

**PHD THESIS SUMMARY:**

**Three Economic Extensions of John Rawls’s Social Contract Theory: European Union, Tax Compliance, and Climate Change**

KLAUDIJO KLASER

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*University of Trento*

The overarching framework of my thesis concerns the relationship between ethics and economics (Sen 1987), under the idea that ethics can inform economic theory and practice in various ways (White 2019). In the appendix of the thesis (see below) I show that also according to Adam Smith ([1790] 1976), generally considered as the founding father of modern economic science, economic theory and practice have to be grounded on pillars of ethical nature. Within this general context, I explore how the ethical system developed by John Rawls (1999)—one of the most distinguished philosophers of the second half of the 20th century—could shape economic theory and practice.

Specifically, I apply the social contract model developed by John Rawls (1999) to three domains which have an economic dimension: European Union integration, tax compliance, and environmental sustainability. In particular, the thesis aims to answer the following overarching research question: Is an impartial and non-binding agreement, conceived within a Rawlsian framework, sufficient to generate fair and stable redistributive institutions? Through the lens of several tools provided by the Rawlsian theory (the impartiality condition guaranteed by a hypothetical agreement behind a veil of ignorance, the difference principle, the sense of justice, agreement stability, the just saving principle) this general research question is then addressed and inflected according to the specific economic domains mentioned above.

Chapter 1 of the thesis zooms in on the European Union integration process and starts with ascertaining the existence of an institutional gap between European economic integration and European social integration. Thus, the chapter aims to understand if and how Rawls’s social contract theory can fill this gap. The core idea of chapter 1 is that Rawls’s *A Theory of Justice* can provide a new and compelling perspective to justify and endorse the institution of a mechanism of wealth redistribution at the

European level. Indeed, the European Union holds the two elements that are at the basis of Rawls's domestic theory: (a) a scheme of mutually advantageous cooperation, and (b) a thick network of institutions which constitute a basic structure. Based on this empirical evidence, I argue that a direct redistributive mechanism, designed to mirror the difference principle, should be introduced in the European Union, so that the resources generated by the European economic cooperation are redistributed in order to maximize the expectations of the (group of) least advantaged European citizen(s). I conclude chapter 1 by labelling this mechanism as a European Fiscal Union, meant as a possible tool to pool the European surplus into a unique pot before being redistributed (Klaser 2021a).

Chapter 2 applies Rawls's social contract theory to the tax compliance domain. Based on a laboratory experiment with three levels of income and four possible tax regimes, the chapter analyses the effects on tax compliance of a non-binding agreement reached behind a veil of ignorance. In the experiment, two main hypothesis related to Rawls's theory are tested: (1) that, behind a veil of ignorance, participants should vote for a tax regime consistent with the difference principle, and (2) that ex-post compliance should be non-decreasing over time because of the sense of justice, understood as a strong and effective desire to repeatedly act ex-post consistently with the ex-ante chosen principles without the intervention of any external mechanism of enforcement. The results of chapter 2 show that, compared to an 'unveiled' agreement, the Rawlsian veil of ignorance does not in general play any significant role in the choices of the experimental subjects: between the two treatments neither the chosen tax regimes (allocation of votes) nor the tax compliance dynamics (average tax compliance over time) change. However, the veil of ignorance produces slight changes in the compliance path of low-income and high-income subjects. With the veil of ignorance, the compliance trajectory of these groups, despite being monotonically decreasing, becomes flatter, showing that an impartial procedure like the impartiality of a tax regime can have an impact on specific sub-groups (Klaser and Mittone 2022).

Chapter 3 addresses the modern climate change issue within a Rawlsian framework. It especially focuses on the two main reasons that prevent international environmental agreements from being implemented after decades of negotiations, effectively reducing greenhouse gas emissions: (1) there is not a broad consensus about the distribution of costs between nations, and (2) given the absence of transnational insti-

tutions which can monitor and sanction defectors, compliance to the targets is fragile. Chapter 3 approaches the problem by means of a laboratory experiment that squarely replicates Rawls's intergenerational social contract, whose outcome is the just saving principle—the normative rule to regulate distribution of resources across generations. According to Rawls's model, the individuals discussing intergenerational principles behind a veil of ignorance are only contemporaries, simulating quite well the modern climate change challenge. However, because of the properties of the veil of ignorance, the individuals do not know to which generation they belong. The empirical evidence from the laboratory shows that this veil of ignorance decision-making setting introduced into a sequential dictator game effectively induces the subjects to converge on a sustainable intergenerational path. However, the voluntary compliance to the agreement (the sense of justice) still remains an open issue, because even small incentives to defect can undermine the compliance stability, and therefore, break the whole sustainable dynamic (Klaser, Sacconi, and Faillo 2021).

The general conclusions provide a common answer to the broader research question asked at the beginning of the thesis: Is an impartial and non-binding agreement, conceived within a Rawlsian framework, sufficient to generate fair and stable redistributive institutions? Given the mixed nature of the thesis (chapter 1 is theoretical, whereas chapters 2 and 3 are more empirical) the answer is also mixed. From a theoretical perspective, the application of the Rawlsian social contract theory provides a compelling frame for examining the possibility of creating stable and fair redistributive institutions. The proposed extensions of Rawls's theoretical frame to European justice (chapter 1), tax compliance, and climate change (hypothesis formulations in chapters 2 and 3) provide plausible and harmonious solutions to the investigated problems. Therefore, the Rawlsian framework represents an attractive tool to explore different justice issues from a theoretical point of view. This is because the social contract model developed by John Rawls is expandable and adaptable to several research fields. At the same time, it is less clear whether the tools provided by the Rawlsian framework are sufficient to effectively generate stable and fair redistributive institutions. The empirical evidence, collected through the experiments in chapters 2 and 3, shows that theory is not followed by practice because most of the tested hypothesis were disproved. This represents an obstacle to implement Rawlsian institutions

in the real world, because they might be too idealized (Sen 2009). Nevertheless, these general conclusions should not be interpreted as a message to give up doing empirical research on Rawls's social contract theory. Instead, they represent an incitement to work more in the direction of experimental research, to understand the conditions under which Rawls's theory can produce useful practical results, because "empirical insights are necessary if one wants to apply any theory of justice in the real world" (Gaertner and Schokkaert 2012, 7).

In the appendix I further investigate the general role of ethics in economic theory and practice. To address this issue, I look at the hierarchy between ethics and economics established by Adam Smith, generally considered as the founding father of modern economic science. I show how the ethical system developed by Smith in the *Theory of Moral Sentiments* constitutes the moral framework within which Smith conceives the prototype of the *homo oeconomicus* at the basis of the more famous *Wealth of Nations*. While some literature considered the two spheres (and books) in conflict—the so-called 'Adam Smith problem' (Montes 2003)—I demonstrate that according to Smith, the market mechanism can work on the sole axiom of 'self-interest' (*Wealth of Nations*) if, and only if, we previously assume the moral capacity of 'sympathy' (*Theory of Moral Sentiments*). Meticulously analysing Smith's words, I also reinforce the interpretation according to which the 'invisible hand' of the *Wealth of Nations*, usually meant to regulate mere market exchanges, has to be interpreted from a broader perspective as the 'invisible hand' of the 'sympathetic but impartial spectator' that disciplines human behaviour on a more general level. I conclude the appendix claiming that this precise hierarchy—ethics first, economics after—outlined by the father of modern economic science should be extended to any economic theory and practice (Klaser 2021b).

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**Klaudio Klaser** is a postdoctoral scholar at the University of Trento, where he achieved his PhD degree in Economics and Management, with a focus on behavioural and experimental economics. His studies had been enriched with fruitful research visits at the University of Oxford and Harvard University. His primary areas of research are at the intersection between moral philosophy and economics, with a particular propensity toward the application of John Rawls’s social contract theory.  
Contact e-mail: <klaudio.klaser@unitn.it>