

A Critique of the Incentives Argument for Inequalities



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Abstract

According to the incentives argument, inequalities in material goods are justifiable if they are to the benefit of the worst off members of society. In this paper, I point out what is easily overlooked, namely that inequalities are justifiable only if they are to the overall benefit of the worst off, that is, in terms of both material and social goods. I then address the question how gains in material goods can be weighed against probable losses in social goods. The ultimate criterion, so my idea, is how these gains and losses affect a person's ability to reach her goals in life. Based on the idea that goals in life cannot be taken as given, I conclude that the absolute material gains are negligible compared to the losses of social goods and the disadvantage in the relative position caused by material inequalities.

Introduction

John Rawls has argued that inequalities are justifiable if they are to the greatest benefit of the worst off members of society. This idea is exploited in the so called incentives argument. The argument says that if we let the more productive earn more, everyone will be motivated to work harder and overall productivity will increase. By way of redistribution (via taxing), even the less productive will gain from these inequalities and thus everyone will be better off than they would be in an egalitarian society. Surely, insisting on an egalitarian distribution, when this means that everyone will have less than they could have, would be irrational. In particular, it would be irrational for the worst off to insist on equality. Thus, certain inequalities are not only in the interest of the more productive members, but also in the interest of the worst off members. Or so the incentives argument claims.

In this paper I will criticize the incentives argument on its empirical side. To do so, I will first offer a reconstruction of the argument. I will then ask in what sense it can be said of the worst off that they are *better off* in a liberal society. The answer will uncover the hidden empirical assumptions that underlie the argument, assumptions which I take to be flawed. However, the main aim of this paper is to clarify the conceptual and normative framework within which the empirical questions can be settled.

The Incentives Argument

I will reconstruct and discuss the incentives argument within the framework of Rawls's theory of justice.¹ Note that neither the argument nor my critique essentially depends on this framework. Note also that it is a matter of debate what amount of inequalities can be justified by the incentives argument (cf. [2, sect.3]). In what follows, I will assume a liberalist interpretation of Rawls according to which substantial amounts of inequalities can be justified.

Here's how Rawls himself put the argument:

According to the difference principle, [an inequality in life prospects] is justifiable only if the difference in expectation is to the advantage of the [worst off]. Supposedly, [...] the greater expectations allowed to entrepreneurs encourages them to do things which raise the prospects of [the] laboring class. [The entrepreneurs'] better prospects act as incentives so that the economic process is more efficient, innovation proceeds at a faster pace, and so on. ([6, p.68])

Very roughly, the argument contains one normative and one empirical premise.

(NP) Inequalities that are to the greatest benefit of the worst off are justifiable.

(EP) In a well-ordered society there can be substantial inequalities to the benefit of the worst off.

Therefore: In a well-ordered society, substantial inequalities can be justifiable.

(NP) is an abridged version of Rawls's difference principle. I will not criticize (NP) as such, but will rather ask how we are to understand the

notion of benefit. I will then cast doubt on the idea that, in the relevant sense of “benefit”, (EP) can be established.

Let me illustrate the argument with a comparison between an egalitarian and a liberal distribution, D_E and D_L . For the sake of simplicity we assume that in D_E everyone makes 30.000 EUR a year, whereas in D_L the more productive members make 40.000 EUR a year and the worst off make 35.000 EUR. It does not matter here, what makes the productive earn more and why the overall productivity differs. What matters is that, according to the incentives argument, the inequalities in D_L are justified simply because they (presumably) are to the greatest benefit of the worst off. But what is the sense of “benefit” at play here?

In the standard interpretation of Rawls’s difference principle, the benefit of the least well off is measured in terms of primary goods (cf. [6, p.55]). Rawls discusses three types of primary goods: income and wealth, positions of authority and responsibility, and self-respect (cf. [6, p.54]). I will later refer to the first type as material goods and to the latter types as the social goods. Note that the difference principle, in comparing different distributions, does not compare the different types of goods one at a time. Rather, the difference principle chooses that distribution as just, which provides *the greatest bundle* of primary goods to the least well off. Thus, in comparing different distributive schemes, it is possible that one bundle’s shortcomings in, say, material goods, are made up by its abundance of self-respect. However, Rawls did not provide for a metric of comparison, but proposed that comparing different bundles can be done on an intuitive basis. (This is also called the index problem, cf. [6, p.80]) Of course, self-respect is not itself allocated by the institutions that make up the basic structure. However, different distributions of the two other goods can have a tremendous influence on the distribution of self-respect. Even though it cannot be directly controlled for, Rawls considers self-respect to be the most important of all primary goods (cf. [6, p.386]).

The Neglected Social Goods

It is striking how little attention is paid in the discussion to the weighing of different primary goods. Even more striking is the fact that the social goods are hardly discussed at all. For instance, explanations and illustrations of the difference principle are exclusively given in terms of material goods.² This habit easily gives rise to the profoundly false idea that, according to the difference principle, material inequalities are

justifiable if they are to the greatest *material* benefit of the worst off. In what follows we shall keep in mind that, according to the difference principle, material inequalities are justifiable iff they are to the greatest *overall* benefit of the worst off, that is iff they are to the greatest benefit in terms of *both* material *and* social goods.

This reminder invites the empirical question whether, and if so, in what ways, material inequalities may affect the social goods of the worst off. I take it to be rather likely that material inequalities are detrimental to the social goods of the worst off. In Rawlsian terms: Material inequalities threaten equality of opportunity, social cohesion and fraternity, and the worst off members' self-respect. Further, they are detrimental to the worst off members' reaching positions of authority and responsibility. These worries have recently been empirically corroborated by Wilkinson & Pickett ([10]). They have convincingly shown that a wide range of social problems are more severe the more unequal a society is. The list includes lack of community life, long working hours, bad health, obesity, mental illness, environmental pollution, drugs, crime, violence, etc. These correlations hold for the poorer countries as well as for the rich. And what is most striking, not only the worst off members of society are negatively affected by inequalities, also the better off do less well in more unequal societies.

I will proceed on the empirical assumption that material inequalities are detrimental to the social goods of the worst off. That is, in a liberal distribution the worst off have less social goods than they would have in an egalitarian distribution. The proponent of the incentives argument now has to show that the worst off members' losses of social goods are outweighed by their presumed gains in material goods.

Material goods

To properly weigh losses of social goods against gains in material goods we have to understand better what material belongings (in short: money) are good for in general. Rawls considers money as an all-purpose good that does not have an intrinsic, but only an instrumental value (cf. [7, §17.2]). Money is often necessary (or, to say the least, helpful) for reaching one's goals in life and realizing one's conception of the good.³ The instrumental nature of material goods bears directly on the task of weighing losses of social goods against gains in material goods. How so? The ultimate purpose of material goods is to enable a person to realize her conception of the good. Thus, in comparing the benefit of a material

gain against the detriment of a social loss, we should ask in what way the material gain improves that person's chances of realizing her conception of the good. If, as I will argue, the material gain does not (much) improve the person's chances of realizing her conception of the good, then it cannot outweigh a substantial loss of social goods.

Let us begin by looking at the standard argument for the claim that it is reasonable to prefer more over less money. In a nutshell, the idea is this: The more money I have, the better my chances will be that I can reach my aims. Thus, other things being equal, it is rational for me to prefer more over less material goods. In Rawlsian terms, the idea is this:

I have assumed that the [parties in the original position] do not know their conception of the good. [...] How, then, can they decide which conceptions of justice are most to their advantage? [...] [T]hey assume that they normally prefer more primary [...] goods rather than less. [...] They know that in general they must try to [...] enlarge their means for promoting their aims *whatever these are*. ([6, p.123]; my emphasis)

Let me explain. The parties in the original position do not know whom they represent. That is, they do not know the aims and goals of the represented. In particular, they do not know whether these are costly or thrifty aims and goals. For instance, they do not know whether the represented prefers yachting or playing Frisbee in the park, whether he wishes to drive a fancy car or whether he's content with a cheap bike, whether he likes oat meal for breakfast or whether he craves quail's eggs. Thus, it is most rational for the parties to choose that distribution in which the represented has the most material goods, because in that distribution, so the assumption, he has the greatest chances of reaching his goals in life, whatever they may be.

I will argue below that this reasoning is flawed in taking the aims and goals of the represented as given. It fails to take into account the fact that the distribution itself will play a role in the shaping and development of the members' goals. But before I develop my critique in detail, let me introduce a conceptual distinction.

When asking how material goods influence a person's chances of reaching her goals in life, two aspects are relevant. I distinguish between *absolute wealth* (how much one owns in *absolute* terms, that is, irrespective of how much other members own) and *relative position* (that is, how much one owns relative to how much the fellow members of society own). If we apply this distinction to the example above we get

the following comparison: In D_L the worst off own *absolutely* more than everyone owns in D_E . However, at the same time the worst off own *relatively* less in D_L compared to how much they own in D_E . That is, in D_L the worst off have less than everyone else in D_L has, whereas in D_E they are on a par with everyone else.

Rawls's concern is about making the worst off *absolutely* better off. He thereby overlooks the fact that sometimes being *relatively* well off matters. In the following two sections I will suggest, first, that the relative position does indeed matter, and second, that the absolute position does not matter very much.

The Importance of the Relative Position

In this section I will propose that sometimes the relative material position matters. More precisely, the claim is that, sometimes, owning less than one's fellow members of society reduces one's chances of realizing one's conception of the good. Thomas Pogge has raised the same problem. He criticizes the assumption that

persons (as represented in the original position) take an incommensurably greater interest in their absolute than in their relative index position. For the simplest case of income and wealth this assumption is quite clearly implausible. Some of 'the good things in life' are positional goods. Access to them is scarce and therefore competitive. Whether I can own a secluded lakefront property, see a famous orchestra perform, show generosity toward friends and relations, or buy my children the toys owned by their peers, depends in part on how much money others can devote to these same purposes. If such positional goods are of some importance or if persons are susceptible to feelings of relative deprivation (or excusable envy), then it may be plausible to attach some commensurate importance to *relative* economic positions. ([3, p.198]; Pogge's emphasis)

Pogge eventually drops the critique, for he does not see how the relative disadvantage can be weighed against the absolute gains. I will try to offer a solution to this challenge. In any case, it should be uncontentious that, as far as competitive goods play a role in their conception of the good, the worst off will have a worse chance of realizing their conception of the good in the liberal distribution than in the egalitarian distribution.⁴

Let me add a remark on social comparison. Among the competitive goods cited by Pogge are different types of goods. A secluded lakefront property is a scarce good by its very nature and is presumably desirable in and of itself. The question what toys I can afford my children is competitive only as far as I (or my children) compare ourselves to the peers. Generally speaking, this is a case in which a person's contentment with what she owns depends in part on what other people around her own. This, it may be objected, is irrational, envious behavior that need not be taken into account by questions of distributive justice. I reply that calling it envy need not automatically discredit the desire. Being envious can either mean wanting another person to be as badly off as oneself, or wanting oneself to be as well off as another person. Only the first desire smacks of irrationality and malice. I believe the second wish is a rather common and understandable phenomenon. Rawls himself acknowledges that if inequalities grow too large, there may be such thing as excusable envy (cf. [6, §§ 80–81]).

The Insignificance of the Absolute Position

To defend the incentives argument its proponent now has to show that the *absolute* material gains of the worst off outweigh their losses in social goals and their relative disadvantage in material goods. But why should absolute gains in material goods be so important to begin with? In this section I will claim that, above a certain threshold level, the absolute position is fairly insignificant:

(IAP) Owning more in absolute terms does not much increase one's chances of realizing one's conception of the good.

First, let me explain the idea of a threshold value. Obviously, I do not want to claim that people who are struggling for nutrition, basic health and shelter wouldn't be helped by material gains. However, in the industrialized world a level of material well-being has been reached (presumably at some point in the 1960's or 70's) such that all basic needs are well covered and more gains in material goods do no longer directly improve the citizens' lives. Throughout this paper I will assume that we are dealing with distributions above the threshold only. That is, we are dealing with distributions that allow everyone to fulfill their basic needs including food, health, shelter etc.

Second, I will illuminate (IAP) from a Rawlsian perspective. Rawls assumes that the more money one has, the better one's chances of reaching one's goals in life will be. But, there is a fault in this line of reasoning.

For it takes the goals and preferences as given and only asks what distribution will serve best to fulfill these goals. This assumption overlooks the fact that goals and preferences are not given, but depend on the society and distribution in question. When comparing different distributive schemes we cannot simply take a person's goals and preferences as given. We must take into account that one and the same person will most likely have different goals and preferences in one scheme than in another.⁵

The parties in the original position do not know the conceptions of the good that the members of society, whom they represent and for whom they are to find the best distribution, have. This point is frequently overlooked, although it is built into the Rawlsian framework of a fair decision procedure: in comparing different distributions we must abstract from actual desires, wishes, and conceptions of the good. The relevant question is *not* this: How would I as a person (with given goals) fare as a worst off member in this society compared to how I as a person (with given goals) would fare as a worst off member in that society? Rather, the question is this: If I were a worst off member in this society (and had the goals typical for *these* worst off members), would I fare better or worse than if I were a worst off member in that society (and had the goals typical for *those* worst off members)? In comparing distributions we must take into account how these distributions would affect the goals and desires of the persons (especially of the least well off) living in that society.⁶

Once we realize that aims and goals cannot be taken as given, we can imagine the following situation. Suppose the parties had to compare two distributions. One is more prosperous, the other is rather simple. Accordingly, the worst off members of the prosperous society are materially better off in absolute terms than the worst off members of the simple society. Since I want to discuss the value of material goods only, let us assume that there is no difference in social goods between the two distributions. Now, is it rational for the parties to prefer the prosperous society over the simple one? According to the difference principle, the prosperous society is to be preferred. However, given some further information, this need not be the most rational choice. Even behind the veil of ignorance, the parties can have a good idea of how different distributive schemes affect the goals of the members living in these societies (cf. [6, § 24]). Assume that they have good reason to believe that the prosperous society tends to instill rather demanding goals in its members, whereas the simple society tends to create rather frugal and modest members. The parties might then come to believe that the

probability of the worst off members of the frugal society realizing *their* conception of the good is significantly greater than the probability of the worst off members of the prosperous society realizing *their* conception of the good. In this scenario it would be most rational for the parties to choose the frugal society over the prosperous one. What this shows is that it is not always rational to prefer more material goods over less (even social goods being equal). Thus, the rationale of the incentives argument “the more money, the better” cannot be taken as a truism of rationality. Rather, it is loaded with an empirical assumption, viz. that more money will lead to greater goal-achievement. Can this assumption be validated?

(IAP) says that more money does not improve goal-achievement (by much). The idea behind (IAP) is simply that, to a certain degree, people adjust their goals and preferences to their possibilities.⁷ If circumstances allow for an expensive taste (compared to either other members or other societies) they will be more likely to develop one. As far as material gains simply lead to the development of more costly conceptions of the good, there is nothing desirable about increasing material wealth (cf. [6, pp.80f.]). So this is my case for (IAP): In a more wealthy society, its members will be more likely to have costly conceptions of the good. As far as they do, material gains do not improve the members’ chances of realizing their conceptions of the good.

I will briefly discuss two objections against (IAP). First, let me address the fact that (IAP) as it stands is a rather counter-intuitive claim. I want to present two complementary ways in which the counter-intuitive nature of (IAP) can be explained away. First, (IAP) might easily be mistaken to make a claim about an individual’s benefit. The claim is not that, if one single person gets more money while everyone else stays the same, this person wouldn’t benefit from that gain. In fact, this claim would contradict my thesis of the importance of the relative position. Said person would indeed gain – among other things, because she now will have more money in relative terms. (IAP) is a claim about whole societies. The claim is that if the whole society’s material wealth increases this will not lead to a (significantly) better goal achievement.

My second attempt at explaining away the intuitive appeal of the “the more money, the better” rationale concerns the temporal or developmental aspects of material prosperity. It might be the case that it is profoundly important to people to have a feeling that they are improving in some sense over the course of their life. Hence, the intuitive appeal of “the more money, the better” may be partly due to the temporal sense

of “more”, that is, the sense of “more now than before”. The assumption that a temporal improvement matters is not challenged by (IAP), for (IAP) only makes a comparison between two distributions at one point in time. It does not speak to the developmental aspect of distributions.

I will now turn to the second objection, which mounts a *reductio* against (IAP): If it were true that the absolute level of wealth hardly matters, then in comparing two egalitarian societies with different levels of wealth, we would hardly have any reason to prefer the wealthy one over the less wealthy one. However, that seems absurd. If I could choose between living in a society in which everyone earned 30.000 EUR per year, or living in a society in which everyone earned 40.000 EUR per year, then, other things being equal, the latter seems to be the obviously preferable one! I have to admit the intuitive appeal of this objection. However, my critique of the incentives argument does not depend on this radical view. (IAP) allows for gradation and you can accommodate the above scenario by holding that, *ceteris paribus*, it is better to have more rather than less material goods. But the emphasis is on “*ceteris paribus*” here. When material gains in absolute terms are obtained by introducing material inequalities, the material gains in absolute terms are negligible compared to the substantial detriments caused by the inequalities (losses in social goods and disadvantages in the relative position).

Conclusion

I have first stressed the fact that inequalities are justifiable only if they are to the *overall* benefit of the worst off. I then distinguished absolute wealth from relative material position and proposed three empirical claims. First, material inequalities are detrimental to the social goods of the worst off. Second, owning less than one’s fellow members reduces one’s chances of realizing one’s conception of the good. And third, owning more in absolute terms does not much improve one’s chances of realizing of one’s conception of the good. I deliberately left open how big the losses in social goods are, how much exactly the relative position matters and how little the absolute positions matters. I would like to further claim that, in a weighing of all three factors, the absolute gain in material goods can never compensate for the degradation in relative position and the loss of social goods. Yet, I am acutely aware of the fact that this is an empirical question and that I have not provided sufficient data to back up this claim.

However that may be, my central aim was to uncover the empirical

commitment of the incentives argument. The proponent must hold that absolute gains in material goods enable one to much better realize one's conception of the good. The advantage has to be such that it outweighs the inequalities' negative effects on the social goods and the relative position. Since, as far as I know, proponents of the incentives argument haven't offered any evidence in support of this claim, and since the initial evidence presented here speaks against it, I take it that without further empirical backing the incentives argument cannot be upheld.⁸

Notes

- ¹ I will occasionally assume familiarity with certain details of Rawls's theory. However, I believe that the essential ideas presented in this paper can still be grasped without knowledge of Rawls's theory.
- ² See e.g. [5, p.140] and [7, §18]. Cf. also [4, p.81].
- ³ The realization of the conception of the good is what Rawls assumes to be the ultimate goal of the members of a well-ordered society. Note that I will use the notions of realizing one's conception of the good and of reaching one's goals in life interchangeably.
- ⁴ See also [1, p.429] on the importance of the relative position.
- ⁵ For similar criticism see [8].
- ⁶ For a similar point see [9].
- ⁷ Surprisingly, Rawls himself seems to accept this idea when he writes that "the members of society are rational persons able to adjust their conceptions of the good to their situation." ([6, pp.80f.])
- ⁸ For helpful discussion and critical comments I thank the audience at the Salzburg Conference for Young Analytic Philosophy 2010.

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