The Predistribution Solution: How to Tackle Inequality at its Roots

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Should the government compensate people for the inequalities that result from a market economy? Or should it structure markets to generate less inequality in the first place? Addressing economic inequality requires both: *redistributive* and *predistributive* remedies. Nevertheless, this paper presents the case for giving priority to predistribution over redistribution because this would address inequality at its roots. It would be more just, more effective economically, and more feasible politically. The paper then leverages these arguments to propose how to set policy priorities for a more equitable market economy.

The paper stakes out a position distinct from those who view increasing inequality as an inevitable feature of capitalism *and* those who view redistribution via taxes and welfare spending as a satisfactory remedy. It stresses that the propensity for economic inequality is rooted in institutions and policies. Therefore, capitalism can only be reformed effectively by channeling public investment to enhance human capabilities for all and by transforming the market governance that defines the power relationships in the economy.

Jacob Hacker defines predistribution as "the way in which the market distributes rewards in the first place." He contrasts this to redistribution, which takes from some and gives to others via taxes and transfers. [1] Blanchard and Rodrik extend this distinction with a typology of three stages of policies: pre-production (such as education), production (such as market regulation), and post-production (such as social transfers). [2] That is, they distinguish among policies that: 1) generate resources that go into the production process, 2) regulate the production process itself, and 3) reallocate the payoffs from the production process. The first and second comprise predistribution, and the third represents redistribution. The two ideal types thus differ in their primary goals, equality of opportunity versus equality of outcome; and they differ in their primary means, public investment and market regulation versus taxation and welfare spending.

This categorization is useful in separating out the intentions, the mechanisms, and the effects of these various policies, but real-world policies do not follow so neatly in a temporal sequence. Governments enact these various policies at the same time, and the policies interact in ways that defy the implied temporal sequence.[3] In fact, the causal relationship among these types of policies flows in both directions. Pre-production policies

[1] Jacob S. Hacker, "The Institutional Foundations of Middle-Class Democracy," in Policy Network, ed., *Priorities for a New Political Economy: Memos to the Left* (London: Policy Network, 2011), 35. Martin O'Neill credits Hacker with developing the concept, but he finds the earliest reference to the term in James Robertson, "The Future of Money: If We Want a Better Game of Life, We'll Have to Change the Scoring System," *Soundings* 31 (2005): 118-32. O'Neill, "Power, Predistribution, and Social Justice," *Philosophy* 95 (2020): 68-9.
[2] Olivier Blanchard and Dani Rodrik, eds., *Combating Inequality: Rethinking Government's Role* (Cambridge, MA: MIT Press, 2021), xix.
[3] O'Neill, "Power, Predistribution, and Social Justice," 70-71.

affect the need for post-production remedies, for example, but post-production policies also affect pre-production endowments.

Table 1 presents a basic typology, highlighting the primary goals and mechanisms of these policies with respect to inequality.[4] Yet real-world policies do not always sort neatly into pure predistribution and redistribution boxes.[5] A given policy can have both predistributive and redistributive effects. For example, if the government is spending more on education for the poor than for the rich, then it is enhancing the productive capacities of those with fewer resources (predistribution) but it is also reallocating resources with value (redistribution). If the government revises labor regulations to give workers more power relative to employers (predistribution), it is also boosting wages at the same time (redistribution). Progressive taxation shifts resources from the wealthy to the poor (redistribution), but it also gives lower-income workers more leverage to bargain with their employers (predistribution). And childcare subsidies for lower-income families transfer funds (redistribution), but also give parents greater ability to upgrade their skills or to get a job (predistribution). Nonetheless, we can still meaningfully sort policies into predistribution and redistribution buckets, with public investment and market regulation more on the predistribution side and taxation and social spending more on the redistribution side.

Moreover, the conceptual distinction is valuable because it allows us to assess the redistributive and predistributive characteristics of these policies, and this can be usefully applied to evaluate policy options. For example, we might favor those predistributive policies with greater redistributive effects (such as labor reforms, noted above), or those redistributive policies with greater predistributive benefits (such as child-care subsidies). The conceptual distinction highlights the difference between policies that favor equality of opportunity versus equality of outcome, investment versus compensation, long-term effects versus short-term benefits, and balancing power versus equalizing returns. I will argue below that we should give priority to predistribution goals, but I will stress that this means combining predistribution and redistribution policies in specific ways rather than favoring the former over the latter across the board.

[4] This typology is certainly not comprehensive. Monetary policy, for example, has predistributive effects because it can empower workers by increasing employment, and redistributive effects because it shifts the relative fortunes of savers versus borrowers. Or industrial and trade policies can predistribute by boosting labor power and pretax income in affected industrial sectors.

[5] O'Neill, "Power, Predistribution, and Social Justice."

Table 1
Predistribution and Redistribution Policies

	Public Investment	**Market Governance**	**Tax and Spend**
Primary mode	Predistribution	Predistribution	Redistribution
Primary goal	Equalize opportunities	Equalize opportunities	Equalize outcomes
Primary mechanism	Enhance capabilities	Balance power	Reallocate resources
Examples	<u>Public education</u> Preschool K-12 Higher education Technical training <u>Health</u> Public insurance Research <u>Infrastructure</u> Communications Transport	<u>Market regulation</u> Corporate governance Financial regulation Labor regulation Antitrust Sectoral regulation Intellectual property <u>Social regulation</u> Health Safety Environmental	<u>Tax</u> Income Property Estate Sales Tax credits <u>Welfare</u> Public pensions Paid childcare leave Child allowances

Economists have usefully applied this distinction to separate out the sources of inequality empirically. While recognizing the contested nature of the boundary between the two, they deploy these categories to evaluate their relative weight. They measure predistribution and redistribution by comparing income before and after taxes and transfers. Blanchet, Chancel, and Gethin examine the United States and 26 European countries from 1980 to 2017 and find that predistribution and not redistribution explains why inequality has grown so much more in the United States than in Europe during this period. In fact, they find that the United States redistributes a greater share of national income to lower-income groups than any European country. Their conclusions differ substantially from earlier studies that attribute the difference between the United States and Europe to more generous redistribution policies in Europe. They acknowledge that some of the difference may be due to the fact that they categorize pensions as pre-tax income, but they stress that their conclusion that predistribution rather than redistribution is the main driver of the difference between the two regions remains robust even if pensions are defined as post-tax income.

They identify public investment in education and health and market regulation of finance and labor as predistribution policies that likely contribute to the difference, but they concede that their data does not allow them to disaggregate the effects among predistribution policies.[6] Nonetheless, their policy recommendation is clear. If predistribution drives inequality more than redistribution, then predistribution policies should be the priority remedy.[7]

<u>The Predistribution Advantage</u>

This paper presents the case for the primacy of predistribution over redistribution in seven points; it engages market liberal and egalitarian counter-arguments; and it then reviews policy implications.

1. Predistribution is more fundamental because it seeks to address the causes of inequality whereas redistribution focuses more on the symptoms. Predistribution policies have dynamic benefits as well as static ones, counteracting the reinforcing cycle of wealth and power.[8] Moreover, predistribution policies address long-term causes, such as the unequal distribution of factor endowments or the imbalance of market and political power, so they have longer-term effects and they are less vulnerable than redistributive policies to short-term reversals.

In theory, a predistribution strategy should eliminate unjustifiable sources of inequality while leaving justifiable ones in place. Yet this proposition immediately raises the thorny question of which inequalities are justifiable. In principle, we might begin by suggesting that skill and effort should be rewarded, so inequalities in financial returns that reflect skill and effort should be allowed. Or we might postulate that the market system functions by rewarding activity that meets market demands, so this role should be allowed to function.[9] Yet inequalities reflect much more than differences in skill and effort: including discrimination, imbalances of power, and market institutions. Inequalities are deeply rooted in institutions – laws, practices, and norms – so addressing them effectively requires institutional solutions. We cannot resolve the question of the justifications for inequality in this short essay, yet it is important to flag it nonetheless.[10] The key point for present purposes is that predistribution addresses the sources of inequality and strives for more fundamental solutions.

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[6] Thomas Piketty similarly highlights legal institutions and education, but he also identifies the predistributive potential of progressive taxation: *Capital and Ideology*, translated by Arthur Goldhammer (Cambridge, MA: Belknap, 2020), 528-47.
[7] Thomas Blanchet, Lucas Chancel, and Amory Gethin, "Why Is Europe More Equal than the United States,?" *American Economic Journal* 14 (2022): 480-518. Also see Lucas Chancel, "Ten Facts about Inequality in Advanced Economies," in Olivier Blanchard and Dani Rodrik, eds., *Combating Inequality: Rethinking Government's Role* (Cambridge, MA: MIT Press, 2021), 17-21.
[8] See discussion of the "inequality snowball" in Steven K. Vogel, "The Regulatory Roots of Inequality in America," *Journal of Law and Political Economy* 1 (2021): 277-80.
[9] See Michael Sandel on Friedrich Hayek in *The Tyranny of Merit: What's Become of the Common Good?* (New York: Farrar, Straus and Giroux, 2020), 126-28.
[10] For an extended discussion, see Thomas Scanlon, *Why Does Inequality Matter?* (Oxford: Oxford University Press, 2018).

Predistribution remedies would have to go beyond stripping away biased policies and practices to embrace a robust positive agenda of public investment and rebalancing power aimed to maximize human capacity.[11] This paper adopts a radical interpretation of equality of opportunity that goes beyond formal equality under the law to strive to eliminate all social, political, and institutional inequities. That means equal access to education, housing, finance, and employment. Measures to achieve substantive equality of opportunity might begin with reforms to laws and regulations, but ultimately they would have to address more deep-seated practices and social norms as well.[12]

Predistribution policies would improve equality of outcome in the short term as well as enhance substantive equality of opportunity over the long term. Studies have shown a strong correlation between equality of opportunity, as measured by intergenerational earnings elasticity, and economic equality, as measured by the Gini coefficient. Moreover, policies that rebalance power in the economy, such as antitrust, offer a double benefit: they remove a market distortion and they enhance equality.[13]

2. Predistribution is more just because it does not accept labor exploitation and value extraction and then compensate for it, but rather strives to give workers fair wages and consumers fair value in the first place. In theory, markets would be neutral and inequality would only reflect differences in skill and effort. In practice, however, all markets are governed, and the institutions of market governance define balances of power between employers and workers, producers and consumers, incumbents and challengers, shareholders and stakeholders, intellectual property owners and users, etc. Firms and individuals not only compete to provide value to consumers, but they also extract rents (returns beyond value provided), and this is a major driver of inequality.[14] So predistribution market governance policies can shift markets from value extraction to value creation. Instead of allowing the market to underpay workers, and then compensating them after the fact, the government should structure markets to pay them fairly in the first place. Likewise, instead of allowing producers to overcharge consumers and then compensating those consumers (who are also taxpayers and citizens), the government should set the market rules so that consumers pay fair prices in the first place.[15]

[11] Amartya Sen, *Development as Freedom* (New York: Anchor, 1999).

[12] Margaret Somers argues that a focus on market institutions provides a powerful rebuttal to the market liberal view of market justice, whereby market outcomes are just by definition, demonstrating how these outcomes are in fact powerfully shaped by government policies and legal institutions: "Legal Predistribution, Market Justice, and Dedemocratization: Polanyi and Piketty on Law and Political Economy," *Journal of Law and Political Economy* 3 (2022), 243-47.

[13] Joseph E. Stiglitz, "Alternative Theories of Inequality: Causes, Consequences, and Policies," in Rudiger L. von Arnim and Joseph E. Stiglitz, eds., *The Great Polarization: How Ideas, Power, and Policies Drive Inequality* (New York: Columbia University Press, 2022), 66, 76.

[14] Vogel, "Regulatory Roots," 277-80. For a discussion on how the concept of "rents" can be both problematic and useful, see Steven K. Vogel, "Toward an Interdisciplinary Political Economy of Wages: How Monopsony Models Can Bridge the Gap," paper for the Annual Conference of the Society for the Advancement of Socio-Economics (SASE), Rio de Janeiro, Brazil, July 20-22, 2023.

[15] Steven K. Vogel "The Marketcraft Solution," a policy paper for the conference on A New Deal for this New Century: Making Our Economy Work for All, New York University Global Academic Center, Washington DC, October 3 and 4, 2019.

3. Predistribution strives to create more just and more efficient institutions rather than taking away from some and giving to others. Redistribution is a *taking from*. If the initial distribution of returns is unjustified, then perhaps this taking away may be justified. In practice, however, it is difficult to identify the line between fair and unfair returns, so redistribution may be considered an unjustified taking away. At the extreme, some libertarians would view redistribution as theft.[16] Predistribution addresses inequality at the societal level, creating a more just market system, rather than compensating individuals for harms.[17] Market governance reforms can rebalance power to enhance equity without infringing upon individual liberty.[18] Predistribution moderates the divide between the "makers" and the "takers" that is so conducive to political conflict. It can thereby enhance social cohesion and provide a foundation for a healthier democratic politics that will in turn sustain further predistribution policies.

4. Predistribution is more respectful of human dignity because it favors fair wages and fair value over government aid. Redistribution may carry an *expressive harm* or injury. It gives one side an unjustified sense of desert, and the other an unjustified sense of humiliation. It can demean the recipients as helpless victims.[19] Redistribution reinforces a status hierarchy, with the combination of paternalism and dependency associated with the transfer of resources. In contrast, predistribution gives people more self-respect and economic agency. As T. M. Scanlon notes, predistribution strategies such as providing good public education and increasing the bargaining power of workers "have the advantage of letting workers themselves decide whether they want to press for higher pay or for improvements in their working conditions."[20] Exercising capabilities is more fulfilling than receiving compensation. As Daniel Chandler puts it: "people want to be in charge of their own lives, to engage in meaningful work, and to develop relationships – at work and elsewhere – which support a sense of dignity and self-respect."[21] Reducing the dependency inherent in a system of redistribution can contribute to more solidarity among the populace and a greater sense of citizenship. Michael Sandel stresses the importance of "contributive justice": the opportunity to garner the social recognition and esteem from providing what others value.[22] This also suggests that a predistribution strategy should include macroeconomic policies to promote full employment and labor market policies to foster stable employment.

5. Predistribution enhances democracy by balancing power in the economy. In the real world, predistribution and redistribution policies are not introduced into a society born equal, but rather they are enacted in a society already ridden with political, social, and economic inequalities. Market governance reforms, such as corporate governance reform or labor regulatory reforms, can enhance democracy in the workplace and rebalance power

[16] Somers, "Legal Predistribution," 237.
[17] Elizabeth Anderson, "What is the Point of Equality?," *Ethics* 109 (1999): 287-337.
[18] T. M. Scanlon, "Why Does Inequality Matter,?" in Olivier Blanchard and Dani Rodrik, eds., *Combating Inequality: Rethinking Government's Role* (Cambridge, MA: MIT Press, 2021), 61-2.
[19] Sandel, *The Tyranny of Merit*.
[20] T. M. Scanlon, *Why Does Inequality Matter?* (New York: Oxford University Press, 2018), 116.
[21] Daniel Chandler, *Free and Equal: What Would a Fair Society Look Like?* (London: Allen Lane, 2023), 44.
[22] Sandel, *The Tyranny of Merit*, 206.

in the economy.[23] In this sense, predistribution remedies go beyond compensating individuals for bad luck, and combat workplace oppression directly.[24] And predistribution policies such as antitrust enforcement can address imbalances of market power. So rebalancing market power rebalances political power, and contributes to a healthier democratic politics.

Katharine Jackson proposes that we should evaluate antitrust policies in terms of their contribution to *equal liberty*: the egalitarian distribution of economic associational rights. In practice equal liberty requires a balance of power – and antitrust law offers an important tool to achieve that balance. It can contribute to a balanced distribution of rights, including the ability for challengers to compete, consumers to choose products, and workers to choose employers.[25] Samuel Bagg notes that the most prominent theories of democracy focus more on processes of collective will-formation and decision-making and remain hostile or indifferent to an expansive conception of antitrust. Yet Bagg stresses that a broader egalitarian balance among social forces is even more fundamental to democracy than any particular procedures.[26]

6. Predistribution is more effective economically because it seeks to make markets work better rather than to override them. Market liberals would object to both predistribution and redistribution policies as distortions of markets, and we will examine that objection further below. But we should note here that predistribution is more market-conforming than predistribution. The first step in a predistribution agenda would be to remove policies of upward redistribution, which should improve market efficiency.[27] Predistribution policies would also enhance markets by cultivating human capacity via investments in education, training, health, infrastructure, and technology. A strategic investment strategy could pay for itself by boosting returns in the future. And market governance reforms could make markets operate more efficiently by combating monopoly and monopsony and related anti-competitive practices. It would be doubly inefficient to allow these practices and then rely on redistribution as a remedy. It would be far preferable to make markets work better in the first place.

The case for predistribution policies as market-conforming is bolstered by recognizing the inadequacy of economic models that begin with an assumption of perfect competition.[28] For example, a standard economic analysis would show that union power generates higher wages and employment than perfect competition, transfers some surplus from the firm to

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[23] Steven K. Vogel, "Market Governance as a Balance of Power," *Politics & Society* 51 (September 2023): 319-36.

[24] Elizabeth Anderson, *Private Government: How Employers Rule Our Lives (and Why We Don't Talk about It)* (Princeton, NJ: Princeton University Press, 2017).

[25] Katharine Jackson, "Antitrust and Equal Liberty," *Politics & Society* 51 (September 2023): 337-63. Robert S. Taylor argues that the state is justified in deploying antitrust policy to secure market competition, even when judging this action by its contribution to freedom: "Market Freedom as Antipower," *American Political Science Review* 107: 593-602.

[26] Samuel Bagg, "Whose Coordination? Which Democracy? On Antitrust as a Democratic Demand," *Politics & Society* 51 (September 2023): 364-86.

[27] Brink Lindsey and Steven M. Teles, *The Captured Economy: How the Powerful Enrich Themselves, Slow Down Growth, and Increase Inequality* (New York: Oxford University Press, 2017).

[28] Stiglitz, "Alternative Theories of Inequality," 36-60.

workers, and thereby creates a deadweight loss.[29] But if we begin from a presumption of employer power (monopsony) rather than perfect competition, then an increase in union power would *improve* welfare overall.[30]

Predistribution market governance policies also have the benefit of not costing much in terms of government spending or tax expenditures. Redistribution is expensive by definition; market reform is not. Predistribution also reduces the need for redistribution, further easing pressures on government expenditures. And this brings us to a final consideration: political expediency.

7. Predistribution is more feasible politically. Predistribution policies may enjoy more political support and less opposition because they favor expanding opportunities rather than taking assets from some and giving them to others. In theory, market liberals and progressives should be able to agree at least on the predistribution goal of eliminating policies of upward redistribution. Business and labor should both support an agenda designed to shift the United States from the low road of cutting labor costs to the high road of labor-management collaboration. Entrepreneurs and consumers should welcome a shift from protecting incumbents to empowering challengers, from tolerating collusion to promoting competition.[31] In contrast, redistributive polices that take from some and give to others are vulnerable to backlash.[32] We should not overstate this case, however, since some redistribution policies are quite popular and some predistribution policies are likely to trigger substantial opposition from powerful interest groups. In particular, predistribution policies that aim to shift power away from the wealthy and powerful are likely to meet considerable resistance.

Kuzienko, Longuet-Marx, and Naidu find that American voters in general – and less-educated Americans in particular – support predistribution policies more than redistribution policies. They challenge conventional political economy models of voter preferences that are one dimensional in that the models assume that voters only care about consumption (which is equivalent to after-tax income in static models) and leisure. These models assume, for example, that voters would prefer an equivalent fiscal transfer to a government job. The authors suggest, in contrast, that voters care about their pre-tax-and-transfer income. Voters may value social standing and status, for example, or employment quality, such as job autonomy or flexible hours. The authors argue that the Democrats' supply of predistribution policies declined after an inflection point in the 1970s, and that this helps to explain why the Democratic Party lost support from less-educated Americans.[33]

[29] George J. Borjas, *Labor Economics*, 8th ed. (New York: McGraw-Hill Education, 2020), 350-52.
[30] Vogel, "Toward an Interdisciplinary Political Economy of Wages.".
[31] Vogel, "The Marketcraft Solution," 16-17.
[32] Hacker, "The Institutional Foundations," 35
[33] Ilyana Kuziemko, Nicolas Longuet-Marx, and Suresh Naidu, "'Compensate the Losers?' Economic Policy and Partisan Realignment in the US," National Bureau of Economic Research (NBER) Working Paper 31794, October 2023, 6-8.

Market Liberal Objections

Let us now address two of the most potent challenges to this argument, those from the market liberal (or libertarian) and egalitarian perspectives. I define the market liberal view here as one that asserts that government interference should be limited to maximize market efficiency and individual liberty. Market liberals view government primarily as a constraint on markets and liberty, not as a foundation for them. They acknowledge that markets require some minimal rules of the game, including the rule of law and the protection of private property, but they have a relatively thin view of the institutions required to make markets function well.[34] Here I present four market liberal lines of argument against *both* predistribution and redistribution, and then turn to the more specific case for why market liberals might prefer redistribution over predistribution.

First, a market liberal might object to predistribution as an affront to individual liberty.[35] Predistribution policies increase government "intervention" in society and the market.[36] An evaluation of this objection hinges on the distinction between negative and positive liberty.[37] Market liberals want to maximize individual liberty <u>from</u> constraints, primarily from government. Theorists who stress the positive side of freedom – maximizing human capacity – counter that the government plays a critical role in promoting freedom.[38] Market liberals and advocates of positive freedom both support equality of opportunity, but market liberals are prone to define this narrowly, as formal equality before the law. As argued above, however, we have to address substantive equality to achieve real equality, and that requires predistributive remedies. As Elizabeth Anderson puts it: "To be capable of functioning as an equal participant in a system of cooperative production requires effective access to the means of production, access to the education needed to develop one's talents, freedom of occupational choice, the right to make contracts and enter into cooperative agreements with others, the right to receive fair value for once labor, and recognition by others of one's productive contributions."[39]

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[34] I eschew the term "neoliberal" here because it carries too much baggage and too many meanings: Daniel Rodgers, "The Uses and Abuses of 'Neoliberalism'," *Dissent*, Winter 2018. We might differentiate between the cruder market liberalism of Milton Friedman, who was skeptical of government intervention even in cases where it might be justified in theory, such as monopoly; and the more sophisticated market liberalism of Friedrich A. Hayek, who had a richer perspective on the institutional underpinnings of market systems. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962); Friedrich A. Hayek, *The Road to Serfdom* (New York: Routledge, 1944).
[35] Friedrich A. Hayek, *The Constitution of Liberty: The Definitive Edition* (Chicago: University of Chicago Press, 1960); Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, 1974). John Tomasi stakes out what he depicts as a hybrid position between libertarians (such as Nozick) and egalitarians (such as John Rawls), which he terms "market democracy": *Free Market Fairness* (Princeton: Princeton University Press, 2012). Yet in my view he overstates the degree to which state action threatens economic freedom and understates the degree to which it enables that freedom. For my rebuttal to the market liberal position on markets and freedom, see Steven K. Vogel, *Marketcraft: How Governments Make Markets Work* (New York: Oxford University Press, 2018), 134-36.
[36] On the analytical and normative implications of the use of the term rhetoric of "intervention," see Vogel, *Marketcraft*, 117-18.
[37] Isaiah Berlin, *Two Concepts of Liberty: An Inaugural Lecture Delivered Before the University of Oxford on 31 October 1958* (Oxford: Clarendon Press, 1962).
[38] Sen, *Development as Freedom*.
[39] Anderson, "What is the Point of Equality?," 318.

Second, a market liberal might contend that predistribution denies individuals the just deserts from their labor. That is, the market rewards skill and effort with higher financial rewards. This generates inequality but this is justified because these individuals deserve these rewards.[40] In the real word, however, market outcomes reflect not only skill and effort, but also luck and pre-existing advantages.[41] So there is no reason to assume that those who earn more deserve this reward. A true meritocracy would require radical equal opportunity, as outlined above, and that would require massive efforts of predistribution. Likewise, a market liberal might suggest that predistribution policies undermine market incentives. Yet policies designed to expand substantive equality of opportunity should enhance these incentives, not undermine them. If more people have a fairer chance to succeed – to have their efforts rewarded – then they should be more likely to work hard.

Third, a market liberal might assert that predistribution distorts resource allocation. These policies constitute government intervention into the natural functioning of markets, and thus interfere with market signals, undermining efficiency overall. We can think of this distortion formally as moving the market away from a pareto optimal point of market equilibrium. In practice, however, real-world markets are not free or neutral but thoroughly sullied with fraud, manipulation, and imbalances of power. There is no equilibrium but only a spectrum of balances of power. So a predistribution policy that shifts that balance of power does not necessarily undermine efficiency, and may in fact enhance it.[42]

Fourth, a market liberal might argue that predistribution policies are particularly prone to political capture. If the government gets in the business of favoring certain substantive outcomes over others, or certain groups over others, then that will make it even more vulnerable to capture.[43] The government certainly can be captured by special interests, but the market liberal view accords the status quo with an unjustified positive valence. In fact, we begin from a state of severe inequality, in terms of both opportunities and outcomes. And the government is the only actor with the resources and the authority to combat that effectively. So the remedy for the politics of vested interests is not to curtail government but to enhance state autonomy and state capacity via political and administrative reforms.[44] Of course, it is difficult to implement such reforms within an unequal society with unequal politics, which favors the wealthy and the powerful, but predistribution is a critical tool in resisting this cycle.

The four arguments above represent market liberal objections to both predistributive and redistributive policies. But would market liberals agree that predistribution should be the priority among the two? Most market liberals would probably make the opposite argument: that redistribution is the lesser of two evils, or perhaps even a necessary evil. Some

[40] N. Gregory Mankiw, "Defending the One Percent," *Journal of Economic Perspectives* 27 (2013): 21-34.
[41] Sandel, *The Tyranny of Merit*.
[42] Vogel, "Toward an Interdisciplinary Political Economy of Wages."
[43] Hayek stressed this as a critical basis for evaluating government intervention. It should set market rules in a neutral fashion, but never favor a particular group, or industry, or market outcome. Hayek, *The Road to Serfdom*. George Stigler stresses the vulnerability of government regulation to political capture: "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science* 2: 3-21.
[44] Steven K. Vogel "Level Up America: The Case for Industrial Policy and How to Do it Right," Niskanen Center (April 28, 2021), 12-17.

prominent economists have argued that redistribution via taxes and transfers best achieves egalitarian goals. Tax and transfer policies can be structured to deliver the same outcome as predistribution with lower deadweight loss.[45]

With respect to market governance, market liberals might argue that the government should not try to use regulation to achieve policy goals beyond the narrow mandate of a given type of regulation. In U.S. antitrust debates, for example, Carl Shapiro argues that antitrust regulation should focus on market competition as assessed by models of consumer welfare, and should not consider broader social goals such as inequality or democracy. If the government wants to address those problems, he insists, there are better ways to do it.[46] I would counter, however, that government authorities have a responsibility to consider the full range of effects of any action they might take. And given that there is no pristine or neutral balance of power in markets, they might reasonably deploy antitrust policies to adjust that balance.[47]

Likewise, on trade policy economists typically favor free trade even if it imposes losses on particular sectors. They assume, following standard trade theory, that the gains from trade outweigh the costs in terms of inequality or companies bankrupt or jobs lost. Thus they favor compensation, in the form of trade adjustment assistance, for example, rather than trade protection or industrial policy. In recent years, however, some economists have found that the costs in the United States from trade competition with China have been much greater than previously estimated, and that these cost are heavily concentrated in particular regions.[48] In fact, the logic of the case for predistribution might suggest that the U.S. government should deploy industrial policy to strengthen domestic technological capabilities and to enhance worker skills to reduce displacement in the first place rather than compensating the "losers" after the fact.

Egalitarian Objections

Egalitarians might challenge the argument outlined above from a very different vantage point. They might suggest that we should be concerned with the inequality of outcomes, and outcomes are equally important or more important than opportunities. The strongest version of this argument would assert that no inequalities are justifiable, so dispensing with economic inequality would require eliminating the market system. And even that would leave some residual forms of inequality, such as status gaps, racial or gender discrimination, and incidental differences in material prosperity. According to John Rawls' Difference Principle, inequalities are only justified to the extent that they benefit those with the least in a society.[49] T. M. Scanlon proposes a modified version of Rawls' position: inequalities must either be unavoidable consequences of the exercise of important personal liberties or result from features of the economic system that are required for it to function

[45] Kuziemko, Longuet-Marx, and Naidu, "Compensate the Losers?" 2023, 5.
[46] Carl Shapiro, "Antitrust in a Time of Populism," *International Journal of Industrial Organization* 61 (2018): 714-48.
[47] Vogel, "Market Governance as a Balance of Power."
[48] David Autor, "Trade and Labor Markets: Lessons From China's Rise," *IZA World of Labor* (February 2018).
[49] John Rawls, *A Theory of Justice* (Cambridge, MA: Belknap Press, 1971).

in a way that benefits all.[50] Michael Sandel argues that equal opportunity would still leave a major flaw: meritocracy bestows the winners with hubris and plagues the losers with humiliation and thus undermines social cohesion and democracy.[51] I would suggest that this is a possibility but not inherent to or uniform across market systems. And predistribution policies are designed to moderate this effect.

Furthermore, egalitarians might argue that predistribution policies would fall woefully short of true equality. Focusing on equality of opportunities sets the bar too low, and gives leaders an excuse not to strive for equality of outcomes.[52] I would counter that redistribution policies set the bar too low, and provide cover for a failure to strive for a more ambitious predistribution agenda.

Some egalitarians might stress the degree to which inequalities are the product of past wrongs, such as slavery and racial discrimination, that cannot adequately be addressed by predistribution remedies alone. Justice requires the righting of these past wrongs in the form of reparations, and that means material compensation (redistribution) for those disadvantaged.

The egalitarians are right that predistribution policies are not sufficient to eliminate inequality. The case for predistribution recognizes the need for redistribution policies, but views them as complements rather than alternatives to predistribution. I would stress nonetheless that redistribution policies should be evaluated for their predistributive effects, and predistribution should be given priority. In practice, of course, the government should promote both: redistribution as shorter-term adjustment and predistribution as longer-term remedy. And as predistribution measures gradually enhance the equality of opportunities and reduce the inequality of outcomes, the need for redistribution would naturally diminish.

Finally, let us consider an important practical caveat to this line of argument. That is, some redistributive policies have the potential to alter outcomes more quickly than predistribution policies. In particular, an aggressive wealth tax such as that advocated by Thomas Piketty, Emmanual Saez, and Gabriel Zucman would reduce inequalities of wealth more rapidly than the predistribution agenda.[53] So for practical purposes the government should pursue both: those policies such as a wealth tax that will reduce inequality the most quickly, and the predistribution policies that address inequality at its roots and make for a more equitable society over the longer term.

Let us consider two examples to illustrate what giving predistribution greater priority might mean in concrete terms, one a hypothetical example focused on specific policies and the other a real-world historical example of a shift in a broad policy regime. First let us imagine that we wanted to reduce the income gap between the highest paid top managers and the

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[50] Scanlon, *Why Does Inequality Matter?*, 151.
[51] Sandel, *The Tyranny of Merit*.
[52] Sandel, *The Tyranny of Merit*.
[53] Thomas Piketty, *Capital in the Twenty-First Century*, translated by Arthur Goldhammer (Cambridge, MA: Belknap Press, 2014); Emmanuel Saez and Gabriel Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay* (New York: W.W. Norton & Company, 2019).

lowest paid workers. And let us assume that we could reduce the gap by half by either a redistribution strategy, taking money from the managers and giving it to the workers, or a predistribution strategy, reforming corporate governance and labor regulations to give workers more bargaining power relative to managers. The argument presented here simply proposes to prioritize the latter for the reasons outlined above. And if this is not sufficient to achieve a just balance, then the government should supplement that predistribution strategy with redistribution policies.

Turning to the broader mix of national policies, the New Deal combined predistribution and redistribution strategies whereas the U.S. postwar mixed economy focused more on expanding redistribution via the welfare state. The New Deal included massive public works investments and fundamental reforms to labor regulation, financial regulation, corporate governance, and antitrust that redefined power relations in the U.S. market economy. The early postwar leaders did not dismantle these so much as turn their attention more to redistribution, but this made the New Deal program vulnerable to erosion via policy drift and eventually to neoliberal reform.[54] For the labor regime, progressives failed to pass legislation to bolster worker power and companies pursued aggressive anti-union tactics. For corporate governance, policy reforms and corporate strategies combined to shift the dominant practice from a managerial to a shareholder model. In finance, a combination of liberalization and a failure to secure adequate prudential regulation enabled rampant rent-seeking and set the stage for the global financial crisis. And in antitrust, the aggressive enforcement of the Warren period in the 1950s and 1960s gave way to the ascendance of the Chicago School in the 1970s and 1980s.[55] The relative lack of attention to predistributive policies contributed to the inequality snowball since 1980, and predistributive remedies will have to be at the center of any effective reversal of these trends.[56]

<u>Policy Implications</u>

This argument suggests some fairly specific guidelines for policy. First, governments should seek to eliminate government policies of upward redistribution. This means ensuring that taxation is not regressive, for example, and eliminating or revising regulations that allow firms and individuals to extract rents at the expense of workers or consumers.[57] Second, governments should prioritize public investment in education, health, and infrastructure to further substantive equal opportunity over the long term. Third, governments should reform market governance to balance market and political power from employers to workers, incumbents to challengers, bankers to savers/investors, intellectual property owners to users, etc. This would undercut rents and ensure that workers obtain fair pay and consumers pay fair prices. Fourth, governments should evaluate

[54] On policy drift, see Jacob S. Hacker, "Policy Drift: The Hidden Politics of US Welfare State Retrenchment," in Wolfgang Streeck and Kathleen Thelen, *Beyond Continuity: Institutional Change in Advanced Political Economies* (Oxford: Oxford University Press, 2005), 145-68.
[55] Vogel, *Marketcraft*, 43-76, covers these developments in more detail.
[56] Until recently, I would argue, American progressives have given too little attention to "marketcraft" remedies, thereby limiting their policy toolkit (*Marketcraft*, 144-46).
[57] Lindsey and Teles, *The Captured Economy*.

predistribution public investment and market governance policies for their contributions to equality of outcomes in the short term as well as to substantive equality of opportunity over the long term, and prioritize those that best achieve both goals at the same time. And fifth, governments should deploy classic redistribution strategies, such as progressive taxation and welfare spending, but they should evaluate these policies for their predistribution effects. They should give highest priority to those redistribution policies that can achieve equality of outcome most effectively, such as the wealth tax noted above, and those with the greatest predistribution effects. In practice, since most countries are characterized by high levels of inequality at the present time, their governments should combine predistribution and redistribution strategies. And as predistribution policies enhance equality of opportunities as well as outcomes, that should allow governments to reduce the more redistribution-oriented policies over time.

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