

**Session 4**

# **Justice**

**Instructor: Guo Xu**

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Diversity, Equity, and Inclusion Meets  
Sustainability

# Responding to feedback

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- Thanks for feedback – student always
- Slides now available before class
- Interest in *application*: how to apply these theories in day-to-day life at the workplace?
- Next week: building out “toolkit”
  - Making (robust) ethical arguments
  - Guiding ethical discussions
  - Quick scorecard generator

# Previously, in Ethics...

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- **Limits of self-interest** – deception, bullying, vs promoting better social (welfare-maximizing) equilibrium
- **Value of ethical analysis:** highlights key moral risks and dimensions along which actors need data / make assumptions
- **Powerful duty-ethics idea:** respecting autonomy, freedom, being inclusive of others' ends
- But conflicting rights pose a problem...
  - ...that can be dealt with via theories of justice

# Reminders

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- **Optional assignment** on last week's topic
  - Quiz-format – helps benchmark
  - To be discussed in this **Friday GSI section**
- Assignment #4 (graded) posts by end of today
  - Due via bCourses by **11:59pm next Wednesday**
  - Discussed in GSI section **Friday April 19**

# Session plan

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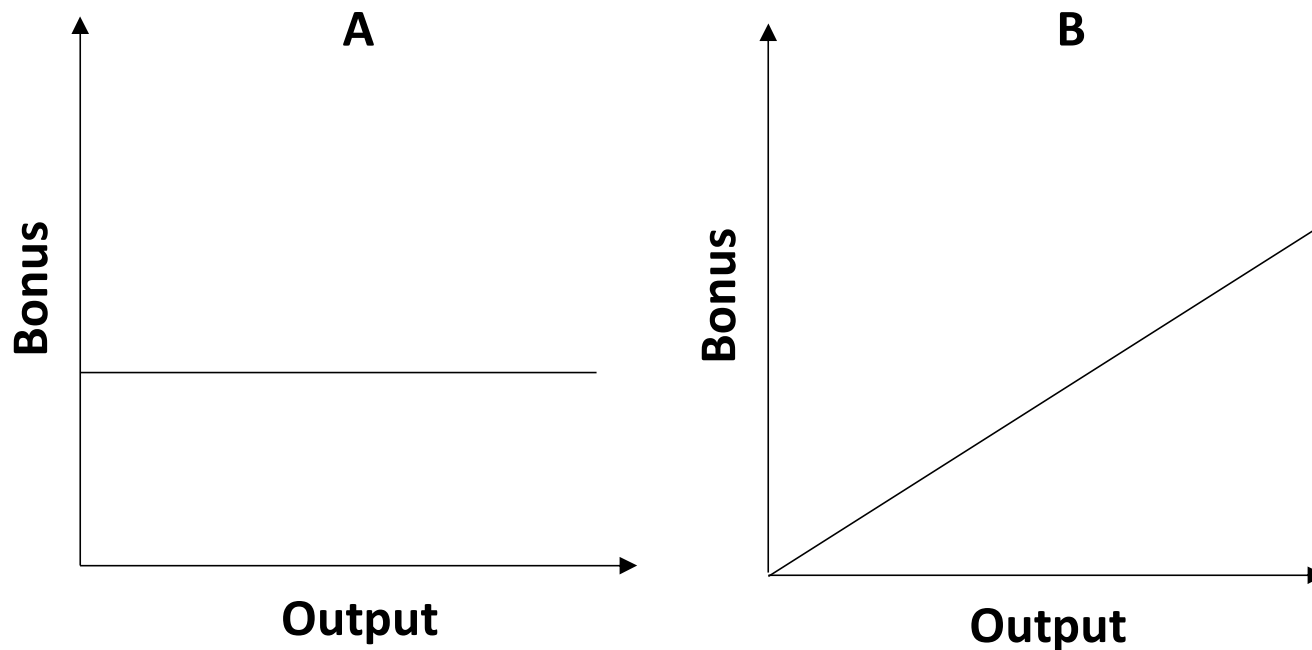
- Exercise on compensation policy
- Two theories of justice – links to DEI
- Case: Pollution Trading and Environmental Justice

# Rewarding performance

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- Key HR question: what **compensation rule** should we have?
- How should we **reward** performance?

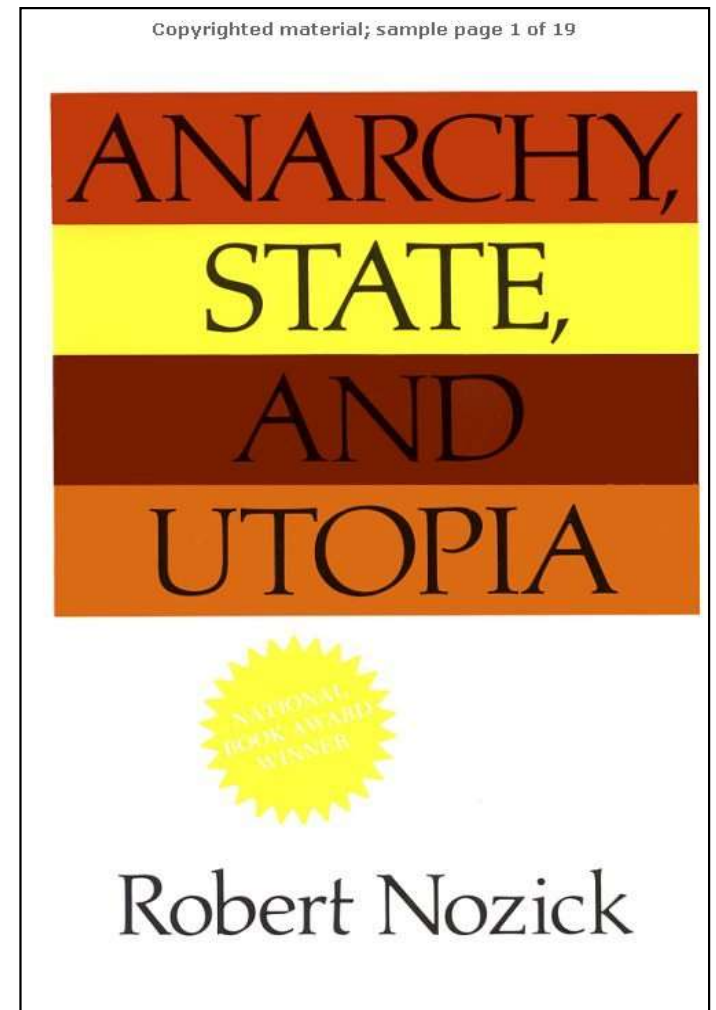
# Choosing bonus compensation policy



- Which “reward” scheme do you prefer?

# Justice as entitlement

- Importance of **merit**
- We own ourselves – hence we're entitled to the benefits of what we produce
- Basis of libertarian views of minimal state
- Attempts to equalize are expropriatory, violate liberty





# Pop quiz – Nozick and the past

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Nozick's theory of Justice has nothing to say about violations of individual rights that occurred in the past but may lead to inequality today.

- A. True
- B. False

# Justice as entitlement

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1. Justice in acquisition (self-ownership)
  - I own the fruits of my labor
2. Justice in transfers (voluntary transactions)
  - Now let's trade
3. Justice in rectification (fixing past abuses)
  - Most often forgotten principle

**Entitlement** to holdings if all three principles satisfied

# The entitlement theory of justice

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- Focus on **process**, not **outcome**
  - **History** of interactions determines whether inequality is just – wealth distribution at one slice of time does not
- Income inequality resulting from **voluntary** trades among people who are different in terms of talent, hard work, etc., *is* JUST
  - Connection to **duty ethics**: all is well if nobody's autonomy was violated in the process

# Are CEO salaries fair?

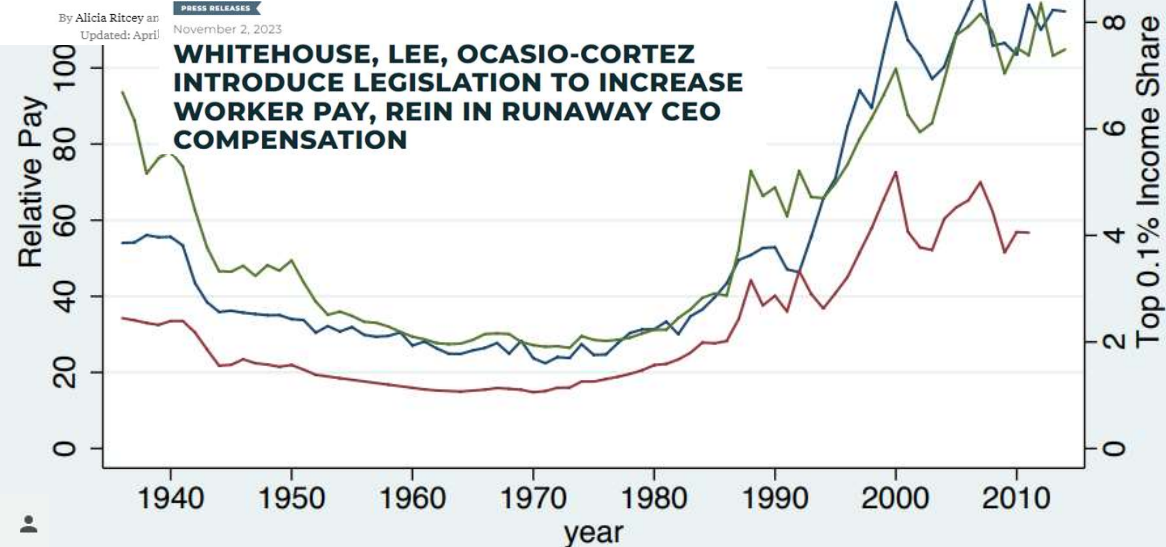
Sky-high CEO pay is in focus as workers everywhere are demanding higher wages

UPDATED SEPTEMBER 14, 2023 · 9:50 AM ET

By Danielle Kaye, Andrea Hsu

A. Yes  
B. No

**Bloomberg**  
**McDonald's CEO Earned 3,101 Times More Than Median Employee**



**FORTUNE** RANKINGS MAGAZINE NEWSLETTERS PODCASTS MORE SEARCH SIGN IN

SUCCESS - PAY GAP

The executive-worker pay gap keeps getting big  
CEOs rake in an average \$27.8 million a year

By CHLOE BERGER  
October 7, 2022 at 7:45 AM PDT



**Vox**

EXPLAINERS POLITICS & POLICY WORLD CULTURE MORE

**How does a company's CEO pay compare to its workers'? Now you can find out.**

Thanks to a new SEC rule, companies have to disclose how much more they pay executives than their workers.

By Emily Stewart | Apr 8, 2018, 3:15pm EDT

**BerkeleyHaas**

— Median Total Compensation Relative to Average Worker Earnings  
— Top 0.1% Wage Income Share  
— Top 0.1% Total Income Share

2 minute read · June 7, 2022 9:14 AM PDT · Last Updated 10 months ago

**CEO-worker pay gap jumps in 202 low-wage U.S. companies**

By Simon Jessop

**The Washington Post**  
Democracy Dies in Darkness

On Leadership

**As companies reveal gigantic CEO-to-worker pay ratios, some worry how low-paid workers might take the news**

By Jena McGregor February 21 Email the author

# Legitimizing superstar competition

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- Justice as entitlement view
  - Property right over talent
- Nothing wrong with CEOs earning  $> 100x$  if
  - Just acquisition
  - Just transfers
- Liberty trumps inequality when assessing justice

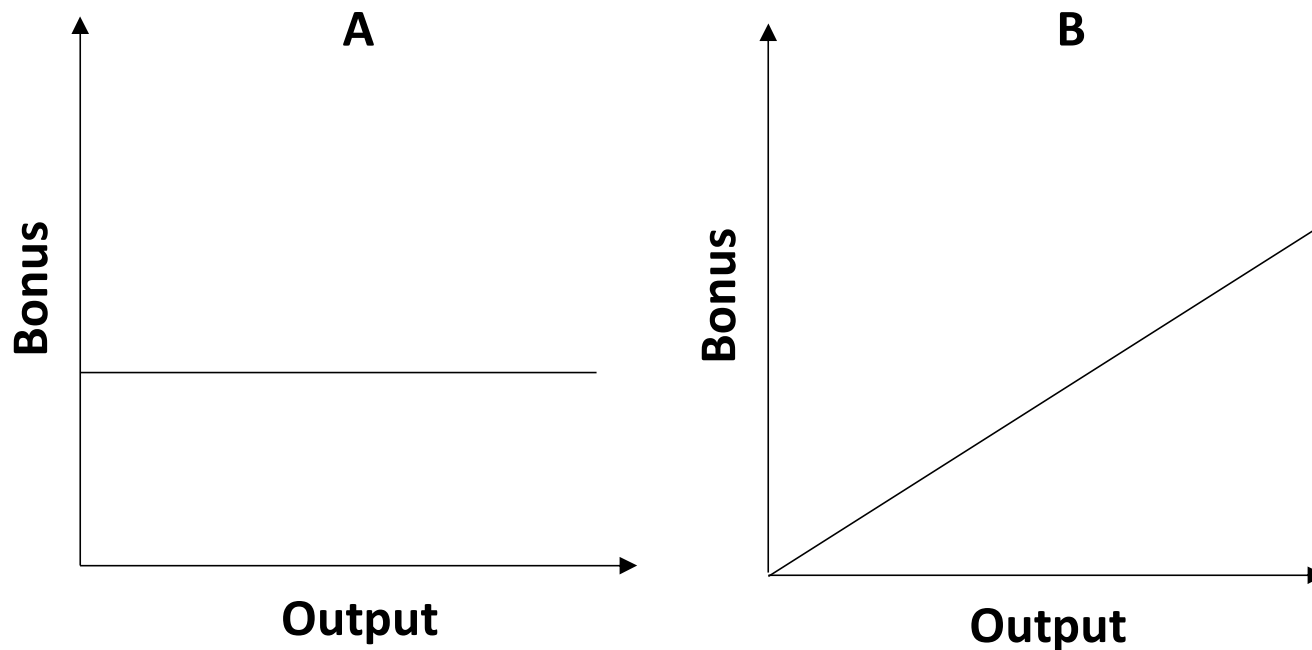
# Choosing allocation

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- Let's revisit the compensation policy
- Only difference: output now is unpredictable – as if it's driven by a **die toss**



# Choosing bonus compensation policy



- Which “reward” scheme do you prefer?

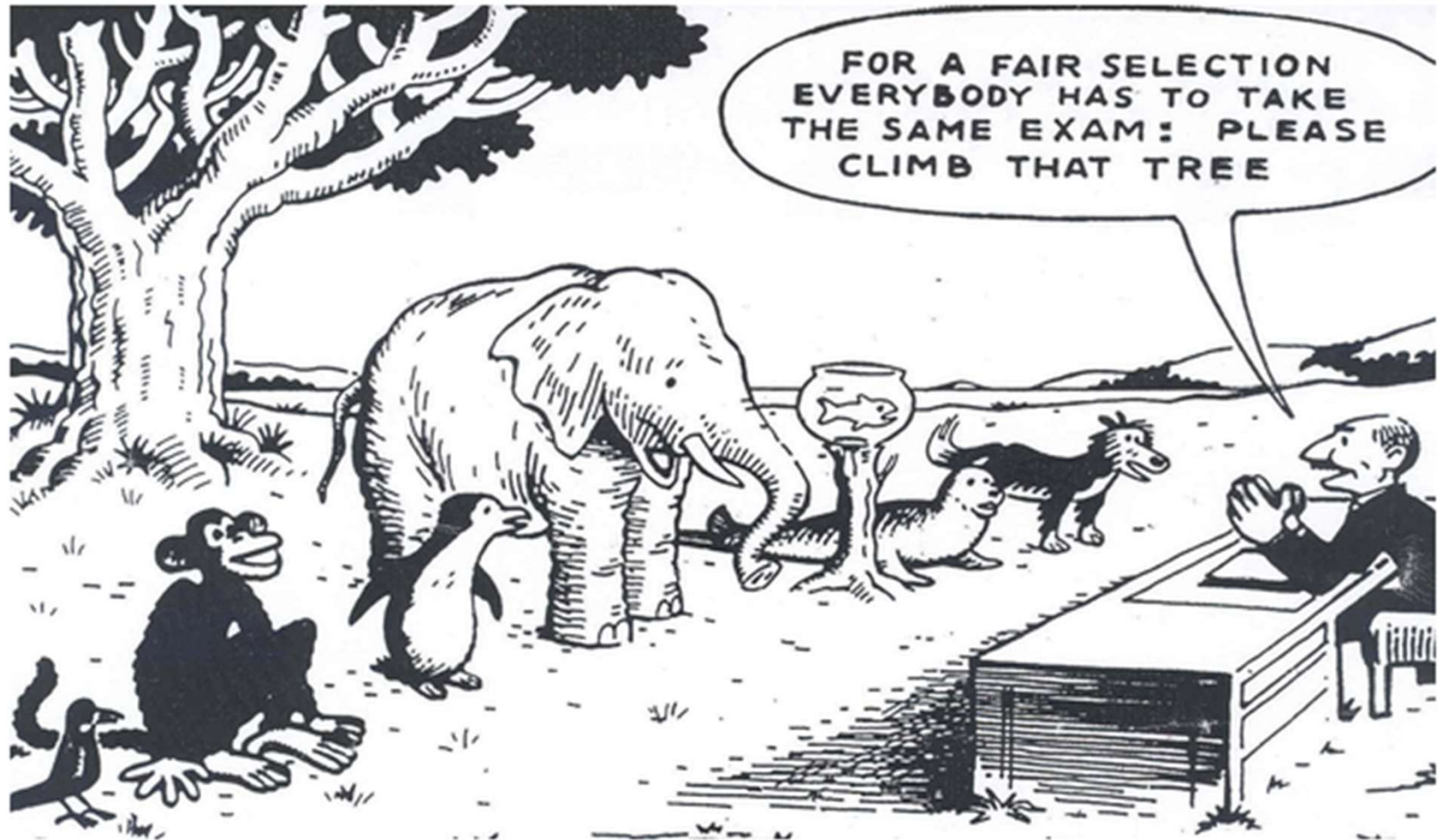
# Two facts about inequality

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1. Most people (including some of you) have a taste for equality – we are often inequity-averse
2. Distribution matters – but so does the process that created it. Where do inequalities come from?
  1. Past skill and effort?
  2. Luck?



# When luck determines how well you do



# What do we deserve?

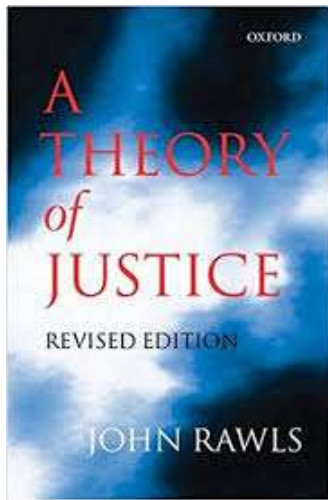
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- Some believe that we owe much to **luck**
  - We inherit (or not) wealth, genes, access to a better education for reasons beyond our control...
  - And even after birth, chance shocks still happen

“No one deserves [their] place in the distribution of native endowments, any more than one deserves one’s initial starting place in society.”

- John Rawls

# Justice as fairness



- **Key argument:**
  - We do not deserve our talent or any inherited advantages
- **The veil of ignorance:** choose as if you did not know who you'll be in society

# Protecting the vulnerable

- When it comes to choices that will affect fundamental rights, use **Maxi-min** criterion
- **Maximize** utility of those who have **least**
  - Choose social institutions as if your enemy were to choose your position in society
  - Akin to parental rule: one sibling splits cookie, the other has first choice
- Stronger egalitarian bent than **utilitarianism**



# Applying the maxi-min criterion

- Example: two-person society. You'll be person 1 or 2
  - Odds of being person 1 or 2 are unknown

Payoffs by institution/person	Person 1	Person 2
Institution A	4	4
Institution B	3	9

- Utilitarian would choose institution B
  - But which institution would a Rawlsian choose to live under?
- Maxi-min = Infinite risk aversion
  - Natural when shaping basic needs, such as liberty
  - Connection to **duty ethics**: liberty as a dignity that cannot be traded-off

# Maxi-min allows for inequality

Payoffs by institution/person	Person 1	Person 2
Institution A	4	4
Institution B	3	9
Institution C	5	6

- Utilitarian: choose institution B
- Egalitarian: choose institution A
- Maxi-min: choose institution C – the **difference principle**
  - Inequality allowed if it benefits the **least advantaged**

# Justice: key tension

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- Justice as *fairness*

- Priority: impartiality
- Premise: achievement primarily due to luck
- *Ask: would we agree to these rules before we knew the results of the birth lottery?*

- Justice as *entitlement*

- Priority: merit
- Premise: achievement primarily due to talent and effort
- *Ask: was the process behind this allocation of assets just?*

- Principles agree on many things

- E.g., slavery is unjust: would not be chosen behind a veil of ignorance, and violates justice in transfers

# Hard work vs. luck?

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- “My success is primarily due to hard work, not luck”
  - To what extent do you agree with this statement?
    - A. Strongly agree
    - B. Agree
    - C. Neutral
    - D. Disagree
    - E. Strongly disagree



# Effort vs luck

## Redistribution and “veil of ignorance”

VOL. 95 NO. 4

ALESINA AND ANGELETOS: FAIRNESS AND REDISTRIBUTION

961

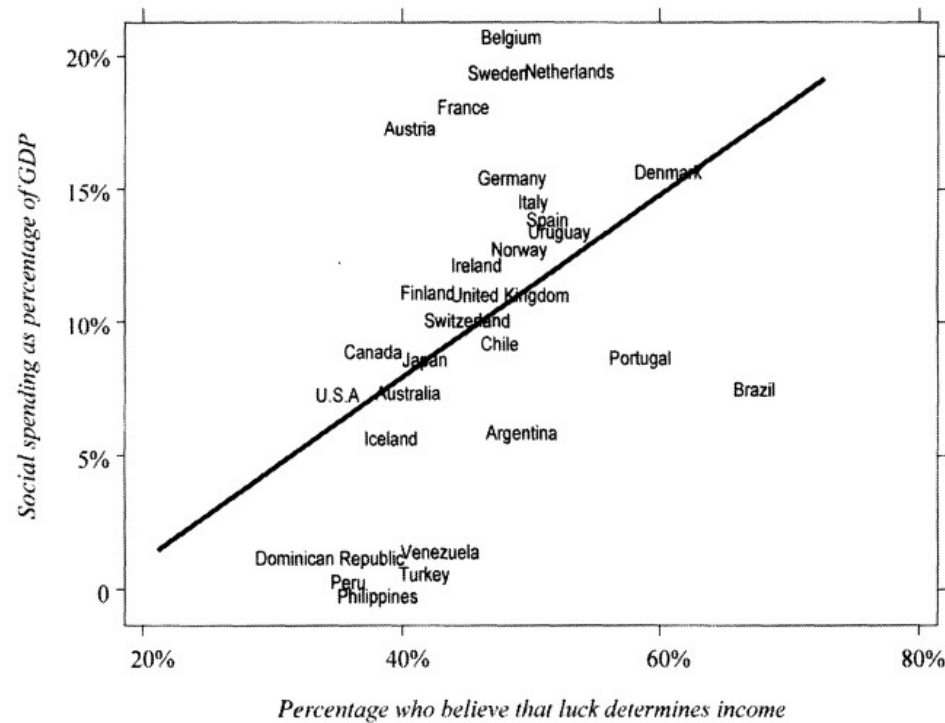


FIGURE 1

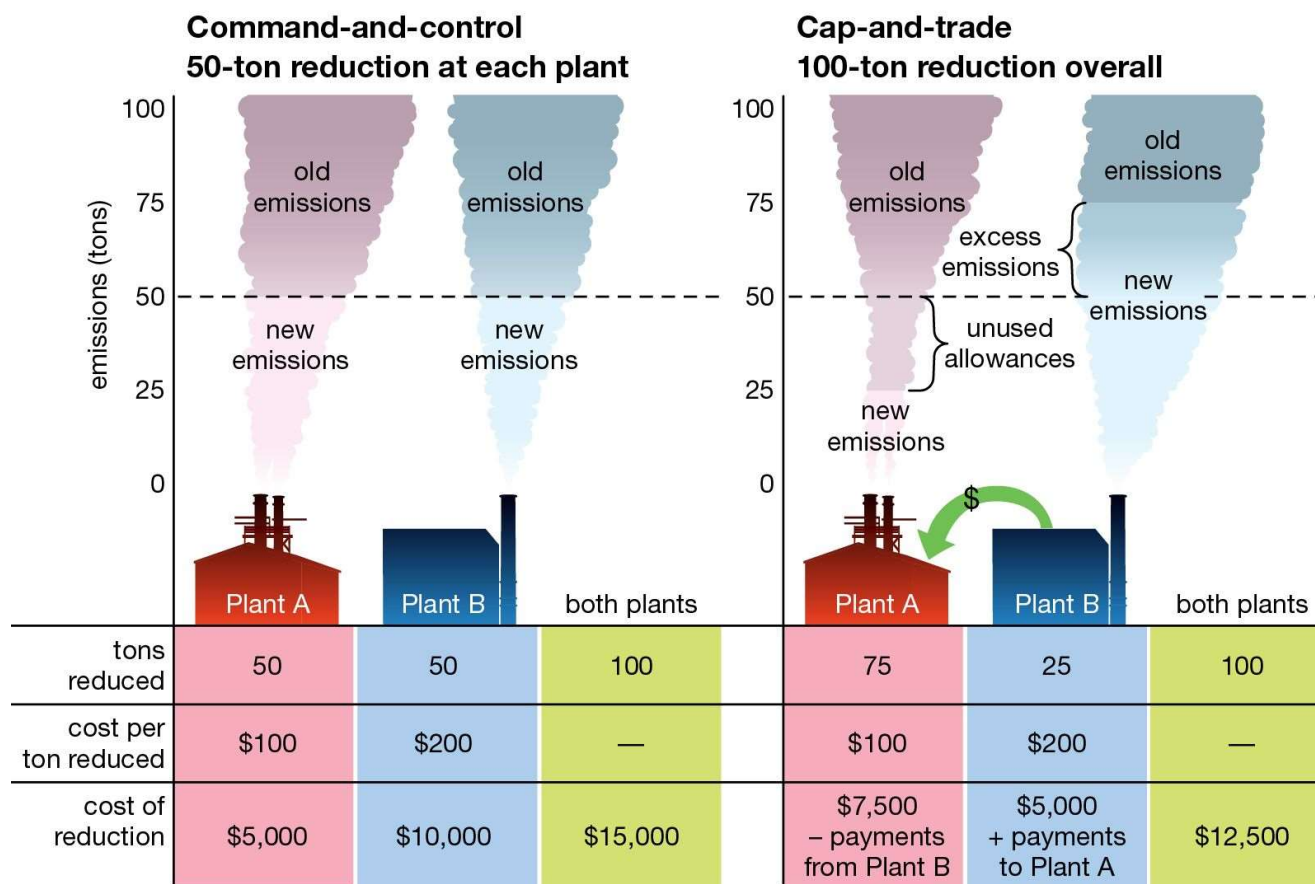
*Note:* Reproduced from Alesina et al. (2001). This scatterplot illustrates the positive cross-country correlation between the percentage of GDP allocated to social spending and the fraction of respondents to the *World Value Survey* who believe that luck determines income.

# Case

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## Environmental Justice and Pollution Trading Systems

# Command & control vs. cap & trade



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# Still a hot-button issue

CALIFORNIA **Los Angeles Times**

## Is California's cap-and-trade program hurting the environment more than helping it?

BY JONAH VALDEZ | STAFF WRITER

MARCH 22, 2022 5 AM PT



Ulises Flores, born and raised in Wilmington, stands on the roof of his complex. (Allen J. Schaben / Los Angeles Times)

### Landmark Climate Policy Faces Growing Claims of Environmental Racism



STATELINE ARTICLE | December 23, 2020 | By: Alex Brown | Read time: 8 min



## SLATE

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POLITICS

## "America Is Segregated, and So Is Pollution"

BY JASON JOHNSON AUG 30, 2021 • 5:50 AM



AUTHOR

Alex Brown  
Staff Writer  
Stateline

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# The policy – Utilitarian champion?

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- Seemingly a clean promoter of utilitarian outcomes
  - The pollution credits system provides incentives for companies to engage in behavior consistent with the principle of minimum cost reduction in pollution
  - And does so by appealing to firms' self interest!
- But does it truly deliver?

# Market-based solutions to pollution

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- Firms will pollute more in places where...
  - A. Private** costs of abatement are higher, and **private** costs of pollution lower
  - B. But private costs  $\neq$  social costs**
- And what about distribution and rights?
- Sustainability efforts take place in a *context*
- *Should firms take **Environmental Justice** seriously?*

# Ethics and environmental strategy

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- Split in groups of around 4-5
- Define relevant dimensions of the problem, then elaborate a position
  - I will sample teams, so select a spokesperson
  - **Teams on my right:** environmental justice (EJ) has a case
    - Firm needs to engage
  - **Teams on my left:** EJ has no meaningful case
    - No engagement necessary
  - Weave in readings: economics of cap & trade, Justice as Fairness (Rawls) and Justice as Entitlements (Nozick)

# Justice as entitlements: *application to case*

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- **Textbook view:**
  - Firms entitled to pollute, playing by the rules
  - Residents put up with more pollution by choice
- **But:** are there injustices in acquisition or transfers?
  - Precedent? Did residents consent to pollution trading?
  - Do differences in residential pattern reflect historical inequities → may need **rectification**



# Justice as fairness: *application to case*

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- **Key question:**
  - Would one choose to live in a society with hotspots - not knowing whether you could end up in one?
- If basic rights (health) at stake, need to consider maxi-min criterion
  - Pollution hotspots may make the weakest worse off
- Minimum “floor” on safety needed to protect basic right to health if we are to allow hotspots

# Broader case take-aways

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- Limits of markets – markets are powerful, but
  - May not internalize social cost
  - Willingness to pay  $\neq$  ability to pay
- Regulation can correct for these failures, but
  - Does trading scheme price in cost to residents?
  - Are minimum safety standards sufficiently stringent?
- If not, activists (politics) to “complete” the market

# Principled disagreements

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- Questions of justice are often subject to heated debate
- **One view:** impossible to find common ground
- **Another view:** People differ in principles of justice
  - Reflecting different assumptions on role of effort vs luck (and past inequities)
- Possible to find common ground depending on empirics about importance of effort vs luck
  - Luck/past inequities unimportant: preserve holdings
  - Luck/past inequities important: protect basic rights, rectify

# Up next

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- Corporate social responsibility
  - When markets and regulation fail
  - Social media and content moderation
- Toolkit
  - Structure of ethics arguments
  - Guiding ethical discussion
  - Quick scorecard generator