Justice and the Market

The Present System

The economic system produces the pie which makes moral justice possible; the market system produces more of it, by far, than any other. By producing the pie, the economic system necessarily produces the moral problem of just distribution as well. Distributive justice concerns apportionment of the pie—a problem raised, and all too circumscribed, but not decided by producing the pie. No economic system as such can yield the moral justification required for its "distributive justice." Thus, no amount of production engendered by the incentives of the market could morally justify the income distribution linked to it. The incentives for production, which the market criteria for distribution of income create, are independent of distributive justice. In the words of Friedrich A. Hayek:

...it is meaningless to describe the manner in which the market distributes the good things of this world among particular people as just or unjust.1

Meaningless? Not quite. Irrelevant, yes. For the market provides incentives, not moral justice. These two are not the same (pace John Bates Clark, or Ayn Rand) unless the production of market value, economic merit, is simply defined as moral merit. Such a definition confuses the historical de facto (if you please, natural) conditions of generation—or of legal entitlement, or appropriation, or of actual possession—with their justification; it identifies what is to be justified with its moral justification. Even if historical conditions were shown to be not only advantageous, but also unavoidable they would not, therefore, become just. But history, though never avoided, is never unavoidable.

Whatever independent definition of "moral desert" is chosen, it is certainly not to be identified with "economic desert": therefore, the morally and the economically justified distribution may differ as well as coincide. A sexy movie actress, a shrewd promoter, a successful manager, or advertising man, or inventor, or oil discoverer are not morally superior to a faithful nurse or worker, to a courageous lifesaver or veteran, to a needy child, a great poet or philosopher. The former may earn much more for good enough economic reasons (what they offer has more market value), but not because they are regarded as morally more deserving than the latter who are less well paid. To argue otherwise, to regard the movie actress as necessarily more deserving than the nurse, is to identify the market value of the two activities with their moral value, or with that of the two persons. This identification of moral and economic desert

1. The Constitution of Liberty ... F. H. Knight held the same view.

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does not express what ordinary people, or, for that matter, philosophers, mean by either.

It is because they do not identify moral and economic value that people wish to link them. For the fact that on the market the services of the morally less deserving can be more valuable economically than those of the more deserving, outrages the sense of justice—although the very people outraged by it bring this result about by their willingness to pay more for the economically more valuable services; which is why those who render them get more, regardless of their moral desert. But people also want to change this result to make it reflect their sense of justice, at least in some degree.

Yet if only for the sake of efficiency, rewards must be distributed according to the market value of services. Critics, who have conflated their warranted moral objections to the moral injustice (better, the non-justice) of the market with objections to its efficiency in calling forth production, are surely wrong. A look at the alternatives is altogether persuasive here. Further, the socialist systems which aim directly at justice have not been notable so far for achieving more of it than market systems; and they certainly grant less, if any, freedom; they are also less efficient by far.1

If resources are to be allocated to produce the total output valued most highly by the allocators (in a free market, ultimately, consumers) and if production is to be maximized, inequalities of income, status, and power are unavoidable. Work must be rewarded by income, and the incomes earned by each worker must depend on how much work he does, on his skill, and on the value placed on it. Ability, skill, the inclination, and the opportunity to work differ, as does the economic value of the work done, and, therefore, the reward. Market value depends on scarcity, on how much is available relative to demand. Scarcities differ.

2. "Socialist systems" here excludes China, about which little is known at this time.

Friedrich A. Hayek

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So do, therefore, the incomes earned for performing services. Wherefore, the social structure—the distribution of inequalities—arises independently of any moral criteria used to judge it.

Functional requirements and institutionalized historical traditions determine what personal qualities will help individuals to attain or to keep the social positions which require or allow them to perform specific services and to earn the incomes associated with them. Some qualities may be ignored (e.g., physical size within the normal range); while others (e.g., intelligence, managerial ability, ruthlessness, knowledge, docility, experience, imagination, judgment, skin color, or family membership) are judged relevant to the attainment and to the retention of unequally rewarded positions. (Their relevance may be functional or traditional or both.) The qualities judged relevant are as unequally distributed among individuals as those which are not. Nature distributes its gifts unequal-
ly, granting more intelligence, health, ability, or beauty to some than to others. Ambitions differ, and so do the efforts individuals are willing to make to fulfill them. Society and chance, in turn, offer unequal opportunities to people to utilize their gifts and make efforts for advancement.

If legacies are neglected, and if the acquisition of property vitiates natural dura et is treated as a skill or opportunity, the size and the distribution of social inequalities (of status, power, and income) reflect unequal innate gifts, different inclinations, unequal social opportunities, chance and, finally, different social rewards for the gifts granted by nature, the skills acquired and the services performed. As Christopher Jencks has lately demonstrated, inequalities of parental background or of educational opportunity play a very minor role in explaining the inequality of earnings in the U.S.—so minor that unknown factors (which Jencks summarizes as “luck”) and talent—seem responsible for most of it.

The Marxist Alternative

In Marx’s time, origin—social class—played an overwhelming role in determining careers and earnings in Europe. It does not in the contemporary U.S. Still, could the Marxist scheme produce more justice in the U.S. if it were applied now? Would socialism, as a first step, at least reduce inequalities? Unlike many of his followers, Karl Marx did not rest his case on justice or equality. He thought those who did were moralistic Utopians, and he never ceased ridiculing their “verbal rubbish.” Nonetheless, it is because Marx tried to tie together moral and economic merit in his elaboration of the ideas of the classical economists that Marxism appeals to so many people. He separated economic merit (“value”) from price, and defined labor as the ultimate source of economic value. However, the definition is omissive: once economic value is separated from the actual market price, economic value can be no more than a metaphorical category, a synonym or disguise for moral value, which falls altogether to explain prices or distributions, and merely asserts a preference for redistribution. “Value” as defined by Marx attributes creation to workers (a quite arbitrary definitional imposition), and tells us that distribution is wrong (Marx would say contradictory). Marx strenuously denied the cryptomoral function of his definitions. He attempted to reduce moral to economic argument but succeeded only in collapsing the latter into the former.

Marx’s socio-economic determinism predicted and advocated a reorganization of production and a change in the role of workers to which justice would be incidental, since it “can never be higher than the economic structure of society,” i.e., has no independent status. Yet side by side with his usual distaste against idealistic rhetoric about justice, in his Critique of the Gotha Program Marx explicitly adopts Louis Blanc’s “from each according to his ability to each according to his needs” as an ideal of a higher communist (post-socialist) social organization. It is an ideal of justice which rejects equal distribution (advocated by some socialists) and distribution according to merit (advocated by others). Indeed, the ideal rejects justice altogether in favor of charity. Its possibility rests on three propositions.

1) The ability to exercise the right to buy and sell is unevenly distributed in a “capitalist” market system, owing to private ownership of the means of production. Proletarians, who have nothing to sell but their labor, become wage slaves.

5. For the relation between rights and ability to exercise them, see my Political Violence & Civil Disobedience (Harper Torchbooks, New York, 1972).
ship would free them; it would give them more and more equal power. They would have higher incomes and more to say about production and about their work.

Experience so far indicates that socialism is unlikely to bring about the desired equalization of the ability to exercise rights. Socialist societies with public ownership of means of production have not increased the freedom or power of workers. Nor their income. Workers actually are less free to bargain about wages and conditions with management than they are in capitalist societies. They are often less free to choose their work, and they are far more restricted by management identified with the government. One reason why they do not earn more, although public ownership eliminates private profits, is quite simple: even gross profits, under capitalism, are only a small percentage of payrolls. After deduction of what goes for taxes—nearly half in the U.S.—and investment (which a socialist society would have to continue), there remains but the excess consumption expenditure (above the average) of profit recipients. Where it is not needed as an incentive, it would be available for redistribution. But the amount available would be too insignificant to make any difference to the great mass of workers or low income recipients. As for the inequalities of power linked to private ownership, they actually would be likely to increase with a public monopoly of means of production. Power holders would be government officials rather than private individuals—but they would probably have more rather than less power.

(2) Marx generously mistook innate differences in ability for differences in acquired skills which he attributed to unequal opportunities. However evidence since accumulated shows convincingly that many differences of ability and talent are inborn. (Ability, or its utilization, seems also to depend on infantile environments. But these too are nearly impossible to equalize.) Because abilities differ, equalization of the opportunity to acquire skills could only redistribute social inequalities in accordance with innate or quasi- innate differences. This might slightly increase efficiency, but it would not reduce inequalities.

(3) One might try to distribute income without regard to abilities or market values. Marx believed that a communist society ultimately would not have to reward services according to their economic (labor, or scarcity) value. He thought that those who render services, as well as those who do not, could—at least ultimately—receive incomes according to their needs. But it seems unlikely that distribution according to need (however defined and determined) could maximize the quantity and optimize the quality of production. Even a highly ascetic society, however technologically advanced, is unlikely to be satisfied by the production called forth without direct economic incentives.

Yet economic incentives necessarily lead to an unequal distribution in accordance not with need, but with market value. The moral criterion of need is independent of distributive incentives. It would separate monetary reward from allocation and from performance. Non-monetary rewards would be required to spur both. But none have come into view to effectively replace the monetary incentives now used in all industrial societies. Kibbutzim and communes have tried to do without, and in some cases they have succeeded. But only when the membership is small, homogenous, and bound together by a common ideology. Except in temporary states of exaltation, these conditions could not be reproduced in large societies—not even with an enforced totalitarian ideology. The Chinese are about to painfully learn as much.

Regardless of moral advantages or disadvantages, neither altruism nor compulsion appears an efficient enough alternative to economic incentives—despite marginal or occasional success. To be sure, if people were different, a different system could

6 Jencks (op. cit.) has shown that unequal educational opportunity plays an insignificant role in explaining income differences.
work. This frequent objection is not entitled to be taken seriously as long as no serious grounds are advanced to believe either that the future will offer effortless abundance, so that all goods could be free, like air (or at least like air was at one time), or that people in the future will be different enough to give efforts freely, independently of rewards.

The Resentment of Intellectuals

Intellectuals and moralists all too often volubly resent the market, because through it people pay for economic, as though indifferent to moral value, which is left out in the cold; worse, they are. Since they do not feel at home in the market, intellectuals have designed socio-economic organizations which would reward moral rather than economic values. But they are unlikely to succeed—although it is easy to mobilize dissatisfaction with market distribution. However, once the impersonal criterion of economic distribution by the market is abolished, it must be replaced by political (government) distribution. Political distribution is most likely to reward political and, perhaps, managerial services, since it depends on political power, which is as independent of moral desert as the market is. We might be stuck with a distribution felt to be morally as irrelevant and arbitrary as that of the market, but which leaves us all poorer by providing more incentives for political than for economic services.

And less free. The government can distribute income effectively only if it deprives individuals (or groups: corporations) of the right to produce and sell what buyers are willing to pay for. What is to be produced would depend upon government planners and, therefore, would be likely to serve them rather than consumers. Unable to choose what to produce or sell, at what price, and what to buy, we would have lost one aspect of freedom. To keep us both of it, the government would have to deprive us of political freedom (civil rights) as well; as sole producer and employer, it would find it easy to do so. Shorn of all institutional defense, individual liberty could not survive long.

The Task Before Us

It is fairly clear, then, that Marx and many others who resent the market, would lead or push us into the frying pan into the fire. Yet, although the fire is certain to be worse, the frying pan is still an uncomfortable place. No social system can endure unless people think it just and not merely efficient. And however much philosophers disagree, the popular sense of justice now demands further reduction, if not of wealth, at least of poverty. Because it does not satisfy the sense of justice, our economic system has already lost, if not its usefulness, its moral authority.

If the sense of justice, of morality, cannot

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be satisfied through the market—and it cannot—it must be satisfied independently, for unless justice is served elsewhere in the social system, the market cannot last. Hence the distributive incentives, which necessarily lead to social inequalities, must be reconciled with whatever moral objections to these inequalities are accepted. Such a reconciliation cannot ignore or assume away (as Marx did) what is to be reconciled to morality: the need for economic incentives leading to inequality based on non-moral criteria. Else social analysis is replaced by eschatological speculation. But moral sentiments cannot be ignored either.

Can sufficient redistribution occur, then, independently of the market to satisfy the sense of justice? Can such a redistribution obviate poverty without impairing the market which it must supplement? The answer now seems obvious: it is possible to supplement the market through fiscal measures so that without impairing incentives we can provide for those left miserable by nature, society or misfortune. One can argue about how much should and can be done, and by what means. But not about our ability to supplement market distribution with some degree of redistribution or about the need to do so.

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