

The politics of predistribution:

Jacob Hacker interviewed by Ben Jackson and Martin O'Neill

The American political scientist Jacob Hacker has been catapulted into the heart of British political debate as a result of Ed Miliband's prominent endorsement of Hacker's idea of 'predistribution'. Hacker is a distinguished and influential scholar of public policy and American politics, who has also been closely involved in public debates in the United States on issues such as health-care reform and welfare policy. He is the author of numerous books and articles, including The Divided Welfare State (2002); The Great Risk Shift (2006); and Winner-Take-All Politics (2010) (co-authored with Paul Pierson). In this interview Hacker explores what he means by predistribution; its political and economic implications; and why he thinks it has struck a chord in today's Labour Party.

What is predistribution?

To start off, could you just explain what you mean by predistribution?

Yes, it is a very basic idea. It is that government has an enormous range of ways in which it can shape the distribution of income and opportunity in a society that are distinct from simply taxing and providing benefits. The starting point for my observations about predistribution was my research with Paul Pierson on growing inequality in the United States [Hacker and Pierson, 2010]. The common analysis of scholars who had previously looked at this development was that most of the increase in inequality, which has been enormous, involved market income that people earned through their labour and through their capital. The conclusion scholars drew from that was that rising inequality is caused by technological change and globalisation and government has nothing to do with it.

Of course that is just a fundamental mistake. Markets are deeply shaped by government. And over the last generation markets have been shaped in ways that have benefited those at the top far more than those in the middle and bottom. If we are going to have an effective, progressive agenda for the future, we are going to have to think about how to use these ways in which government shapes markets to pursue progressive goals. By progressive goals I mean, first and foremost, broad growth in the economy that translates into social and economic gains for citizens across the income distribution.

Now I should start by saying that getting the macroeconomy right is a pre-condition for all this. What we have learned from the last few years is that the centre left is hurt more than the right is by a sense that government isn't able to create jobs or insure against large macroeconomic and asset shocks. It may not be fair, and in the UK, for

example, it certainly isn't fair, that the left's (non-existent) fiscal profligacy was blamed for the crisis. But that is a pattern we see across the industrial world, with the few exceptions of countries in which leaders like Sarkozy doubled down on really conservative policies in the wake of the crisis. Where conservative incumbents were sensible and covered themselves, like Merkel in Germany, the left gained no ground.

I would say that one way to make this agenda broader than just Keynesianism is to say that it is about encouraging macroeconomic stability overall, which is something that needs to be figured out now, before the next asset bubble. It is really important to make both the housing and financial markets more resilient.

With housing, I think this could come primarily from the public sector writing better sets of rules, and getting involved through investment. In fact I would argue that the most straightforward way in which you could tackle both the housing and the macroeconomic problems simultaneously would be to undertake significant public investment in housing in the short-term.

But at the higher end of the income ladder, in terms of thinking about financial markets and the high-income earners within them, sensible financial regulation is long overdue. In the US we at least had, in 2009, some serious reforms. It seems to me the UK is way behind, and given the case of Libor, it is amazing to me that more has not been done. After Libor, all I heard when I was in Britain last year was people talking about the need for some great moral or cultural shift, to which my response is that it's actually about institutions. The problem is not bad people; it's bad policies. Bad policies sometimes encourage bad behaviour, and bad people will take advantage of that, but the truth is this is systemic, it is not personal, and yet we mistakenly talk about it in terms of individuals.

Predistribution and the Labour Party

Were you surprised that your ideas were so well received in the UK? What do you think explains the fact that at this moment in British politics the Labour Party is especially interested in them?

Well, I think part of the explanation is personal. I gave a speech in Oslo in 2011 where I first used the word 'predistribution' [Hacker, 2011]. Apparently the word made an impression on Ed Miliband, because he picked it up then. He also heard me speak at a small conference in Oxford in 2012.

But in both cases I was really talking about the American experience and what we could learn from it. It was only after the conference in Oxford that I recognised the degree to which this had become something that the Labour Party, and Ed Miliband in particular, were talking about.

I found out in perhaps the most alarming but also strangely gratifying way possible, which is someone sent me a video clip of my name being mentioned by the Prime Minister on the floor of the House of Commons. I won't relive that experience, except to say that I considered it a huge honour. There is a joke in the US that you know you have made it as a progressive when you get attacked by the *Wall Street Journal*. If David Cameron takes you on, I think that is probably a pretty good sign in British politics. But I

was deeply offended by the fact that the only book of mine he mentioned was something I wrote in 1997, whereas I could have really used some publicity for my later work!

So why do I think predistribution resonated? Partially because Ed Miliband is attracted to new ideas. You can't discount the fact that there is an idiosyncratic element to it – this term resonated with a particular leader. But I think if you look more deeply, predistribution responds to two strategic challenges faced by progressives today.

The first, and perhaps most important, is the loss of faith in the ability of government to create a more just society. The second is that 'the Third Way' took for granted that you could simultaneously celebrate markets and use the power of government to redistribute, to lift up the bottom and supplement the incomes of the middle. That has turned out to be a hard combination to sustain in an era of increasing suspicion of government, because you are using government in a way that is actually not particularly popular. If you look at support for welfare benefits in the UK, it has really dramatically declined. What 'the Third Way' too often did is take for granted that the market was working well in the initial distribution of rewards, when in fact we know the game is rigged in favour of those at the top.

So predistribution provides a positive agenda, one that I think is attractive to the left right now, because it wouldn't necessarily involve large amounts of new public spending. It is a positive agenda for trying to address both the squeeze of living standards in the middle and poverty at the bottom of society.

What are the elements of that positive agenda?

Well, one element involves some spending, but spending more effectively to make inequality matter less in the short to medium-term, through the provision of public services that are available to all, and in the long-term, by making public services more and more oriented towards providing opportunity. This means more emphasis on pre-nursery education and on education in general, and more emphasis on paid leave and childcare.

Then the second element involves the use of the power of government to try to enforce higher standards in the labour market – whether that's through contracting and procurement policies, minimum – or living – wages, or 'right to request' laws, flexible schedules, and the like.

And the third area where you could do a lot without spending more is through regulation at the top, whether it's financial regulation or changes in corporate governance.

The big theme that I'm trying to lay out is that everything should be oriented around the idea that we've lost this crucial countervailing power in the market, or at least seen a weakening of it: organised labour. Progressives have to think seriously about how we construct new forms of countervailing power in the twenty-first century.

I think that's perhaps the most exciting conversation that could emerge out of an emphasis on predistribution. Countervailing power means both trying to empower new forms of work organisations and fostering new forms – or existing forms – of investor and consumer organisations. However, it also means trying to create new kinds of political organisations outside of the market; reinvigorating civil society.

You can't have a strong economy without a strong civil society, and if we let civil society atrophy, then we're caught between the Scylla of unfettered markets and the Charybdis of excessive reliance on the state. It was civil society that made possible that

kind of mixed economy of public/private partnerships that has atrophied so enormously.

In this sense, I think Michael Sandel's language about the need for a stronger civil society is highly compatible with predistribution [Sandel, 2012]. Otherwise, he and I are coming from somewhat different directions. I'm arguing that Labour needs to get back to its roots and offer a pretty strong critique of the way capitalism has evolved over the last generation. I think for Sandel it's much more about there being these different spheres – the market, democracy – and they shouldn't be allowed to encroach on each other. I think, ultimately, these spheres have to – and do – overlap in civil society, although I agree with his idea that we should have a market economy, not a market society. I think that we should also recognise that you have to actually have significant forms of countervailing power and public involvement in the market itself. So that's where I think Sandel and I split apart, or at least have a different policy emphasis.

Do you see predistribution as about getting back to how capitalism was before the rise of the free market right in Britain and America, or will it look different from that?

I think in terms of some of the political goals it is indeed about going back. However, in terms of how the goals would be achieved, I just don't think there's any way you can recapture the mid-twentieth century model.

If you look at the case I know best, the United States, there are three pillars of the mid-twentieth century economy that made it an economy that produced both broadly distributed economic gains along with very high levels of productivity and technical advancement.

Pillar one was, basically, an American version of Keynesianism that said we have to get the macroeconomy right. There were new policies put in place that created automatic stabilisers. There was significant financial regulation, which was maintained from the New Deal. The second pillar, and this is often forgotten, is that the United States was far and away the leader in higher education and technological advancement, and it undertook public/private partnerships and massive investments in research – much of it around defence and the military. The third pillar was an empowered labour movement.

So what are the central challenges of the twenty-first century and which of these three pillars are relevant? Pillar one and two still remain, to my mind, both as relevant and as possible as ever. In terms of the practical implications, this means massively stepping up investment in research and development, making higher education, once again, something that's available to all income classes. In the US we've seen a real movement away from that as we've come to rely more and more on loans for higher education. Pell Grants, our main form of public aid for education, have atrophied and public institutions of higher education have had their budgets massively slashed.

The macroeconomy argument is just as relevant as ever, too. The technological changes that have allowed faster and higher-volume trading do not preclude putting sensible limits on financial markets. Right now, in the US, much of trading is essentially automated through algorithms, and it's done in the form of what's called high-frequency trading. It's all based on being a split second faster than somebody else to the point where the largest banks have moved their operations – their big data servers and so on – closer and closer to the actual exchanges because they can beat other companies at

the speed of light. Needless to say, this isn't very good for the overall allocation of capital in our society. There was a proposal, I think it was from Joseph Stiglitz, that all trades should be held for one second. Of course Wall Street went apoplectic. Another idea which I'm a big supporter of is putting a small financial transactions tax in place so that you raise the cost of large quantities of short-term trades.

The point is that we know that finance will destabilise the economy again unless we find ways to limit leverage, limit the use of Wall Street or the City as casinos, and bring them back to the fundamental role of allocating capital to productive investments. The macroeconomic pillar may be more difficult because global capital is more mobile. It may be more difficult because technology has advanced. But it's not any less vital.

The third pillar is labour and I think that's really where the rethinking on the progressive left has to take place. The idea that workers need to have some forms of representation in the workplace and that there should be basic standards – that seems as relevant to me as ever.

However, the mechanisms and methods that were used in the twentieth century are no longer viable, not when private sector labour union presence in the US is in the 5-7 per cent range.

So we've got to think about what the new forms of countervailing power in the twenty-first century are. That, for me, is the biggest challenge. The other two pillars, it seems to me, matter as much, if not more, at the moment. Do we believe that our society is less complex than it was 50 or 70 years ago? Do we believe there are fewer externalities of production than there were 50 years ago? I mean, now that we know about global warming? Of course not.

You don't have to have a blind faith in the wisdom of government to recognise that there are certain problems that you cannot solve without the coercive power of government. The reason government has such a capacity to solve social problems, when it's democratically responsive and well-managed, is really its fundamental ability to compel people to do things. That's where its power as a lender of last resort comes from, which has proved pretty useful in the last few years. That's where its power to be able to solve social dilemmas and deal with externalities comes from.

If I have any sort of politically incorrect message for the left, it's talk about liberty as much as you like, but ultimately the fact is that the success of societies in the twenty-first century, as with the mixed economy of the twentieth century, is going to reflect a combination of both opportunity and constraint. The liberty to exploit workers and the liberty to pollute the environment is not the liberty that the state should allow.

The macroeconomics of predistribution

Can we ask you a little bit more about the macroeconomics. The first part of predistribution, as you say, is definitely macroeconomic and you take quite a traditional, Keynesian view about what that might entail. Do you worry that the case for stimulus and the case against austerity haven't been made sufficiently strongly in the UK?

Well I do worry about that, and I think it takes a pretty fine reading of Balls' recent speech to see that he's leaving the door open for significant public investment [Balls,

2013]. However, I would say, quite honestly, that the case for Keynesian stimulus has never been very easy to make to the public. For the most part successful political leaders who have used Keynesian prescriptions have essentially made the case on terms other than the actual, underlying rationale.

First, many of the social insurance programmes that were created had an automatic stabilising effect, but nobody sold them on that basis. We don't say that unemployment benefits are there to prevent demand from falling during recessions. We say they're there to help people who lose their jobs, and that's totally fine.

Second, take the kinds of public investments that would stimulate the economy in the short-term, particularly given that this is a balance sheet recession, one where falling asset prices are at the heart of the crisis. Those are good on their merits. So I want to rebuild American infrastructure in the short-term not just because it will put people to work or stimulate the economy, but because we actually have a decrepit infrastructure. I think the World Economic Forum is now putting us in the second tier of countries in terms of infrastructure. The American Society of Civil Engineers says we have a \$2 trillion infrastructure deficit. \$2 trillion is a lot of money!

Yes, I don't think the Keynesian case has been made but I think the case is hard to make with a sceptical public that equates the public sector with private households, and thinks that if people have to tighten their belts, then the government has to tighten its belt. As much as possible, political leaders should try not to make things worse by using such facile language. But the truth is that one does not have to make the case for expansionary policies in Keynesian terms to pursue them – the case should be that there are important investments that we need to make.

The one thing that I think we do have to do, and that political leaders haven't done enough, is basically to blow out of the water the two arguments that have been used most commonly against public investment in the short-term to help the economy. The first is that somehow there's going to be this massive crisis of confidence and a run on the British pound or in the US, even less probable, on the dollar. Today, interest rates are low because the markets are screaming that there needs to be improved economic growth. In every country that has its own currency, that's basically the case.

The second argument that you can blow out of the water rhetorically is the view that the economic crisis somehow resulted from fiscal profligacy. That's not true in any country except, perhaps, Greece, which is a small economy. If you take the big economies of Europe that are in trouble, like Italy and Spain, Italy had a pretty stable, if high, debt, mostly held by Italians, while Spain effectively received a gold star from the market in terms of its fiscal policies before the crisis.

This is an asset crisis, not a public fiscal crisis, but I don't think that Labour leaders should be trying to revisit that debate. I think that albatross has been hung around their necks. Instead they have to be forward-looking and talking – very directly and bluntly – about the fact that the current Government has failed to create jobs and get the economy moving again, and that they have concrete, simple plans for doing so.

So they should be saying A, B, C. A: invest in housing. B: improve public services without spending much more and, in particular, improve priority areas for long-term skills development. C: serious use of the power of government to make sure that jobs pay well. Not just through welfare, not just through helping those at the bottom; but

making sure jobs pay well for all workers. And give people the supports they need to raise families and work at the same time. Keep it simple, keep it forward-looking, and keep it optimistic.

The truth is that the long-term picture in Britain and the United States is really pretty positive in terms of overall growth of productivity and the economy. The real challenge has been that growth has not been broadly shared.

So the forward-looking vision should be that you need to re-build faith in government, so government can be used as a tool for growth and broadly shared gains in a more knowledge-based and global economy. Essential to this use of government is to recognise that rising inequality was not just a natural development over the last generation; it was the result of specific choices political leaders made or didn't make that allowed rigged markets at the top to favour those who were doing best and rigged markets in the middle to hurt those who were doing less well.

In the British case, do you think the Labour Party would be making a mistake if it went into the 2015 elections saying that it was going to respect the spending constraints that the Coalition Government is working within?

I'm very reluctant to offer advice to the Labour Party beyond the basic large-scale points I've made. I've certainly made clear that it would be making a mistake if it precluded significant short-term investments. I think there's a question of how much latitude there might be to pursue increased spending overall, as opposed to 'switch and spend', which is a term I've only learned from the British, as we never had this phrase in the US.

I guess I would say that the crucial constraint, really, is not regarding perceptions. It's practical. It's basically, what's the revenue? Where is the revenue coming from? I do think there are areas in which the US and Britain could raise revenues that would allow them to spend a bit more on public services. Some of those would actually be pretty popular. I think a small financial transaction tax would make sense. I also would support, eventually, some kind of carbon taxation. Most rich countries are going to need to put a price on carbon. Whether you rebate that to the public as a whole or whether you use some of it for rebates and some of it for existing services, that's a political choice.

For me, you could have either a slightly larger or slightly smaller government in the future. The economics of it are clear: there is no relationship between the size of government and the strength of the economy. There's no sign that governments, as they expand, hurt their economies.

Capital taxation and asset policies

On the issue of revenue, there's one picture of predistribution associated with James Meade, or even with John Rawls, which says we've been making a mistake in capitalist welfare states by taxing income flows, to redistribute money that people can use for consumption. What we instead need to do is to look at the asset-base of the economy, which is often what determines peoples' market power and determines what market outcomes will be like.

So although Meade didn't use the word 'predistribution', his picture of a 'property-owning democracy' was very much a version of a predistributive strategy [O'Neill and Williamson, 2012]. What's your view of that? Do you think that progressive parties in Europe or in the US should be trying to shift the tax system away from income taxation and more towards forms of capital taxation?

First, I'm pretty practical in the sense that yes, that may be a good direction to go in, but you have to play with the team you have and not with the one you want to have, and what you've described would be a long-term transformation if it's going to happen.

I do think, second, that we should recognise that much of capital income is essentially labour income that's being redirected into capital gains so as to avoid taxation. So the inequity between capital taxation and income taxation, and also the strange treatment of corporations under tax codes, are ripe areas for reform. So you want a tax code that's relatively neutral with regard to different forms of income. Right now, the richest people in society have a remarkable ability to determine what form their compensation comes in and so they also have really great tools of tax avoidance. So I would say that cracking down on tax avoidance at the high end, and among corporations, is important.

Third, then, should we try to move toward more general asset or wealth-based taxation? I tend to have a kind of Darwinian view of society, in the sense that I think that social institutions get tested and prosper or fail based in part on how well they succeed. There is a functional element to what arises in societies.

It is notable that wealth taxation is a relatively small part of the tax mix in most rich democracies, which makes me think that either it's pretty difficult to do either politically or practically, or there are some other inherent limits to it. I would be very supportive of going towards something like the Swiss model of small wealth taxes, which can actually raise a lot. I'm a big supporter of inheritance taxes, and I think it's false to consider it double taxation because in most countries it's possible for you to avoid paying capital taxes during the entire time you hold onto these assets.

Let me just say a further word about this element of predistribution. If you think of the American experience, what was our great equaliser in the nineteenth century? It wasn't government redistribution through the tax code. We didn't even have an income tax until 1913. Redistribution wasn't a big part of the nineteenth century. It was land: granting of land that of course wasn't in fact ours to give away. It was also, by the way, granting of land for public purposes, like the land-grant colleges. So asset policy has always been a big part of American policy, and I'm a big supporter of the idea that we should broaden the distribution of assets since they're far more unequally distributed than income.

However, I think in practice it turns out to be harder than asset policy enthusiasts would like to think to actually do this. It's worth thinking seriously about some of the political vulnerabilities. What happened with the baby bond in the UK is instructive. If you're going to do it, you need to make sure people feel they have invested in it. So how do you do that? How do you create that?

It's pretty clear with social security how you create it. You're going to get a retirement cheque. People know what they're going to get, and if you say, 'we're going to cut your future cheque', those people freak out. It doesn't seem like the babies freaked out

when their bonds were taken away. So it's important to think about broadening asset ownership as a political strategy. How do you do it in a way that creates self-sustaining political coalitions in favour of it?

And what do you think the answer to your question would be?

I think probably the mistake that is embodied in, say, Bruce Ackerman's *Stakeholder Society* is the idea of highly generalised assets [Ackerman and Alstott, 1999]. What you give people is just a chunk of assets that they can use for a variety of purposes, from starting a business to education to saving for their retirement. I'm actually of the view that, politically speaking, getting people vested rights in assets that are a little bit less multi-purpose is probably, politically, the way to go.

So where would I start? I would start with housing. What about a hybrid model which is essentially a model somewhere between public and private housing? Right now we – 'we' meaning the US – use vouchers to subsidise rental housing. People have no equity in those homes, so basically we're helping a lot of people rent housing. We're not helping them build equity. For middle-class citizens, housing is the number one asset they own. So I've often thought that there should be proposals out there for basically mixed models that are almost like proportional ownership. Some of the equity accrues to the individual and some of the equity accrues back to the provider. So it's a kind of public/private partnership model but the private partner in this case is actually an individual or family that owns the home. That's one example.

Or what about universal savings accounts for certain specified purposes, like education and retirement? I've been very supportive of them. The trick is you have to do it in a way where the subsidies for savings are highly progressive, and where the person is automatically enrolled, and where there's a vested right that begins at an early stage.

The reason why you have to have limits on use, it seems to me, is that to make this politically saleable, you have to be able to say, 'look this is not some kind of giveaway.' So I would say that one bargain you could strike in terms of building asset ownership would be to say, 'OK, we recognise the pension system is going to become less generous over time, but we could supplement this with a private, progressive retirement savings account for citizens.' Again, these are very hard to take away. The baby bond was easy to repeal but this would be much more difficult.

As you've suggested yourself, there's one way of looking at the popularity of redistribution on the British left, which is that what Labour wanted was social justice without spending much money. Yet what you've outlined is a wide-ranging, ambitious, decades-long project. It's very different to the minimalist, slightly-more-just capitalism, without any additional spending, that might be in some ways politically attractive. Do you worry that, insofar as politicians pick up your ideas, they might pick up on the easy, seemingly low-cost parts, but without really taking seriously the vision that you very eloquently laid out of the broader project of redistribution?

I think anybody who aspires to be a public intellectual should not worry too much about politicians picking up their ideas and using them in a more anaemic fashion. The fact

that politicians pick up your ideas at all is a privilege. So I would just be clear that I think of it as more than a slogan; it's a flexible toolkit, and there are different emphases that one could have. I would obviously be very upset if someone picked it up and distorted it into meaning that we should follow the current Coalition government's fiscal policies. To me that would be disastrous, and I've made that very clear.

The second thing I would say is that I see it as a significant reinterpretation of progressive thought. It's in some ways bringing us back to the original vision of progressives in the US and Britain. The New Deal was as much about the empowerment of labour and the regulation of product markets as it was about social insurance. And Beveridge's plans were more about public services than they were about redistribution.

The reason that I'm making this intervention is that I want to broaden the thinking of the centre-left and get them moving in a different – I hope more constructive – direction. Anything is better than the 'austerity with less enthusiasm' that you see. That, it seems to me, is not a recipe for success. Arguably if you are a citizen you'd rather have someone pursuing bad policies with conviction rather than bad policies out of political expediency.

I'm certainly offering a long-term vision, because a lot of the things that I think are at the core of predistribution are about changing opportunity structures in our society, which means investing in the young. It means putting more emphasis on skills development and the like. Those take a while to work.

That said, it seems to me that the one area where you could really fruitfully push forward now would be to think seriously about a set of steps that could be taken to make the labour market fairer through the contracting, regulatory, and standards-setting power of government. Here is a place where I really don't think you necessarily have to spend a lot.

The last thing I would say is that I know that it's easy to criticise someone who says, 'we need creative thinking.' It reminds me of a joke about the New Democrats in the United States. The joke was that there was a New Democrat at a press conference who says, 'we need new ideas', and the reporter says, 'well, what are they?', and he says, 'I just gave you one.'

So whenever you say 'we need more creative thinking' you're opening yourself up to: 'So you have a slogan but you don't really know where to go'. Well I think I've said some fairly specific things, but I think there is an area where I don't know what the answer is and that is creating new forms of countervailing power. Political leaders are investing enormous sums in campaigns and social media to get people out to the polls at one election. Foundations are investing enormous sums in trying to remedy particular social or environmental problems. But there is very little investment on the part of political leaders, elites or private philanthropic leaders in movement building, in the long-term building of new kinds of organisation. And there's very little creative thinking about what kinds of organisations could supplement labour in terms of representing ordinary working people. I honestly don't know what the answer is, but I do know that's where the thinking has to be.

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