

THE TWO PRINCIPLES OF DISTRIBUTION

By Louis O. Kelso and Patricia Hetter

The heart of an economic system is its principle of distribution. Real wealth is goods and services; its production takes place in the physical world under natural laws that are everywhere the same. Regardless of an economy's political structure, production problems must be solved pragmatically through science, engineering, technology, management and the skills of labor. Out of the production process, however, arises wealth or income, and distribution of this wealth or income involves problems of a different order. There is a political dimension to distribution as well as a physical one; its character is derived from the economy's principle of distribution.

Upon the choice of distributive principle turns, for good or ill, an economy's ethical, motivational, and even engineering characteristics. In the long run, the distributive principle will control the quality of life obtainable in the society – not only material abundance, or lack of abundance, but also such intangibles as the presence or absence and degree of personal freedom, justice, leisure, autonomy, and social cohesiveness.

Contrary to the popular belief that there are many distributive principles from which economic policy-makers may select, in the absolute sense there are but two. They are diametric opposites, both logically and in their social effects, so that an economy cannot escape its moment of truth by choosing both. Attempts to mix or blend the alternatives, like any attempt to mix diametric opposites, can only produce varying degrees of confusion and foment strife between wealth or income claimants who would benefit more under one principle than the other.

The first alternative is the principle of private property. The second is the principle of need. To fully appreciate the difference between them, we must first understand the two senses in which we commonly use the word "need." As a condition of life, "need" refers to the animal side of human beings and their creature-comfort requirements. If human beings did not have needs in this sense, that field of intellectual endeavor known as economics would not exist. As a principle of distribution, however, "need" has an entirely different meaning. It refers to the mechanism for allocating wealth or income among various claimants not on the basis of the productive input of those who participate in production, but on the basis of an opinion or appraisal of the "need" of the recipient, whether or not the recipient participated in the productive activity, and irrespective of the extent of that participation, if any.

The theory of democratic capitalism relates, as does all economic theory, to the satisfaction of need in the first sense. *But it is intended, over a period of time, virtually to eliminate the necessity for distributions according to need in the second sense.*

Up to now, Western society in its public philosophy has overwhelmingly preferred the private property principle – that wealth belongs to those who produce it. The reasons are

solidly pragmatic. Before an economy can have a distribution problem, there must be a product to be distributed. No other incentive is so well calculated to keep people permanently interested in doing those things that encourage production as that which gives to each individual the wealth, or its income equivalent, that his or her labor or his or her property has brought into being.¹ The indispensability of private property to the diffusion of (economic) power is axiomatic in Western political thought, as is the necessary relationship between private property and civil liberties.

“To each according to his production” strikes a deep moral chord in human nature. Almost everyone instinctively feels, at least in one’s own case, that this rule is right. Everyone, when deprived of the fruits of *his or her* production, feels heinously ill-used. The private property rule is embraced by the Marxian socialist no less firmly than by the Puritan capitalist (although, as we will point out later, the socialists insist upon the dogma that there is but one factor of production: labor). Private property is also the ethical heart of the labor movement, and the basis for the proposition that every human being who is not a slave owns his or her own labor power and is thus entitled to receive, as of right, all of the wealth his or her labor produces. Related to this principle is the feeling, also universal, that individuals or families have the obligation to produce the wealth their household desires to consume.

The private property principle has a unique practical value. It makes possible the employment of the only possible objective standard for determining economic value and, therefore, distributive shares: the workably competitive market. Without an objective standard of measurement, a scale in which to weigh the value of input and output, distributive decisions ultimately must be settled by brute force or made by an authoritarian human judge.

The second alternative principle of distribution disregards productive input; its determinant is human need. Although earlier the philosophy of the Diggers of Cromwell’s Army and of the French Utopian Communists, the practical importance of the need principle began with the Marxists. In the higher phase of communist society, Marx wrote, after society had been cleansed of the taint of selfishness it had acquired in the capitalist womb, the narrow bourgeois horizon of rights (i.e., the private property principle) would be left behind, and society could inscribe on its banner: “From each

¹ The motivational value of private property does not seem to depend upon some peculiarities of Western temperament. Writing of the challenge that traditional customs often pose to economic advancement in the developing world, a *New York Times* correspondent from Khartoum recently described how one of the Sudan’s leading businessmen overcame the negative economic effect of “the extended family of cousins, aunts, uncles, parents, and children (that) may saddle a successful person with a whole retinue of relatives or retainers.” Conceding that “the traditional system of having the more fortunate members of the family support their poorer relatives often discourages the ambitious and encourages the idle,” Sir Abbas met the challenge “creatively.” “In 1964, he set up the Anzara General Trading Company, Ltd., with his own capital, and gave shares in the company to selected members of his family and a few long-time employees, a new twist for all but a few Sudanese families. His idea was to put his relatives to work as part-owners of a family-dominated business rather than simply let them come to him for handouts. Today, this company, engaged in imports and commission work, directly benefits about seventy persons. Mr. Abbas believes his scheme is providing itself not only by encouraging initiative and industry, but also by developing a sense of responsibility among otherwise dependent relatives . . .” *New York Times*, July 24, 1966.

according to his capacity, to each according to his need.” Socialism was a necessarily totalitarian interim stage designed to purge human beings of their acquisitive instinct. For Marx and the early Marxian scholars clearly understood that an economy could not function under such a form of distribution as long as human nature retained any trace of selfishness. Modern exponents of the need principle have abandoned that shrewd insight. They advocate the current distribution of more income to all (save the presently affluent) solely on the grounds of the general *need* for more income.

“To each according to his need” is of necessity a totalitarian principle. Its coercive nature is demonstrated by the fact that wherever it is found in society – in the extended family, the primitive tribe, the military unit, or the religious order – the organization of the distributive group is authoritarian and its members constrained to obey. Where democratic ideals preclude authoritarianism, for example, in utopian experiments like Owenism, petty bickering over “sharing” (i.e., distribution) eventually breaks up the group. Applied to a national economy, the need principle compels administration by government; only the state is sufficiently powerful to enforce a rule so at odds with human nature and to quell the resultant social strife. For the need principle, as Marx foresaw, is unworkable so long as individuals remain even slightly selfish.

Moreover, society has only two chief sources of manipulatory power other than the brute force of the military. These are *political* power and *economic* power. The need principle fuses the two into a monolith because those who determine economic need are the same public office holders who wield the society’s political power. In the practical sense, their power is totalitarian because no other domestic force is strong enough to match it or temper it.

A theoretical alternative to a central arbiter is to allow every individual to decide his or her own need. But that course swiftly leads to social disorganization, for each decides his own needs disproportionately to what is available in the aggregate, or to what others decide for themselves. And since such chaos is intolerable to society, the state is obliged to step in with the totalitarian corrective.

There is another reason why the need principle arouses antagonisms so violent that they must be checked by force. It destroys the property rights in wealth that are naturally asserted by those who own it. The owners can never be reconciled to parting with their property on account of the need of another, unless they receive equivalent compensation. Niccolo Machiavelli warned his Prince that “men forget more easily the death of their father than the loss of their patrimony.”² Alexis de Tocqueville understood that the passions created by property are most keen in democracies, particularly among men in the middle classes. Those who would remedy society’s injustices by means that invade property, however obliquely, would do well to meditate on what Tocqueville says on the subject: “But the men who have a competency, alike removed from opulence and from penury, attach an enormous value to their possessions. As they are still almost within the reach of poverty, they see its privations near at hand and dread them; between poverty and themselves there is nothing but a scanty fortune, upon which they immediately fix

² Niccolo Machiavelli, *The Prince* (New York: The New American Library, 1952), p. 90.

their apprehensions and their hopes. Every day increases the interest they take in it, by the constant cares which it occasions; and they are the more attached to it by their continual exertions to increase the amount. The notion of surrendering the smallest part of it is insupportable to them, and they consider its total loss as the worst of misfortunes.”³ Not only are people attached to their property because it is the only dependable source of comfort, security and status in a world where, as George Orwell said, “. . . the belly comes before the soul, not in the scale of values but in point of time!”⁴ – but because the economically productive resent supporting the unproductive, even when incapacity is due to no personal fault – or is even the direct result of service to society, as in war.

Unlike the private property principle, the need principle has no intrinsic limitations, either physical or logical. Private property is objective and specific; need, subjective and universal. Under the rule of private property, a claimant is entitled only to the equivalent of his or her production; this is a built-in check that automatically proportions demand to what is available. Private property enforces productive responsibility; it establishes orderly, dependable relationships between people, and between people and their environment. The need principle, by contrast, abolishes personal productive responsibility, severs dependable property relationships, and provides no mechanism to relate the size of the product to the demands of claimants. Thus the underproductive or nonproductive may claim any part of the product or even all of it, in the name of their human need (i.e., their unpurged selfishness). Needism acknowledges no geographical boundaries. Under its logic, as the United States is becoming more and more urgently reminded by its needy neighbors, the poor nations have a moral claim to the wealth of the rich nations no less than the poor within each rich nation have a moral claims to the wealth of their own productive countrymen. The international effects of the need principle are the same as the domestic effects: hatred, strife, violence, and the decay of productive motivation.

-- First published in *Two-Factor Theory: The Economics of Reality* (New York: Random House, Inc., 1968), pp. 12-17.

³ Alexis de Tocqueville, *Democracy in America* (New York: Vintage Books, Inc., 1954), Vol. II, p. 267.

⁴ George Orwell, *A Collection of Essays* (New York: Doubleday & Co., Inc., 1953), p. 213.