

A Discussion of Incentive Inequality in Rawlsian Theory

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Abstract

John Rawls argues in *A Theory of Justice* that inequalities are permissible if they benefit society's worst-off, in terms of division of social primary goods (defined as "rights, liberties and opportunities, and income and wealth"). Put differently, this means that highly-skilled people should earn higher salaries, as incentives to perform their jobs, for those jobs enables society's development and prosperity, which benefit everyone, including the worst-off. The purpose of this essay is to discuss, in line with G. A. Cohen's critique of the Rawlsian theory, the extent to which wage inequality is permissible and defensible. To make it concrete, it uses the example of Paula: Paula is highly-skilled and could very well run a large company. However, she dreams to be a baker. As a CEO, she would create a lot of wealth that could be redistributed to benefit the worst-off. As a baker, she does not generate anything to benefit them. While she earns a medium-high income M as a CEO, her wage as a baker is low (B). To forgo her passion for bakery, she asks for an incentive wage of M' , much higher than M . I will argue that she is not justified in asking for M' , for this creates an inequality that is not necessary, but just furthers and, rather than genuine wage incentive, constitutes blackmail.

Introduction

In *A Theory of Justice*, John Rawls contends that inequalities are permissible only if they benefit the worst-off in society. Empirically, highly-skilled people earn high wages, which are thought of as incentives for them to use their talents most effectively, thus engendering spillover effects that benefit the whole of society, including the worst-off. I use the case of Paula to illustrate a potential problem for Rawls theory. Paula is highly-skilled and could very well run a large company. However, she dreams to be a baker. As a CEO, she would create a lot of wealth that could be redistributed to benefit the worse-off. As a baker, she does not generate anything to benefit them. While she earns an income M as a CEO, her wage B as a baker is much lower. To forgo her passion for bakery, she asks for an incentive wage of M' , which is higher than M , the wage that is strictly needed to be a CEO.

Considering this, is it unjust for Paula to choose to work as a baker unless she is offered M' rather than M as CEO? In other words, is it unfair that highly-skilled people create inequality by receiving incentive wages?

Drawing on work by G. A. Cohen, I argue that Paula's demand is, indeed, unfair: as long as any special burden engendered by the career of CEO is compensated for by a higher wage (M), asking for supplementary remuneration only on the grounds that her talent is in scarce supply and that she has an outside option (here, becoming what she dreams to be) is blackmail, insofar as she exploits a special advantage that the situation confers her. This can be generalised to cases beyond Paula. I will first review theories advocating wage inequality, see when this can be justified and when it should be avoided. I will then analyse the robustness of my Cohen-based critique of incentive wages, by discussing its main objections, and showing that it remains appealing. For clarity's sake, it is useful to mention now that I do not deny the right of Paula to work as a baker if she wants to (everyone should be free to lead the life she wants to live), but her entitlement to demand for M' to be a CEO, an issue to which I shall return throughout this essay.

Incentive Wages: Justification and Blackmail

There is a strong sense, among political philosophers, that equality is valuable, given the equal worth of all human beings. The willingness to depart from it, by instituting wage differentials, thus seems odd. But there exist compelling arguments for wage differentials. The main one usually offered is that people need compensations to take hard and productive jobs, which require a lot of effort and of personal investment, as well as other rather unattractive features, like stress and big responsibilities. This makes intuitive sense: why would one bother to be a doctor (which means having to study for almost ten years, being confronted with death, taking responsibilities for the patient's health, etc.) if the wage were not higher than, say, that of a gardener (not less honourable, but objectively requiring less studies and responsibilities)? Setting higher wages for jobs which are crucial, productive and requiring competence is a way for society to survive: otherwise, no one would take them. And this is to the benefit of everyone: even the worst-off in society enjoys the ability to consult a doctor when they need to, and, therefore, clearly benefit from the wage inequality. They are better off under this setting than under a purely egalitarian one; this makes inequality justified, in a Rawlsian sense.

This is not the kind of wage inequality I want to argue against, because it is actually a false inequality. More precisely, the specific burden associated with some professions makes the people who practise them worse-off, in terms of welfare. Paying them more than the average worker, if it is to compensate them for this loss of welfare, cannot be unjust: it is only a fair compensation, an equalisation of conditions. The doctor must be compensated for his years of intense exams. Similarly, Paula is justified in being paid M (but not more, as we shall see), as long as it offsets the higher pressure generated by the work of CEO. This is even acknowledged by one of the most fervent critics of Rawlsian wage inequality, G. A. Cohen (1991, 1997).

However, actual wage differentials go far beyond this compensation, and actually undermine the justice of income distribution. The salaries talented people earn easily go beyond what is strictly needed for them to perform their more productive and somewhat more demanding jobs. I argue that this constitutes a

harmful and unfair departure from equality, because the most talented use the dependency of society on their work to ask for more remuneration, although they could have delivered the same standard of performance without it. The pie is not made bigger, but less equally divided (Penny 2013). This relates to Cohen's famous argument against Rawls (1991, 1997). He contends that the Rawlsian justification for inequality (necessary to benefit the worst-off) is ambiguous: "necessity" might mean that the talented cannot work more unless they are paid more, or that they actually create the necessity, by refusing to take the most productive jobs without a higher wage. As long as they are compensated for special burdens, associated with their jobs, there is no reason why they cannot work more: hence, it must be that they refuse to do so, which is morally unjustifiable.

This is, actually, a form of blackmail. Here, it might be useful to take a step back and state more precisely what I mean by blackmail. It is a coercive threat which is morally unjustifiable inasmuch as carrying this threat generates impermissible outcomes (Shaw 2012). The enforcement is thus immoral. What makes the enforcement of a blackmail's threat immoral is that it shows disregard for the blackmailed part's welfare; the manipulation of the party to which the blackmail is addressed has for sole purpose the promotion of the blackmailer's personal interest, regardless of the loss of welfare engendered to the other party. Coming back to our discussion of wage inequality, in our society, and as exemplified by Paula, the talented use their outside option (being able to practise a less productive job and make everyone in the society worse off as a result) to strengthen their privileges. They use the market valuation of their scarce supplied talent to drive their remunerations higher than what they actually need to perform their jobs. They thus act in order to promote their own interest, regardless of the other party's (the worst-off's) welfare. This goes against any form of social justice: if people were really committed to it, they would have an ethos leading them to avoid such blackmail (Cohen 1991, 1997). When Paula asks to be paid more than M not to be a baker, she precisely uses leverage of her scarce talent to blackmail society. This is why I think it is unfair, and she is not entitled to more than M , assuming M compensates her for the burden of being CEO.

To sum-up, I think any remuneration above what is needed to practise a job

(needed includes compensations for special burden) is unfair. Many things can be said against our Cohen-based argument: I thus need to discuss further its implications and robustness.

Objections to Cohen's Ethos: Special Relationships and Freedom

Aren't there cases where asking for a wage above what is strictly needed is legitimate and just? For instance, once we consider the notion of affection, our stronger ties to some people rather than others in the society (for instance, family links), then, the possibility that some socially productive work will be undertaken only if wages are higher than what is strictly required for them to be performed, exists (Estlund 1998). Think of a skilled woman working part-time because she needs to take care of her aging mother. She would be willing to work and earn more, (and hence to provide more benefits to the worst-off in society), but the wage would have to amount both to what she needs to perform the job and take care of her mother, thus being higher than what is strictly needed for the job to be performed. Had the woman taken the job for a strictly necessary wage, this would have meant that she actually cares more about society's worst-off than about her own mother (given that she provides benefits to the worst-off without compensation for her mother). This does not make sense, or at least just seems intuitively wrong. There appear to be some relationships that cannot be subordinated to a broader principle of justice. Unless we completely suppress familial ties and friendship, there will be a legitimate demand for higher, inequality creating wages. While I accept this point, I deny the fact that, in those situations, higher wages would undermine the justice of society's basic structure, and create unjust inequality. If one person needs to work and cannot do so because she wants a relative to be taken care of, then her welfare shrinks, and therefore, what she strictly needs to perform the job, compared to the same person without any constraint, is higher. Hence, here, a higher wage falls in the category of just compensation that I discussed above, and should not be deemed unfair.

However, what falls as a burden that needs to be justly compensated for by

a higher wage needs to be qualified. The issue is that, a person might have expensive tastes, and thus it is a burden for her not to be able to earn a very high salary in order to buy, say, fancy cars, or the finest lobster and caviar. This, though, does not fall in the same category as the case of the woman mentioned above. While some special ties and relationships are, indeed, not to be subordinated to any broader principle of justice, such tastes do not belong to those special relationships, and there is, hence, no reason why they cannot be subordinated to it. Thus, I define as a burden that should be compensated by a higher wage any specific requirements engendered by intimate relationships such as family and friendship. Those are relationships and needs which implications engender a duty on the whole society (here, the duty to compensate for those needs by paying higher wages). Things like expensive tastes do not have a moral strength that implies a duty on society to deal with them.

Furthermore, one can argue that applying Cohen's ethos in practice, that is, preventing people from asking for unduly high wages, is unfair in itself, because it restricts the liberty of (talented) people to maximise their own interest. I do not think so; skilled persons are indeed free to maximise their interest, but taking advantage of their position in society to ask for unduly high wage is not a liberty but a blackmail. While a highly skilled worker like Paula can say "If I am not paid that amount as a CEO, I would rather be a baker", the low skilled worker does not have any outside option, cannot say "If you dont pay me that amount as a baker, I will rather be unemployed". I don't think that high skilled workers are restricted in their liberty of self-maximising their interest, or, if they are, it happens in the same way as when the blackmailer threatening to reveal compromising information about a third-party is restricted in his self-interest maximising liberty to do so by the law, and this is thus justified. High skilled workers are rather placed on an equal footing with lower classes members, and prevented from taking undue advantage of their situation. A market economy needs the ethos to be just. Arguably, one could say that the real pursuit of justice should not be about lowering the highly-skilled's expectations and possibilities, but rather, giving everyone an outside option and the possibility to ask for higher wages. This point might be valid, but loses all its strength when we consider what a capitalist society is: it is a society where one's wage depends on one's marginal productivity, and hence, where there will always be social

classes, with the lowest class gathering the people with the lowest productivity, with no other options than taking subsistence, low-skilled, low-paid job, for which the alternative is unemployment. That is why we reassert that a market economy needs Cohen's ethos to be just. Another option could be imagining an alternative production system that gives every worker the same number of work opportunities, but this is beyond the scope of this essay.

What if, nevertheless, the critique is made a bit subtler? That is, depending on its magnitude, the ethos has different bearings on people's liberty (Williams 1998). For Paula, a narrow ethos would lead her to choose to be a baker rather than a CEO, following her preferences. Had Paula been able to receive a wage higher than M , she would have chosen to be a CEO; but the ethos leads her to avoid undue remuneration, and, given a choice between those two careers, she takes the baker option. I don't think this narrow ethos constitutes a restriction in liberty, as she still has the choice of choosing what she prefers between different options, and voluntarily chooses to forgo a higher wage M to walk another path. However, a wide ethos, that is, a very strong egalitarian consideration for the worst off in society, would lead her to choose the job she is the most productive at (CEO) without asking for a wage bigger than M , while forgoing her preferred job (baker). This indeed constitutes a restriction to liberty: the ethos should not be strong to the point where it allocates career paths to people regardless of their preferences. So, to be clear, again, what I deem unfair in the fact that Paula chooses to work as a baker unless she is paid at a wage higher than M is not the fact that she follows her preference and actually works in a bakery, but her demand for an unduly high wage to choose the other option, which is morally equivalent to a blackmail.

Conclusion

In this essay, I argued that not all wage inequality is unfair: if it acts to compensate for special burdens associated with a profession, then a higher wage is actually a requirement of equality. Hence, the fact that Paula would be paid M as a CEO (more than as a baker), a wage that takes into account the pressure and responsibilities involved in this job, is not unfair. M should be high enough

as to include any special requirements of family and friendship relationships as well. Moreover, Paula is perfectly free and justified in choosing, if she wants to, to be a baker: deciding a career path should be nobody's business but the concerned person's. However, the fact that she makes a wage higher than M a condition for her to practise her most productive job is a form of blackmail, where she takes advantage of her outside option and her position in society to create undue inequality, and further her interest regardless of the welfare of the other party (the worst-off), and therefore, is to be deemed unfair. This is what we argued, consistent with the thesis of G. A. Cohen. Of course, this generalises beyond the case of Paula, and applies to every demand of skilled person for a wage higher than what they need to perform the job.

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