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Market Socialism Is Not Market Capitalism: Remarks on Robin Hahnel's "Economic Justice"

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Abstract

In his recent work, Robin Hahnel defends a monolithic metric of economic desert: to each according to effort or sacrifice. I criticize from an egalitarian standpoint this meritocratic distributive principle on theoretical, practical, and normative grounds. I also question his argument that in market socialism the *allocation* of labor cannot accommodate an egalitarian *distribution* of labor income; his not unfamiliar argument rests on a fatal theoretical error that conflates the allocative and distributive functions of market prices. I treat Hahnel's work in the context of larger issues about competing concepts of justice and the distributive institutions that might suit them.

JEL classification: A13, P1, P2

Keywords

market socialism, economic justice, income distribution theories, property-owning democracy

In his essay "Economic Justice" (2005b) and other recent work (2005a, 2006, 2008), Robin Hahnel proposes and defends a monolithic metric of economic desert: to each according to effort or sacrifice. In what follows, I criticize from an egalitarian standpoint this meritocratic distributive principle on theoretical, normative, and practical grounds. I conclude my critique by questioning his argument that in market socialism the *allocation* of labor cannot accommodate an egalitarian *distribution* of labor income. Hahnel and Milton Friedman are one in identifying socialist and capitalist markets with respect to the distributive function of prices and both are wrong. My treatment of Hahnel's work proceeds in the context of larger debates about concepts of justice and the distributive institutions that might suit them.

Before confronting Hahnel's case, let me establish a framework that treats the concept of desert. Joel Feinberg, in his seminal work *Doing and Deserving* (1970) provides a largely non-controversial analysis: to deserve something one must possess some characteristic or have done something that constitutes the desert bases for which she is (to some extent) responsible, which is to say "under her control." Further, Feinberg and almost all desert theorists distinguish between pre-institutional desert and institutional entitlement, with the former serving as a principle that assesses the justice of the latter. To paraphrase Serena Olsaretti (2004: 16-17): institutional entitlement rewards individuals by the rules and purposes within which desert claims are registered;

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pre-institutional desert rewards individuals according to intuitive or "natural" understandings[1] not reducible to the rules and purposes of institutions. She uses as a pre-institutional example that of hard-working people who deserve rewards for their efforts. But we know that some distributive institutions, e.g. the market, do not systematically reward people in proportion to their effortful work. In such cases, they are *entitled* to their rewards even though they do not *deserve* them. Entitlements, or "legitimate expectations," as John Rawls dubs them (1999: 273-77), proceed from institutional conventions, leaving open the question of whether these expectations are deserved, which is not to deny that sometimes pre-institutional desert and institutional entitlement overlap.[2] Indeed, some theories of justice, e.g. Hahnel's, seek to jibe desert with entitlements. Whether this is practically feasible—Rawls thinks not—is a topic I address later on.

We find in the literature two preeminent contenders for desert bases in modern economies: contribution and effort. Should individuals working in an economy along with others, engaged in joint production, be rewarded differentially according to effort or contribution, or both? Hahnel argues persuasively that contribution theories fall short of the ethical requirements of pre-institutional desert and matching institutional entitlements. He addresses "conservative" and "liberal" maxims. According to the first, payment to individuals proceeds "according to the value of one's personal contribution and the contribution of the productive property one owns"; on the latter view, payment proceeds "according to the value of one's personal contribution only." The conservative maxim runs up against the liberal complaint that payment accruing from inherited wealth is not deserved. But what underlies that complaint, namely that individuals deserve only what they are personally responsible for, can be turned against the liberal maxim itself. This is because, says Hahnel (2006: 184-85), many "differences in people's productivities are due to intrinsic qualities of people themselves, which are beyond their control . . . . The bottom line is that the 'genetic lottery' [e.g., involving talent] greatly influences how valuable a person's contribution will be. Yet the genetic lottery is no more fair than the inheritance lottery."[3]

So far we have Hahnel's rejection of contribution as a pre-institutional basis of economic desert. He also argues well that even if one honors pre-institutionally the contribution theory, markets fail systematically to deliver entitlements in line with it. One thorny issue consists in how, theoretically and practically, markets sort out the value of individual contributions from the value of jointly produced products. The marginal theory of productivity is usually summoned here, but it lacks both explanatory and justificatory power. As Hahnel says (2005b: 136), according to that theory, "the marginal [contribution] of an input depends as much on the number of *other* units of that input available, and on the quality and quantity of *other, complimentary inputs*, as on any intrinsic quality of the additional input itself." Hahnel might have also mentioned the damage inflicted on marginal productivity theory during the 1960s Cambridge

[1] I use the word "understandings" deliberately. Intuitions, as considered here, reflect not mere feelings but also reasons that "unearth the justificatory arguments that underlie them" (Sher 1987: 19).

[2] To get the sense of the distinction: we say that the best football team *deserved* to win, but because of a freak thunder storm at the last minute of play that turned the tables it was *entitled* to lose according to the rules of the game. This is not to deny that "well-designed arrangements may help to avoid large discrepancies between deservingness and success, [but] this is not always possible" (Rawls 2001: 74).

[3] "To reward and punish people for things they cannot control violates a basic tenet of social justice" (Hahnel 2005b: 137). Hahnel advocates what contemporary philosophers call "luck egalitarianism." "The intuitive idea [luck egalitarians] all share is that persons should not be disadvantaged simply on account of bad or good luck . . . . After all, if we accept the premise that individuals are equal moral agents, then it seems to follow that individuals can only be held responsible for outcomes that are due to their own choices but not due to circumstances over which they exercise no agential control" (Tan 2008: 665, 667).

controversies in the theory of capital in which Joan Robinson (1966) elaborated the theoretical shortcomings of attempts to separate the marginal contributions labor and capital, complete with ethically profound and negative consequences for the marginal productivity theory of distribution among owners of different factors of production (see DiQuattro 1978: 871-2). Daniel Attas (2003: 100-01) sums up much of this in his critique of David Miller's (1990) influential defense of the market as an institution that can reward individuals according to contribution.

> Given the distribution of talents, the level of technology, and the distribution of tastes, there is normally more than one possible [market] equilibrium. The distribution of income enters at both ends of the explanation of value: first, as a factor in the determination of prices; second, as the outcome of market prices. This suggests that the distribution of income and the price vector at equilibrium are mutually sustaining. A disequilibrating shock to the system would not necessarily result in a fluctuating reversion to a unique stable point. There is, therefore, no unique value that the producer deserves. So, the value defined as (an) equilibrium price turns out to be completely morally arbitrary from a moral point of view.

But wait, there is more. In addition to the weakness of neoclassical *models* of the marginal productivity theory of distribution, there is the brute fact that, even if they withstand criticism, their bearing on the *real world* of capitalist markets lacks credible application. When we step outside of neoclassical textbooks, we find that labor incomes in capitalist market economies are not set by "pure" market forces. There are factors within the "constraints" of the real world of market economies that play routinely a role in determining wages and salaries; in addition to oligopolies and other imperfections, there are taxation and regulative law, collective bargaining, historical precedent, cultural factors, various government policies, and so on. We know, e.g., that there is strong rigidity in the ordinal wage ranking of most occupations. Even in recessionary times, wages do not fall as predicted by the conventional equilibrium price-auction model of neoclassical economics (see Bewley 2000).[4]

The foregoing supports the conclusion that market entitlements do not fit pre-institutional desert based on individual contribution. This is, of course, not a peculiarly "leftist" or egalitarian view. Milton Friedman understands that markets, *especially* in their "perfectively competitive" form, are no respecters of economic desert, whether its basis is contribution or effort. "Most differences in status or position or wealth can be regarded as the product of chance at a far enough remove . . . ." According to Friedman, chance determines our genetic makeup and, to some extent, our mental and physical capacities as well as differential opportunities that derive

[4]Lester Thurow embeds the marginal productivity theory of distribution within the neoclassical price-auction model in which "the labor market is treated as if it were like any other market in which price (wage) is the short-term market-clearing mechanism" (Thurow 1983: 181). The problem with the model, unless it builds in tautology, is its failure to account for the "exogenous" determination of wages in actual market systems. Thurow traces the model's deficiency to the micro-foundations of neoclassical economics. Hahnel displays an ambivalent stance towards the marginal productivity theory of distribution. As we have seen (above), he is wary about its ability to separate individual from collective contribution. Still, he relies on it to score ethical points against market entitlements. "When young people flock to join the profession I have labored in for twenty years, my marginal revenue product declines [and I thus 'earn' less salary]" (2005b: 137). If professor Hahnel is referring to university teaching, academic tenure obviously gets in the way of the theory, but "the protection of tenure or its equivalent (seniority hiring and firing, offers to work for less are rejected) seems to exist almost everywhere in the labor market" (Thurow 1983: 192).

from family and cultural environments into which we are born, not to mention the choices that other people are always making in markets set against these morally-indifferent natural and institutional backgrounds (Friedman 1962: 165-6). Friedman may have taken his cue on this from his mentor at the University of Chicago's school of economics, Frank Knight (1935: 64-5, 68), who went further by reflecting on the intimate connection between those twins of moral arbitrariness: luck and power. Consider this gem.

> Everyone is compelled to play the economic game and be judged by his success in playing it. The luck element is so large—far larger than fairly successful players in the game will admit—that capacity and effort may count for nothing. And this luck element works cumulatively, as in gambling games generally . . . . Differences in the capacity to play the game are inordinately great from one person to another. But as the game is organized, the weak contestants are thrown in with the strong in one grand melee; there is no classification of the participants or distribution of handicaps such as always recognized to be necessary to sportsmanship when unevenly matched contestants are to meet. In fact the situation is worse still; there are handicaps, but as we have seen, they are distributed to the advantage of the strong rather than the weak . . . . It is terms of power, then, if at all, that competitive economies and the competitive view of life for which it must be largely accountable are to be justified. Whether we are to regard them as justified at all depends on whether we are willing to accept an ethics of power as the basis of our world view.[5]

As I interpret these passages, Friedman discounts pre-institutional desert, Knight credits it, but both agree that market entitlements do not systematically match desert bases, whether contribution or effort.

In contrast to "conservative" and "liberal" distributive maxims, based on contribution, Hahnel endorses the "radical" maxim: "to each according to personal sacrifice, or effort" (2005a: 137). Now this needs some unpacking since the conjunction "or" can be put to different uses. Consider: an unmarried man or a bachelor; a table or a chair. In the first case, "or" expresses an identity and in the second a difference. Hahnel apparently identifies effort with sacrifice. "By effort, I simply *mean* personal sacrifice or inconveniences incurred in performing one's economic duties . . . . According [to this] maxim, no other consideration (other than differential sacrifice) can justify one person [getting more income] than another" (2005a: 137, emphasis added). This is problematical, though, because Hahnel uses "or" in an equivocal way. He says that "effort takes many forms. It may be longer hours, less pleasant hours, [and so on]" (2005a: 137). But duration of labor is not necessarily a proxy for sacrifice because some people enjoy working long and hard at certain tasks, so Hahnel must mean that only those longer hours that are sacrificial count in his metric of desert. Yet his assertion that "I can decide to work longer hours or work more intensely than others and qualify for greater rewards" (2005a: 138) implies that his measure consists in duration and intensity. I am not just splitting definitional hairs; important practical consequences follow from Hahnel's equivocation. I take Hahnel to *mean* by effort sacrifice. If so, intractable problems of measurement arise since, unlike duration and intensity, sacrifice is less open to inter-personal comparison, standardization, and publicity. I will expand on this concern later on, but it is one that moves practically-minded theorists to define

[5]So on what basis does Knight justify capitalism? It appears to be utilitarian. "Its only justification is that it is effective in getting things done" (1935: 74). He also thinks that socialism fares worse than capitalism with respect to liberty.

effort operationally in terms of duration, "the most common criterion suggested in the past" (Lamont 1995: 223).

Against contribution-based theories of desert, Hahnel commits to a pre-institutional theory whose sole basis is differential sacrifice; he then argues that market entitlements fail to square with desert, so understood. I think he is largely right about market *entitlements*, but he assumes rashly that a sacrificial basis satisfies the requirement of what he includes as an essential ingredient of distributional justice, namely that individuals fully control, and thus are responsible for, what it is that warrants their differential *desert*, namely their effort. As opposed "to differences [due to] circumstance, talent, training, luck . . . people control only their effort" (Hahnel 2005a: 137). John Rawls famously objects.

> We do not deserve our place in the distribution of natural endowments, any more than we deserve our initial starting place in society. That we deserve the superior character that enables us to make the effort to cultivate our capacities is also problematic; for such character depends in good part upon fortunate family and social circumstances in early life for which we can claim no credit. The notion of desert does not apply here (1999, 89). [It] seems clear that the effort a person is willing to make is influenced by his natural abilities and skills and the alternatives open to him. The better endowed are more likely, other things equal, to strive conscientiously, and there seems to be no way to discount for their greater good fortune. The idea of rewarding desert is impracticable. (1999: 274)

Robert Nozick (1974: 213-16) initiated a serious misreading of these passages, playing on the expression "can claim no credit" for family and social circumstances and moving illicitly to the conclusion that a person's effortful capacity is fully determined.[6] But as the passages show, Rawls is saying instead it is only *those* influences which play a "good part" that are not creditable, not that individuals can claim *no* credit for effort, namely the effortful capacities they have cultivated in addition to those influences. "In good part" does not mean in "whole part."[7] As G. A. Cohen (1989: 914) says of Nozick's mischievous reading, "influenced" does not mean "wholly determined," and so it does not follow that, for Rawls, effort deserves no reward at all as in the determinist doctrines with which Nozick, complicit in a long tradition of anti-egalitarian rhetoric, seeks to saddle Rawls. Rawls does not rule out altogether effort as a desert basis, and he certainly rules in personal responsibility for choosing preferences and goals. Cohen cites pertinent passages in which Rawls holds citizens responsible if they cultivate expensive tastes that unjustly pressure scarce public resources; they could have chosen otherwise, "and if and when they press for compensation, others are entitled to insist that they themselves bear the cost 'of their lack of foresight or self-discipline'" (Cohen 1989: 913-15). Rawls is no hard-determinist.

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[6]Nozick (1974: 214) writes: "[Rawls's] line of argument *can* [my italics] succeed in blocking the introduction of a person's autonomous choices and actions . . . only by attributing *everything* noteworthy about the person to certain sorts of 'external' factors." Other commentators slip from the subjunctive to the indicative and predictive, e.g. "there *will* be no room for pre-institutional desert" (Sher 1987: 22); "virtually all of the characteristics that distinguish us from one another *are* rooted in natural or social factors over which we have no control" (Steinberger 1989: 56); "the notion of natural or *pre-institutional* desert evaporates" and "since we are simply products of the Natural Lottery," so does the notion of self-respect since that is not deserved either (Pojman 1999: 284, 295).

[7]In the first edition of *Theory of Justice* (1971: 104), Rawls uses the expression "in large part." But what does that entail? 51 percent? 75 percent? Rawls clearly leaves *some* room for pre-institutional personal desert.

Why, then, does Rawls have qualms about according desert *largesse* in his (or any) egalitarian theory of distributive justice? It is *impracticable,* he says, to sort out in any systematic way desert from morally arbitrary factors, especially on the institutional level. With respect to effortful capacities, they are distributed unequally among individuals due, in part, to fortunate circumstances for which they are not responsible. And some by virtue of natural abilities are better able to accomplish tasks and therefore more likely to become motivated to strive, whereas those with lesser abilities are likely to become frustrated and slack off in their efforts to excel, with the result that more naturally talented people score better on an effort metric. Rawls's first point rests on biological and sociological evidence and the second on psychological insight, both of which find support in our informed common sense or reflective intuitions (Rawls 1999: 89). In addition to Rawls's two points, consider the tight connection between effort and contribution and how the latter influences the rewards attached to the former. Effort and contribution mesh in ways that effort theorists, such as Hahnel, cannot reasonably isolate from one another. Even among those who exercise effort equally (assuming its discrete measurement), Hahnel discounts the efforts of those who fall short of their "economic duty" or "social endeavor," by which he must mean contributing to social welfare as measured by the demand of others for which the contributors are not fully responsible. So not all equally effortful work is to be equally rewarded. As Lamont (1995: 215) argues, theorists who play up effort as the sole desert basis "are also committed, despite appearances, to increasing the social product . . . which undermines any sharp distinction between effort- and productivity-based distributive proposals."

The bottom line is that it is difficult to separate systematically desert from morally arbitrary factors. That is why Rawls and those of us who suspect appeals to effort as a desert basis are wary about according it a (or *the*, as in Hahnel's case) decisive place in a theory of justice. This is not to deny that we can be roughly successful in parochial circumstances which epistemically enable reliable assessments. For example, parents say of Billy that he is putting in more effort than Suzie in their household chores; or a teacher in a one-room schoolhouse, who gets to know her students, is positioned to give Billy a "C" in performance and an "A" in effort, whereas Suzie gets a "B" in performance and a "C" for effort. In settings such as these, we usually try to give desert based on effort some of its due. But is this feasible in an economy involving tens of millions of individuals impersonally related? And which institutions can accomplish such a daunting task?

It is difficult enough at the pre-institutional level. How do we go about ranking occupations and the individuals who occupy them according to the metric of differential cost or sacrifice? Hahnel's (2006: 185) featured illustration compares the surgeon and the garbage collector, portraying the highly-paid surgeon as putting in less effortful hours than the poorly-paid garbage man. According to Hahnel, this is unjust. Feinberg (1973: 117), to the contrary, thinks that according to the effort principle, hard-working doctors and corporate executives should receive exactly the same remuneration as hard-working laborers. The laborer's work may be dirty and dangerous, but the professional's involves more responsibility and mental pressure. And we can go on and on: from accountants through zoologists; imagine the difficulty judging relative effort levels required by different types of inter and intra occupations, or branches of the economy. Further, not only occupations need be ranked, but also, and *especially*, the individuals who fit these jobs, and this gets us into the hoary issue of the interpersonal comparisons of disutility. Lamont (1995: 222-23), reflecting on failures of utilitarian theory, wonders whether "it may be impossible to reduce everything down to effort units and to use these in any meaningful way." Carens drives home the point: "Some people are lucky enough to find their work a great pleasure and source of self-realization. They are likely [to] work long, intense hours. Should this lead us to reconsider whether they deserve compensation for the 'burdens' of their work, especially as compared with those who work shorter hours at boring, alienating tasks?" Consider, too, that for some people the danger of a job may be part of its attraction. And what about the varied factors that affect the costs and benefits of work: colleagues, bosses, job security, location, etc.? "There is no principled way to distinguish factors that deserve compensation from those that do not, and no objective way to measure burdens for most factors" (Carens 2003: 159-60).

Maybe institutions, whether administrative or market, can accomplish the calculation feat by informing our pre-institutional intuitions. Hahnel, an "avowed market abolitionist" (2008: 16) and advocate of participatory administration, assigns to compensation boards at local workplaces the task of determining pay schedules that reflect differential effort among individual workers. He leaves it to "the abilities of workmates to reasonably judge one another's sacrifices and motivate one another to work diligently and intelligently" (2005b: 138). But, as Jonathan Wolff says, this "knowledge will be too dispersed, and its sources too unreliable, to serve the purpose required by the [effort] theory" (Wolff 2003: 225). Too disbursed because the theory requires a determination of the relative efforts of individuals across an entire economy, and, he goes on, this unreliability generates "too great a possibility of corruption," that can accompany the application of criteria not adequately publicly accessible. This criticism weighs heavily if justice must satisfy a publicity requirement, which says that it should be possible to confirm whether or not a principle of justice is being followed. If in a cooperative enterprise, say an economy at the national level, "cooperators in which each must know that others are cooperating—they are bound by justice to cooperate only when they know that others, too, are cooperating: it would be unfair to expect them to take up the burden of justice unless (they can know that) others are doing so" (Cohen 2008: 347, summarizing Williams 1998). Remember that Hahnel's desert basis is effort defined as personal cost or disutility. Think about the epistemic hurdles that get in the way of publicly auditing the distribution of relative effort among occupations and, ultimately, individuals. "A feasible theory should not require access to information we cannot acquire," which is not to deny the fairness of effort theory but rather to say it is not viable, which counts importantly against it (Wolff: 224, 227).[8]

Further, if individuals lack assurance that others are doing their part because they lack access to information they cannot acquire, might they not be *justified*, as a matter of personal prerogative,[9] in overriding their *prima facie* obligation to live up to a distributive principle based on effort? In such a case, the corruption of the effort principle can be caused not so much by moral laxity as by epistemic limitation. Is it not unfair for cooperative members to bear the burdens of just principles when they lack assurance that others are doing so? In the face of an irresolvable

[8]The issue of measurement is problematical enough at the occupational level. The epistemic problem looms even larger at the individual level, the one that really counts: "People, not jobs, deserve wages. And the wage a person deserves depends (I have argued) not only about facts about the person's job, but also upon the facts of the person. Unfortunately, there is no way to know, for example, each person's moral character, need, or the amount of good and evil she has already received. Therefore there is no way to include these factors in job evaluation schemes" (McLeod 1999: 280). But suppose that we try to overcome this epistemic challenge. At what cost? Not only is there time and effort involved in calculation (think about how many meetings must be devoted to determining individual effort, especially with a mobile work force). Consider, too, the intrusion into workers' personal lives. "Why is Joe not performing up to snuff at his job?" ask his fellow workers. "Fess up Joe, problems with drinking too much at the pub, not getting along with your wife and kids, as a child you were encouraged to be a slouch?" and so on and on. Hahnel's scheme involves "effort rating committees" of workmates, whose responsibilities include observing others, collecting testimony from others, as well as self-testimony, hearing grievances, and deciding on controversial procedures to use in calculating effort (see Hahnel 2005a: 228-34).

[9]Cohen writes (2008: 10, 61): "This prerogative grants each person the right to be something other than the engine for the welfare of other people . . . . [It grants to] every person a right to pursue self-interest to some reasonable extent."

assurance problem, their appeal to legitimate self-interest may morally justify the overriding of their *prima facie* obligation to act justly. And worse, might not epistemic paucity incite *ethical* corruption in the form of individuals deceiving each other about the relative disutility undergone in work? Lamont (1995: 225) calls this the "moral hazard problem of effort theory," according to which "people are presented with an opportunity to exploit the system by modifying their behavior in such a way as to maximize their income (by maximizing their scores on the employed criteria) while minimizing their effort within the constraints set by the system."

Might the institution of the market more so than administrative agencies help in determining accurately and less intrusively the relative efforts of workers across an entire economy? Not capitalist markets, of course, for all the reasons (nicely summed up by Knight in my citation above) given by disparate thinkers ranging from Friedman to Rawls. What about socialist markets? There are at least three different models of market socialism, all of which share the common features of social ownership of the means of production (excluding labor) and considerable use of markets to allocate resources, including labor. Social ownership can take the form of worker-owned cooperatives, state-owned enterprises controlled by workers, or privately-owned enterprises so widely held by individuals as to count as social ownership, as in the case of John Roemer's "voucher socialism" or John Rawls's "private property-owning democracy."[10] The idea is that in market socialism, whatever its form, labor markets operate against the background of an egalitarian distribution of wealth, equality of practical opportunity, and full employment. Lamont (1997) argues that when these conditions are in place, markets tend to automatically reward workers according to effort, which is to say, as I would put it, that the *procedure* of the market yields a *substantive* calculation of the distribution of relative effort among individuals. Suppose all jobs were paid the same base wage rate. Then consider what would prompt a person to choose a job different than the one she has at that rate. Lamont (1997: 35) argues that her choice depends on the weight she accords the base wage rate when compared to the non-monetary costs attached to jobs with the result that she gets compensated for those costs.

> If a job requires an incentive payment to induce people to work in it, then that means it has burdens (or disutility) over and above some (arbitrary) base level. Under the desert theory being used here, the payment will be justified because it compensates for this burden (or disutility)—not because it would increase the social product (although it will normally do that).

Lamont says that these incentive payments constitute compensatory *desert* as distinct from economic *rents* which are greater than what is required to keep workers at their present occupations. Rent collection results from the relative scarcity of the worker's factor input, something determined by natural and institutional barriers for which the worker is not responsible. Economic rents, unlike incentive payments, are not compensatory, since they exceed what is necessary to induce a worker to transfer jobs. Socialist markets, which have the requisite egalitarian background institutions, tend to automatically pay labor unequally according to differential effort so that market entitlements mesh with economic desert.

This is fine, as far as it goes, but its simplicity misleads. What is attractive is its apparent egalitarian thrust. As Miller (1976: 111) notes, "the principle that unpleasant, onerous, and

[10]On Roemer's version of market socialism, see Roemer 1994; on Rawls's private-property owning democracy, see Rawls 2001: part 4. On the resemblances between the two systems, see Williamson 2009.

hazardous jobs deserve economic compensation . . . is an equalitarian one. For it says only that deprivations for which there is no good reason should be compensated to the point where the deprived one is again brought back to a position of equality with his fellows." The idea is that differences in pay compensate for non-monetary differences in work. Oskar Lange (1935: 101-02), in his classic exposition of market socialism, put it this way:

> By putting leisure, safety, agreeableness of work, etc., into the utility scales of individuals, the disutility of any occupation can be represented as an opportunity cost. The choice of an occupation offering a lower money income, but also a lower disutility, may be interpreted as the purchase of leisure, safety, agreeableness of work, etc., at a price equal to the difference between the money income earned in that particular occupation and others. Thus the difference of incomes required by condition 2 are only apparent. They represent prices paid by individuals for different conditions of work. Instead of attaching different money incomes to the various occupations the administration of a socialist economy might pay all citizens the same money income and charge a price for the pursuit of each occupation. It becomes obvious not only that there is no contradiction between both conditions, but that condition 2 is necessary to satisfy condition 1.

Notice that what renders this scheme egalitarian is its reliance on the metric of *welfare*, by which is meant utility or preference satisfaction. The disutility involved in some work is offset or balanced by an unequal payment of *resources*, by which is meant monetary income whose expenditure yields utility that presumedly matches the disutility undergone in disagreeable work. But just how egalitarian is this? Not only is there the usual problem of commensurability that complicates the feasibility of implementation, but even if that were resolved, consider that monetary income, unlike the utility experienced in certain jobs, can be saved and transferred to other people. As long as the family exists, would not parents with greater incomes pass on, *inter vivos,* to their children benefits that are not deserved in the way required by effort theory?[11] I do not think that effort theorists such as Hahnel successfully come to terms with this conundrum, made all the more difficult for them because they believe that unequal incomes (of parents) are *deserved* and therefore *prima facie* inoculated against taxation and redistribution. Hahnel never tells us how much income inequality his meritocratic scheme permits. How deep does it go? And does effort theory justify unequal (monetary income) outcomes if, as Rawls and others hold, effortful capacities themselves are tangled up with morally arbitrary influences?

As part of an analysis of Rawls's difference principle, I once argued for a version of effort theory that incorporated markets. I wrote that a perfectly competitive market set against the background of just institutions "tends to satisfy the compensatory requirement of the difference principle."

> A justly ordered society, in which there is freedom of employment, would no doubt have to award greater benefits to individuals who undertake activities involving "uncertain or unstable employment, or which are performed under hazardous and unpleasantly strenuous conditions . . . . Otherwise men cannot be found to fill them. From this circumstance arise such *precepts* as to each according to effort or the risks he bears" (Rawls 1999: 269).[12] In

[11]Consider that in the United States 50-70 percent of the wealth of households under age 50 is inherited, a chunk of which is transferred while the givers are still living. See D. Greenwood and E. Wolff 1992.

> this way, the market works to compensate individuals in proportion to the disutility undergone in satisfying social want. And in a market economy regulated by fair equality of opportunity and other egalitarian measures, the shortage of individuals prepared to offer their services in unenjoyable and risky activities would ensure them a higher marginal rate of return in contrast to those enjoyable activities (which in present capitalist societies pay high rates because of the imperfections sustained by acute class inequalities and consequent structured lack of equality of opportunity) that would pay less because of the greater supply of labor. (DiQuattro 1983: 63).

I no longer subscribe to what I said then. Carens (1986: 40-1) scored effective criticism of my "false assumption about how a market system would work if Rawls's background conditions were satisfied." Although effort counts, market prices would still reflect the relative scarcity of factors such as natural abilities and talents for which individuals are not responsible.[13] Or as Wolff (2003: 230) puts it: "The labour market rewards not just extra effort but scarce talents and luck." And to top it off, as I pointed out earlier, (1) individuals are not fully responsible for their effortful capacities, and (2) effort and contribution mesh in ways that market demand, which eludes individual responsibility, impinges on the reward of effort.

So where does this leave us with respect to effort and desert? Rawls is right about the non-feasibility of implementing the principle of to each according to effort. I have argued that measurement is on its shakiest ground when determined by administrative agencies, with respect to both efficiency (calculation) and ethics (intrusion of privacy), and that socialist markets do a better job on both counts, which is to say less worse than planners. Remember that, for Rawls, there is a place in socialist markets for distributional "precepts," one of which honors effort. But socialist markets, for reasons I have given, come up short of the desideratum and so must be supplemented by state policies that reduce the element of moral arbitrariness in the distribution of income and/or welfare. These policies assume the form of redistributive taxation and spending on public goods, more of which about shortly. But Hahnel says that market socialism is incompatible with a properly egalitarian distribution of income. He says that "market socialist economies *cannot* avoid being inequitable" (Hahnel 2005a: 131, emphasis added). Hahnel is wrong on this and I show why in the following comments that bring together some of the issues discussed above.

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[12]Rawls is here referring to the "precept" of "to each according to effort," by which he means a "common sense norm" that "cannot be plausibly raised to a first principle" (1971: 307). Rawls does not include compensation for effort in the difference principle because as a resource egalitarian he *cannot* give that much room to welfare considerations. This is why Hahnel (2005b: 144) is mistaken in saying "there is nothing in his theory that should lead him to distinguish between a dangerous job and a smaller ration of food rations as negative aspects of someone's 'outcome.'" Cohen objects forcefully to Rawls's principled disparagement of a welfare metric, saying that "ignoring welfare in matters of social justice is ludicrous . . . Rawls's reasons for thinking otherwise are misplaced." Rawls's "prescinding from the quality of people's work experience is [not] defensible at the bar of egalitarian justice," with Cohen favoring unequal monetary compensation for differential labor burdens, "whatever obstacles there may be to taking full account of it in practice" (Cohen 2008: 200-02). What softens Cohen's blow against Rawls, however, is that Cohen overlooks (inexcusably?) altogether Rawls's inclusion of effort as a precept when that is set against the background of a "basic structure" governed by the principles of justice.

[13]Also see Krouse and McPherson (1988: 96): "Despite DiQuattro's assertion, [the difference principle is not] a purely compensatory principle of justice; it encompasses compensatory considerations, but not to the exclusion of other considerations . . . . The difference principle . . . would appear to justify paying those with scarce natural talents their transfer price (i.e., the amount necessary to prevent them from switching to a socially less desirable use of their talents)—even if that price includes an element of blackmail."

The last section of Hahnel's "Economic Justice" is titled 'Why Market Socialist Economies Will Be Unfair' and he picks up on this theme in "Against the Market Economy" appearing in *Monthly Review* (2008) which advises the Venezuelan regime to steer clear of reliance on markets in allocating and distributing economic resources. He thinks that in any market economy, whether socialist or capitalist, "those with more human capital will receive more, even if they make no greater sacrifice, and those with less human capital will receive less, even if they sacrifice just as much" (2008: 14). He goes on to say that any attempt to fix the problem—the unfairness of the distribution—will "create a great deal of inefficiency."

> If wages are determined by the laws of supply and demand in labor markets the best that can be hoped for is distribution according to maxim 2: to each according to the value of the contribution of his or her labor (2005b: 173). If we intervene in the labor market and legislate wage rates we consider to be fair, but allow markets to determine how resources are allocated, not only will different kinds of labor be allocated inefficiently, the entire price structure will fail to reflect the opportunity costs of producing different goods and services leading to further inefficiencies. There is no getting around the dilemma: in a market economy we must either allow the market system to reward people unfairly, or, if we try to correct for inequalities we must tolerate even greater inefficiencies. (Hahnel 2008: 14-15)[14]

Milton Friedman (1980: 24, 23) criticizes market socialism along the same lines.

> We once heard a brilliant talk by a Hungarian Marxist economist. He had discovered for himself Adam Smith's invisible hand . . . .He tried, however, to improve upon it in order to use the price system to transmit information and organize production efficiently but not to distribute income. Needless to say, he failed in theory, as the communist countries have failed in practice. . . . It is simply not possible to use prices to transmit information and provide an incentive to act on that information without also to affect, even if not completely determine, the distribution of income . . . . If prices are prevented from affecting the distribution of income, they cannot be used for other purposes. The alternative is command.

Now if Hahnel and Friedman are talking about labor markets in *capitalism* their observation is on track. But are they right about labor markets in *socialism*? I have already shown that effort counts for more, at the level of precepts, in socialist markets than those in capitalism. Still, even socialist labor markets fall short of justice, whatever desert bases one goes with, whether effort, contribution, or need. There is, therefore, an important place for state intervention via taxing and spending policies. But Hahnel and Friedman insist that a market socialist regime *cannot* secure egalitarian justice without sacrificing economic efficiency. Why? Because they believe that, in the interest of fair distribution of workers' *income*, a market socialist regime must legislate workers' *wages*. This belief rests on a fatal theoretical mistake. To appreciate why, distinguish between the allocative and distributive functions of market prices.[15] With respect to efficiency, the assumption is that market pricing effectively allocates resources; that is, if high prices are

[14]According to Hahnel the dilemma is this: "If we allow the labor market to determine wage rates, we will get something approximating marginal revenue product wages," but then "the compensation workers receive will be unfair." "Any modification of market-based wage rates in the direction of equitable wage rates will generate inefficiency losses in market socialist economies as labor is misallocated" (Hahnel 2005b: 151). "If wages are determined by the laws of supply and demand in labor markets the best that can be hoped for is distribution according to maxim 2: to each according to the value of the contribution of his or her labor" (2005a: 173).

[15]Rawls makes this distinction, following J. E. Meade 1964: ch. 1.

levied on scarce goods and low prices on abundant goods, then the users of these goods will be informed automatically on how to achieve a Pareto-optimal allocation of economic resources.[16] But prices used for this efficiency purpose may result in an extremely undesirable spread of wealth and income. This is the distributional aspect of the price mechanism. This potential conflict between efficiency and distribution should come as no surprise since the theorem of optimal competition takes no account of distribution so that resource allocation would be considered to satisfy this optimum property even though half of the population were starving while the other half were enjoying great luxury.

The upshot: in market socialism, market prices are used as accounting devices or efficiency indicators but not to distribute income as this is done in market capitalism. Most obviously, because of the egalitarian distribution of non-human capital, interest and profit incomes are distributed differently. For example, banks charge interest on loans scheduled for investment by enterprises, but the price assessed on loans does not take the form of income paid to a small group of capitalists; profit is distributed widely to shareholders who socially own the means of production, and so on. Interest and profit incomes coexist with egalitarian aims. But what about labor income, which is the focus of interest here? Branko Horvat (1964: 130) casts some light on this in his ethical defense of market socialism. He distinguishes between gross and net wages of labor, the gross wage reflecting the marginal productivity of labor[17] and the net wage determined by a political decision consistent with social expectations as to what labor income distribution constitutes fairness. "The difference between the gross wages and the net wages represents rent which is taxed away by the Planning Authority. One may say that the net wage-rates represent the supply price of labor, while the gross wage-rates are its demand price." Horvat thinks the net wage-rates "include not only 'efficiency' differentials, but also positive differentials for dirty, strenuous, dangerous, more responsible, etc., work, and, conversely differentials for agreeable and leisurely work, i.e., they include 'cost' differentials as well." Gross wages signal an efficient allocation of labor; net wages are what workers receive as income after the state accomplishes a redistribution of gross wages through egalitarian taxation and spending policies. Which is to say that in the interest of efficiency, it is important that workers seek to maximize the gross wage even though they receive only the politically-determined net or fair wage, i.e., *income*. In this way, justice holds sway in the sphere of distribution while efficiency reigns in the sphere of production. What should be apparent by now is Friedman's and Hahnel's theoretical error in asserting that in market socialism gross wages are legislated. They are not; instead, labor income is, so legislation does not get in the way of an efficient allocation of labor resources. *Unless*, of course, an egalitarian distribution of labor income interferes with allocative efficiency by reducing "incentives," which is what Hahnel also claims. "Income policies and limits on wage differentials create inefficiencies by forcing some wages to differ from a worker's actual marginal

[16]I am more concerned in this paper with justice than efficiency, whether Pareto-optimality or broader (and more satisfactory) conceptions that maximize net social benefits, including those that focus on furthering "opportunity capabilities" and well-being understood as more than mere preference satisfaction (see, e.g., the work of Amartya Sen 2009: part 3). Hahnel rehearses all the usual objections to market efficiency, some of which are telling indeed. The question, however, is whether these objections carry the same force when applied to socialist markets rather than capitalist ones. For example, negative externalities such as pollution loom large in capitalist markets, but might not the egalitarian distribution of wealth in socialist ones mitigate that? Roemer and Bardhan (1994: 180) give us good reason to believe that "the level of certain profit-inducing public 'bads' are likely to be lower when profits are more equally distributed, as in our market socialist regime, than under capitalism where profits are concentrated."

[17]Though Horvat relies here on the theory of the marginal product of labor, he thinks that the "possibility of applying marginal product calculus is rather questionable." Elsewhere (1982: 272), he questions its theoretical coherence.

revenue product, as explained above. Welfare payments and progressive taxes [in market socialism] create motivational inefficiencies . . . [there are] political and psychological obstacles that would work against achieving equity correctives in any real-world market socialist economy . . ." (Hahnel 2005b: 151).[18]

I have already shown how Hahnel's saying this rests on a mistaken conflation of gross wages with income, the latter consisting of what workers get after redistributive taxation and spending on public goods. Already, in social democracies such as Sweden, workers' *income*, both monetary and in-kind, differs importantly from their gross wages, thus demonstrating that, theoretically and empirically, fairness and efficiency can go together in market socialism, as they do in social democracies, to a degree that Hahnel, on the basis of a theoretical mistake, denies. Still, Hahnel raises the important issue of incentives in market socialism, thinking that "the logic of the labor market" encourages people to defend their gross wages on the basis of contribution and thus to resist redistribution in line with egalitarian aims. Roemer (1994: 119) worries similarly, "Perhaps [the liberal maxim] is psychologically mandated in people who compete on labor markets. If so, this places a political limit on the degree of redistribution that can be accomplished by social-democratic methods." But what does Roemer mean by "competition"? If labor incomes are politically determined, then on what level are workers competing? If there is competition for income, then this takes place at the political level, where it belongs, not in the market. Of course, minus a prevalent egalitarian ethos in a market socialist society, politics will not take an egalitarian course. I do not see why labor markets, when set against the background of socialist institutions, *must* prompt inegalitarian attitudes among their participants. If it is obvious to some of us, including me and Hahnel, that the gross wages in labor markets are unjust, then why cannot this view find expression among many other people, so that the state pursues policies, in a democratic setting, that accomplish an egalitarian distribution? Why cannot citizens see through the *illusion* that market allocation and distribution are *necessarily* wedded and opt for a politically-determined distribution while relying on markets for efficient allocation? And remember that we are talking about market *socialism* here, not market capitalism, so that labor markets are operating against the background of an egalitarian ethos which accompanies an egalitarian distribution of wealth and political authority.

What is ultimately important is the ethos, one transcending the issue of market vs. planned economies. After all, even in planned economic systems people can decide to rely on inegalitarian bases of desert, including those that play up contribution. We know that in contemporary market capitalist societies most people subscribe to a plurality of desert bases, with contribution heading the list, although interpretation of the empirical studies gets complicated because often "effort" is subsumed under "contribution" (see Miller 1992).[19] We also know that public opinion in Eastern Europe, very soon after things changed in 1989, was not too dissimilar from that in Western Europe with respect to the ethical importance of contribution as a desert basis for labor income (see Marshall, Swift, Routh, Burgoyne 1999). People who lived in planned economies

[18]"If what a person gets does not depend on the price he receives for the services of his resources, what incentive does he have to seek out information on prices or to act on the basis of that information? . . . If your income will be the same whether you work hard or not, why should you work hard?" (Friedman 1980: 23).

[19]This is consistent with the fact that most people think that extant capitalist societies should be "a good deal less inegalitarian than that which obtains in capitalist societies, even if we discount unearned incomes" (Miller 1992: 556).

shared views about contribution as a desert base of labor income that was similar to those living in market economies. So market allocation is not a necessary condition for people subscribing to the kind of justice that Hahnel deems ethically suspect.

Some concluding comments: radical egalitarians want, ideally, equality of outcomes, whether income or welfare (I side with welfare; DiQuattro 1998). I have argued here that the use of markets as an allocative device is consistent with that, which is not to deny that market socialism is but a transitional stage to communism, as some Marxists project. Realization of the ideal awaits communism. The aim is to replace economic desert, whether based on contribution or effort, both of which reflect morally arbitrary factors, with the radical egalitarian ideal of "to each according to need."[20] During the interval period, because of scarcity and left-over bourgeois beliefs ("muck," in Marx's word) about desert, the ideal requires compromise, but always in the direction of the egalitarian *default,* which seeks distributive equality. The default is both practical and principled. If it is the case that we lack reliable information about differential desert—whether based on contribution or effort—among individuals on the level of a national economy, then, as Miller (1992: 560) suggests, practical reason "opts for equality as the fairest distribution in the circumstances" and this passes the test of rationality because in the face of ignorance of individuals' particular contributions to a joint output, minimizing the expected unfairness of the distribution requires an equal distribution of payment; "by dividing the reward equally [between the workers] you minimize the greatest possible underpayment and by extension minimize the expected underpayment." In addition, there is a tendency to equality on principled grounds. The basic premise of egalitarians is that people are equally free and moral persons, so that "the obvious starting point is for them to suppose that all social primary goods, including income and wealth, should be equal; everyone should have an equal share" (Rawls 2005: 281). Departures from equal distribution require justification and have a place in less than ideal circumstances, so that sacrificial effort as a desert basis has a role to play in market socialism on the level of *precepts*, as discussed above.

The precepts might even be raised to a political level if epistemic problems can find a practical solution. Roemer (1993) tries this by having the state supplement and implement the effort precept. He constructs a model that seeks to separate morally arbitrary factors, in particular talent, from the measurement of effort which remains as the only variable determining distributive outcomes. Put very simply, using educational attainment as a proxy for talent, Roemer divides the workforce into highly- and less-educated groups and, prompted by an egalitarian impulse, proposes that the average wage of both groups should be the same. But within each group workers should be rewarded in proportion to differential effort. This gets implemented by the state instituting a progressive tax based on educational attainment, i.e. a talent tax, with the result that while gross-wages reflect both talent and effort, net-wages reflect effort alone. In Roemer's model, socialist markets and progressive taxation go some distance in resolving practical problems of effort measurement, and they do so automatically at the state level as opposed to leaving it to complicated and idiosyncratic determinations by "effort commissions" at local workplaces. Just how practical Roemer's scheme is I leave to readers. It may not provide a method that successfully separates the morally arbitrary from that for which individuals are "fully responsible." Following Rawls, I have already questioned whether effort and responsibility always go together. And as Wolff says (2003: 231) of Roemer's attempt, it does not address native talent *within* the

[20]Andrew Levine (1998: 37) characterizes as *liberal* what Hahnel calls the "radical" maxim. According to Levine, the *radical* maxim is "to each the same," in contrast to liberal egalitarian theories of justice that permit inequality with their emphasis on the tie between individual responsibility and economic desert. "Thus liberal egalitarians, unlike egalitarians *sans phrase* do not want everyone to have equal shares [of the favored distribuand—welfare or resources] . . . .Their view of individual responsibility contravenes this desideratum." Also, see Levine 1999.

different educational groups, "so although theoretically this approach provides insight of high order, it does not solve the problem. It is no more possible [in our current state of knowledge] to measure talent levels with confidence than it is for effort levels."

Is the practice of economic desert compatible with radical egalitarian ideals? One way of reconciling the two may be to eliminate that part of its definition which includes differential personal responsibility, thus questioning what Hahnel and other liberal egalitarians deem so important (see footnote 20). Why *must* desert have a basis in some attribute or action for which individuals are personally responsible? Do we not sometimes assert that individuals, *qua* persons, deserve equal baseline respect and concern, even though as Fred Feldman says (1995: 69) they are not responsible for being persons, and does this not "provide evidence for the [sometimes] independence of responsibility and desert?"[21] William Galston writes (1991: 131-2): "There is nothing self-contradictory about basing a [desert claim] on some undeserved feature of yourself . . . [e.g., if] moral personality is the basis of your claim to be taken into consideration." He goes on to say that Rawls "establishes as the sole, relevant desert basis a feature of our lives (moral personality) that equally characterizes nearly all of us." I think Galston is right on Rawls and I have argued that a similar idea inspires Marx's model of a perfectly just society in which everyone, by virtue of personhood, is deserving of equal welfare accorded by the communist principle of distribution: to each according to need (DiQuattro 1998). According to the communist ideal, those economies which deny this by permitting morally arbitrary factors (e.g. those allowed by meritocratic principles such as "to each according to effort") to systematically influence distributive outcomes count as exploitative and unjust.

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[21]Feldman provides numerous examples of successful desert claims not entailing personal responsibility, prompting him to wonder why so many philosophers have accepted "without argument" the connection as necessary. One example consists of people who suffer from food poisoning at a restaurant due to careless preparation. Do they not deserve some compensation for their illness even though they bear no responsibility for the fact that they were poisoned? Also see Feldman 1996.

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