



Pay Inequality and Justice

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When Leslie, my wife, was 5 years old and her brother, Jeff, was 4, their mom gave each a penny. The four year old Jeff griped that his sister's penny was bigger than his. It seems as soon after we learn to speak we have a sense of justice as fairness. Jeff was mature in demanding that he be treated fairly, although his judgment about the penny was a bit off—something he is still trying to live down at family reunions forty years later.

Whether by nature or nurture we all seem to have a sense of justice as fairness. Moreover, we can get ornery--resentful, distrustful and uncooperative--if feel that we are being treated unfairly. In fact, being careful about maintaining as sense of justice may be necessary to hold our institutions together. At home and at school, if a parent or a teacher is seen as playing favorites, children will be unhappy and uncooperative. At the office or job site, if an employer does not fairly reward people for what they do, employees will become unhappy and uncooperative. One expert on business ethics observers, "Nothing fosters resentment faster than the perception that we are being paid less or given less recognition for our accomplishments." We want to be recognized and respected for who we are and what we do, we get mad when we're short-changed, exploited or abused.

This doesn't mean that everyone should be treated equally. In the early 60's Kurt Vonnegut wrote a biting satire, "Harrison Bergeron" about a perfectly egalitarian society. They way that this futuristic society made everyone equal was by handicapping people with talent. In the short story the United States Handicapper General saw that his minister handicapped anyone with superior abilities, even to the point of lobotomizing the highly intelligent. Vonnegut's story is a critique of taking the demand of justice that everyone be treated equally, too literally. It results in an unjust society. So while we want to be treated equally we also know that justice demands some unequal treatment. An ancient philosopher put this clearly, "equals should be treated equally; unequal should treated unequally." In our capitalist society judgments of fairness must balance considerations of merit with those of equality.

Recently there has been a lot of discussion that this balance is not being maintained in business. The concerns over the huge salaries and benefit packages are very real concerns. For example, a recent study by scholars at Northwestern University has noticed some disturbing trends. Over the last 35 years people earnings in the middle income distribution increased by about 11 percent, while wages for the people at the top of the income distribution have grown by 617 percent. The complaint is that this disparity is unfair, because those at the top don't merit this degree of wage growth. There're not that responsible for the great gains in productivity. The fruits of increases in economic

productivity are not being distributed fairly. Workers are not getting their fair share of the economic growth.

This was not always the case. There was a time when our economy was much fairer. For example in the 20 years following the Second World War the rate of wage increase for people in the middle was the same as for people at the top. The economic surge in productivity following the war made some people very rich, but in general the boats of the people in the middle tended to rise at the same rate as those at the top. In contrast over the last 35 years only 10 percent of American workers saw their incomes rise as fast as productivity. Even more alarming is “from 1997 to 2001, the top 1 percent captured far more of the real national gain in wage and salary income than did the bottom 50 percent.”

Our capitalist system is based on merit, and few have a problem with some people being rich. Part of our conception of fairness is that people with special abilities, who exhibit superior performance, work hard, generate clever and useful ideas deserve to be rewarded, not handicapped. The American dream is in part built upon the idea that the gold ring of economic success and upward mobility is there for anyone to grab who is able. As a recent editorial in *The Economist* puts it, “Inequality is not inherently [unfair]—as long as three conditions are met: first, society as a whole is getting richer, second, there is a safety net for the poor, third, everybody...has an opportunity to climb up through the system.” Just looking at the first condition, it seems our economy is currently failing this test of fairness.

Justice as fairness may be the ultimate virtue in business. It's the glue that holds the business community together. If workers think the performances of CEOs don't merit the big penny, then they are likely to become unhappy and uncooperative. At some point dissatisfaction will begin to affect our productive economy and the level of everyone's boats will fall. The current imbalance between the merit and rewards needs to be restored.