but not *biologically determined* to give up individualism (Wright 2000), and is therefore reliant on institutions. Welfare, and especially taxation and democracy are those modern institutions, to square the circles of individuality, inequality and cooperation.

And these are the institutions I here assume to be malleable, to make up the desirable and doable hypotheticals, whose absence begs explanation. These, too, are the institutions that moderate the very contingency of homo economicus, and our other natures. As such, they are precisely the place to look at, taking on one second-order question at a time, leaving all else to first-order status.

For sociology, “the science of institutions, their genesis and their functioning” ((Durkheim 1895: 45), this, I would hope, is a good approach as any to learn — as we must — whether, and under which (institutional!) circumstances humans are “knights, knaves, pawns or queens” (LeGrand 2003), what our capacity for altruism is (Henrich and Henrich 2007) and how it can

be fostered (Axelrod and Hamilton 1981), all to imagine, and then fulfill our human capacity of non-zero-sumness (Wright 2000).

Chapter 5

Why Tax Matters to the Welfare State

“The spirit of a people, its cultural level, its societal structure, the deeds its policy may prepare — all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its message here discerns the thunder of world history more clearly than anywhere else”.

— Joseph Schumpeter (1918 [1991])

5.1 Why it Matters: The Welfare State as Mixed Economy

“Yes we can: to justice and equality.

Yes we can: to opportunity and prosperity.”

— Barack H. Obama, Obama For America 2008

At this point, a reader may ask: why would all, or even any of this, matter to the welfare state?

Materially possible and normatively desirable welfare states are, and must be thought of as, well-designed mixed economies, for at least three reasons:

1. *Engaging Complexity.* In a welfare state, exchange and command modes of production and distribution, inevitably, complexly interact and easily produce unintended consequences (p. 64). For example, a minimum wage may cause structural unemployment (p. 100) and the *nominal* incidence of a tax will be entirely inconsequential (p. 128).

To eradicate today, as Lord Beveridge promised 150 years ago, the five ‘Giant Evils’ of want, disease, ignorance, squalor and idleness, you have to anticipate this interplay of market and government and choose accordingly. The mixed economy provides us with a toolset to analyze the complexity of welfare states, including the dynamics presented here. For example, the mixed economy suggests we should always check the [DWL](#) (p. 132) and [incidence](#) (p. 128) of any redistribution, a welfare state may undertake.

To answer the first-order question of welfare state design, as I have here tried to do, we need the abstractions of the mixed economy to know what is *materially possible* in a scarce world, filled with (at least some) *homines oeconomici*. For example, price controls may not be possible (without grave losses), but a well-designed, personal, almost arbitrarily progressive taxation *is* indeed possible in a closed economy.

2. *Denaturalizing Market Allocations.* When we consider welfare state programs in isolation from the markets which they supplant, we easily end up naturalizing whatever markets have allocated. In fact, any given market exchange which a welfare state may seek to correct, is already and always *contingent* on the institutions, dynamics and distributions under which it occurred.

For example, rather than “fighting poverty” — as if that were an objective reality — welfare states must consider overall allocative dynamics (such as [winner-take-all](#), p. 93) and distributions (such as [monopsony employers](#), p. 98), and counteract them, as is seen fair. Markets do not make some people below an arbitrarily defined threshold “poor”, and leave others ok or even untouched. Instead, markets allocate incomes across the *entire* spectrum contingent on a host of institutions, dynamics and initial distributions. If government pursues a particular minimum standard of living for everyone, it might not only transfer income to those who fall below it, but may need to counteract those dynamics under which people slipped below the minimum standard in the first place.

Market allocations, in short, are — and should be — no less subject to enlightened, collective human choice than remedial welfare state programs: “Increasing dependency is no law of nature but the result of socio-economic changes, which in turn react to human intervention” (Esping-Andersen et al. 2002: x).

3. *Caring about Outcomes.* Haggard and Kaufman (2009: 236) remind us about

“(...) the importance of pushing the research on the [Eastern European] welfare state down the causal chain towards its social consequences. (...) [A]ny meaningful strategy of comparison of the welfare state must ultimately engage its consequences for a variety of outcomes, from poverty and inequality, to physical quality of life measures, to economic outcomes such as the efficiency of labour markets, competitiveness and even economic growth. In the first instance, we are interested in the welfare state because we are interested in human welfare.”

The abstractions of the mixed economy I have summarized here synthesize a lot of what we need to know about the material, and therefore social consequences of a capitalist welfare state.

When we care about social consequences, the mixed economy suggests a great deal more to consider than just nominal welfare programs. For example, welfare states should not only provide social insurance, but also redress failing public goods (p. 81) and make us save enough for our children (p. 111).

When we care about social consequences, the mixed economy also implies that not all welfare programs are created equal. For example, welfare states interventions should distort market prices as little as possible (p. 132) and use monetary expansion only sparingly, for short-term stimulus (p. 85).

When we care about social consequences, the mixed economy suggests that governments and markets are better at different things, and it ties welfare state interventions to specific justifications. For example, welfare states should nationalize or regulate utility markets if and to the extent that they are natural monopolies (p. 82), but there is no reason to (as Germany presently does) redistribute within social health insurance (p. 89), who was supposed to only save the risk pool from adverse selection (p. 88). Caring about social consequences also means to leave markets alone, if they will likely serve material human need best.

When we care about social consequences, the mixed economy reveals that efficiency and equity are not always opposed, but often go hand in hand.

- (a) *Inefficient is Inequitable*. Titmuss urged welfare states not to exclusively concentrate on poverty relief because such “residual ser-

vices (...) often become poor services for poor people” (1974: 134). This intuition is supported by the abstractions of the mixed economy: as the rich are forced or allowed to take the inefficient — but for them, affordable — exit route from government provision, a retrenched welfare state will offer only inferior provision, or none at all, to those too poor to exit.

This problem is particularly acute in health or disability insurance: as the rich and healthy exit the risk pool, coverage becomes ever more expensive, driving even more people out until it *fails* (p. 88). Similar distributive effects occur in a wider class of market failures, too. For example, a failed *commons* (p. 82) of global climate or local public safety will not only be wastefully inefficient, but it will also hit hardest the poorest regions and people, who can least afford substitutes, such as building a levee or hiring private protection.

- (b) *Inequitable is Inefficient*. On the other hand, the abstractions of the mixed economy also imply that sometimes, slicing the pie unequally, will also make it smaller: “(...) there is a very good argument that equality of opportunities and life chances is becoming *sine qua non* for efficiency as well” (Esping-Andersen et al. 2002: ix).

For example, people may not be able to align the *interests of principals and agents* when collateral is not widely available (p. 82), and overly taxing low and middle (labor) incomes may contribute to *structural unemployment* (p. 132).

To answer the first-order question of welfare state design, as I have here tried to do, we need the abstractions of the mixed economy to know what is *normatively desirable* in a scarce world, filled with (at least some) *homines oeconomici*.

Higher Equilibria. The first-order conflict about the best, possible welfare state is about the trade-offs, contradictions and uncertainties of the mixed economy explained in the above. My aim here was not to resolve that conflict: we may not know for sure, let alone agree on what *the best* welfare state looks like (even though I offered some well-informed hunches). A mixed economy can — in principle and for my purposes here — make *arbitrary* trade-offs between equity and efficiency, presence and future, or any of the other dimensions of human material need.

But given *any* preference set for these (sometimes!) competing goals,

there are still more and less efficient institutional configurations for the mixed economy. More efficient, in this broadest sense, means that these configurations achieve more on *all* goals. These preferable mixed economies will still trade off preferred goals for less preferred goals, but the trade-off will be less harsh. For example, a **NIT** may achieve the same, if not more equity than a minimum wage, but at much lower cost in growth, or unemployment. Of course, you still have to break eggs for the proverbial omelette, just fewer of them.

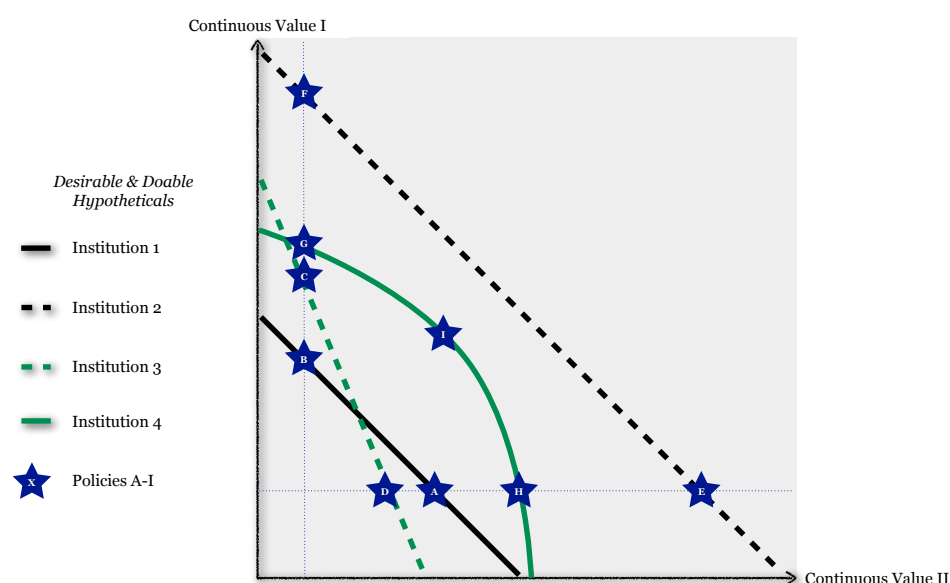


Figure 5.1: Production-Possibility Frontiers of Two Competing Values

The competing goals of human material need, in other words, are not always in a pure and immutable zero-sum relation, where, for example, one increment more in equity means one less in efficiency, one more in present consumption one less in future consumption. Depending on the institutional design, these conversion rates will differ: sometimes, for example, one increment in equity will cost only a half-increment in efficiency. Alternative mixed economies, more often than not, are a positive or — equivalently — negative sum proposition.

Just entering the preferences between purposely competing goals does *not* yield a single configured mixed economy, but many different blends of command and exchange production and distribution. Again, we may not know or agree what the globally optimal configuration is, given our preferences, but checking **means** and **ends** of a mixed economy, we *can* know better from worse configurations, or local optima.

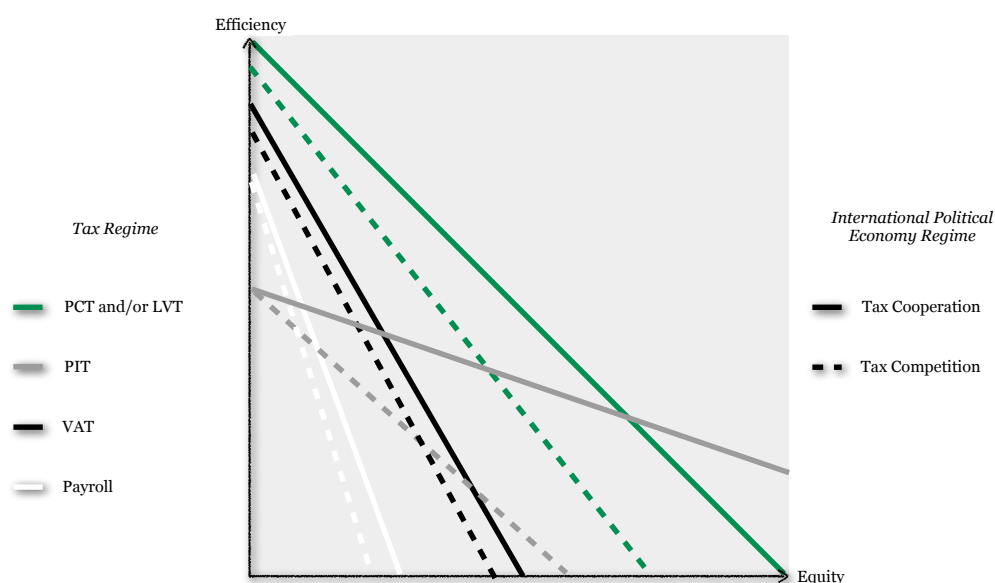


Figure 5.2: A Production Possibilities Frontier of Equity and Efficiency in Different Tax Regimes

A better welfare state is that mixed economy which elegantly combines **command** and **exchange** components to **produce efficiently**, **pool risks**, **distribute equitably**, **consistent over time** and **convergent over space**. That is, a welfare state that offers one of the higher possible trade-offs of growth, individual security, equality, saving and convergence. It does so without effectively borrowing from the future through **smoke and mirrors**, or hidden, but **real dissavings**.

This view of the welfare state differs markedly from other perspectives:

Full Employment or Growth. A popular variant on the purposive trade-off between equity and efficiency, is that between the policy goals of full employment or growth, sometimes supported by “demand-” or “supply-side” economics. Offe (2003: 453) finds a similar controversy about how to best keep up the full employment “roof” over the metaphorical Keynesian welfare state house, protecting the lower floors: market liberals (or supply-siders) want to deregulate so that *growth leads to more employment* and social democrats (and, sometimes, demand-siders) want to sustain welfare state protection so that *more employment stimulates growth*.

These contenders both once had a (somewhat overstated) point, but as market failures grew and monetary policy improved, they are now both increasingly wrong.

Market liberals are wrong because not all deregulation, or any amount of it, will stimulate growth, and conversely, not all redistribution or other intervention will depress growth. The abstractions of the mixed economy suggest that sometimes, command production is more *efficient* (p. 81).

Social democrats, or more accurately, demand-siders are wrong because, of course, in the long run, *only* supply determines prosperity, and the depressed aggregate demand they *always* seem to suspect is clearly defined as a monetary phenomenon and unlikely to persist for very long. If it occurs, monetary expansion and fiscal stimulus should smooth it out, but that does not make for a roof. Social democrats are also wrong to believe that all redistribution and regulation is cost-free: there *are* *DWLs*.

The indicators of *activity* that both market liberals and social democrats usually obsess about — *GDP* and full employment respectively — are both emphatically not related to greater *Haig-Simons incomes* (p. 137). And so, they both sometimes fall for *smoke and mirrors* (p. 146) and ignore *real dissavings* (p. 149).

So how can we rescue full employment? By *not* fighting this last war, for at least two reasons.

1. Pushing macroeconomic policy to full employment risks overheating the economy and building up inflationary pressure.
2. More fundamentally, full employment no longer is (if it ever was) a necessary, let alone sufficient factor for anything we might consider socially desirable outcomes for a welfare state. Full employment in itself cannot, as the house metaphor suggests, provide any shelter for depleted *commons*, lemon-market *risk pools*, let alone address intertemporal failures or bubbles, to name just a few. More dearly to social democrats, full employment will also be increasingly unable to — as the proponents of power resources had hoped — level the playing field between capital and labor, simply because some of the major inequities no longer are between capital and labor, but also *within* labor incomes as *winners-take-all* (p. 93). Even if the “reserve army of the unemployed” is fully activated, the resulting upward pressures on low (or all) wages will be no match for the governing dynamics of inequality enveloping the postindustrial economy (such as Baumol’s cost disease).

Full employment, and (properly defined) growth are still desirable —

because they are an efficient *outcome* — but neither serves as a powerful *instrument* to reduce poverty or economic insecurity: “Promoting labour market participation is no substitute for income redistribution and the fight against poverty: more work does not necessarily mean less poverty” (Esping-Andersen et al. 2002: ix). Offe’s metaphorical house of the Keynesian welfare state, in other words, does not need a few new shingles, but an altogether new roof.

That new roof is the ability of the mixed economy to redistribute, efficiently and progressively as the democratic sovereign wishes. With that ability, welfare states can subsidize any (however small) minimal labor market income to any desired minimum standard of living (for example, through a [NIT](#)), and can provide any level of social protection desired without counterproductively burdening low incomes (for example, by paying social insurance out of general tax revenue). Progressive redistribution could, if desired, dampen or counteract any existing income dynamic, including [winner-take-all](#) markets. Offe may be right that the welfare state did not “have much to do with ‘equality of outcomes’”, but that does not make it tenable or desirable today (2003: 450). If you are serious about even just “security and protection of workers, not equality” (*ibid.*) you have to care about inequality and redistribution, at least a little. Without it, you will not have the resources to guarantee even such minimal, unequal outcomes for workers. I further develop this argument in my [Panglossian](#) critique of the literature (p. 245).

Decommodification still serves well to distinguish different welfare states (Esping-Andersen 1990), but it, too, is no strategy for a possible and desirable mixed economy. Of course, welfare states may still “decommodify” (or *subsidize*) health care, education and replace (or *insure*) the incomes of the sick, disabled, old and unemployed, but such programs may be better described in the language of the mixed economy: as *specific* market interventions and redistribution.

The difference is not merely semantic, but at least three substantial misunderstandings easily follow from this choice of terminology:

1. Decommodification suggests — misleadingly — that welfare states *could* take some aspects of life, and some people *off* the market. But, because command and exchange modes of production and distribution always interact, that cannot be done.

For example, decommodification of disability income is easily misconstrued to mean that disability would no longer be affected by

the market, and that markets would no longer be affected by disability. That is not so. When welfare states support the disabled, they not only exempt them — as intended — from earning a market income, but they may also make it cheaper, and therefore more likely for labor markets to *produce*, say, burn-out, depression or back pain.

Thinking in the abstractions of the mixed economy helps us to avoid such pitfalls. In this case, we know that *insurance* of risks is prone to moral hazard, and that (Pigouvian) co-payments can save the commons of a prudent risk-pool. We can, if desired, slap a Pigouvian tax on risky or strenuous employment and activities, to make sure it is more costly, and is avoided.

2. Decommodification easily morphs from description to prescription, as for example, when income replacement becomes a measure for welfare state re- or entrenchment. Caring about outcomes, there is nothing inherently desirable or essential about decommodification, for four reasons:
 - (a) To decommodify someone out of the market also means to exit someone out of the central institution, that aside from providing the substituted material sustenance, mediates much human cooperation, generates self-worth to many and allows people to shape the world around them, however marginally. Instead, we should “enable all citizens to participate in the mainstream of social and economic life” (Esping-Andersen et al. 2002: ix).
 - (b) Complete decommodification is a last resort response to hardship. Mixed economies have several alternative, and less intrusive, approaches to, for example long-term unemployment. Instead of generous, universal and unconditional — and therefore decommodifying — benefits, a mixed economy may subsidize low market wages with a continuous and regressive [NIT](#). The availability of a *specific* tool, may not much matter to the desirability of a welfare regimes: social outcomes do.
 - (c) Decommodification, conceptually, if not always in reality, is ignorant of potential welfare losses, as some person is provided, or some activity done under command instead of exchange — without a respective, justifying market dysfunction. Thinking instead, in the abstractions of the mixed economy, always ties a market intervention to a particular market failure or broader dysfunction, and considers the potential wel-

fare losses.

3. Decommodification is both radical as a prescribed tool (exit the market) *and* strictly limited in its reach (only a set of included people or activities). To be sure, sometimes a complete move to (entitled) command provision and distribution may be necessary or desirable. Likewise, a democratic sovereign may choose to only care *a lot* about some market outcomes — and decommodify them —, and not care about others *at all*. But there is no reason that all welfare states should do so, let alone that we carve this specific vision of a social compact into our conceptual toolbox.

It follows: for a better welfare state to strike any such optimal balance, even given arbitrary preferences, it needs an intact set of [regulatory](#) (p. 121), [fiscal](#) (p. 122) and [monetary](#) (p. 134) [means](#) of a mixed economy.

Of these, tax is the elephant in the room: it is by far the most versatile, precise and powerful tool of command production and distribution in the mixed economy.

None of this is a merely abstract or academic concern. Much lies this balance of command and exchange: everything we materially value, and with that, a great deal of the life chances of us all depends on an intact mixed economy.

This is also not a revolutionary project. It does not ask for a new man, but it accepts, and timidly merely reforms *homo economicus*, the civilized version of our selfish demons. It does not ask for a new institution, it carefully compromises existing ways of exchange and command. The mixed economy, by any historical standard, is not a radical proposition.

This much, I hope, is widely agreeable.

“Taxes are the price we pay for a civilized society.”

— Oliver Wendell Holmes, Jr. (1904), Washington, DC

5.1.1 Tax

Taxation in the [EU](#), for the most part, remains an exclusive competence for [MS](#). Under the *acquis*, only indirect taxes (VAT) are harmonized — at ineffective, minimal levels — with very limited cooperation in other fields (for example, European Commission 2009b, Bratton and McCahery 2001). Per its treaties, the [EU](#) can harmonise only *indirect*, always proportional taxes — such as [VAT](#) — and only by *unanimous* decision of the Council on proposals by the Commission (Article 113, Treaty of Lisbon, 2009 / Article 93, Treaty

Chapter 6

Why Hypotheticals Matter

6.1 Tax and Democracy

6.2 The Testimony: Critique of the Literature

“Abstractions, thinking in systems has been replaced by the immediate, the pragmatic. This is how the social democratic parties have disgraced themselves.”

— Herbert Schui (2009: 41)

On that count, some of the literature falls short: it fails to bring the Millsian sociological imagination and Keynesian economic abstraction to bear on the nitty-gritty empirical data of [Central and Eastern European Country \(CEEC\)](#) and other welfare reform, to even discern the offense to the post-war social contract.

This blithe ignorance comes in at least four different flavors, that I here summarize as follows:

1. *TINA*-flavored literature holds that the mixed economy expired unavoidably and therefore, requires no further investigation. For TINAs, the mixed economy is not murdered, but dies a natural death.
2. *Pangloss*-flavored literature accepts possible alternatives to death, but assumes that, axiomatically, it was the best possible course of action, and therefore acquits any possible suspect. For modern-day Panglosses, the defunct mixed economy is collateral damage to a worthy cause.
3. *Newsspeak*-flavored literature shrouds itself in impermeable and misleading language. For newsspeakers, the mixed economy is not dying,

but just “restructuring” into less complex organic compounds (known as “decay” in oldspeak).

4. *Bystander*-flavored literature abstains from judgment, or even conclusion. For bystanders, it may or may not be murder, but it’s none of their business.

6.2.0.1 TINA

“There [...] is no alternative.”
— Margaret Thatcher (London, 1980)

TINA is hardly observed directly in the literature, if only because, as a political strategy, it aims to “veil the essentially political character of political decisions” (Blühdorn 2007: 314), and therefore, will not even explicate itself. The purported lack of alternatives, mostly, asserts itself not by negating existing alternatives, but by ignoring them.

Evidence of TINA, therefore, lies mostly in conspicuous omissions, the most glaring of which is that no literature I am aware of even acknowledges a hypothetical scenario in which EU trade liberalization co-occurs with strong redistributive and stimulus policies, and how such wide *and* deep integration might have played out. Such a mode of concurrent economic and political integration even has a recent historical precedence of integrating a CEEC: German reunification — however flawed in its implementation, or disappointing of its promises — not only introduced economic and currency union in 1990, but, simultaneously, politically integrated the new Länder and launched a massive fiscal expansion, including an expressly redistributive “solidarity surcharge” tax.

TINA is also elusive, because it has become so successfully omnipresent, that we hardly recognize it anymore, where it lingers. For example, when Kovasc speculates that “Eastern Europe may be unlucky (...) if it is confined to imitation” of Western European welfare states, because in the future “these regimes will probably not produce the same performance levels as they do today” he silently implies that such doom would be inevitable, which clearly, to a social scientist, it must not be, for it would not require any social science if it were, in fact, akin to a law of physics.

Proponents of Western welfare states can also be conspicuously silent on some true alternatives, and trade-offs. Social-democratic Scharpf (1997a) accepts that “the economically less developed MS simply could not afford [...] the same level of welfare [...] [as] the highly developed MS” but, oddly, ignores its alternative: transnational side-payments alternative in a european transfer union (1997a: 26). This silence might have been (mis)read

by Moravcsik (2002: 619) as Scharpf's supposed preference for domestic over transnational redistribution. Surely, Scharpf is not an economic nationalist, but he does seem to throw up his hands as he concludes that *either* rich welfare states or emerging economies must perish, and that, in any event, harmonization would be "probably impossible" (1997a: 26). That is the kind of despair that TINA always inspires, because it renders invisible the magnificent ability of intact mixed economies to smooth over even such epic transformations. It is strange and confusing that Scharpf — who talks about (fiscally subsidized) German reunification (*ibid.*) — would not even mention the tax-cum-sidepayment solution to european integration, and this slight unnecessarily impairs his otherwise clear analysis. Ominously, Scharpf seems to have made amends with TINA when he commands "*normative* (sic!) political theory as well as political practice [to] come to grips with the conditions (sic!) of 'democracy without omnipotence' " (1997a: 29)¹.

Sometimes, the TINA fallacy reveals itself with no shame, for example when Alam (2005), wondering how to strengthen the social safety net, ask that countries maintain programs "within the available resource envelope" (*ibid.*: 39). Not only is this quite tautological, but worse, it seems to suggest that — as the flight envelope of a plane — welfare states would meet quasi-physical boundaries in their ability to fight (in this case) poverty, which clearly, cannot be a satisfactory perspective for a social scientist. Poverty on Planet Earth, and certainly in Europe is not a matter of absolute scarcity, but of distribution, and therefore, requiring of a social, not physical explanation.

Nitpicking such shortcomings from isolated arguments is exactly what critical social science should do, but readers might here get the wrong impression that I am questioning the seriousness of purpose or integrity of the aforementioned, and other deserved scientists, or worse, that I would harbor some kind of conspiracy theory. To avoid such false impressions, I further illustrate the fallacies of TINA in just *one* area of CEEC and Western welfare

¹ As happens when you fraternize with TINA, (some of) the policy prescriptions fall short. Scharpf, for example, advocates wage earner funds (pay in equity) to counteract the shifting terms of trade between capital and labor, a mostly notional innovation that might still imply real wage cuts and push more risk on possibly unwilling or unable workers. He also promotes a shift to consumption taxes in the face of crumbling income and corporate tax revenues, a move that, if those taxes are prepaid, and therefore regressive will burden workers, low- and middle-income earners with the load of welfare state financing. Most surprisingly — and nonsensically — he also seems to ask for a privatization and voucher model of health care (and other risks!), that, aside from all the possible market failures and distributive vagaries, will not in itself right the welfare state. Finally, Scharpf even falls for the old social-democratic smoke grenade of "parity" contributions to social insurance, nominally shared by employees and employers, but whose incidence really always falls entirely on labor (all of the above 1997a: 30-34)

reform: pensions.

Pensions Providing for old age is everywhere considered a key goal of welfare states. The abstractions of pensions are actually very easy.

	Who Should Manage it?				
		Public (State)	Private (Market, Family)		
When to Save?	Pre-funded	Sovereign Wealth	Private pension Life insurance (etc.)	Current workers	Incidence
	Post-funded	PAYGO	Family, Corporate Pension Plans	Future workers	
What to Invest in?	Productivity	Human Capital	Quality Children	Productivism	Policy
		Physical Capital	Private Investment		
	Workforce	Family Policy	Having Children	Nativism	
Where to Invest?	Abroad and at Home (under open economy)	Sovereign Wealth Fund	International Financial Markets	Now: Trade Surplus Future: Trade Deficit	Macro-Economy
	At Home (under autarky)	Capital Deepening	Domestic Financial Markets	Now: Positive Savings Rate Future: Negative Savings Rate	

Table 6.1: Pension Design

As summarized in Table 6.1, all possible pension designs are exhaustively described by tabulating four simple choices:

Who Should Manage it? The surplus production saved for old age can either be managed publicly by the state, including its quasi-fiscal institutions, or it can be managed privately by capital markets (see the middle two columns in Table 6.1). In both cases, savers acquire some kind of ownership claim to the accumulated surplus: if under public management, savers own their savings as *entitlements*, governed by public or administrative law, if under private management, savers own their savings as *property*, governed by private law^{2 3}.

² In Barr and Rutkowski's precise formulation, "PAYGO and funding are both financial mechanisms for organizing claims on that (future) output. (...) Funded schemes are based on accumulations of financial assets, PAYGO schemes on promises" (2005: 157).

³ In addition, the right of current savers to future pensions can take the form of *equity* or *debt*. As equity, in either private stock or public economy-wide growth, savers partake fully in both the upside and downside risks: if either the stock, or the economy as a whole grows or falls, so do their pensions. For example, mutual funds share risks under private

When to Save? Pension schemes can either be pre- or post-funded.

When they are pre-funded, present surplus production is coagulated into capital *before* future consumption exceeds future incomes in old age. On introduction, current workers bear the initial incidence. Pre-funded pension schemes can be, for example, managed by the state as SWFs, or provided by markets as life insurances or other annuities.

When they are post-funded, future income-exceeding consumption in old age is paid out of *future* surplus production of other, younger people. On introduction, future workers bear the initial incidence. Post-funded pension schemes can be, for example, managed by the state as PAYGO, or provided privately in families, or as corporate pension funds⁴.

management and a strict defined-contribution PAYGO-systems share risks under public management. As debt, in either private bond markets or entitlements to future economy-wide incomes, savers are insulated from all but the risk of default. For example, private life insurance includes only a risk of default, and a strict defined-benefit PAYGO-system — at least nominally — carries only the risk of sovereign default.

In publicly managed pension schemes, the distinction between the risk profile of equity and debt is often muddled, as future, *nominally* defined-benefit returns are sometimes partly indexed to demographic change, labor incomes, inflation, economic growth or other, risky macroeconomic factors. If and to the extent that such pension schemes turn out to burden future pensioners, instead of future taxpayers or “social insurants” with the shortfall, they become de-facto equity investments.

The distinction between equity and debt risk portfolios to publicly managed pension systems carries only so far: in contrast to equity in corporations, equity in sovereigns — at least ideally — is always “non-voting stock”. Conversely, sovereign defaults are different from corporate defaults: in democracies, bondholders *cannot* turn into shareholders and “take over” as they would in an insolvent private corporation. The default risk of sovereign bonds is qualitatively different: if a publicly managed pension scheme defaults on its obligations, pensioners can change policy only in their capacity as voters, but, aside from basic rule of law protection, not in any *additional* capacity as bondholders. The bottom line is: if push comes to shove, in publicly managed pension schemes, whether you are a shareholder or a bondholder, your power to change outcomes are mostly those of ordinary voters.

⁴ While practically useful, the distinction between pre- and post-funded is mostly nominal, and does not always, in fact, correspond to real savings quotas of an economy.

If pre-funded capital is nominally invested in asset bubbles or other overvalued junk, much of the hard-earned surplus production may actually go to waste and coagulate little in the way form of capital that will actually be valuable, or generate a return in the future.

Conversely, if people are free from such post-funded obligations, but instead use their surplus production to have more children, educate them better, built a home or a company, they *have*, the economy as a whole, does in fact accumulate capital.

In this sense, the current support for pre-funded schemes is based on a false sense of certainty: whether pre-funded pension schemes *actually* stash away enough for old age depends on how good the investments are. The next question, of *How to Grow* is therefore a more meaningful choice than the tiresome pre-funded vs. post-funded controversy.

How to Grow? *Any* pension scheme needs to coagulate surplus production somewhere, somehow. Excluding exogenous growth, the long-run output of an economy is determined by the size of its workforce, and the productivity of its workers, which is in turn determined by the different forms of coagulated surplus production they command as human or physical capital, or endogenous technology. Creating both these drivers of output — people and their productivity — is costly. The hyper-materialist connotations notwithstanding, creating people or the basis for their productivity are also alternative, competing uses for the surplus of an economy. People and economies can use their surplus production to feed a second baby, or to build a room for the first baby (physical capital), or to better educate the first baby (human capital). Different pension regimes suggest, and *face* different allocations to generating new workers, and more capital. On the public side, a pension regime may invest surplus production — pre-funded *or* post-funded — into better education, or a SWF, hoping that either of those will pay off in increased output in the future. Alternatively, a state may try to encourage, and/or individualize the costs and returns of rearing children in its family policy, to increase, or — better yet — stabilize future workforces.

On the private side, a private investment may accumulate into physical capital, or family may pour resources into one prodigious child, hoping that both will increase future productivity. Alternatively, a family may decide to have *more* children, hoping that they together, will support the parents in old age.

Where to Invest? Lastly, pension schemes can invest their surplus production either abroad and at home under an open economy regime, or, if under autarky, they can invest only at home. Crucially, for private markets, the mix between foreign and domestic investments will be determined by expected returns. Domestic investment can be enforced only if the economy in question foregoes capital mobility and confines itself to — at least some — autarky.

These investment choices reflect in macroeconomic movements. A pension scheme investing heavily abroad will first bring a trade surplus, and later, a trade deficit, both set off by respective flows in the capital account. A pension scheme investing only at home will not alter trade balances, but will first build positive savings rates, and later negative savings rates, as the pensions are paid out and consumed away.

Each of these choices has to be considered very carefully. To name just a few of such vexing considerations, private management might help capital

markets mature, and contribute to growth (for example, Barr and Rutkowski 2005: 155) — *or* it might help inflate bubbles, and expose individuals to undue risk. Nativist policy may be considered illiberal, *or* raising children may be considered a positive externality for which parents should be compensated. Investing pensions abroad may be thought to spur growth and convergence, *or* we might find the colossal — if ideally only temporary — trade imbalances unacceptable⁵.

The devil, here, as always in policy, dwells in the details, and must be engaged. I allow myself the rather superficial summary in Table 6.1, because I want to draw attention to the fundamental equivalences of these seemingly dramatic choices: however they answer these questions, pension regimes, as all policy, cannot escape the constraints of Haig-Simons, summarized in Figure 3.13. If, other things equal, you have fewer children and lower the production of future workers, as Germany presently does, but wish to maintain the standard of living of a future, older Germany and future, older citizens, you *must* invest in either human or physical capital, in some form, by some mean. If, other things equal, you cut public pension contributions, you have to increase privately managed saving.

The Haig-Simon identity and, as one of its terms, demographic change⁶, are unforgiving and inevitable strictures, akin to the law of conservation of matter. Population aging⁷, as other real dissavings, harbor unavoidable

⁵ Private, pre-funded pension schemes in rich, open economies may cause much capital to flow abroad into emerging economies, where they promise to generate higher marginal returns. In the future, these formerly trade surplus, aging economies such as Germany would then run colossal trade deficits with emerging economies such as Brasil. While many advocate such a scenario (for example, Börsch-Supan et al. 2003: 176), I have not read any one remarking on whether such a scenario in which, for example, young Brazilians do much of the producing, and old Germans do much of the consuming would even be conceivable, let alone desirable.

⁶ The current, second demographic transition (Davis 1945, restated by Caldwell 1976) delivered low, often below-replacement level TFRs — the average number of children a woman would have by age 50 based on the current age-specific fertility rates — and low mortality, concisely measured as life expectancy at birth (after 6 months). US 2009 estimated TFR: 2.05 (Central Intelligence Agency 2009), Germany 2009 estimated TFR: 1.41 (Central Intelligence Agency 2009), EU-25 2002 TFR: 1.37 (Demeny 2003: 2). Life expectancy at birth for EU-25 is 69 years for males and 78 years for females (Demeny 2003: 2).

⁷ Falling fertility and falling mortality lead to two interacting effects: the population *shrinks* and *ages*. Pure shrinking alone could ideally be welfare neutral on a per-capita basis. Such pure shrinking with no ageing component would, however, require *rising* mortality as long as TFR is below-replacement level to offset older, larger cohorts. Ageing, or more specifically, a change in the dependency ratio between very young and very old transfer recipients and everyone else, however, is an unavoidable welfare loss. Fewer people are available to produce for the consumption of more, older people.

losses in future welfare (for example, Börsch-Supan et al. 2003: 152). They are also both self-reinforcing: dissaved capital not only earns no interest, but also no compound interest, unborn babies not only cannot support their parents, but they also will not have babies, themselves⁸.

To these strictures, there really are *no alternatives*, no matter the pension design. There are, however, very real policy choices of whom to burden with the inevitable welfare loss: 1. whether, and to which extent to burden current or future workers, 2. whether, and to which extent to individualize the material costs and rewards of rearing children, 3. whether and to which extent to tie individual contributions to individual benefits, and, most importantly, 4. whether and to which extent to alter the incidence of the pension design through redistributive intervention, that is, taxation.

TINA in the literature on building pension schemes in CEEC or reforming them elsewhere, takes a peculiar form. It weighs alternative pension scheme designs, where — with the exception of devilish details — there really are no meaningful choices, and neglects those very real choices of burden-sharing that democratic polities have.

Cerami, for example, though ever critical of “neoliberal reforms”, describes extensively the addition of compulsory or voluntary private pensions to CEEC regimes and cites demographic change and — unspecified — “economic and financial pressures” (sic!) as partial reasons (2009: 336). He seems to forget that the intertemporal Haig-Simons identity of an economy is hardly affected by a privatization of pensions: sure enough, the incidence changes, but no old age crisis can be averted by privatization. Barr and Rutkowski (2005), by contrast, are one of the few authors in the field who — at least implicitly — endorse Haig-Simons, and exemplarily, reveals the policy options that TINA would have us ignore:

“An alternative approach [to parametric adjustments] seeks to finance higher future pension spending by reducing other expenditure. One way is to reduce public debt now; thus governments in the future would spend less on interest repayments, freeing resources for PAYG[O] pensions”

— Barr and Rutkowski (2005: 152)

Cerami asks for a “new politics of aging”, involving institutions, ideas and power as a new second-order theory of social change (2009: 338), but,

⁸ Demographic shocks echo on for generations and generations, as for example, 1950s baby boomers procreate in the 1970s, and baby-baby boomers procreate in the 1990s, and so on. Population dynamics are so damningly powerful because, as Malthus (1798) knew, it grows geometrically, that is, has an incredibly high “interest”, and therefore compound interest rate.

before that, rightly stresses a first-order question: whether, indeed, “funded” (by which he means privately managed, pre-funded) pensions really resolve the (unspecified) “demographic, economic and financial (sic!) pressures” supposedly arising under “PAYGO” (by which he means publicly managed, post-funded) (*ibid.*: 339). There are at least three TINAs that Cerami’s account of the first-order social choice falls for:

1. Cerami (and Bastian 1998, too) seemingly accept “funded” vs. “PAYGO” as a demographically meaningful alternatives, even though they are clearly not. Funded, or more precisely, privately managed, pre-funded pensions may change the *incidence* of aging, by burdening current workers, but they not by virtue of being privately managed alter the economy-wide or even individual, intertemporal Haig-Simons identity (for a detailed model see Börsch-Supan et al. 2003: 170). Privately managed, pre-funded, just as publicly managed pre- or post-funded regimes may, or may not save enough for the future, and may, or may not invest such surplus production wisely to make up for the dissaving in offspring, and growing life expectancy. “Pre-funded” conveys a false sense of austere security that social scientists should not buy into.
2. Likewise, Cerami cites, without reproach, the arguments for “pre-funded” schemes, including supposed higher returns of private investments and breaking of the “vicious cycle” of PAYGO. Both, again, assume alternatives where there truly are none.

Privately managed funds may, or may not generate higher returns than equivalent **SWFs**. Any supposed superior performance of one or the other management requires a specific economic theory to explain it, and empirical evidence to support it, non of which are mentioned here⁹. To just mention such supposed superiority of privately-managed funds without explaining why that would be so, is to buy into the unquestioned promises of neoliberal ideology.

There is also no such thing as a “vicious cycle” of PAYGO, where, in Cerami’s reading of its opponents, “current workers are forced to pay for current pensioners” (339). True enough, a move from nominally post-funded to nominally pre-funded regimes alters the nominal incidence of demographic change, but that is simply a zero-sum redistribution of the hardship that some group, at some point, has to endure. There

⁹ There may be good, theory-driven, empirically supported reasons for favoring private or public management of pre-funded schemes, but that is part of the messy detail that neither Cerami nor I can, or need to discuss here.

is nothing particularly self-reinforcing about (nominally post-funded) PAYGO, that would make it “vicious”.

A similar notion comes from Bastian (1998), who, with alarm, reports the rising share of public pension outlays in CEEC GDP (1998: 69), and cites PAYGO as the “main reason” of the fiscal malaise (*ibid.*: 71). That is of course, rather tautologically, true: in a PAYGO system, all other things equal, the public purse absorbs demographic change. However, he seems to be unaware that the percentage of pensions, or, equivalently, consumption of elderly people, is entirely *invariant* to the pension design. If PAYGO is transformed into a “funded” scheme, the same number of old people will, all other things equal, still consume the same percentage of economic output.

3. Conversely, Cerami also glosses over the arguments presented against pre-funded reform.

He reports caution about the supposed demographic cure-all of pre-funded pensions (339), but again, fails to explain why — as is in fact correct — the public or private management, or even nominal pre- or post-funding do not alter the Haig-Simons dissaving at all.

Cerami also cites risks associated with unstable markets (339) as evidence for the prosecution of pre-funded schemes, but apparently relying more on leftist gut-feeling than critical reasoning, fails to explain what the theory and evidence of these risks would be. To be sure, pension schemes should probably spread and thereby minimize risk, but as these messy details go, they are no matter to be mentioned in passing. Cerami here assumes a possibly non-existing alternative by suggesting that *only* privately managed, pre-funded pension schemes are risky. Clearly, publicly-managed, even post-funded pensions also include — albeit probably smaller¹⁰ — risks: an SWF can make poor investments, and even a social-security PAYGO system by only betting on one class of investment (labor productivity) in one market (the domestic economy) takes on risks¹¹. Pensions — as all savings — always entail some

¹⁰ ... or not, according to Börsch-Supan et al. 2003: 178.

¹¹ For example, Cerami presents 2009 OECD reports of 20% losses in private pension funds as evidence against private management. That need not be so: (a) The losses may so far be evident only in balance sheets, and need not ever — but well may — materialize in diminished cash flows. The depreciated assets may bounce back. Well-managed funds will insulate individual pensioners from such short- and medium-term fluctuations. (b) These same losses, might, absent a private pension scheme, have materialized elsewhere in the economy. For example, workers might have invested the windfall in other risky assets. Bubbles and crashes are inter temporal bumps in the Haig-Simons identity, and they

risk: whoever manages this pre- or even nominally post-funded surplus production has to decide where it will generate the highest return at an essentially uncertain future point in time. As Barr and Rutkowski, again lucidly, point out: “PAYG[O] and funding are both financial mechanisms for organizing claims on that [future] output [...] [and] fare similarly in the face of output shocks.” (2005: 156).

But Cerami here also ignores an alternative, that in fact may exist: well- (or better-)regulated markets that efficiently spread, and thereby minimize risks. Especially to a critical social scientists there must be a very good reason to assume that financial markets are *always* unable to spread risk, or, absent such compelling (economic, first-order) reason, the social scientist must suggest (sociological, second-order) reasons why the institutions of financial capitalism underperform in this specific way. By not even alerting us to this issue, but by dogmatically assuming financial market failure, Cerami — surely unintentionally — feeds a particularly backhanded TINA of truly neoliberal hegemony: that financial markets — be they good or bad — cannot be altered, or, that their failure or success is inevitable, and needs no social scientific explanation¹²

Lastly, as an inverse argument to the “vicious cycle”-critique of PAYGO, Cerami cites the “double payment” of current workers as they are transitioned to a pre-funded regime¹³. As the “vicious cycle”, the “double payment” argument is mis-construed: there is *nothing* particularly bad, or “double” about pre-funded regimes, just as there is nothing “vicious” about post-funded regimes. The difference between the two is a trivial, zero-sum redistribution of the incidence of demographic change. Under PAYGO, depending on parametric configurations, the young and/or the old pay for the dissaved future workforce. When pre-funded regimes are added to the mix, but all other things remain equal, only the young pay for demographic change. The sum paid, in any event, does not change. By framing pension reform as a struggle between the currently young and the currently old, Cerami falls for an old ruse: *divide et impera*, divide and conquer. If we obsess about the mystically “vicious” or

will always hurt the economy — as Cerami (340) concedes —, no matter their nominal incidence.

¹² For a fully-fledged Gramscian account of european integration, see Bieler (2002, 2003, 2005).

¹³ As a pre-funded, privately managed component replaces, or is added to a nominally post-funded, public managed pension, current workers have to pay twice: once into a private account for their old age, and once into a public account for currently old, PAYGO recipients.

“double”, but truly trivial incidence of pre-funded vs. nominally post-funded pensions, we lose sight of the bigger redistributive choices of aging societies: whether to burden the rich, or the poor, to burden current, or future generations.

It may, again, seem nitpicky, to relentlessly criticize authors as critical as Cerami (2009) himself, who, after all, only reports arguments frequently presented. Still, I (nit-)pick on Cerami, precisely because he is so far left of neoliberalism, but, I would maintain, not persuasively so. He rightfully alerts us to the ideological import in pension reform debates (*ibid.*: 340), but penetrates not nearly deep enough into the economic abstractions of pension-design to fully expose the hegemony he correctly suspects. Whatever the merits of his second-order *explanans* of a new politics of pension reform, he has the first-order *explanandum* wrong: he assumes economic alternatives where there are none (pre-funded vs. post-funded), and neglects other, more relevant choices (financial market reform).

TINA plagues not only the right, but, more deviously, the left, too. When critical social scientists, as Cerami (2009), present only the dogmatic, but shorthanded arguments against neoliberalism (“private pensions are too risky”), their important dissent remains superficial, and will easily be brushed aside by more assiduous, if duplicitous, neoliberals.

TINA operates not by straightforwardly denying leftists “possible, better worlds”. Rather, TINA is neoliberal and conservative in a roundabout way: it obfuscates the abstractions through which any such hypothetical, preferable worlds may be glimpsed. And so, even critics as Cerami, inadvertently serve TINA, when they neglect the deep economic abstractions, maybe confusing their neoclassical language and hard choices for the neoliberal doctrine that has so successfully appropriated them. In pension design, as elsewhere in public policy, a Haig-Simons understanding of the economy helps us to sift through the epiphenomenal debates (“funded” vs. PAYGO), to relegate the complex details (financial markets) to appropriate theory and data, and advance to those choices that our scarce, constrained and material world leaves us to take: how much we should save for future generations and in which form, and who of us, rich or poor, should contribute how much. *These* are the real first-order alternatives that a second-order theory as Cerami’s must take as a starting point. All policy and all pension designs, underneath the complex detail and nominal casuistry, make these choices. My hunch is: many current designs and their marginal reforms greatly burden future generations, and present non-rich people, a peculiar choice, that may not even enjoy popular support.

Schui is right to point out that minimizing the problems of old age insur-

ance to demographic change is latently affirmative: it distracts us from the possibility to redistribute the fruits of growth and the pains of decline (2009: 147)¹⁴.

The enormity of these alternatives can hardly be overstated, especially for CEEC, where hard-working people often spent old age in abject poverty. As even the aging economies of Europe *are still growing* over the medium- and long-term on a per-capita basis, we should be able to build a pension regime that, somehow^{15 16} collects this still increasing economic output, saves enough for our children and disburses enough to our seniors.

If we do not, such criminal neglect of the mixed economy certainly deserves a fair trial, and begs a social scientific explanation.

6.2.0.2 Pangloss

“It is demonstrable” said he, “that things cannot be otherwise than they are; for as all things have been created for some end, they must necessarily be created for the best end. Observe, for instance, the nose is formed for spectacles; therefore we wear spec-

¹⁴ Schui, the orthodox leftist, is of course otherwise hardly moved by the strictures of Haig-Simons. Ever the die-hard Keynesian — or Marxist? —, he always and everywhere assumes a crisis of underconsumption, or, equivalently, excessive overall profits, and seems not to allow even the possibility of material constraints at some exogenously given, only slowly expanding steady state.

¹⁵ Progressive taxation comes to mind.

¹⁶ A pension scheme including, or supplemented by progressive taxation, does not preclude actuarial components in a pension formula. As Barr and Rutkowski (2005) helpfully reminds us, working longer may not be such an undue thing to ask, if people live longer, too. If people some people like to retire earlier, and others are willing to work longer, we might want to punish and reward them accordingly, while still asking the rich to chip in more for any actuarial increment earned. Alternatively, and probably more transparently, the redistributive component can also be organized exclusively through the tax code, with pensions remaining cleanly actuarial.

Evidently from the summary of the mixed economy in Table 3.1 (p. 71), if, regrettably, not from all real existing self-ascribed social market economies, asymmetrically known *isk*] should be covered by compulsory or state insurance. This also includes disabilities that may occur more often in old age, or in some occupations. Presently, some pension regimes — clumsily — include some form of old-age disability insurance, and debates on extending the age of retirement inevitably bring up the plight of the old construction worker. In all of this, I assume that there is extensive, compulsory or state-covered disability insurance. When I argue for actuarial pensions, and/or later retirement, I assume that whoever cannot, because of occupational or other disability, work into her older age, should receive benefits out of the disability insurance until she reaches the statutory retirement age. If, as seems likely, disability clusters in risky or hard jobs — such as teaching or construction — it may even make sense to charge a premium for insuring these jobs, so as to raise the costs of such hazardous labor, and to make it safer or rarer.

tacles. The legs are visibly designed for stockings; accordingly we wear stockings. Stones were made to be hewn and to construct castles; therefore my lord has a magnificent castle; for the greatest baron in the province ought to be the best lodged. Swine were intended to be eaten; therefore we eat pork all year round. And they who assert that everything is right, do not express themselves correctly; they should say that everything is best."

— Fictional Dr. Pangloss in Voltaire's novella *Candide* (1759: K125).

Second Best. Today, maybe one of the clearest Panglossian pronouncements comes under the imposing heading of a *Theory of Second Best*, originally formulated by Lancaster (1956). As so many great economic ideas, this one has strayed far from its original form, and interbred with ideology to father many illegitimate — and sometimes deformed — offspring.

In its initial, rigorous formulation, the Theory of Second Best showed formally that if — as seems likely — some conditions for the pareto optimality of markets cannot be met, it might enhance efficiency to allow additional, possibly offsetting deviations from perfect competition elsewhere in the economy. Rather than to fight all market failures everywhere in isolation ("piecemeal welfare economics", *ibid.*: 11), Lancaster suggested that from a general equilibrium view, there may be less demanding *necessary* conditions that could pareto improve the economy, in addition to the often implausible, *sufficient* conditions of perfect competition (*ibid.*: 17). The Economist (2007) explains it beautifully thus: if your optimal cookie recipe requires chocolate chips and coconut flakes, but you cannot find the chocolate chips, your (second) best bet may be to bake gingersnap, rather than chocolate chip cookies without chocolate chips. This is the kind of devilish complexity that I allow myself to ignore here, but that policy makers have to consider: if, for example, research and development are so prohibitively expensive that we absolutely cannot profitably have more than one manufacturer of wide-body aircraft, our (second) best policy may indeed be to stray further from neoclassical doctrine, and to keep subsidizing *The Boeing Company* and *Airbus SES*, so that we can at least have ourselves a decent, somewhat competitive, duopoly. There is nothing Panglossian about such hard choices because, it is, in fact, *materially* impossible to develop dozens of competing wide-body designs. Because for the social sciences — as for moral philosophy — *ought implies can*, the second-best of the subsidized Boeing/Airbus duopoly also needs no social scientific explanation. This *really* is collateral damage to a worthy cause.

After 1956, however, the Theory of Second Best as slowly morphed into a general skepticism of state intervention, it is now name-dropping “proof” of its *ipso-facto* futility and serves as welcome absolution for the demise of the mixed economy. Wolf(1987; ? 1979), for example, argued that because governments fail, just as markets do, the second-best response to such market failures may be to just let them be. You can take this argument to merely logical extremes, and throw out government and democracy altogether. Leeson and Williamson (2009), for instance, wonders whether in some (developing economies) settings, anarchy may not be preferably to predatory statehood, whether, in other words, no state would not be second-better than an inevitably failing government. Caplan (2007), in an otherwise thoughtful book, seems to suggest that because voters are so invariably rationally irrational, markets may be second-better than democracy altogether.

This has very little to do with the rigorous argument presented by Lancaster: he did, at least in 1956, never consider a constrained government, let alone an incapacitated democracy to be grounds for “second-besting”, but, instead even seemed to hope for a government and people powerful and wise enough to heed his call.

This is Pangloss at his finest: if you assume, as modern-day second-besters do, that the very *means* to deliberately get to a better world — government and democracy — are inevitably flawed, you can show, with almost hermetic logic, that whatever world we find ourselves in, must be the best of all *possible* worlds.

In that word — possible — lies the catch. Modern-day second-besters assume that, akin to markets and evolution, government and democracy are *aimless* processes that merely aggregate pre-social, more- or less rational self-interest. If government and democracy are aimless, it follows — as it does, in fact, follow for markets and evolution — that any positive results of government and democracy are beyond reproach, and beyond improvement. Government failures, as monopoly pricing or an appendicitis, are just *facts*.

Enlightenment, the mother of modern science, did not consider democracy, a merely *positive* affair, but a normative prescription. Kant (1785) asked us not to “follow your incentives”, but to “act only on that maxim through which you can at the same time will that it should become a universal law” (*ibid.*: Chapter 11). The US Constitutional Convention in 1787, did not just decide to try out this new [First-Past-the-Post \(FPTP\)](#) way to aggregate preferences, but “We the People” were to do so “in Order to form a more perfect Union”. In a free society, social scientists need not believe in these, or any other ideas, but if they reject them all, they deserve not the air of scientific sophistication in which they cloak their utter cynicism. As mere accountants of the status quo, their work is anathema to Enlightenment,

and they ought to be disowned of the emancipatory heritage that the social sciences were endowed with.

But ignoring, for now, the enlightened humanism that comes part and parcel with the social sciences, the logic of modern-day second-besters is also simply fallacious. Even if government and democracy turn out to inevitably disappoint, such flaws are *not*, to the social scientist, quasi-material constraints. Because government and democracy *are* the subject matter for the social scientist, she must not presume, but has to *explain* them. If we do, as the second-besters, exclude from the first-order alternatives to be explained by second-order theory, those alternatives that the political process *may* corrupt, we have thereby conflated first and second-order theory. Whatever second-order theory might have to tell us about a corrupted political process, we would never learn, if we did not test for the absence of first-best solutions. This Frankenstein variant of the Theory of Second Best confuses, as Brubaker (2002) succinctly criticized the literature about ethnic conflict, the “empirical data” with our “analytical toolkit”: government failure is “what we want to explain, not what we want to explain things *with*” (*ibid.*: 165, emphasis in original).

Panglossian bastards of the Theory of Second Best also roam the literature on European and CEEC welfare states. I will here only cite one model student of Pangloss’, and eminent social scientist, Moravcsik, who refutes a supposed neoliberal bias of european integration thus:

“No responsible analyst believes that current individual social welfare entitlements can be maintained in the face of these [postindustrial, demographic, etc.] shifts. In this context, the neo-liberal bias of the EU, if it exists, is justified by the social welfarist bias of current national policies [...].”

— Moravcsik (2002: 618)

In other words, even if European integration constrained national, democratically governed mixed economies, that would be for the better because these welfare states are too spendthrift to begin with. Also, according to Moravcsik, to suggest that mixed economies might — using efficient fiscal, regulatory and monetary tools — alter market allocations any which way they want, is *irresponsible*. Pangloss would probably applaud how elegantly Moravcsik defines away all redistributive considerations, and, for good measure, adds an *ad hominem*.

En- or Retrenchment. Today’s Pangloss has grown more sophisticated since the times of Enlightened Absolutism, when he was easy game for satirist

Voltaire. As any influential teacher, he has learned to lead on his students by making them ask the questions that suit his lesson plan. The lesson relevant here is that on European and CEEC welfare states. It is remarkable just what kind of feeble questions our ever-affirmative teacher Pangloss has gotten us to ask.

Beckfield (2006), for instance, contents himself to ask how much of EU-15 income inequality can be explained by regional political integration as opposed to (economic) globalization, and, alarmed, finds that nearly half of it can be explained thus. He lists the ways in which regional political integration constrains the welfare state: through 1. policy feedback such as austerity-enforcing nominal convergence criteria, 2. diffused classical-liberal policy scripts 3. possible blame avoidance and 4. by tying MS economic fortunes to one another. This is rigorous empirical work, albeit, lacking a natural experiment, and plagued by questionable external validity and — one fears — intricate multicollinearity, it will always remain vulnerable to methodological critique. More important, though, is what Beckfield, in his quest to tell apart the inequality of globalization and political integration, *does not ask*: how much of the rising income equality could an intact, european mixed economy have enforced, and why did it not do so? The bigger question, I would maintain, is what *kind* of political integration could have curbed inequality. Beckfield, again, surely is one of the authors rightfully critical of globalization and the current mode of EU integration. Still, Pangloss, one imagines, sympathetically smiles at this diligent student, hardly moved in his affirmation of the status quo by such timid and naive questions. Pangloss can rest assured, as long as Beckfield and others busy themselves with the nitty-gritty of welfare state retrenchment, nicely playing globalization off against regional integration, which are really two sides of the same coin. Ever affirmative, if pressed for an explanation, Pangloss can still wring his hands at the inequality, shrug his shoulders and point to the gains from trade. He has already won this game, as Galbraith wryly observes: “So what are the facts [of inequality]? Has globalization hurt or helped? Oddly, researchers do not know; mostly they do not ask.” (2002: 11, also Crouch 2004: 158).

If sceptics as Beckfield are the slightly recalcitrant, but still manageable students in Pangloss’ classroom, the naysayers of retrenchment as Swank (2005) are his overzealous disciples. Swank argues that globalization did not force welfare states to retrench, because, evidently, income replacement rates in unemployment, health and pension insurance remain high. Pangloss would surely applaud in delight: “excellent work, all is well!”. What did Swank *not* ask, that would so endear himself to Pangloss? Plenty.

1. Obviously, and at minimum, Swank should look at public debt and other *smokes and mirrors* of the mixed economy to make sure that these sustained income replacement rates are not built on a base of sand, long washed out by tax competition (p. 146). He is certainly right that there will be substantial political pressure to maintain welfare states, but their victories may be pyrrhic if bought at the price of sovereign default, or heightened *DWLs*.
2. More fundamentally, the causal rejection (!) of welfare entrenchment through globalization as put forward by the optimists needs careful positivist research design. This would require a hypothetical, namely a sufficiently large, prosperous and closed economy. This does not exist in the OECD world, and may not exist at all in reality, as there is a well acknowledged trade-off between liberalization and prosperity. This real world constraint notwithstanding, empirical arguments have to take this methodological problem into account to answer the question whether welfare states can *sustainably* continue to operate under international economic liberalization.
3. Thirdly, lastly, and most fundamentally, the optimists seem to be not so much optimistic about what a welfare state can do, as they seem to be minimal about what it should do. In part, this neoliberal bias follows from an epistemological concentration on the status quo. The research question that Swank, for example answers, is not whether globalization challenges the welfare state. Instead, he argues that it may not affect the status quo of *income replacement*. This is an unexplicated, negative and minimal definition of the welfare. It assumes that the legislators social agenda is limited to income replacement, without regard to broader redistributive issues, particularly the question of who should bear the costs of income replacement. More generally put, this amounts to what the public management literature calls an output perspective on how much money is spend on welfare, in this case.

But Pangloss is pleased with other students, too, including such eminent voices as Leibfried (2005) who seems to consider anti-discrimination policy as an instance of social policy proper. Pangloss might silently rejoicing at the neoliberal bias he has so successfully instilled in his student. Anti-discrimination — however extensive — already by name, is negatively defined, and diminishes social policy to be concerned with the abolition of negative constraints, of things we cannot do, of market distortions and at the same time clouds a positive definition of social policy as furthering our freedom *to* do something, not freedom *from* something.

The remainder of this section is still quite confused. It needs a better structure and I need to double-check

Welfare regimes are, as Esping-Andersen (1990) has said, systems of stratification in themselves, and they have been, from the very beginning socialist demands in the 19th century more than epiphenomenal income replacement. They are tools to socialize the costs of painful, but welfare-enhancing Schumpeter and Swedbergian economic transformations as well as individual hardship and serve as engines to redistribute this very welfare as the legislator wishes. The indeed quintessential and highly political question for globalization and welfare entrenchment is then, whether the state can *still* (or ever could) socialize and redistribute as it wants, with no limitations resulting from the behavior of other states. Welfare state sustainability then has to be pitted not against past or current performance, but against a hypothetically desired welfare regime under global trade with global redistribution, both within and between countries. In game theoretic terms, to gauge how badly welfare-depressing defection is, you first have to calculate the payoff for mutual cooperation. In the global context, this certainly requires quite a bit of political imagination, something that political scientists, it appears, like to shy away from. Even leaving normative considerations aside, in this case, academic rigor alone requires such exercise.

If welfare states can be well or poorly designed mixed economies, achieving different outcomes, we should also judge its prospects by comparing actual or evolving regimes to such hypothetical, but possible and desirable configurations. That is a very different question than testing whether welfare states en- or retrench, let alone its spurious correlates of income replacement (Swank 2005) or even spending (Kleinman 2002: 24), and a question that would deeply unsettle Pangloss. As Offe reminds us:

“The mode in which welfare state institutions change can be explicit reform and retrenchment. But it can also be inconspicuous and gradual decay. For instance, people may defect from public health and pension systems, trade unions see themselves forced into single-employer concessions bargaining, workers resort to unprotected forms of pseudo self-employment in order to avoid social security dues, if not to illegal (black) forms of employment.” (2003: 364)

Genschel, too, reminds us of what Pangloss would rather have us forget: “The effect [of globalization] is not so much to force change upon the tax [and thereby, welfare] state as to reduce its freedom to change.” (2005: 53). This is why political scientists such as Pierson (2001, 1996) that assume institutional constraints (for example, veto points, Tsebelis 2002) to only work to *prevent* retrenchment, are wrong: the very same constraints that may prevent or delay nominal cuts will also make it harder for welfare states

to *adapt* to, rather than just to recede in the face of changing economic and demographic circumstance. Nondecision does *not* “generally favor the welfare state” (Pierson 1996: 174). While the welfare state might nominally have retrenched only “cautiously” (*ibid.*: 174), the ground underneath it has shifted, leading to a much graver de-facto change of positions: it can no longer expand or react, relies on unsustainable deficits or real dissavings and must make do with growing inequality, and sometimes, structural unemployment, non of which Pierson even mentions.

If we do not inquire about that freedom to change, we will — as Kleinman (2002: 99) — eat up the Commission’s diagnosis of the european economic malaise: “the main explanation for the poor unemployment performance of the Community over the past two decades is to be found in the constraints that unresolved distributional conflicts and insufficient structural adjustment placed on macroeconomic policies.”

To shake off Pangloss, and see clearly the demise of the welfare state, we must ask three new questions, that so far, much of the retrenchment literature has shirked:

1. What, *given* a hypothetical, intact mixed economy, would welfare states be capable of, if their democratic sovereigns wanted it? This is a question that, absent natural experiments on the matter, cannot be subjected to straightforward positive test, because precisely such a hypothetical, intact mixed economy does not exist. Still, we must compare actual to hypothetical regimes, to find out just how constrained actual welfare states may, or may not be, by whichever second-order process we subsequently propose.
2. What is the highest possible trade-off between equity and efficiency that an intact mixed economy can offer their democratic sovereigns? As I have argued in the above, better-designed mixed economies face less harsh — or even no — trade-offs between equity and efficiency than worse-designed mixed economies. The price for an additional increment of equity in efficiency (or vice versa) not only varies at the margin¹⁷, but it also varies depending on the set-up of the mixed economy. For example, a highly progressive tax on consumption may allow same or greater equity at a much lower price than a compressed tax on labor

¹⁷ It seems reasonable to assume that, akin to a production function with diminishing returns to scale, the relationship will be convex-curvilinear. At very low levels of equity, initial improvements in equity will be quite cheap in efficiency. At very high levels of equity, further increments in equity might be quite expensive in efficiency. At full equity, of course, the free price system ceases to operate.

income¹⁸. More broadly, Ganssmann has proclaimed the Scandinavian welfare state as the “winner” to achieve higher levels of *both* equity and efficiency (2010: 343).

Amongst these higher trade-offs between equity and efficiency, there may, additionally, be local optima of equity-efficiency mixes, complemented by quite distinct institutional constraints and — somewhat related — path dependencies, ranging as wide as educational systems and industrial relations. I have here mostly ignored these *Varieties of Capitalism* (Hall and Soskice 2001)¹⁹. They, too, are important detail. They strongly suggest that there may not be *one* universal mixed economy design, but that quite different designs might coexist and specialize. Still, also within *each* of these varieties, there are again different trade-offs between equity and efficiency. Interestingly, the institutions that Hall and Soskice identified as markers of **CMEs** and **Liberal Market Economys** (LMEs) do *not* mention variants of tax, social insurance or any of the other key welfare state institutions. While **CMEs** may correlate with, and are often conflated with Bismarckian welfare states, there is nothing about **CMEs** that would make them necessarily rely on, for example, labor income-backed social insurance.

¹⁸ Offe reminds us that there is no “hyper-rational” answer of a *best* balance between efficiency and equity (2003: 445): that is an essentially political question, and should be decided by democratic sovereigns. There are, however, objectively *better* or worse institutional designs under which these trade-offs are made. For example, experts cannot know an optimal progressivity in a tax code, but they may well show that whichever progressivity the democratic sovereign desires will cost less in efficiency under a consumption than an income tax (for example, McCaffery 2005, Frank 2005)

¹⁹ At first sight, **Coordinated Market Economys** (CMEs) might be considered to be in violation of ordoliberal economic policy, and might therefore be considered incompatible with the largely neoclassical model of the mixed economy I have sketched here. This need not be so.

Straightforwardly, as Hall and Soskice suggest, **CMEs** might just have a competitive advantage in the production of incremental improvement, and what appears as deviations from atomistic competition is de-facto firm organization at a higher, economy-wide level — much as the notion of the “Deutschland AG” (Germany Inc.) suggests. Akin to the framework suggested by Hart and Moore (1990), **CMEs** may simply be an economies way, to minimize the transaction costs involved in the production of their specialties by “insourcing” important counter parties by institutional design, if not formal merger.

Alternatively, I suspect, many of the institutional peculiarities of **CMEs** might be explained — as I have done here for the welfare state — as remedies to particular market failures. Industry-level wage bargaining, for example, might effectively balance the playing field between monopsony employers and labor cartels (unions). Employment protection legislation, conversely, might work to smooth the business cycle (albeit imperfectly) or might insure workers against the risk of specialized education, they might otherwise be to risk-adverse to take (for example, Offe 2003: 444).

Of course, the variant of capitalism will be reflected in the nitty-gritty of welfare state institutions: for example, the statuses originally maintained by Bismarck are, arguably, related to the categorical groups that CME educational systems create, or CME industrial relations are organized around. This institutional spill-over notwithstanding, I would hypothesize, that CMEs and LMEs might be able to achieve equally high trade-offs between equity and efficiency, even if the institutional implementation may vary: for example, CMEs might continue to sport extensive job protection, while LMEs will allow quick “hire and fire”, potentially complemented by generous unemployment benefits (as in “flexicurity”). Allocative results, either way, may be very similar, which is my point here.

Even carefully crafted positive research into changing welfare states currently looks, at best, at cross-sectional or longitudinal variation in social transfers as a percentage of output (for example, Ravenhill 2005: 249). This is much better scholarship than the naysayers who like to look only at absolute spending or income replacement, but still, it does not tell us how good a trade-off we are getting.

To gauge the *level* of trade-off between equity and efficiency available to democratic sovereigns, the retrenchment debate has to look at allocative *results*, not at transfer flows, that is, at inequality (for example, Gini-coefficients) and growth (preferably measures more comprehensive than GDP).

Out of logical necessity, if nothing else, welfare state retrenchment, inequality and growth are *one question*. The compartmentalization of these into different academic areas allows not, as one would hope, greater theoretical clarity but instead confuses and waters-down concepts. If “welfare” is to mean anything, surely, it must be the ability of states to alter allocative *results*, and to do so at a minimum, or democratically acceptable price in efficiency.

Consider the alternative research designs, that currently predominate. If income replacement stays the same (Swank 2005), but, realistically, incomes become more unequal and states more indebted, is that evidence of a non-retrenched welfare state? If transfer volumes rise absolutely, or stay constant relative to output (Ravenhill 2005), but, realistically, ever more people rely on ever smaller transfers, all paid for the labor-incomes of an already squeezed middle class, is that evidence of a non-retrenched welfare state? Surely, just external validity requires more extensive operationalizations. The best, theory-driven op-

erationalization of a non-retrenched, welfare state is the intact mixed economy.

3. How well does the welfare state work as an entire system of production and distribution, that is, as a mixed economy? This is a very different question from those based on a traditional, more limited definition of the welfare.

Offe, for instance, takes pains to remind readers that welfare states have nothing to do “with equality of outcomes”, neither normatively nor positively”, that “the guiding principle of principle (...) is the security and protection of workers, not equality” (2003: 450). This is a historically accurate definition, but it is no longer an externally valid conceptualization of welfare states, if the term is to be more than an empty hull devoid of positive reality and economic possibility. “Welfare states as worker protection” is not *mutually exclusive and comprehensively exhaustive (MECE)* any more. By this definition, an economy, or rather, sectors thereof would be classified as a “welfare state”, in which poorly qualified workers are nominally protected, but either structurally unemployed because their gross wages are higher than their productivity, or live in working poverty, ever unable to participate in the riches of the wider economy. To the people working in cleaning or security in Germany today, such a definition would not have a lot of face validity. The labor market for poorly qualified workers in Germany is then, at the same time, evidence of a welfare state and evidence of a non-welfare state. Conversely, by the traditional definition, an economy, or rather a sector thereof with no nominal protection, but generally high compensation and little economic hardship, would be classified as a non-welfare state. For example, freelancers in management consulting, earning handsome but unsteady labor (!) incomes, but equipped with enough assets to weather rainy days, surely do not enjoy welfare state protection. Still, at face validity, they also do not exactly suffer from Manchester style laissez-faire. Under the traditional definition, they reality is neither welfare-state, nor non-welfare state.

Offe might, asked about the plight of German cleaners, point to a leak in the “Keynesian” roof of full employment, protecting the lower storeys of welfare states. Today, full employment is only a necessary, but not a sufficient condition for an intact roof. In fact, full employment might always have been merely necessary, and we were just lucky that in the past, all other necessary conditions were mostly met. To stay in Offe’s elegant metaphor, the welfare state house is facing much harsher

weather. For example, severe crosswinds of rising income inequality (for example, winner-take-all, efficiency wages) diverging factor returns (for example, Stolper-Samuelson trade), threaten to further drive apart the different economic strata making up the house, threatening to tilt the building. In addition, international tax competition, but also home-made dysfunctions are eating away at some of the load-bearing walls, putting enormous stress on the few remaining walls and the (already struggling) people making it up. If all we care about in this house is whether the roof is still tight against cyclical unemployment, the structure will not stand much longer. If the house of the welfare state is to survive the throes of economic transformation, it needs strong cross-beams, to re-balance the load of its stories. These cross-beams are progressive redistribution, and we measure their solidity by looking at overall inequality. Today, if not always, the ability of a mixed economy to efficiently curb runaway inequality is the *sine qua non* of welfare states, too.

This is not new to Offe (2003), who also includes “monetary, fiscal, trade and economic policies” in the roof (2003: 543). However, he seems to neglect that consequently, the different stories of welfare protection *cannot* be organized (financed) irrespective of overall inequality: if, for example, the fiscal shingles are to remain intact, the protection schemes must charge those most who can best afford it and in a way that will least affect them²⁰.

Surely, Pangloss would already despair over Offe (2003)’s insistence on a full-employment protecting roof. But with inequality, we can and should ask him an even harder question that might reveal his unreasonable optimism in starker colors.

In addition to these functional reasons, there are normative and empirical reasons to demand of welfare states worthy of the label to, at least, be able to curb inequality. Normatively, it seems questionable to constrain the surely emancipative agenda that once endowed welfare states to worker protection. That’s quite little to ask of Pangloss. Empirically, we know that people care about *relative* differences in access to resources (Frank 2005), that they suffer from *relative* inequality (Wilkinson and Pickett 2009). If we are welfare state researchers and, as humanists, care about the human outcomes of institutions, maybe

²⁰ This is also why, at least for welfare state researchers, or those concerned about social integration should not look only at relative, let alone *absolute* poverty (as Alam 2005: 1, and many others) do: that research makes invisible the broader context that created that inequality in the first place, and hides who is paying for the poor relief.

more than evident at Bismarck's time, today inequality *is* that relevant outcome, even if and to the extent that absolute material security is achieved.

6.2.0.3 Newspeak

“When the general atmosphere is bad, language must suffer. [...] But if thought corrupts language, language can also corrupt thought. A bad usage can spread by tradition and imitation even among people who should and do know better.”

— George Orwell 1946

Some of the literature on European and CEEC welfare states suffers, plainly, from bad language, especially when social scientists uncritically adopt the language of policy makers as, again, “to explain things *with*” rather than as the thing to be explained, as they should (Brubaker 2002). At best, this results in terminology and arguments that are devoid of meaning. At worst — if not equivalently — this results in science signing on to the ideology they are meant to disguise.

Only the mildest from of sloppy language is when social scientists use EU terminology, without questioning whether they deliver as advertised. Delhey, for example, in an otherwise insightful article, seems to imply that *actually*, union structural and cohesion funds would drive convergence (2003: 566), when clearly these currently paltry funds offer merely cosmetic redistribution. Similarly, Sipos and Ringold report in a chapter for the World Bank that “after a period of transition confined more narrowly to poverty relief (...) accession to the EU *facilitates* restoration of broader and more active instruments of social inclusion [in CEEC].” (2005: 89, emphasis added). Surely, whichever standard Sipos and Ringold of social safety net have in mind here must be quite low, as, compared against the homestead of social policy — the national mixed economy — there is nothing much to speak of at the EU level.

Likewise, EU mumbo-jumbo such as “cohesion”, “inclusion” and “anti-discrimination” should always be used with care, and quotation marks. As Offe reminds us, these are rhetorical devices, not necessarily actual policy goals (2003: 461). What is worse, they cannot be empirically falsified, nor normatively denied: how do you ever fail “cohesion”, who could ever be in favor of “discrimination”? These, are, in short, ideological terms, that hermetically seal off any actual policy (or lack thereof) thus labeled from political contestation.

Another favorite in this vein is “social dialogue” (for example, Dürr et al. 2009), exuding harmony, agreeability and general fuzziness. The choice

of dialogue, maybe not just to me, seems to imply that, *really*, if employers and employees — maybe rich and poor, too? — would only sit around a table and *talk*, everything would be fine. And who could ever be opposed to talking? The economics of industrial relations, alas, are very different: they contain — dare I say it? — a *zero-sum* element, they know winners and losers. This is not to say that employers and employees may not *also* find themselves in positive-sum games that they *may* solve to everyone's content. But if such a cooperation problem is encountered and/or solved, that needs to be explained, and must not be ex-ante assumed, by choice of words.

Terminology familiar to economists — or rather, **IFI** economists — can also corrupt language. “Structural adjustment” (for example, Begg 2008: 19) is such a false friend. It sounds like an effortless, mechanical process, one that *wants* to happen. Surely, an unsuspecting reader might not expect that this usually means mass unemployment, pay cuts, and — absent an insulating welfare state — material hardship for many people. There is to the neoclassical economist, nothing wrong right with such transformations, and maybe they are right. But we ought to, at least once in every article using the term, explicate clearly what it means: that some economic activity will no longer occur, or not at the same price or wage as before, that many people will have to retrain, or make do with less.

Again, I want to avoid sounding like a ranting conspiracy-monger, and will therefore illustrate my gripe with Newspeak language on two examples in more depth:

Open Method of Coordination (OMC) & Governance. Both the **OMC** and governance are heavily en-vogue with social scientists in European and **CEEC** welfare states, and, as similarly hyped post-isms, are mostly defined in the negative. The **OMC** is, apparently, *not* closed — but, one is assured, still methodical — and somehow, *not* hierarchical. Governance, too, is mostly *not* state and *not* market. Whoever came up with these terms might have taken a lesson out of a marketers playbook: against these new-new things, old-fashioned hierarchy, negotiation or government look instantly passe.

Problems arise, when this newspeak creeps into social science.

Governance for once, as Jachtenfuchs guardedly criticizes, may be a “*problematique*” or an empirical phenomenon, but it is not a theory (2001: 259). For the social scientists, *that* is problematic. Say about state command and market exchange what you will, but at least we have well-articulated theories about how they operate, grounded in somewhat plausible models of human nature. Critique, in the social sciences, implies theory. State and market, be-

cause we have (competing) theories on them, we *can* criticize: we can argue about their functions and dysfunctions, about when best to use them, and how to remedy their respective shortcomings. As for governance, we do not know. Caution dictates, that, as long as no plausible theory of such a third mode of rule, production and distribution has been explicated, we might better consider these empirical problematiques as deficient states or markets, or, possibly, hybrids thereof. Using, for now, these old-fashioned theories does not preclude a later, third, genuinely theorized mode nor, for that matter, necessarily implies that all such deficient or hybrids would deliver bad or no results.

The **OMC**, too, is a smoke grenade. For starters, as Offe acutely notes, it is a misnomer: if anything, it ought to be an open method of *cooperation* (2003: 467). Coordination — as in a *battle of the sexes* game — implies that the payoff of successfully aligned strategies (far) exceeds the divergent interests that players may have in alternative strategies. In the paradigmatic couple story, the man prefers sports, the wife likes opera, but both want to spend the evening together. In an extreme case of a coordination game, such as the decision to drive on the right or left side of the road, there is no divergent interest and the game could be solved, if only players agreed on a *focal* point. Integrating economies, building welfare states and, most clearly, harmonizing tax or other market interventions are, emphatically, no mere coordination problems. Here, the divergent interests of alternative strategies, when considered *individually rational*, outweigh the benefits of cooperation. Overcoming something akin to a prisoner's dilemma of individually set tax rates or social policies would be small accomplishment. Still, the **OMC** blithely assumes it to be a *fait-accompli*. To be sure, there *are* non-hierarchical ways to solve **PDs** (originally Axelrod 1980), and if we are lucky, **OMC** consultations produce such happy resolutions. But if, in fact, they do, it would be nice to learn just how it happened, rather than to presume it would. Consider, for example, the thoroughly unsatisfactory conclusion that Theobald and Kern draw, after 19 pages of — supposed — theorizing elder care systems in **CEEC**:

“Although the EU has undoubtedly gained in importance with regard to social policy in its member states, essential decisions are still made at nation state level and determined by actor constellations within the member states. Nonetheless, national policy changes are strongly affected by external factors, including foreign models, transnational expert networks, international organizations and the European Union.”

— 2009: 163

Well, that is good to know. Who would have guessed?

Good language is not just an intellectual nicety. Newspeak takes the conflict, material, and politics out of policy, where, for now, we must still suspect it. “Governance”, in Jachtenfuchs’s minced words, “almost completely ignores questions of political power and rule” (2001: 258). The “OMC” by its suggestion of Potemkin harmonization, is not so different from the “political” science that Agnoli (1989) berated for “praising a state under careful circumvention of its economic underbelly [...]” (1989: 195)²¹.

If — as deliberative democracy (for example, Elster 1998) — these concepts imply normatively, that policy-making *should* shed such unhappy remnants, they should come out and say it. If — as, maybe, behavioral economics (for example, Tomasello 2009) — these concepts indicate positively, that policy-making *does* sometimes occur without the selfish demons of our nature that state and market are out to civilize, they should come out and prove it.

What social scientists must not do, is to add these concepts to the ontology, *under* the radar of contestation. However much it may pain us post-ideologues to speak of Agnolian underbellies of power and material inequality, that is where — not just figuratively speaking — society reproduces itself, and where therefore, we must look.

6.2.0.4 Bystanders

“If there is a hard, high wall and an egg that breaks against it, no matter how right the wall or how wrong the egg, I will stand on the side of the egg.

Why? Because each of us is an egg, a unique soul enclosed in a fragile egg. Each of us is confronting a high wall. The high wall is the system which forces us to do the things we would not ordinarily see fit to do as individuals. [...] We are all human beings, individuals, fragile eggs. We have no hope against the wall: it’s too high, too dark, too cold.

To fight the wall, we must join our souls together for warmth, strength. We must not let the system control us — create who we are. It is we who created the system.”

— Haruki Murakami (Jerusalem, 2009)

To me, the most outrageous attitude to take on European integration and CEEC welfare state is no attitude at all. Being merely a bystander, for

²¹ In the german original: “Lobpreisung einer Staatsform unter sorgfältiger Umgehung ihres ökonomischen Unterleibes [...]” (*ibid.*).

many social scientists, appears not only to be acceptable, but the professional thing to do. As “normative” has become a dirty word in many social science departments, and prescriptions something to snicker at, “disinterestedness” now appears the lone, unchallenged criteria for good science. Somewhere along the way *a* political science (politische Wissenschaft) has turned into *apolitical* science (Politikwissenschaft).

This is evident in much of the literature on European and CEEC welfare state, that, for the most part, refrain from judgment. Even eminent scholars in this field now fetishize disinterestedness: Scharpf asked me in a 2011 e-mail whether “as a policy researcher, I wanted to work on (a however likely, initiated by whomever) revolution [sic!] or contribute to *real* political decision processes in *real* existing polities” (emphasis added). Hemerijck, after a presentation on an alternative tax regime opined that he considered history smarter than himself — or myself, for that matter.

This science turned ignorant is neither humanist, nor, I would maintain, a worthy heir to the spirit of enlightenment that bore its methods 250 years ago.

The operative metaphors here are that of a bystander or a witness. Of course, witnesses must not embellish their accounts to suit their ideology, or theory: as far as possible, they should report only the facts. Also, witnesses must not take the law in their own hands: passing judgment is up to the judges. This code holds for social scientists, too: they should not cook the data to suit their theory, or, present facts that cannot be falsified. Social scientists, too, are not philosopher kings, or guardians: the democratic sovereigns, not the professors, call the shots.

Still, a witness bears a responsibility: to alert others to the injustice she has observed. Social scientists, are, whether they like it or not, often the lone expert witnesses on a scene. In our modern, complex world, there will, increasingly, be no one else to sound the alarm. Take the demise of CEEC welfare states for an example: who, if not the social scientists should alert the wider public that *other welfare states* are possible? Only social scientists and economists can conceive of better designed mixed economies and blow the whistle: “*no*”, they should shout, the hardship and instability suffered by the people of CEEC is not materially inevitable, it is a particular choice made by particular people.

Pointing to the alternatives to the status quo does not, as many seem to fear, taint all empirical research. There are still plenty of entirely positive questions, for example, how to best organize a public service such as waste disposal. Social scientists as witnesses need not and should not have a position on this: it is *not* a normative, but a positive question. They can test which kind of observed, real existing and hypothetical, reasonably imagined

way of waste collection is more efficient or equitable. Once that work is done, social scientists can compare reality to what they know is possible, and inform people about the difference and why it exists. To simply note that, apparently, waste disposal was privatized because city budgets were tight, however, is to not bear witness, but to be a bystander.

Because so many of the other people on the crime scene have never learned what is positively possible, and what not, they will often be unsure about whether a particular event was man-made or materially inevitable. For that reason, they need first, economists to clarify what is possible in a scarce world, and second, social scientists to explain why and how the man-made events were made.

This is not a new thing to ask of social scientists. Proponents of public sociology (Gans 1988), and, before that, Mills's call for sociological imagination meant exactly this: to, true to their emancipatory heritage as science, *enlighten* fellow human beings about the abstractions and alternatives facing the modern world.

It is particularly important in the realm of welfare state design in Europe, and the suffering CEEC, where the relevant abstractions and alternatives are vanishing into oblivion, and are being replaced by ideology-infused newspeak, ever-optimist Panglosses and depoliticized TINAs. To do meaningful second-order, sociological or political science work on the welfare state, you first have to do some first-order, economic work, if nothing else, because it lets us talk about welfare as if people mattered:

“In the first instance, we are interested in the welfare state because we are interested in human welfare.”

— Haggard and Kaufman (2009: 236)

Acronyms

BIG Basic Income Guarantee

BIGSSS Bremen International Graduate School of Social Sciences

BoP Balance of Payments

C Consumption

CAFE Corporate Average Fuel Economy

CBA Cost-Benefit Analysis

CEEC Central and Eastern European Country

CIT [Corporate Income Tax](#) (p. 305)

CME Coordinated Market Economy

CPR Common-Pool Resource

d Depreciation

DNA deoxyribonucleic acid

Dual-PIT [Dual Personal Income Tax](#) (p. 307)

DWL Deadweight-Loss

EC European Commission

ECB European Central Bank

Ecotax [Quantity Taxation of Energy](#) (p. 313)

EFC European Fiscal Compact

EMU European Monetary Union

EPL Employment Protection Legislation

ESM European Stability Mechanism

ET [Expenditure Tax](#) (p. 359)

EU European Union

FCE Final Consumption Expenditure

FDI Foreign Direct Investment

FPE Factor Price Equalization

FPTP First-Past-the-Post

FRG Federal Republic of Germany

FTT [Financial Transaction Tax](#) (p. 313)

G Government Spending

GDP Gross Domestic Product

GDR German Democratic Republic

GFCF Gross Fixed Capital Formation

GNP Gross National Product

HT Head Tax

I Investment

ICT Information & Communication Technology

IFI International Financial Institution

ISI Import-Substitution-Industrialisation

KJV King James version

LBT [Local Business Tax](#) (p. 307)

LDC Less Developed Country

LME Liberal Market Economy

LVT [Land Value Tax](#) (p. 313)

MECE mutually exclusive and comprehensively exhaustive

MS Member State

NFCF Net Fixed Capital Formation

NHS National Health Service

NIT [Negative Income Tax](#) (p. 314)

NOMA Non-Overlapping Magisteria

NTT New Trade Theory (p. 116)

NW Net Worth

OCA [Optimal Currency Area](#) (p. 170)

OECD Organisation for Economic Co-Operation and Development

OMC Open Method of Coordination

OPO Open Market Operations

OSN [Ordinary Savings Norm](#) (p. 304)

PAYG Pay-As-You-Go

Payroll [Payroll Tax](#) (p. 307)

PCT [Progressive Consumption Tax](#) (p. 309)

PD Prisoner's Dilemma

PIT [Personal Income Tax](#) (p. 307)

PPACA Patient Protection and Affordable Care Act, a.k.a. "Obamacare"

PPP Purchasing Power Parities

PT [Property Tax](#) (p. 313)

QE Quantitative Easing

R&D Research & Development

RBCT Real Business Cycle Theory

RET Rational Expectations Theory

SD [Stamp Duty](#) (p. 313)

SGP Stability and Growth Pact

SIC [Social Insurance Contributions](#), de facto capped [Payroll Taxes](#) (p. 307)

SME Small and Medium-sized Enterprise

SWF Sovereign Wealth Fund

TFP Total Factor Productivity

TFR Total Fertility Rate

VAT [Value-Added Tax](#) (p. 308)

vNM von-Neumann-Morgenstern

WT [Wealth Tax](#) (p. 313)

Y Output

Y2C [yield-to-capital](#) (p. 304)

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