ACTA UNIVERSITATIS GOTHOBURGENSIS
ACTA PHILOSOPHICA GOTHOBURGENSIA 38

Giving Executives Their Due

Just Pay, Desert, and Equality

Alexander Andersson

UNIVERSITY OF GOTHENBURG

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Abstract

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Before, during, and after the global financial crisis of 2008, executive pay practices were widely debated and criticized. Economists, philosophers, as well as the man on the street all seem to have strong feelings towards how much, in what ways, and on what grounds executives are paid. This thesis asks whether it is possible to morally justify current executive pay practices and, if so, on what grounds they are justified. It questions those who find no quarrel with pay practices due to their minimally moralized view of the market and – perhaps more importantly – it asks for a sophisticated critique from those who criticize current pay practices.

The discussion on just pay is clearly one of distributive justice. One reason for why some people consider CEO pay practices to be (fairly) unproblematic while others find them objectionable stems from the availability of different understandings of, and principles for, just pay. We tend to associate justice in pay with such things as proper incentivization, being the outcome of a fair procedure, being deserved on the basis of effort or contribution, and/or satisfying the ideal of equality. Parts of this thesis are devoted to these different understandings and what they entail for the moral justification of CEO pay. Another reason for the conflicting views on CEO pay stems from how issues of justice go beyond the confines of economics and applied ethics, extending all the way into the domain of political philosophy. Parts of this thesis explore this connection, in particular how the concept of economic desert relates to the broader concept of moral desert. Lastly, I discuss the criticism that the superrich (including executives) are being paid too much and are in possession of too much wealth. The issue at hand here is how to morally justify the interventions that seem suitable to rectify the situation.

List of Papers

I. Andersson, A. and Sandberg, J. (2019). Moralising economic desert. In Cowton, C., Dempsey, J., and Sorell, T. (eds.), *Business Ethics after the Global Financial Crisis: Lessons from the crash*. New York: Routledge.

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III. Andersson, A. (manuscript). Who deserves the most? CEO pay and contribution-based desert.

IV. Andersson, A. (manuscript). When too much is more than enough: An egalitarian argument for maximum income policies.

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However, there are many people I wish to thank – and since no one's memory is perfect or faultless (including mine) – I will probably forget to thank some of you who have helped me on the way. I apologize in advance for this social embarrassment. Mentioned or unmentioned, if you are reading this you are with all likelihood one of the individuals who made this thesis possible. For this I owe you my deepest gratitude.

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Alexander Andersson, Borås, 2021

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Prologue

In 2008, the global financial crisis resulted in almost seven trillion dollars of losses in stock market wealth and wiped out nineteen trillion dollars of household wealth in the U.S. (Carney 2009; U.S. Treasury Department 2012).[1] Millions of people lost their jobs, homes, and savings due to neglect and careless behavior by executives, bankers, and credit agencies, among others. Part of what made the crisis controversial was how it seemed to highlight a central inequality in society: On the one side there was Wall Street, filled to the brim with generously paid executives who essentially had nothing to lose by taking on extremely risky bets. One the other side there was Main Street, filled with people like you and me with ordinary paychecks – who eventually had to take the brunt of the cost for bailing out the failing banks. In the U.S., only *one* person in the financial sector was sentenced to prison for his actions that led up to the crisis (Noonan et al. 2018). In what followed, states promised to introduce legislation that would put an end to 'too big to fail' banking, perverse incentives, and risky financial activity. The public spoke up through movements such as Occupy Wall Street, protesting financial recklessness, economic inequalities, and executive pay practices.

Over the years, as I told the curious that my thesis is about the moral justification of executive compensation, I was usually met with the following kinds of reactions. The first was a sarcastic exclamation: "As if there is any *morality* to the market!". This can, of course, be interpreted in a variety of ways. Some implied that market activities are not subject to moral evaluation (i.e., a 'morality free zone'). Simply put, what happens in the market is 'just business'. Another idea that was expressed was that the market *is* subject to moral evaluation, but I should not expect to find any virtue in my inquiry. Market actors are greedy, selfish, reckless, Patrick Bateman types that are willing to break any moral rule found in common sense morality in order to get richer (or

[1] Due to the complexity of the financial sector and the crisis itself, the numbers cited in reports on the crisis are estimates. For further perspectives and analyses on what the financial crisis cost, see Epstein and Montecino (2016), Igan et al. (2019), and Better Markets (2015).

something like that). Other responses targeted the executives. It was said that top executives are undeserving of their high pay, that they are getting bonuses for simply doing their job, and that they are contributing little if anything at all to society. The general picture of an executive as a middle-aged white man who oversees cash-grabbing 'evil' companies that contribute to financial crises, global warming, exploitation, or overpriced pharmaceuticals does not make the judgment any more lenient.[2] As Heath (2018: 3) describes it: "The one thing that can be said with certainty … is that the way wages are set in a market economy strikes most people as morally counterintuitive, if not positively unjust." If executives do not do anything of value but still get paid millions of dollars, it should be quite a simple task to criticize these pay practices on moral grounds. However, matters are seldom black or white, including executive pay.

This thesis asks whether it is possible to morally justify current executive pay practices and, if so, on what grounds they are justified. It questions those who find no quarrel with pay practices due to their minimally moralized view of the market and – perhaps more importantly – it asks for a sophisticated critique from those who criticize current pay practices. It is easy to have strong reactions on these matters, but simply being upset about something should not count as valid grounds for criticism. As with all matters in moral philosophy, the fact *that* we find something to be wrong is never as important as *why* we find something to be wrong. If there is no principled reason why we should find something to be wrong, then it is in order to reevaluate our intuitions. Hence, one could say that the assignment of this thesis is to spell out the principled reasons that would potentially validate our intuitive objections toward current executive pay practices.

Throughout the thesis I will use the terms 'CEO' (chief executive officer) and 'executive' interchangeably. Although the latter category could also refer to other executive positions such as chief financial officer (CFO), chief operating officer (COO), or chief technical officer (CTO), CEOs are the main target for criticism when it comes to executive pay practices.[3] This can be explained by the fact that the CEO, as the highest-ranking officer in the company, is ultimately where the buck stops. Another explanation for scrutiny is that CEOs

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[2] Unless there are good reasons for doing otherwise (e.g., spelling out the caricature above), I will use the gender-neutral pronouns of they/them when referring to executives in the introduction to this thesis.

[3] Note that not all companies have a group of specialized executives, and it is not uncommon for CEOs of smaller companies to also act as CFOs and COOs.

are, in general, the highest paid executives and thereby the recipients of 'excessive' or 'undeserved' payouts. Yet, this thesis concerns the justification of executive pay practices and pay inequalities in general, which is hence applicable to any top earning individual in a company and not limited exclusively to CEOs.

This introductory chapter is an examination of CEO pay from the perspective of moral philosophy. It is a step-by-step progression from the empirical matters of compensation plans to the more abstract and philosophical questions regarding just pay and justice itself. In section 2, we start by looking at the numbers and composition of CEO pay, as well as the economic rationales for modern compensation plans. In section 3, I elaborate on the question of what a just pay is by investigating four normative grounds from which we can assess compensation levels and compensation plans. The normative grounds, which I call mid-level principles of just pay, are incentive-based views, procedural views, desert-based views, and equality-based views. Section 4 dives deeper into philosophical matters. It investigates in what way, if at all, the mid-level principles represent principles of justice. Hence, it is an examination of whether or not mid-level principles live up to the standards of – and whether we should accept their judgments on just pay as *just* from – the following four principles of justice: libertarianism, utilitarianism, egalitarianism, and desert theory. Section 5 introduces the papers and demonstrates how they relate to the overarching theme of the thesis.

Deconstructing CEO pay

CEO pay in numbers

Executive pay levels have become a frontpage story and subject to criticism, especially in times of financial distress (e.g., the dot-com bubble, the global financial crisis of 2008). Every year, the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) releases a report titled 'Executive Paywatch'. The report discloses, among other things, the pay levels for every CEO at the S&P 500 companies. In 2020, these CEOs received on average $15.5 million in total compensation, and the ratio for average CEO pay to median employee pay was 299 to 1 (AFL-CIO 2021). The pay differences are widely debated, and on average – with the exception of the odd spike and valley – executive pay has been increasing dramatically for the past 40 years (Hargreaves 2019; Kolb 2012). One new feature of 2020 was that most companies had to take drastic measures in order to survive the economic effects of the Covid-19 pandemic. This forced many companies to furlough large parts of their workforce. Yet, as AFL-CIO reported during the pandemic, twenty CEOs who furloughed the majority of their workforces due to Covid-19 earned more than 1000 times their median employee's compensation in 2019. The total compensation of these twenty CEOs could have supported at least 30,000 jobs at their companies' median employee level of compensation (AFL-CIO 2020). Furthermore, some executives seemed to thrive even as their companies were down on their knees.

> Norwegian Cruise Line barely survived the year. With the cruise industry at a standstill, the company lost $4 billion and furloughed 20 percent of its staff. That didn't stop Norwegian from more than doubling the pay of Frank Del Rio, its chief executive, to $36.4 million. And at Hilton, where nearly a quarter of the corporate staff were laid off … Hilton reported in a securities filing that Chris Nassetta, its chief executive, received compensation worth $55.9 million in 2020. (Gelles 2021)[4]

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[4] It should be noted that Hilton made the following comment on the filing of Nassetta's pay: "A Hilton spokesman said the $55.9 million figure reported in the company's annual filing did not reflect Mr. Nassetta's actual pay. Because of the pandemic, Hilton

The structure of CEO compensation is a complex matter, which is mainly due to the numerous ways that CEOs are compensated. These methods of compensation have also varied throughout the years. An executive in the 1980s was compensated in a significantly different manner compared to how executives are compensated today. For the modern CEO, the major parts of the compensation package are the base salary, bonuses, and equity rewards (i.e., stocks and options). On top of this, there are also other perks and benefits such as pension plans, retirement accounts, postretirement benefits (e.g., consulting contracts), apartments, cars, and – in extreme cases – private jets. The term 'total compensation' is the sum of all the parts of CEO compensation and, unless otherwise stated, is what I will refer to when discussing CEO compensation.

Most research on CEO pay, including this thesis, zooms in on American executives. There are several reasons for this. First, the Dodd-Frank Act that was implemented after the financial crisis of 2008 allows us unprecedented insight into how the so-called 'CEO pay machine' works in the U.S.[5] American businesses are required to be almost completely transparent when it comes to how much and in what ways they are paying their CEOs. The data on, for example, compensation packages for European CEOs is not nearly as accessible or detailed (see Kotnik et al. 2018; Conyon et al. 2013).[6] Second, even though there might be similar pay ratios for CEOs in a few other countries, the pay difference between the average CEO and the average worker in the U.S. is in general exceptionally high compared to other (developed) countries. Consequently, it makes for a much more interesting case from a moral point of

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restructured several complex stock awards. As a result, Mr. Nassetta's actual earnings for 2020 will be close to $20.1 million, a slight decrease from 2019." (Gelles 2021)

[5] For example, AFL-CIO's annual report is a product of this legislation. That is not to say that regulation works as a general solution to mitigate excessive CEO pay: "Over the seven-year period following each recent major regulation, SOX [Sarbanes-Oxley] and Dodd-Frank, total compensation significantly increased. Total compensation increased 30 percent following SOX and 21 percent following Dodd-Frank." (Hughen et al. 2019: 244)

[6] Kotnik et al. (2018: 2) write: "Even though the European public is highly interested in the implications of executive pay for resource allocation and economic performance, the debate on CEO pay in Europe is far behind that of the United States because of lack of data … The transparency of CEO compensation continues to be problematic in Europe, in spite of several European Commission recommendations addressing its disclosure requirements in listed companies … Because of the problems of adequate information and its interpretation, assessing remuneration and comparing it between companies, especially across borders, is costly and time consuming."

view. The larger pay difference in the U.S. are of course caused by several factors: extremely low minimum wages, favorable tax rates for the rich, market-friendly politics, etc.[7] Another explanation for the high level of inequality appeals to the capitalist spirit of America: "Compared with almost all other countries, the United States tends to have a greater tolerance and appreciation of great wealth, if it appears to be acquired through merit and the creation of value for others" (Kolb 2012: 162). Third, the discussion on CEO pay in the philosophical literature predominantly focuses on the U.S. market. I believe this is mostly due to the aforementioned reasons, but another reason for this is that we still view the U.S. – correctly or incorrectly – as an economic superpower. Accordingly, there is a disproportionate volume of empirical as well as philosophical research on American CEOs compared to, for example, European or Asian CEOs.

However, if we take a closer look at non-U.S. firms, we can make some interesting observations, even if it is difficult to establish any general conclusions. Some of the higher CEO-to-worker pay ratios can be found in Canada (202:1) (Macdonald 2021: 4), the U.K. (126:1) (Kay and Hildyard 2020: 4), and France and Ireland (113:1 and 211:1 respectively) (Kotnik et al. 2018: 22).[8] At the lower end of the spectrum we find Japan, with a 58:1 ratio (Vogel 2019), and South Korea, which reportedly has a staggeringly low ratio of 4.5:1 (Gwon and Moon 2019). One should of course be wary about reading too much

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[7] In fact, the average minimum hourly wage in the U.S. ($7.20) has been decreasing since the 1980s (Piketty 2014: 389).

[8] Note that different studies may find different pay ratios for the same country. For example, whereas Kay and Hildyard (2020) suggest that the U.K. pay ratio is 126:1, Kotnik et al. (2018) find the U.K. pay ratio to be 105:1, and in Duarte (2019) the U.K. ratio is reported to be 201:1. There are several reasons for this discrepancy. First, different studies have different sample sizes in terms of how many firms are included. Second, different companies are represented in different studies. Kotnik et al. (2018) are explicit about excluding companies that pay their CEOs extremely high and extremely low levels of compensation. Third, as pay levels change with time, studies conducted at different times will generate different results. Fourth, the pay ratio is also dependent upon how one accounts for the worker pay. For example, whether or not one includes social security contributions makes a large difference. Lastly, some studies track the *average* CEO pay to the *average* worker pay, whereas others track *median* CEO pay to *median* worker pay (and some track median-average or average-median). Unfortunately, not all studies are explicit about which specific measurements they weigh up against each other (under the vague name 'CEO-to-worker pay ratio'). Hence, the pay ratios presented here should be seen as rough estimates rather than numbers set in stone.

into these numbers, since they are made up of very different components.[9] There are some commonalities between these countries – for example, that firms in the countries with the highest pay ratios tend to be the ones who offer most of their CEO pay in equity rewards – but there are also large differences to be found on the European continent. Cash-based compensation (salary and bonuses) makes up for 50% of the compensation package on average for the European CEO. However, whereas bonuses based on multi-year performance are the dominant compensation form for German CEOs, they are a rare sight for U.K. executives. Similarly, stock options are a common feature in French and Danish CEO compensation packages, but are basically non-existent in the Swedish CEO market (Kotnik et al. 2018: 14). And even if Spanish executives mainly receive their pay in cash-based compensation (85%), they are still, on average, compensated more generously than their equity-biased Danish peers (€3.5 million vs. €2.9 million) (Kotnik et al. 2018: 14). So even though we usually link high CEO pay with high equity rewards, they do not necessarily correlate. As will become clear throughout the introduction to this thesis, the different ways of compensating a CEO pertain to different rationales. Hence, some CEO markets are more vulnerable to criticism than others, depending on what one finds problematic about CEO pay.

Why is it, then, that U.S. (and some European) CEOs are paid so handsomely compared to their Japanese and Korean peers? Some account for the international differences based on cultural factors, while others argue that it is mostly a matter of domestic legislation (see Tosi and Greckhamer 2004; Haynes 2014; Kotnik et al. 2018). Further differences are more apparent, such that Asian firms mainly pay their CEOs in base salaries (around 65-70%) and rarely grant their executives equity rewards (Lee and Wu 2020; Pan and Zhou 2018). Another feature of the Asian market is that CEO pay is mostly insensitive to firm size and performance, creating a pay uniformity across firms. These companies have also historically favored seniority-based pay over performance-based pay, and have focused on intra-firm promotions when it comes to recruiting executives instead of external headhunting (Shin et al. 2015; Pan and Zhou 2018).

[9] In fact, some argue that it is counterproductive to criticize CEO pay based on these pay ratios. For example, companies that want to retain a low CEO-to-worker pay ratio might be incentivized to outsource cheap labor in order to get a more favorable pay ratio. For discussions on this matter, see Edmans (2017), Boone et al. (2020), and Kay and Hildyard (2020: 40).

Still, Asian and European CEO pay practices are becoming more similar to the American model each year, in terms of both how much CEOs are paid compared to the average worker and how they are paid (Morita et al. 2019). And even if the overall focus of this thesis will be on American executives, the moral problems and conclusions from the discussions are applicable to all instances of problematic CEO pay. Hence, even if European and Asian CEO markets are not as extreme, their U.S. counterpart can act as a cautionary tale for what lies ahead as more firms adopt the American model around the world.

Another way to look at it is to compare CEO pay by industry. In Sweden, where the median base salary for a CEO is €96,000 annually, there are large discrepancies depending on which sector the CEO operates in (Svenskt Näringsliv 2021).[10] The median base salary for CEOs in the financial sector is €142,000, whereas CEOs in the construction sector receive less than half of that, at €65,000 annually (SCB 2021; Svenskt Näringsliv 2021). By contrast, on a European level, financial CEOs 'only' rank fifth in terms of average total compensation (€4.1 million), while CEOs in the IT sector occupy first place (€10 million) (Kotnik et al. 2018: 16). One can also observe that the highest CEO-to-worker pay ratios are generally found in the retail industry, whereas one of the lowest ratios can be found in the financial sector (Kay and Hildyard 2020: 6; AFL-CIO 2021). One reason for this is that the former sector has a higher number of low-paid jobs, whereas entry-level wages for the latter are comparatively much higher.

For the remainder of this section, I will take a closer look at the different components of CEO pay. I will also delve deeper into why companies have chosen to rely more heavily on performance-based pay in the form of bonuses and equity rewards. Lastly, I will highlight some of the difficulties that arise with these kinds of compensation plans.

[10] For the sake of simplicity (and style), all non-U.S. and non-E.U. currencies will be converted into U.S. dollars or euros (at the current exchange rate in October 2021). In the case of the Swedish CEOs, their SEK 962,400 annual median pay is roughly equivalent to €96,000. Also, the figures for Swedish CEOs are originally stated in monthly base salaries, but are here converted into annual pay.

The composition of CEO pay

Salary

The base salary is perhaps the most intelligible part of CEO compensation. It is not wrapped up in complex arrangements, and it is not tied to company performance in the same way as other forms of compensation. Basically, it is straight cash. Today, it constitutes one of the smaller parts of the compensation for the American CEO, averaging around 8-12% of the total compensation package (AFL-CIO 2021; Kolb 2012). Hence, for a total compensation of $15 million, the base salary could be anything from $1.5 million to $1. (I will address the special case of $1 salaries below.)

It was not always the case that the salary played such a minor role in total compensation. Deregulation and regulation have both played large parts in why companies decided to gradually move away from mainly compensating their executives in cash. Whereas the CEO-to-worker pay ratio was fairly stable at 20 to 1 between the 1950s and the end of the 1970s, the deregulatory market-friendly politics that characterized the 1980s allowed for CEO compensation to soar compared to what the average worker received during the same time period (Mishel and Wolfe 2019: 8). However, even stricter regulation has caused CEO pay to rise. Under the Clinton administration, Congress passed the Omnibus Budget Reconciliation Act (OBRA) in 1993. One particular section of OBRA, 162(m), specified that "CEO compensation in excess of $1 million could not be deducted by the firm as a business expense, unless the pay over and above $1 million qualified as 'performance-based' pay" (Kolb 2012: 12). The intention was to limit CEO pay by making it more costly for companies to compensate their CEOs excessively. What happened instead was that most CEOs, whose salary averaged $700,000 before OBRA, got a pay raise up to or even above the million-dollar mark (Kolb 2012: 12). More importantly, however, most companies started to compensate their CEOs mainly in forms other than a salary. Performance-based pay in the form of stock options, long-term incentive plans (LTIPs), pensions, and deferrals became central as these forms of compensation were exceptions under 162(m) (Clifford 2017: 86).

This is also why one should not be surprised to see that Mark Zuckerberg (Facebook), Sergey Brin (Google), or Meg Whitman (eBay) have accepted $1 salaries (Wood 2014). This low annual salary benefits the recipient as well as the giver. First, since capital gains are taxed more favorably than wages, it is in the

interests of the CEO to be awarded as little as possible in wages. Second, the $1 salary paints the picture that the company and its CEO are altruistic (i.e., leaving more to their fellow employees), thereby boosting the public image and potentially attracting more capital. Combine this with a CEO who mostly receives his or her compensation in equity, and it gives the impression that the CEO's interests align with those of the shareholders. Lastly, it writes down business expenses for the company since most non-salary compensation can be categorized as performance-based pay.

Bonuses

A common way to think of bonuses is as a cash reward handed out to employees after the end of a successful fiscal year. CEO bonuses, however, come in a variety of forms. They can be qualified or nonqualified. Bonuses in the former sense are performance based and tax deductible as per 162(m), while the latter kind is not performance based and is paid out regardless of results. Bonuses need not be paid out in cash, either. For example, the CEO can be rewarded with stocks as well. Lastly, bonuses can be focused on short-term goals (e.g., annual company performance) or part of LTIPs. Consequently, depending on what kind of bonus we are talking about, it makes up either a smaller part (e.g., cash bonus) or a majority (e.g., stocks) of the total compensation.[11] Since I will discuss equity rewards in detail below, let us for now focus on cash bonuses.

The most widely used qualified bonus plans are non-linear bonus plans (see Larkin and Leider 2010; Freeman et al. 2019; Clifford 2017; Murphy and Jensen 2011). We can break these down into three different parts: the lower performance threshold (i.e., the bogey), the upper performance threshold (i.e., the cap), and the performance target. The bogey is the threshold the CEO must surpass in order to receive a bonus in the first place. It is tied to performance measures, such as stock price, earnings-per-share (EPS), return-on-equity (ROE), and so on. For example, the bogey can state that, at the end of a fixed

[11] Note that there are differing views on what percentage of the total compensation is made up of cash bonuses. For example, Bachmann et al. (2020) claim that cash bonuses represent a substantial part of a CEO's compensation package, whereas AFL-CIO (2021) numbers show that it only makes up around 15% of the total compensation for CEOs. I will not delve any deeper into this discrepancy, since I believe that the underlying issue with cash bonuses is not whether it is a substantial or a smaller part of the compensation package, but the conditions that CEOs have to meet in order to be eligible for a payout.

term, the CEO has to make sure that the company stock price is $10 (or higher). If the stock price is $9.99 or lower at the end of the term, the CEO will be without a bonus. Once past the bogey, the bonus will increase in correlation to performance, but only up to a certain point. This is the cap. Suppose that this upper threshold is a stock price of $15. Regardless of whether the CEO manages to increase the stock price to $15 or $100, the cash bonus will not increase past this point. Between the bogey ($10) and the cap ($15), we will find the performance target (i.e., what the board actually wants from the CEO), which in this case is $12.50. Hence, non-linear bonus plans such as these, where a so-called incentive zone is set around a performance target, are referred to as '80/120 plans' since the bogey and the cap create an 80 percent to 120 percent zone around the target performance (Murphy and Jensen 2011: 5). The technicalities of non-linear bonus plans might seem purely academic at the moment, but will become relevant when we discuss the effects of performance-based pay later.

Executive stock options

As with bonuses, stock rewards come in many different forms for the CEO. The most common form of stock reward, and the one I will limit myself to in this discussion, is executive stock options (ESOs). ESOs, like standard stock options, grant the CEO the right to buy a specified amount of company stock at a predetermined price at a future date (i.e., call options). For example, the CEO can be granted the right to buy 1000 shares in the company at the strike price of $10 in ten years (and up until a certain date).[12] After ten years, the options could be 'in the money', meaning that the underlying stock price is higher than $10. In this case, the CEO can exercise their option to acquire the shares and either keep them or sell them at a profit. The options could also be 'out of the money', meaning that the stock price is either equal to or less than $10, rendering the options worthless. This is because there is no value in buying the right to purchase the underlying stock at a higher price or an equal price since, in that case, it is better to buy the underlying asset itself.

ESOs differ from standard stock options in three ways. First, the CEO can only exercise the options, they cannot sell them. Second, ESOs come with a so-

[12] Kolb (2012: 56) distinguishes between European and American standard stock options, with the former being a contract that can only be exercised on the expiration date, and the latter being a contract that can be exercised at any time up until the expiration date. This difference should be noted, and ESOs typically follow the American standard.

called vesting requirement, meaning that the CEO only receives the full right over the options if they stay at the company for a specific period. As Kolb (2012: 18) notes, the non-transferability forces the CEO to be invested in the future of the company since they cannot get rid of the options before the vesting period (unless they resign, in which case the ESOs are forfeited). Going back to the hypothetical ESO above, one can add a vesting requirement of five years for the CEO. Assuming that the CEO stays at the company for five years, they are then eligible to exercise the $10 option for 1000 shares from the date when the options are 'activated' and up until their expiration date (say, ten years after the vesting date).[13] Third, unlike standard stock options, where the contract holder is granted the right to buy existing stock, when ESOs are exercised the company issues new stock to cover them. Strictly speaking, this means that ESOs are not options but warrants (Eberhart 2005). One reason why this difference is important concerns dilution (Cuny et al. 2009: 408). Suppose that a company has 100 shares outstanding at $10 and that the CEO has 100 ESOs that vest in the coming year. Before the ESOs vest, a 1% stake in the company is valued at $10. However, assuming that the stock price does not move before the vesting period, a shareholder's 1% stake in the company is now cut to 0.5% as the new stocks are issued. Subsequently, the value of the stock is halved since investors would have to double their original investment to regain their original stake in the company.

Some companies will buy back some of their shares to counter the dilution effect that comes with ESOs. One downside of this is that instead of financing new projects and ventures in research and development, thereby creating more value for shareholders, money is instead spent on financing a payment scheme that mainly benefits the CEO. This means that the company, which in theory does not spend anything on ESOs (due to the issuing of new stock), is effectively buying the CEO's vested ESOs in order to negate the effects of dilution (turning it more or less into a cash bonus).

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[13] Vesting requirements do not only apply to ESOs, but can be applied to restricted stocks as well. For example, in 2011 Tim Cook received 1 million restricted stock shares in Apple with a vesting period of ten years. Part of the deal was performance-based and required Cook to deliverer significant shareholder returns. The other part required that Cook stayed with Apple during the vesting period (Kolb 2012: 63).

Perks and benefits

Up to this point, we have seen that the CEO is granted a base salary, cash bonuses, and equity rewards. But there are other benefits that the CEO can be awarded that do not fit into any of the aforementioned compensation forms. These include "pension plans, retirement accounts, departure payments, change-of-control payments, alteration of stock and option grants to make the terms more favorable, perquisites while the executives are in office, postretirement perquisites, postretirement consulting contracts, executive loans made on better-than-market terms, and forgiveness of loans once they have been issued" (Kolb 2012: 20).[14] Of the more extravagant miscellaneous perks, there are also the occasional paid-for flights on company jets, luxury apartments, security protection, and other 'business expenses' (Clifford 2017: 99). As the dealings of these perks and benefits vary widely from one company to another, there has been little research on the more eccentric agreements made between CEOs and boards of directors. Still, it is appropriate to acknowledge these unique features of CEO compensation packages.

In what follows, I will discuss some of the reasons why companies have elected to move toward performance-based pay, starting with the agency problem.

The agency problem

Whereas the compensation plan for the average worker is seldom tied to company performance, it is usually the standard for executives. One important reason for this is that the CEO has (presumably) a lot of control over the fate of the company. Hence, in order to make sure that the CEO does not merely look after themselves but also looks after the company, one can tie the executive to the ship's mast, so to speak. In more scholarly terms, this problem is usually called the agency problem (see Bebchuk and Fried 2003: Kolb 2012: 27). It arises when the interests of the principal (the shareholders or the board of directors) diverge from the interests of an agent (the CEO) who is hired to act on the principal's behalf (Jensen and Meckling 1976).

In theory, performance-based pay – in the form of qualified bonuses and ESOs – is supposed to align the interests of the executives (the shareholders,

[14] Kolb (2012: 20) also remarks that loans from firms to executives are now deemed illegal.

the board of directors, the employees, etc.) with those of the company. But, as many have acknowledged, perfect alignment is not possible since "even the best-designed plans contain exploitable flaws" (Jensen et al. 2004: 50). The alternative is to go for the second-best option and ask: "Can the compensation package be set to align the incentives of the utility-maximizing CEO with the interests of the shareholders to create as much shareholder value *as possible?*" [my emphasis] (Kolb 2012: 29). Tying qualified bonuses to, say, stock prices is one way of aligning the incentives, since the CEO will only be eligible for the bonus payout if the shareholders benefit. A CEO who is granted ESOs will have reasons to improve the firm's performance so that the stock price increases as the ESOs are about to vest. Furthermore, the vesting requirement is supposed to ensure long-term gains over short-term gains. This is because the CEO would not want to jeopardize long-term performance if the vesting horizon lies far ahead in the future. Hence, by issuing ESOs, the company incentivizes the CEO to increase the stock price, or the underlying aspects that will increase the stock price. As Kolb (2012: 60) puts it: "[F]rom the point of view of the firm, granting ESOs provides powerful incentives for creating firm value, which is exactly what the firm desires, but if that increase in value does not materialize, there is no ultimate cost to the firm". But are even second-best solutions good enough to avoid agency problems? This is what we will look into next.

Unintended effects of performance-based pay

Let us start with the example of non-linear bonus plans. Given the bonus plan's anatomy, there is little reason for the CEO to maximize company performance, or at least report to the board of directors that there is the potential to maximize company performance. The CEO has no incentive to improve company performance once past the bonus cap, since there is no additional benefit for the CEO in doing so. In fact, if the CEO is outperforming, reaching performance levels beyond the cap, the expectations and bonus conditions for next year will in all likelihood increase. The CEO will then have reason to reduce performance for an exceptional year by either delaying revenues or accelerating expenses. The counterproductive nature of limiting rewards beyond a certain point becomes apparent in the following quotation from a CEO, who had bonus cap of a 15% increase in return-on-equity (ROE) for one year, which he knew he could surpass if he wanted to.

> I'd have to be the stupidest CEO in the world to report an ROE of 18%. First, I wouldn't get any bonus for any results above the cap. Second, I could have saved some of our earnings for next year. And third, [the board of directors] would increase my target performance for next year. (Murphy and Jensen 2011: 3)

This problem is mirrored at the other end of the bonus plan, that is, at the bogey. If a CEO is struggling to reach a performance even past the lower performance threshold, there is no incentive to salvage the situation. Any performance below the bogey, regardless of how bad it is, will still leave the CEO without a bonus. Hence, even here there is reason for the CEO to increase expenses or move revenues to a later period and write it off as a 'bad year'. This will then curb the expectations in the annual budget negotiations, making it as easy as possible to reach the target performance for the coming fiscal year (Clifford 2017: 90; Kolb 2012: 50). Another issue related to the bonus bogey is that executives who predict that they will not meet the requirements for a payout may initiate stock buybacks. This is especially relevant for payouts based on the earnings-per-share (EPS) metric, since it is very easy to inflate EPS by decreasing the number of outstanding shares (Fried and Wang 2018; Brettell et al. 2015; Lazonick 2014).

ESOs come with an array of different problems. In theory, they appear to be a viable instrument for aligning the interests of the CEO with those of the company in the long term. Consequently, the more ESOs the company can throw at the CEO the better, since options will only be a cost to the company when, and if, the ESOs are exercised. However, ESOs constitute a huge risk for the CEO, since the more of them they have, the more tightly they are bound to the mast with a smaller chance of getting away if the ship sinks. Much like everyone else, executives want a diversified portfolio, and given that ESOs tend to make up a large part of the CEO's portfolio, basically all of their potential wealth will be tied to the success of their company (Kolb 2012: 85). This creates a personal incentive for the CEO to exercise their ESOs as soon as they vest and sell the stocks so they will have the means to diversify. The company, however, would prefer the CEO to hold on to the ESOs for as long as possible. This is because exercising ESOs dilutes the stock, which calls for stock buybacks on the company's behalf, and it also removes the long-term commitment for the CEO to the company. Additionally, in order to reintroduce the long-term engagement, new ESOs will likely be issued to the CEO. Hence,

the agency problem is more or less like a game of whack-a-mole where new issues will arise from instantiated remedies.

The second issue with performance-based schemes, especially those tied to detailed performance targets, is the information asymmetry between the CEO and the board of directors.

> The CEO can engineer a bonus simply for doing his job because he holds better cards than the board. Most boards and comp committees meet four to six times a year; the CEO is there every day and he knows what measures are and are not within his power to achieve, honestly or through manipulation. He knows everything the board knows, but the board knows only a bit of what the CEO knows. The directors get most of their company-specific information through him; he controls a large organization with staff, information systems, and institutional memory. (Clifford 2017: 92)

Hence, the CEO knows what is and what is not achievable within a year. Even though the CEO knows that the company could perform at a higher level, it is only rational to seek out performance targets that are not demanding. That way, there is less effort for a guaranteed reward. Ultimately, it creates incentives to stagnate business performance, not increase it. I will return to information asymmetries later on. Next, we will briefly look into how external rewards can affect intrinsic motivation.

Extrinsic motivation and the crowding out effect

The critic will likely point out that even though bonus plans might incentivize CEOs to perform on a subpar level, it is naïve to think that they are only motivated by their greed. It is reasonable to assume that CEOs care about the company they are working for, that the challenges and complex tasks that come with the job are stimulating, that they take pride in delivering outstanding performance, or that they believe that a good track record increases their market value.

> A responsible professional that is so handsomely rewarded would strive to do a good job because she takes professional pride in her work and wants to earn her compensation, as would any ethical person. Being well-paid, she would also like to keep her present lucrative position and expand future job opportunities by performing well in her role. (Kolb 2012: 29)

In other words, apart from the extrinsic rewards that come in the form of salary and performance-based pay, the CEO must have some kind of intrinsic

motivation to be a good employee. This is an important point, and the research community has recently started to take an increased interest in how intrinsic and extrinsic motivations for work relate to each other, namely that extrinsic rewards sometimes may undermine or "crowd out" intrinsic motivation (see Deci et al. 1999; Frey and Jegen 2001; Bowles and Polanía-Reyes 2012; Kuvaas et al. 2017). For example, if the board requests a 15% increase in stock price one year, the CEO might (and perhaps even should) feel motivated to take on the task, partly because it is the CEO's job to increase firm performance, but also because – depending on how difficult it would be to reach that target – it is rewarding in itself to succeed with the goal. As is usually the case, the board requests the increase, *but* they also state that if the CEO hits the target performance, they will be rewarded with $1,000,000. One might think that this creates an additional incentive for the CEO to complete the task, making them even more productive, but it might then be the case that the promise of a bonus crowds out the initial intrinsic motivation for doing so. This means that the CEO's motivation to reach the target is entirely contingent upon them valuing the monetary reward.

The fundamental issue with this effect is that financial rewards may be far less effective at motivating than intrinsic motivation. In fact, they can sometimes even be counterproductive.

> Large, and, in most cases immediate cash payment in return for tested scholastic achievement in 250 urban schools in the United States were almost entirely ineffective, while incentives for student inputs (reading a book, for example) had the intended, if modest effects … In an unusual natural experiment, the imposition of fines designed to reduce hospital stays in Norway had the opposite effect, … while in England hospital stays were greatly reduced by a policy designed to evoke shame and pride in hospital managers rather than the calculus of profit and loss … (Bowles and Polanía-Reyes 2012: 369)

Other management research studies suggest that "a potential downside of pay for performance is that it may also discourage employees from engaging in behaviors not linked to monetary rewards, including extrarole behaviors" (Deckop et al. 1999: 420), referring to behavior that is typically not financially rewarded, but that might increase innovation and efficiency at a workplace. The crowding out effect is an interesting phenomenon (and potentially troublesome), especially since financial incentives are meant to work as a possible solution to agency problems.

Concluding remarks

Executive pay practices are very different from how any other workers are compensated in the labor force, both in terms of pay levels but also in the composition of the pay package. All workers get a base salary, which normally makes up the entirety of our total compensation. In the case of CEOs, it is just the tip of the iceberg. At the end of a successful fiscal year, some companies will share the profit with all workers in the form of, say, a Christmas bonus. A CEO is usually guaranteed a bonus, sometimes regardless of firm performance, even if the initial conditions say otherwise.[15] Some companies choose to pay all of their employees (partly) in equity. But, for the average worker, this is usually just a small part.[16] For a CEO, equity-based compensation is the dominant compensation form, and we have explored some reasons why this is a good idea, as well as some weaknesses of these compensation plans.

It is perhaps only natural to feel indignation toward CEOs who exercise ESOs worth millions of dollars while some people struggle with several jobs on a minimum wage. However, I will once again stress that *whether or not* we are upset about something is rarely ever the interesting question. Rather, *why* we perceive these pay practices to be wrong and unfair is what requires close attention. This is where moral philosophy and, in particular, this thesis comes in. It asks how, if at all, one can morally justify the pay practices and high pay differences they entail. To be able to answer this, one needs to recognize a broader and fundamental question that precedes the discussion on CEO pay, namely, *what is a just pay?*

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15 One way to change the conditions of a bonus ex-post is to carry out a so-called 'option repricing', which I will set aside in this introduction. For a discussion on this practice, see Kolb (2012: 81-85) and Lie (2005).

16 Except for the unlucky employees at Enron, who had their corporate pension plans almost exclusively tied to Enron stock (Kolb 2012: 18).

What is a just pay?

One way to start answering this question is to investigate why it is deemed fair that some workers are paid more than others in general. Most people have no quarrel with that being the case, albeit for different reasons. In what can only be viewed as a seminal article, Moriarty (2005a) outlines three distinct views that justify pay differences. One view is that by paying some people more than others, we are able to *incentivize* those who are talented to be more productive. Another view is that differences in pay are permissible if they are the result of a *fair process*. Lastly, some simply *deserve* to be paid more than others based on their achievements and efforts. Another way to look at these different views is to understand pay as either a promise of future efforts (incentives); a price determined by the market (fair process); or a reward for past achievements (desert) (Moriarty 2020a). The following section will lay out different perspectives on what constitutes a just pay. It is roughly based on Moriarty's distinctions, albeit with the use of different terminology and a slightly broader scope (I will, for example, include equality-based views). The views we will discuss are incentive-based views, procedural views, desert-based views, and equality-based views. Let us call these views mid-level principles of just pay. As will become apparent throughout this introduction, these views are supported by different 'background theories'. Essentially, different mid-level principles are justified (and in conflict with each other) due to their relation to different principles of justice. Perhaps one of the most essential contributions of this thesis is to highlight this fact. I will elaborate further on this matter in the last section of this introduction. For now, let us take a closer look at mid-level principles and what they entail.

Incentive-based views

Incentive-based views focus on pay levels and compensation plans that properly incentivize the worker. This can be done by attracting and retaining the most talented individuals, and by motivating the employees in the firm to reach their full potential. One view is that this should be achieved at the lowest cost possible. In short, it requires firms to hire and motivate people who will bring

them the most "bang for the buck" (Moriarty 2005a: 268). A just wage, according to this view, is accomplished when this equilibrium is reached. Subsequently, it does not necessarily commit a firm to hiring the smartest and the brightest if they can generate just as much profit with less talented (and less costly) individuals. Instead of assessing a wage from the perspective of the worker, incentive-based views assess pay from the perspective of the company. It is therefore more or less a doctrine of efficiency. However, incentive-based views need not focus on maximizing firm value. Incentive-based schemes are present in Rawls's (1999) scholarship as well, where the idea is that income inequalities should be allowed as a way of incentivizing growth of the social product to the advantage of those who are worst-off (in accordance with the difference principle). Lastly, all forms of incentive-based pay are forward-looking. Incentives are a means for getting people to do certain things. A high CEO salary might attract top talent to a position, while long-term ESOs could be a way of retaining a CEO, and qualified bonuses are seen as a way of motivating the CEO to put in the extra effort.

Since incentive-based pay is deeply rooted within the financial setting, I will now briefly discuss some of the major issues that are usually raised in the debate concerning incentive-based views. My purpose in this introduction to the thesis is not to provide a thorough evaluation of any of the relevant principles, but simply to lay out the most important parts of the philosophical terrain. I will engage in more in-depth discussion about the various principles in the substantive papers. However, this introductory discussion will serve to outline the broader contours and the context to my more specific contributions in the papers. We will start with the question of why incentives for CEOs are so high compared to other high-ranking positions.

How much motivation is needed?

Many have questioned whether the current CEO pay levels are in fact cost-efficient for companies (McCall 2004; Moriarty 2005a; Nichols and Subramaniam 2001; Shaw 2006). The job of a CEO is extremely challenging, complex, and dynamic, and involves a high level of responsibility. Still, a total compensation package averaging around $15 million appears excessive for attracting prospective CEOs compared to other demanding professions. Hence, the objection is that if the positions of, say, university presidents and military generals can be filled without excessive pay, then it is problematic that

the same does not apply to corporate executive positions. The upshot of this argument could be that current CEO practices are unjustified and should be abandoned. Alternatively, there is more to say about the special situation of corporate CEOs. I will here simply note two possible counterarguments, one of which I will explore further in the thesis.

One explanation for why this is the case is that there is a lack of a higher purpose for the CEO, which requires companies to pay their executives that much more than, for example, military generals who can find satisfaction in the noble purpose of protecting and serving their country (Moriarty 2005a: 269).[17] In other words, the job is simply less intrinsically rewarding than these other professions, which forces companies to bring out the large checkbook if they want to attract a new CEO. Yet, even if it might be necessary for companies to pay their CEOs more than governments pay university presidents, is it really cost-efficient to pay them *that* much more?

Another argument for why it might be cost-efficient relates to peer comparison. Suppose that a company is on the lookout for a new CEO and all their competitors are granting their CEOs a very high pay. Given that the company wants a CEO who is at least as talented as their rivals' executives, it seems reasonable, then, that it offers a similar pay level to their prospective CEO if it wants to stay competitive. This is especially true if the prospective CEO is aware of how other executives are compensated, since we tend to value not just our absolute income, but our relative income compared to our peers. Furthermore, in a competitive climate, companies that are generous toward their CEOs signal that they are performing well, while companies that are cheap toward their CEOs will signal that they are underperforming (given the status quo) (Lund 2012). This line of reasoning is explored further in Paper 2.

Up next, we will look at how well CEO pay correlates to firm performance and how the perceived talent of a CEO might be a driving factor behind generous compensation packages.

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[17] I do want to emphasize that the purposeless nature of executive work is not a point that Moriarty explicitly embraces but assumes in order to build an argument. As is evident from the following passage: "But let us grant, for the sake of the argument, that CEO's jobs are less intrinsically rewarding than university presidents' and military generals' jobs. Are they that much less rewarding – as many as 21 times so? For the objection to succeed, they would have to be. But it is implausible that they are. While the extra unpleasantness of the CEO's job may make it necessary to offer more than $385,000 per year to attract talented candidates, it is hardly plausible to suppose that it makes it necessary to offer $8 million." (Moriarty 2005a: 269)

Paying for performance or paying for perception?

Perhaps the very high levels of CEO pay can be justified on the basis of the considerable contributions that CEOs make to both their firms and society in general. Yet, the research on the correlation between CEO pay and firm performance is divided, to say the least. The results range from finding a strong positive correlation (Murphy 1985; Hall and Liebman 1998; Smirnova and Zavertiaeva 2017), to a weak or possible positive correlation (Brookman and Thistle 2013; Chang et al. 2010; Abowd 1990; Thomas 1988; Reinganum 1985) to no significant correlation (Tosi et al. 2004; Aguinis et al. 2018; Crystal 1993), and even a negative correlation (Malmendier and Tate 2009; Balafas and Florackis 2014). Whereas most define firm performance in terms of shareholder return, differing measures include return on assets (ROA) (Smirnova and Zavertiaeva 2017: 671) or just survival as an independent firm (Smith and White 1987: 277). Furthermore, the studies have been carried out in a variety of different sectors, markets, and company sizes, which makes it difficult to compare the seemingly contradictory conclusions.

Due to the disparity of the results, it is tempting to be pessimistic about what is and what is not in the power of the CEO to control. Hence, it might not matter who is in charge, simply, "[a]ll that matters is that *someone* be in charge" (Collingwood 2009: 3). A more cautious analysis will acknowledge that what makes a company perform well or not, and the CEO's ability to influence that performance, is dependent on a variety of different factors and the specifics of that company. Manzi (2009) points out some conditions that may differ from one CEO to another. A small company with very few executives may be more susceptible to a CEO's decision-making than a large company with a plethora of executives. Some CEOs operate in innovating markets with little to no regulation, while others working in more traditional sectors will likely see their management restricted by the regulation that applies to their kind of business. If performance is measured in shareholder return, then a publicly traded company will probably be subject to more volatility than a private firm. Whether the CEO is also a member of the board may also impact their influence on the company's future. (I will return to CEO duality in a later section.) The point is that it is *possible* for CEOs to influence firm performance, but – since few companies are substantively similar to other companies in the relevant sense – there is little room to draw conclusions about CEOs in general. Whether it is cost-efficient to pay a CEO a particular amount will be dependent on the

specifics of the company, the industry it operates in, and how well other companies and CEOs (that are sufficiently similar) fare in comparison.

So why are CEOs paid so very much across the board? One of the more interesting results from the research in this field concerns how CEO pay is linked not to company performance, but to the perception of the CEO. As leaders of the company, it is believed that a charismatic CEO (e.g., Steve Jobs or Elon Musk) will inspire, motivate, and make the implementation of different company policies easier (Cannella and Monroe 1997).[18] While charisma appears to have a positive impact on the *implementation* of strategy, it does not necessarily apply to the quality or the *choice* of strategy. In other words, charismatic CEOs will have an easier time implementing good as well as bad business decisions. This is relevant since, as Tosi et al. (2004: 414) report from their study, under uncertain market conditions "the CEOs were able to boost the stock price, even though there was no evidence that these firms were internally managed better, as measured by return on assets". Furthermore, so-called 'superstar CEOs'[19] appear to be able to extract higher compensation due to their public image and after having received business awards, but "the value consequences of superstar status are unclear" (Malmendier and Tate 2009: 1594). The reason for this is that CEOs who achieve superstar status tend to underperform compared to executives in the same sectors.

> We find that firm performance declines following CEO awards. At the same time, winning CEOs extract higher compensation, largely in the form of stock and options … Award winners also indulge in tasks that provide private benefits but little firm value (writing books, sitting on outside boards, playing golf), and they increasingly engage in earnings management. All of these effects are concentrated in the subsample of poorly governed firms. (Malmendier and Tate 2004: 1633)

This suggests that companies are largely paying for the perception of a CEO. Although charismatic CEOs do come with some perks, the positive effect on performance measures (such as ROA) appears more difficult to find. One

[18] Charisma should here be understood as the ability "to invoke emotional and cognitive attraction for leaders in followers" (Cannella and Monroe 1997: 214). Alternatively, it is a feeling of "oneness that a person has with another, or the personal attraction to be like the other" (Tosi et al. 2004: 406).

[19] As defined by Malmendier and Tate (2009), superstar CEOs are those CEOs who have received celebrity status in the media and are frequently recipients of business awards. As a result, they extract higher total compensation than the average CEO and higher compensation on average relative to other executives intra-firm.

proposed explanation for why charismatic CEOs are able to extract higher pay is the tendency to overestimate the role and influence of the CEO relative to certain outcomes (Tosi et al. 2004; Ross 1977). In other words, it is possible that charismatic CEOs have an easier time taking credit (and being credited) for positive outcomes that they in fact had little control over. Leaving this issue to the side, I want to highlight yet another issue with incentive-based pay. This relates to the level of risk-taking that is encouraged by the way that CEOs are compensated.

Incentives, risk-taking, and the GFC

As we observed in the earlier section, it is difficult to get incentives right. One particular danger with incentives is that they encourage excessive risk-taking. When setting an incentive, one therefore needs to carefully consider what kind of behavior is encouraged. What are the short- and long-term consequences if the incentivized is successful? What are the short- and long-term consequences if the incentivized is unsuccessful? By what means should the incentivized be allowed to succeed with the set goal? Is success only possible by bending the rules or taking shortcuts? Balancing these factors is not an easy task, and depending on market conditions and the information at hand it might even be impossible to tell what the effects of a certain incentive would be. Yet, incentive-based pay is a common practice in the financial sector, especially when it comes to executives.

In the aftermath of the financial crisis of 2008, many scholars have argued that incentive-based pay was one of the major contributing factors to the crisis (Moriarty 2018b; Larcker et al. 2014; Kolb 2012).[20] Large and risky bets on the unstable housing market were encouraged, with the promise that those who made the 'right call' could cash out a hefty bonus. The warning signs were there, which is evident in Bebchuk and Fried's case study of Fannie Mae's incentive-based pay schemes from 2005. In this study, they found that the executives at Fannie Mae were incentivized to report in higher earnings in order to get a higher reward, and, if these numbers later turned out to be misstated, the executives could still keep their compensation (Bebchuk and Fried 2005a: 807). The executives were also guaranteed as so-called 'soft landing', meaning that if they were let go by the board of directors, they would still receive generous

[20] Note that this is a contested claim; see Fahlenbrach and Stulz (2011) and Gregg et al. (2012).

retirement packages (Bebchuk and Fried 2005a: 812). Lastly, the retirement benefits were "in no way linked to the performance of the company during the executives' years of service" (Bebchuk and Fried 2005a: 816). Hence, it was a 'no risk, high reward' situation for these executives.

In light of this, one might think that it would be better not just to curb risk-taking behavior, but try to eliminate risk-taking behavior in its entirety. But let us not forget that risk-taking is inherent to financial activities.

> Much of the motivation for providing equity-based incentives to CEOs is to encourage them to move out of their comfort zones and operate the firm at a higher risk level than they might otherwise choose. By contrast, the overwhelming discourse about the financial crisis decries the excessive risk-taking of these financial institutions. Thus, there seems to be a paradox between the general encouragement of firms to augment risk in the pursuit of profit and the loud public outcry about excessive risk taking by financial firms. (Kolb 2012: 119)

This is of course a balancing act. I could deposit some of my savings into an investment account and try my luck in the market by investing in blue-chip stocks, knowing very well that I could lose it all. That is a risk that is reasonable to take. It is a different matter if I deposit all my savings, take out a second mortgage, and borrow money from my family in order to go all-in on GameStop stocks. Even if there is a slight chance of a high reward, it is an excessive risk to take – especially since others will also be affected in this case. Risk-taking *is* necessary for financial growth, as Kolb states, but incentives should encourage reasonable – not excessive – risk-taking in CEOs. In other words, it is not a paradox that Kolb points to; rather, it is that those who criticize and those who encourage incentive-based schemes have different levels of risk tolerance.

Post-crisis, measures have been taken with the *Principles and Standards of Sound Compensation Practices*, requiring incentive-based practices to align with long-term profitability, which seems to have had some positive effects according to some studies (see Cerasi et al. 2020). Yet, in 2015, Reuters reported that "executives are using stock repurchases to enrich themselves at the expense of long-term corporate health, capital investment and employment" (Brettel et al. 2015). Jeff Immelt, former CEO of General Electric, excelled in this practice. During his 16-year reign, GE experienced a $180 billion decline in market value and the stock price plummeted by 38% during the same period (Alsin 2017). Meanwhile, Immelt proceeded with stock buyback programs, enabling him to

enjoy $21.3 million in compensation in 2016 and $33 million in 2015. Once again, incentives are difficult to get right.

What is the morality behind incentive-based pay?

Up until this point, I have highlighted several issues which question the assumption that incentive-based pay is a reliable method for motivating employees and maximizing firm performance. While these problems might (possibly) be corrected by aligning the incentives properly, there is a question of a different nature that calls for an elaborate answer, namely, what is the *morality* behind incentive-based pay? Incentives are means to achieve some valuable end, and if incentive-based views are to be considered theories of *just* pay, that valuable end needs to carry some moral significance.

Within the context of financial ethics, the basic idea behind incentive-based pay is that it is an efficient way of maximizing firm performance. In a competitive market system, firms who maximize performance at a minimum cost generate an efficient allocation of resources, making everyone better off. Hence, the ultimate end for incentive-based pay is *efficiency* (Heath 2018, 2014).

From an economistic perspective, efficiency appears to hold final value. This is standardly understood in terms of Pareto optimality, meaning that no resources go to waste, and no one can be made better off without making some else worse off. Philosophical doctrines might advocate incentive-based systems as well, where the idea is either that they allow for the social product to grow (Rawls 1999) or that states should provide an economic system that is perceived to be fair and that "serves the common interest by incentivizing productive behavior" (Mulligan 2018: 8). Efficiency is a valuable end here, too, albeit with a consequentialist or utilitarian flare. Alternatively, efficiency is thought to promote some more specific type of consequence such as benefitting the worst off in society, which is important for other principles of justice. As Rawls (1999: 26) famously put it: "[a]ll ethical doctrines worth our attention take consequences into account in judging rightness". Later on, I will take a closer look at how incentive-based pay fits into our notion of justice and views on the market. Next, I will discuss procedural views of just pay.

Procedural views

Procedural views focus on the fairness of the wage-setting process. Unlike incentive-based views, the aim is not to have a cost-effective distribution of pay,

but rather to make sure that the pay negotiation is set up in a fair manner. Outcomes are thereby automatically rendered fair, given that they are the result of a fair process (see Bebchuk and Fried 2005b; Kolb 2012: 42). Essentially, we should not be concerned about the pay differences between CEOs and other workers or the total payout that CEOs receive *per se*. If the compensation package was set under fair conditions, then everyone should be happy with the results. This line of thinking is well-known to those familiar with Nozick's justice in acquisition theory and Rawls's justice as fairness doctrine. (I will return to these theories and how they can be used to justify the procedural view below.)

As with all transactions, there is a buyer and a seller in the CEO wage-setting process. The company, which in this case boils down to the owners and the shareholders, is the buyer of the CEO's services. As companies can have thousands of shareholders, it is impossible for all of them to be present when the negotiation takes place. The solution is to have a board of directors that acts on behalf of the shareholders.[21] As negotiations start, then, it is in the interests of the board to pay the CEO as little as possible (i.e., maximum 'bang for the buck'), whereas it is in the interests of the CEO to be paid as much as possible. As these two forces pull in different directions, it is of the utmost importance that the negotiations proceed under fair conditions. Moriarty (2005a: 259) lists two conditions that must be fulfilled in a fair negotiation. First, the two parties need to be independent from each other in order to balance the interests of the CEO and that of the shareholders. For example, the board members should not be dependent on the CEO in any way. Second, both parties – and especially the board – need to be (sufficiently) informed. As Moriarty puts it: "If they do not know what kind of talent it takes to run the firm, and how rare that talent is, they are liable either to overpay a mediocre CEO or to underpay an exceptional one." (Moriarty 2005a: 259) As we will see, it is questionable whether any of these conditions are fulfilled in compensation negotiations. We will start this discussion with the so-called managerial power hypothesis.

[21] Note that the task of negotiating the compensation plan with the CEO is usually conducted by the compensation committee, which is a smaller set of the board of directors.

Managerial power hypothesis and CEO duality

In a previous section we discussed agency theory, which sets out to show how one can go about aligning the incentives of the CEO with those of the company and the shareholders. Typically, the board will implement some form of performance-based pay, tying the success of the company to the CEO's compensation. That way, if the company has a bad year, the CEO has a bad year. But what if we are not worried about *how* to tame the unruly beast but whether if it is even *possible* to tame the beast because it is too unruly? This is the managerial power hypothesis. In less vivid terms, its concern is the power the CEO can hold over the board of directors and thereby the ability to dictate the conditions for their compensation plans (Kolb 2012, 2011; Moriarty 2011; Bebchuk and Fried 2005b). Managerial power can come in many forms, but some of the most debated practices include when the CEO is the chair of the board of directors (CEO duality) or when the CEO has direct influence over who sits on the board. The effects of this can also be mediated by other factors, as is evident from the following quotation.

> CEO pay tends to be higher: if the CEO is also a chairman of the board; if members of the board's compensation committee own less stock (i.e., less of the board member's own funds are paid to the CEO); if boards are large (making coordination among board members more difficult); if the CEO has appointed many of the board members (strengthening bonds of loyalty and affection); if board members serve on several boards (diffusing their attention); and if the firm has antitakeover provisions in place (thereby making the CEO's position more secure). (Kolb 2012: 35)[22]

Up until this point, we have assumed that the board and the CEO are independent from each other. Despite its many issues, this independence is necessary for the buyer-seller relationship to remain intact. However, this independence can be compromised by CEO duality. From the 1970s and up until the 1990s, over 80% of large U.S. firms had a CEO who also acted as their chairman (Yang and Zhao 2014). The trend has steadily been declining ever since, and due to the fact that the Dodd-Frank Act requires companies to disclose their reasoning behind board leadership structures, CEO duality has become less common. With that said, in 2010 more than half (54%) of large

[22] This summary is largely based on the research presented in Bebchuk and Fried (2005b).

U.S. companies still practiced CEO duality (Yang and Zhao 2014: 534).[23] It remains unclear whether CEO duality has any significant impact on firm performance (Aktas et al. 2019; Duru et al. 2016; Krause et al. 2014; Dalton et al. 1998). Still, it is definitely not necessary for firms to conduct this practice.

A related problem is that of loyalty bonds. Being on the board of directors is very beneficial, almost a privilege. As noted earlier, there are only a handful of meetings each year and the job is usually compensated quite generously. Apart from this, it is also a gateway for obtaining prestige in the business world while expanding and building business relations with other board members (Bebchuk and Fried 2005b: 655). And, since the CEO has significant influence over who gets elected to the board (and the compensation levels for the board), the job can come with an implicit 'I owe you'. As we shall see later, it is quite common for the CEO to elect fellow CEOs to the board, which in turn increases the risk of inflated pay for the executive in question.

I want to stress that we are not necessarily interested, from a procedural view, in whether the CEO extracts economic rents from these procedures, how it affects firm performance, or if it results in perverse incentive schemes. What is important is whether these power imbalances can genuinely be said to constitute a case of arm's length negotiations (which is the ideal). The board members have everything to lose by playing hardball and a lot to gain by being generous – especially if they only hold a small stake in company.

In order to secure more fair conditions, it has become standard to involve a third (allegedly unbiased) party to come up with the compensation plan, namely, compensation consultants (Cadman et al. 2010). Compensation consultants are hired by the board of directors to devise a compensation plan that will satisfy both the CEO and the board (or shareholders). Since the consultants are hired by the board, one might think that if they fail to be neutral in the process in any manner, they would put forth compensation plans that benefit the company and not the CEO. However, most studies point to the opposite, namely, that CEO pay tends to increase when compensation consultants are hired (Conyon et al. 2019; Kabir and Minhat 2014; Armstrong et al. 2012; Murphy and Sandino 2010; Cadman et al. 2010; Goh and Gupta 2010; Voulgaris et al. 2010). I will not delve any deeper into this issue, but will simply acknowledge that the use

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[23] It should also be added that although it has become less common for current CEOs to also be the chairman, it is more or less practice for former CEOs to take over as chairman after a succession event (Quigley and Hambrick 2012).

of consultants does not necessarily improve the fair conditions of the negotiation.

It should be noted that the managerial power hypothesis is quite difficult to prove empirically, and it has been criticized for being tautological (see Murphy 2002; Winter and Michels 2019). When critics of the managerial power hypothesis point out that CEO compensation increased significantly during the 1990s, despite boards becoming more independent, proponents will state that the increase in pay could have been due to other 'power measurements'. But, as Winter and Michels write, the increase is not necessarily linked solely to power.

> Since power-based pay does not depend on power alone, but also on power usage and the size of the cake, highly relevant factors have been ignored in this debate. Irrespective of whether managerial power over the 1990s increased or not, power-based pay could have risen anyway. This could be due to the bigger cakes in the 1990s or due to a higher degree of power usage even if power would have declined in that era. (Winter and Michels 2019: 658)

Hence, the managerial power hypothesis should not be viewed as a bulletproof explanation for why CEO pay tends to increase. But, to reiterate, it is still very relevant if we want to assess the procedural fairness of pay negotiations between the CEO and the board. In the following subsection, we will revisit information asymmetry from the perspective of procedural views.

Information asymmetry revisited

The board of directors only meets a handful of times each year (Clifford 2017: 92; Kolb 2012: 28). The CEO is (usually) present at the company throughout the year, and knows what is and what is not possible to achieve in the coming fiscal period. To reiterate, "[h]e knows everything the board knows, but the board knows only a bit of what the CEO knows" (Clifford 2017: 92). The presence of a compensation consultant does not help to overcome this epistemological hurdle either. This is because the consultant is an expert on pay practices, and may suggest that the compensation package is not out of line with the industry average, but they have little to no information on whether a 5% increase in ROE is a more reasonable bonus bogey than a 15% increase when it comes to this particular company. Furthermore, it is not uncommon for board members to serve on several boards or have full-time positions of their

own, so even if they would like to be as well-informed as the CEO about the company, they simply do not have the time to get involved. Hence, the board and the consultants will have to rely on the CEO to deliver accurate and up-to-date information about the company. However, as we saw in the discussion on bonuses, it is only rational to bend the truth if it works to the CEO's advantage.

Perhaps one could partially solve this issue by appointing peers to the board. If the board consisted of executives from comparable companies, then they would have a pretty decent picture of how well this particular company performs and how well it can perform relative to its competitors. However, while this would reduce the information asymmetry, it would also disrupt the conflict of interest necessary for a balanced negotiation. This is because:

> CEO-directors have a self-interested reason to increase the pay of the CEO with whom they are negotiating. Suppose CEO A sits on CEO B's board, and A and B run comparable firms. The more pay A agrees to give to B, the more pay A himself will later receive. For when it comes time to determine A's pay package, B's pay package will be used as one of the reference points. (Moriarty 2005a: 261)

The shareholders, who in theory are the ones who appoint board members, now face a dilemma. They can either appoint non-executive board members, but this grants the CEO an informational advantage. Or they can appoint executives from comparable companies, but then they will be without an advocate for their interests. Hence, the shareholders run the risk of either being swindled or having their interests left out of the negotiation. One can thus identify a three-party agency problem that centers around how to align the incentives of the CEO, the shareholders, *and* the board of directors.

Fair procedures as a moral benchmark

In contrast to incentive-based views of just pay, procedural accounts of just pay have a more natural connection to traditional theories of justice. When asked why one should accept, morally, that CEOs make 299 times more than the average worker because this is a result of a fair process, proponents of these views might respond that upholding fair procedures is the only requirement of distributional fairness in a just society (Nozick 1974). This is the central thought in libertarianism. Alternatively, the justification need not be rooted in the libertarian tradition. Some will claim that holding free procedures as a moral benchmark in the just pay debate is a way to ensure an efficient allocation of

goods (Moriarty 2020a; Heath 2014). Simply put, if efficiency is the ultimate end of market transactions, then we should allow market participants to act freely and only intervene when efficiency is threatened by, say, monopolies. In the concluding section of this introduction, I will elaborate on how the justification for procedural views of just pay, as an end in itself or being instrumental to some other end, can be drawn from different theories of justice.

This concludes our inquiry into the procedural view. In the next section we will examine desert-based views of just pay.

Desert-based views

Desert-based views hold that a just pay is one that, unsurprisingly, pays people in accordance with their level of desert. I will call desert claims that pertain to economic rewards 'economic desert'.[24] Desert is commonly understood as a three-place relation between a deserving subject (X), a treatment or good they are deserving of (Y), and the grounds which make them deserving of said treatment or good (Z). Put more formally: X deserves Y on the basis of Z (Feinberg 1970: 61). When it comes to economic desert, it is clear that X refers to workers and that Y stands for one's level of pay. However, there is widespread disagreement about what should be deemed a viable Z, that is, the desert base.

The choice of desert base for pay appears to come down to whether we view it as either a compensation or a reward. The former should be understood as payment for, say, incurring certain costs, and the latter as a payment for bringing about something of value or having traits that are deemed valuable. Within these two categories is where we find the proposed desert bases. Thinking in terms of payment as compensation, some have suggested that workers should be compensated for their effort (Brouwer and Van der Deijl 2021; Milne 1986; Sadurski 1985; Ake 1975) or the costs involved in work (Dick 1975; Lamont 1997). When it comes to thinking of pay as a reward, suggestions vary from being deserving on the basis of one's merit and skills (see Mulligan 2018; Feinberg 1973) to being deserving on the basis of one's contribution to the company or society (Miller 1999; Riley 1989; Alm 2010; Jenkins 2011). Then there are those who are so-called 'pluralists' about desert bases, usually

[24] Since there is an extensive discussion on desert theory later on, I will mostly focus here on the particulars of economic desert and leave the general features and discussion points for later.

embracing both contribution and effort as valid desert bases (Hurka 2003; McLeod 1996; Feinberg 1973). Since Paper 1 goes into the strengths and weaknesses of each position, I will just make some general points in what follows.

Debating desert bases

Holding merit and skills as valid desert bases is usually deemed untenable from a desertist position. This is because "[n]o one deserves credit or blame for his genetic inheritance, since no one has the opportunity to select his own genes" (Feinberg 1973: 112). This criticism rests on two different 'rules'. First, it aims to satisfy Rawls's claim that no one should be better or worse off in life for morally arbitrary reasons (e.g., being born without any marketable talents). Second, it adheres to the general desertist claim that our deservingness has to depend on factors that are within our control (Sher 2003). Although being born with certain talents and abilities may not be within our control, whether we cultivate said talents is up to us to decide.

Effort can be understood in a variety of ways. It also tends to break down into the cost imposed on the worker. For example, some will hold that it is a matter of how enjoyable work is (Brouwer and Van der Deijl 2021), where more onerous work should be compensated with a higher wage. Another idea is that effort is simply the time you spend at work (Bøhn 2021). Mulligan (2018) is critical of using effort as a desert base for pay, partly because some will find it more onerous than others to work in certain places: "Consider a racist who accepts a job where he must work alongside blacks. He suffers psychic harm as a result. We do not think that he deserves extra income for this." (Mulligan 2018: 128) Despite being a valid point, it is easily avoidable by imposing restrictions on what can legitimately be considered costs (working among people you arbitrarily hate not being one of them). Another objection to effort is that it is only instrumentally valuable (Hurka 2003: 58). Someone could, say, count blades of grass for eight hours per day. But if no one asked for that person to do so, then it is difficult to see why that person should be compensated for it, regardless of how much blood, sweat, and tears go into the task. Nonetheless, if we assume that someone was hired to do so, then the taxes that person pays and the taxes paid by the company help contribute to the social product, regardless of how many people have use of the final tally of the blades of grass. Seen this way, one's effort becomes valuable ex-post, rather than ex-ante.

Finally, viewing contribution as the desert base seems to be the most widely held view among desertists. However, this does not come without complications. Similar to effort, contribution has been interpreted in a variety of ways. Some will interpret it as contributing to society or 'the social product', and others in terms of one's marginal production to the company's output, one's market value, and so on (see Miller 1999, 1989; Mankiw 2013). The main objection to contribution-based desert holds that what we contribute is – either fully or to some degree – outside our control (Sher 2003; Hurka 2003). Two equally talented people could perform the same task, with the same effort, but still end up with different results. If results are totally outside our control, then this nullifies all contribution-based desert claims. However, it seems more reasonable to hold that results are not *entirely* within our control, and we have to make sure we discount external factors when assessing people's level of desert. There is, however, little consensus on what should be the appropriate measure for contributions, and even less agreement on how one should go about measuring and comparing different contributions. I discuss this in further detail in Paper 3.

CEO impact should not be neglected or overstated

The central question concerning CEO pay in this context is whether there is a plausible desert base on which CEOs indeed deserve to be paid 299 times more than the typical worker. Several critics have argued that there is no such plausible desert base (see Moriarty 2005a; Brouwer 2020; Ramsay 2005). But let us not forget that different desert bases will appeal to different kinds of work. This is why we might find it counterintuitive that CEOs have comparatively higher pay than other workers when they 'underperform' according to some metrics. For example, oil rig welders are paid comparatively more than others because of the risks involved in their work. But the executive occupation does not in any way come near the kind of risks that these welders are exposed to. Doctors and nurses contribute to society by saving lives, but few CEOs are responsible for this kind of impact on people. First-responders suffer an enormous amount of psychological stress in their work. While the job of a CEO can be stressful, it is definitely not on par with the stress levels of paramedics and firefighters. This illustrates one possible reasoning why there are differing pay rates, and this kind of reasoning is prevalent in those who find that CEO pay is undeserved compared to other occupations.

Yet, it is another question whether differing pay rates *should* be set in this manner. For example, perhaps risking one's life should not be deemed a viable desert base since very few occupations involve that kind of danger. CEOs might not be subject to the same psychological stress as first-responders, but is it really a fair comparison? The CEO is the overseer of operations, in charge of the company's day-to-day decision-making as well as its wider vision and strategy. As such, the CEO is literally one of a kind within the firm (and how do we compare with that?). The job requires a high level of skill, adaptability, stress tolerance, and a cool head to make sensible decisions that can potentially make or break a company. The economic behemoths that some CEOs are in charge of ensure that we can go on with our day-to-day by supplying services and goods that we all need in order to have decent lives. The claim that "all that matters is that *someone* is in charge" is a very crude analysis that does not have support in the empirical literature. My point is that in light of the inconclusive empirical evidence regarding CEO pay and firm performance, CEO impact has to tentatively count for something (without being overstated, of course). Should this assumed impact be viewed as on par with that of the firefighters' or teachers' impact on society? This is a question that I have yet to see a good answer to, since it is not even guaranteed that their efforts or contributions are commensurable. Still, the impact of CEOs has to be recognized in some way by desert-based views.

We have seen that finding a desert base that can be attributed to all kinds of work seems difficult, at best, and desert claims run the risk of becoming meaningless if the measurement is too diluted. The takeaway here is that some desert-based accounts will be compatible with relatively high CEO pay, while others will not. My main point is that we should be suspicious of accounts that are overly confident that the matter is simply one or the other.

The intrinsic (and instrumental) value of desert-based pay

Why should we think that it is important, from a moral point of view, if people get the pay that they deserve? Some will respond that it is intrinsically valuable if people get what they deserve, whether it be what they get paid, prizes they are awarded, or the praise and punishment they receive (see Feldman and Skow 2020; Kagan 2012; Broadie and Rowe 2002). Simply put, the world is a better place if people get what they deserve. Ensuring that CEOs, janitors, teachers,

and nurses are paid in accordance with their desert levels is then a way to increase the so-called goodness of the world.

Others will argue that pay (or distributions in general) in accordance with deservingness is a way of letting people know that they will be rewarded for their hard work. This perceived fairness might incentivize people to work harder, since they will expect that their efforts will not go unnoticed. Not only that, hiring and paying people based on merit will put the right people in the right place, increasing productivity as well as efficiency (Mulligan 2018). Hence, one might implement a desert-based distribution as an instrument in order to achieve other valuable ends. I will return to how the idea of economic desert can be justified by different theories of justice in the last section of this introduction. Before we get to that matter, I will close this section by looking into equality-based views of just pay.

Equality-based views

Most people would agree that equal work should render equal pay, meaning that people who perform similar tasks equally well, and are equally qualified for the job, should also receive equal economic gains from their labor (see Moriarty 2016). Race, sex, gender, ethnicity, or religious beliefs are all irrelevant factors when it comes to determining pay. While the focus in the just pay debate is usually directed toward the aforementioned principles of just pay, I believe that an equality ideal – not necessarily about equal pay, but of equal opportunities or capabilities – is assumed and serves as a background condition in the discussion. That being said, there are those who have suggested that pay should be equal across the board. This is what I will look into next.

Equal pay for all

It might sound outlandish and strange at first, but some views explore the idea that all work should be compensated equally. For example, Schuurman (2021: 206) suggests that, ideally, there should be equal pay per capita for all countries. The purpose of this is to level out any injustices that arise due to which country one happens to be born in. Frederking (2021: 237) observes the "equalizing trend that emerged from devastation" in post-war Japan – which is probably the closest we have ever come to actual pay equality within a state – and holds that having a temporary 'equal pay for all' scheme is a way to 'restart' democracy

and strengthen equality and social justice among a nation's citizens. Bøhn (2021) presents a view where there should be equal pay per hour worked. This is partly because granting more people economic stability will decrease the negative effects of poverty for the poor and society as a whole, but also because it "seems to put the economic value of work closer to where it belongs, morally speaking, namely in the amount of work you put in" (Bøhn 2021: 269). Viewed this way, a just pay is one that is equal across the board. Perhaps unsurprisingly, equal pay for all policies have received considerable criticism (see Frankfurt 2015; Feinberg 1973; Brouwer and Van der Deijl 2021; Mulligan 2021). It is important to point out, however, that equal pay advocates acknowledge the feasibility constraints that apply to these policies, and it is also evident that none of them argue for pay equality as an ideal or an end-state.

I believe there are two reasonable views to take if we are concerned about equality in pay. First, we could maintain that income equality (either full or partial) is derivative on more fundamental matters of equality. I will explore this in further detail below, but for now let us point out some of the reasons why we could argue for more pay equality. It could be that we find that people should have equal capabilities, opportunities, or welfare, and that all of these more fundamental concerns require that people receive somewhat equal pay. As Brouwer and Van der Deijl (2021: 66) put it: "We may not all deserve equal pay, but we do deserve equal welfare levels." Taking this perspective, we will suggest that a just pay is one that is sufficiently equal (to others) to ensure that more fundamental matters of justice are secured.

Alternatively, we could state that large income inequalities are unnecessary beyond a certain point because of their negative effects. Even if we are not overtly concerned about equality *per se*, we can observe that income inequalities may have a negative impact on other things we deem valuable. It has been suggested that states with higher income inequalities have a lower life expectancy and higher infant mortality (Dorling 2018). Others claim that income inequality has a negative effect on long-term growth and sustainability (Dabla-Norris et al. 2015). As income inequality tends to prevent the worst-off from securing human capital in terms of education, it is also possible that labor productivity will be lower when income inequalities are high (Dabla-Norris et al. 2015: 8; Stiglitz 2012). Another argument is that a high level of income inequality increases the risk of financial crises, as bottom earners are more likely to increase their household debt and overextend their credit (Kumhof et al. 2015). Income inequalities are then inefficient, they have negative effects on

people's well-being and on society as a whole, and they can be detrimental to people's rights and freedoms. According to this view, a just pay is one that is sufficiently equal (to others) to the extent that no bad effects follow from it.

Unsurprisingly, neither of the equality-based views mentioned above will hold that current CEO pay practices are justified. The pay inequalities that result from these pay practices between workers and executives are simply too large to have a positive effect on fundamental egalitarian concerns, and it is also questionable whether the benefits of well-paid CEOs do not come with any negative effects. The conclusion that CEO pay is unjustified because it is not (sufficiently) equal may appear trivial, but it is important to acknowledge and highlight any moral concerns we might have toward these pay practices.

The idea of limiting income and pay

One idea that has sprung from equality-based views is that we should limit income for the 'superrich' (Robeyns 2019, 2017; Hargreaves 2019; Zwarthoed 2018; Brouwer 2020). Some, such as Robeyns, suggest that we should limit wealth (pay, capital holdings, bequests, etc.), while others settle for maximum pay (or income) (Brouwer 2020; Ramsay 2005). The idea is not alien, since salary caps have been implemented successfully in professional sports leagues (e.g., NHL, NFL, NBA) as a way of levelling out the playing field. Yet, controlling the income of professional athletes is very different from limiting income for all workers within a state (or globally for that matter). Perhaps what is more pressing than feasibility constraints is the question of how much is too much, and that will be entirely dependent on what goal one sets out to achieve. Limiting wealth or income at level *x* can be justified if we are concerned about efficiency, whereas concerns about capabilities might require a much lower limit. Paper 4 is devoted to exploring the idea of limiting income.

Minimum pay and sufficiency

Less relevant for CEO pay – but all the more important for the notion of a just pay – is the idea of a living wage or minimum pay.[25] This idea dates back all the way to Plato and Aristotle, as well as Aquinas. For Aristotle, a baseline pay was seen as a way for households and families to be self-sustaining. Aquinas formulated a similar sustenance-based view, emphasizing that all working

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[25] Even though the idea of a living wage and minimum pay are somewhat different, I find that they are relevantly similar to discuss in the same context.

members of society should have the means to cover their necessary expenses (Werner and Lim 2016: 434). When it comes to contemporary approaches, the idea of sustenance has received further support in Frankfurt's (1987, 2015) doctrine of sufficiency, otherwise called sufficientarianism. What ultimately matters, according to Frankfurt, is not that everyone has equal shares but that everyone has enough. Putting people above a certain baseline is not just instrumentally valuable in the sense that it increases their welfare or well-being. Rather, the sufficientarian will argue that there is "something special about securing enough … perhaps providing people with enough income is constitutive of respect for their agency" (Shields 2020: 2).

There are also economic arguments in favor of a baseline pay. Imposing minimum wage legislation is a way of countering the bad effects of monopsony, where employers have the ability to exploit their workforce when there is no competition in the labor market. It might also retain and motivate current workers since they will know that, even if one's pay is subject to fluctuation, it will at least not fall below a certain baseline (Piketty 2014: 392). It should be noted that there have been extensive discussions in economics about the purported negative effects of implementing a minimum wage legislation (see Hovenga et al. 2013; Neumark and Wascher 2002; Card and Krueger 1995; Friedman 1962). The main argument is that minimum pay legislation is counterproductive since, instead of helping people out of poverty, it will put a lot of workers who are currently being paid less than the (suggested) minimum pay out of a job. And, even if the state can legislate a minimum wage rate, "[i]t can hardly require employers to hire at that minimum all who were formerly employed at wages below the minimum" (Friedman 1962: 216). I will simply acknowledge, but not delve any deeper into, this issue.

Equal distribution as a default state

There may be many ways of justifying equality-based views of just pay. Many philosophers hold equality to be the most central value of justice, and various forms of egalitarianism appear to be good candidates for justifying equality-based pay practices. According to most egalitarians, equality should first and foremost be considered a 'default state', meaning that if there is no compelling reason to act otherwise, then we should grant everyone equal shares and equal treatment (Rawls 1999: 54; Scanlon 2018: 138). As Sen (1992: 17) points out, any ethical reasoning on social matters "must involve elementary equal

consideration for all at *some* level that is seen as critical", and any theory that lacks this feature would be "arbitrarily discriminating and hard to defend".

While I assume few would have any quarrel with the notion of equality as a default state, it is questionable how much guidance it provides. One might consider the equality as a default state assumption as claiming "Equality, *unless*…", suggesting that equality is valuable, but only insofar as other more valuable ends are unattainable. Equality, unless people agree to unequal shares under free and fair procedures? Equality, unless some people deserve more (or less) than others? Equality, unless an unequal distribution is more efficient and beneficial for the worst-off? As we shall see in the next section, many of those who champion equality as the ultimate value of justice have very little concern with the actual distribution of income and resources. Instead, the demand for equality ultimately concerns opportunities, capabilities, respect, and well-being.

Concluding remarks

This section has provided several answers to the question "What is a just pay?". Each account has its own respective merits, as well as issues it has to overcome. In an ideal world, all of these views would converge on what should be viewed as an appropriate pay for CEOs (or how one goes about assessing the fairness of compensation plans). Since the answers vary widely, we are left wondering which of these mid-level principles of just pay we should prefer above the other. One level of pay or way of paying CEOs could be acceptable according to, say, the procedural view, whilst being considered unacceptable from a desertist perspective (Moriarty 2020a: 129).

Moriarty (2020a: 132) suggests that one of the reasons why we disagree on questions about just pay is that different agents embrace different perspectives due to their role in the market. For example, it is likely that employers will think of wages as incentives, since one of their primary goals is to motivate their workforce. Employees might consider wages from a desert-based view, thinking that they should be properly rewarded or compensated for their work. I believe that Moriarty is on to something, but there are also other explanations for why the disagreements run deep. It is not just employees and their managers who disagree about just pay. Left-wing politicians and right-wing politicians, the Occupy Wall Street movement and Wall Street advocates, and philosophers and economists all find different notions of just pay more or less reasonable. Few of these disagreements can be explained by the fact that the different parties

take on different roles in the workplace. Rather, I suggest that it is a question of underlying intuitions about *why* a certain perspective should be viewed as just or not. What makes one mid-level principle more reasonable or intelligible than its alternatives will be dependent on its underlying justification. Hence, answering the question "What is a just pay?" only takes us so far. This is because mid-level principles tell us what we want to achieve (*what* a just pay is), and the underlying justification tells us why we want to achieve it (*why x* is a just pay). In order to get further clarification on the matter, we need to dig deeper into the normative foundation and purpose of the market. In the next section I will explore what I will call background theories or more general principles of justice. I will ask which principles of justice that just pay principles can borrow support from, and, in turn, what types of arguments and values that are submitted in favor of those principles of justice.

The role of the market in a just society

The discussion on just pay is clearly one of distributive justice. Much like rights, liberties, taxes, and healthcare, we need to determine who should get what and how much of it. Indeed, most theories of distributive justice include pay or income among the central goods whose social distribution is up for discussion. The main questions in this discussion are what philosophical principle should guide the distribution, and what social mechanisms or institutions are needed to implement the principles. The implicit agent in much of this discussion tends to be the state, although there are different views on how powerful and active the state should be in this regard.

My discussion in this section will have a slightly more limited focus, namely, on what the different theories of distributive justice have to say about the role of the market. When it comes to the question of how to best implement fair distributions of pay, most theories of justice will opt for a market-based solution. The main reason for this is that the market can handle these distributions more efficiently than its alternative, which would be a state-governed distribution (i.e., socialism). The market makes sure that supply and demand are balanced by facilitating free transactions (and distributions) between buyers and sellers. It is not controlled by or governed by states. Nor does it exist to secure people's needs or basic rights in the same way other institutions do, and in this sense, it is very much unlike any other institutions we have in society. Yet, *it is*, after all, one institution among others in society. It is thereby reasonable to think that it should be guided by (at least) some consideration of fairness and justice.

This issue is a balancing act and, as we shall see, different theories of justice will have different views on what place the market has in a just society. Both libertarian and egalitarian theories of justice will leave it to the market to distribute pay in the manner they see fit. Libertarians will argue that this is basically all there is to fair distributions. Egalitarians, on the other hand, are not as confident about the self-correcting nature of the market, and will therefore ask for both ex-ante and ex-post measures that can balance out any serious inequalities that may arise in the market (e.g., equal opportunities and social

security). Desert theorists will demand either ex-ante or ex-post measures, requiring that market participants distribute pay in accordance with desert or that the state corrects cases where the market fails to live up to this task. Of course, these differences are due to the fact that principles of justice are not merely concerned with the fairness of the market. They are primarily concerned with what makes society just as a whole. But within these views lies an ideal of the market that I will discuss in this section.

Here, I want to emphasize that I do not wish to discuss what the market *actually* returns and whether that coincides with any principle we ascribe to the market. As we learned in the previous section, in the presence of information asymmetries, agency problems, overpowered CEOs, and other market failures, pay levels are not normally the product of fair procedures, and nor do they reflect people's actual contributions or giving employers the most 'bang for the buck' (see Boettke et al. 2018; Heath 2018; Walzer 1983; Moriarty 2005a; Olsaretti 2004). Thus, we can now see that there is some credence to the thought that actual markets do not behave morally in any stronger sense of the term. Although this is a somewhat interesting observation, it was also expected. As Heath puts it:

> [W]hen one looks at the broad patterns of compensation in a market economy – not the one per cent, but more prosaic examples, like how much the custodial staff earn, compared to the lawyers they clean up after; or how much teachers make, compared to public relations consultants; or how much garment workers make in Los Angeles, compared to their counterparts in Bangladesh – it is not difficult to show that the central organizing principles of the labour market are such that the outcomes will essentially be orthogonal to these moral concerns. (Heath 2018: 4)

Instead, this section centers around what we think the market *should* return ideally. Is there a higher normative purpose to market distributions and, if so, what is it? If there are no good reasons to believe that there is a higher normative purpose to market distributions, then we have little reason to be upset about undeserving CEOs and the 'immoral' nature of the market. These concepts simply do not apply to the market sphere, regardless of how we feel about it. On the other hand, if we can find and explicate good reasons for a more moralized market, then we have grounds to opt for a change to the non-ideal conditions that prevent the market from being fair and just. As a preamble to this discussion, I will look into a collection of views which argue that markets should not be assessed morally in any deeper understanding of the term.

The 'amorality' of the market

As noted at the outset of this introduction, some reactions to the topic of this thesis state that the market appears to be beyond moral evaluation, or that what happens in the market is "just business". The idea here seems to be that the market can only be evaluated from the standpoint of economics, and various principles from moral or political philosophy have no real relevance or 'traction'. This type of view – sometimes called 'economism' – has actually been defended by at least some scholars. While they state different reasons for why they prefer a minimally moralized market, I believe the following three claims capture the main spirit of their view.

1. Ideally, free markets will operate in a manner that will be to the benefit of everyone.
2. Markets should in general not be interfered with, especially not by the government, with a few exceptions (e.g., when there is private monopoly in the market).
3. Markets cannot, and should not, be assessed in terms of traditional notions of fairness (i.e., the fairness of the resulting distribution).

In *Spheres of Justice*, Walzer argues that different domains of society are to be guided and assessed by different standards. He writes that the "morality of the bazaar belongs in the bazaar" (Walzer 1983: 109), meaning that what happens in the market is of no concern to the political or the democratic sphere – assuming that the effects of the market do not spill over into these other domains. Hence, the fact that some people accumulate wealth and become excessively richer than others via free market transactions is not a moral problem. If anything, it has more to do with "ostentation than with domination" (Walzer 1983: 112). For Walzer, spheres are distinguished by which goods are to be distributed. The distribution of commodities is a matter of free exchanges, and the distribution of political offices is a matter of democracy. Just as we do not want the higher positions of society to be up for sale, nor do we not want to decide democratically who gets a new car or TV (Walzer 1983: 113).

A different argument for the economistic view can be found in the market failures approach standardly associated with Heath (2014, 2018). Heath writes

that applying 'thick' normative concepts such as fairness or deservingness to markets is not possible.

> Because specific market prices are not normatively patterned – but are rather the outcome of a complex system of incentives – it is simply inappropriate to evaluate them by applying everyday moral categories, which are typically oriented toward the evaluation of cooperative interactions. (Heath 2018: 9)

Instead, Heath continues, markets must "be evaluated in terms of overall system performance, using more formal or abstract concepts. It is this constraint that various conceptions of 'just' or 'fair' wages typically violate" (Heath 2018: 10). Heath bases this conclusion on Habermas' distinction between 'lifeworld' and 'system'. The former are contexts and domains where outcomes are directly patterned by a system of shared norms or values, while the latter are domains where outcomes are achieved indirectly via coordination of 'action incentives', and are thereby not subject to normative evaluation. By criticizing markets for unfair returns, we are hoping to plaster notions onto markets that simply will not stick. Markets are "structurally unable to deliver 'just' wages" (Heath 2018: 4), and to assess them normatively is to commit some kind of Rylean categorical mistake (Ryle 1949). Furthermore, Heath points out that what most view as a just or fair distribution of wages will also be in conflict with an efficient distribution (Heath 2014: 190), and the sole purpose of market transactions is to produce efficient outcomes. Consequently, not only is it a mistake to think that markets operate in a fair manner, but neither should we believe that they ought to operate in a fair manner. (I will return to the details of Heath's view below.)

Perhaps the strongest proponent of the economistic view can be found in the scholarship of Friedman (1962). As a professed liberal, freedom for the individual is his ultimate concern, and freedom is best served when informed individuals can cooperate through voluntary exchanges that will benefit them both. A free market does not need government intervention or subsidies, since the freedoms of the participants are protected via different market mechanisms.

> The consumer is protected from coercion by the seller because of the presence of other sellers with whom he can deal. The seller is protected from coercion by the consumer because of other consumers to whom he can sell. The employee is protected from coercion by the employer because of other employers for whom he can work, and so on. And the market does this impersonally and without centralized authority. (Friedman 1962: 19)

It is with this in mind that we should not criticize the market for being inegalitarian or for producing undeserved benefits for some participants. The market should promote one specific value – freedom – and nothing else. External interventions such as minimum wages (Friedman 1962: 216), labor unions (Friedman 1962: 149), and taxes (Friedman 1962: 205) end up doing more harm than good when it comes to fulfilling this purpose.

All of the authors above are typically interpreted as proponents of the economistic view that markets are beyond moral evaluation. So what should we say about this view? Interestingly, it seems to me that there is an appeal to moral values in their arguments after all. For example, Heath holds that markets should be efficient whereas Friedman is more concerned about freedom. The reason they invoke for not holding markets answerable to *one* kind of moral values (fairness or equality), then, is that its justification ultimately stems from *another* kind of moral values (efficiency or freedom). The following passage from Schweickart sheds further light on this line of thinking.

> Economic efficiency is as much a value as liberty or equality … Thus, embedded in a commitment to economic efficiency are several value judgments: that material goods are indeed good, that scarce resources ought not be wasted, and that it is better to labor less than more … This is not to say that a commitment to economic efficiency is inappropriate, but it should be borne in mind that such a commitment is a commitment to certain values. *It is not normatively innocent.* (Schweickart 1996: 78) [my emphasis]

Hence, I believe the dichotomy is better understood in terms of a clash between different kinds of fairness rather than between "amoral" and "moral" views of the market. Another way to put this point is to say that much seems to depend on what we mean by 'justice' and 'fairness'.

More specifically, it seems that the economistic view has deep sympathies with two traditions in political philosophy that I have already mentioned. First, libertarianism gives credence to the freedom-based argument suggested by Friedman. Second, the focus on efficiency has clear ties to utilitarianism. In what follows, I will explore both libertarian and utilitarian views of the market and demonstrate how they lend support to different mid-level principles of just pay. After this, I will grant the same treatment to egalitarianism and moral desert before concluding the introduction to this thesis.

Libertarianism: Procedures, not patterns

The libertarian tradition is primarily concerned with three things: freedom, self-ownership, and property rights (see Nozick 1974; Vallentyne 2007, 1998; Mazor and Vallentyne 2018; Narveson 1988; Schmidtz 1994; Van der Vossen 2019, 2009). As individuals, we have a natural right to self-ownership in a positive sense, meaning that we are free to determine the use of our body and person. This also entails a negative right, or a protection, from unwanted uses of our bodies (Van der Vossen 2019). Through self-ownership, we are also able to acquire and appropriate resources and property.[26] The basic Lockean – and often cited – idea is that when we mix labor with unowned resources, "we take something to which we have a right (assuming we have a right to our labor) and annex it to something else to which we have a liberty" (Schmidtz 1994: 43). The property right in an appropriated resource consists of the right to decide on how, in what ways, and when we want to use that resource. This right, however, is restricted by the rights and liberties of others. For example, if I rightfully own a knife, I may leave it wherever I see fit, but I am not allowed to put it in your chest (Nozick 1974: 171). I am also not allowed to appropriate resources up to the point where "the position of others no longer at liberty to use the thing is thereby worsened" (Nozick 1974: 178). This is usually referred to as the Lockean proviso. What is most relevant for our purposes is the claim that once someone legitimately appropriates something, one also has the right to transfer this good to someone else in any manner they like (sell it, give it away, etc.).[27] According to this view, free and uninterrupted markets are morally valuable because they allow people to exercise their rights and choose freely and autonomously.

It is important to keep in mind that libertarianism is only concerned with how a distribution came about and not its result or 'pattern', as Nozick calls it (e.g., everyone possessing equal shares, or shares proportional to their deservingness).[28] Hence, instead of criticizing the current distribution of income

[26] Of course, several specific restrictions follow from this. Perhaps most relevant for our present discussion is that income taxes – seen as non-consensual use of one's time and body (i.e., working for 'the needy') – are a form of forced labor (Nozick 1974: 169).

[27] As CEO pay is a matter of just transfers rather than just acquisitions, I will bracket the discussion on what counts as an original acquisition or what may possibly override property rights following from acquisitions. For a discussion on these matters, see Van der Vossen (2009) and Schmidtz (1994).

[28] More specifically, Nozick defines a patterned principle as follows: "It specifies that a distribution is to vary along with some natural dimension, weighted sum of natural of

because of its unequal pattern – for instance, CEOs earning 299 times more than the median worker pay – we should ask whether the distribution came about in a just manner. That is, we should be more concerned about an equal than an unequal distribution of income if it came about through means of exploitation, manipulation, or other violations of our freedom. Nozick thereby emphasizes that the principles of justice in holdings and justice of transfer are historical (Nozick 1974: 169).[29]

What does this entail for mid-level principles of just pay? For starters, it is easy to see that the procedural view of just pay naturally descends from the libertarian tradition. According to the procedural view, whatever the CEO and the board agree upon is just, as long as the negotiation between the two parties is just. We can illustrate this with Nozick's Wilt Chamberlain example (Nozick 1974: 161). In the original example, we start off with a distribution of income where everyone has an equal share that they are entitled to (and, by the right to transfer, are free to spend however they like). Chamberlain, a legendary basketball player, is in great demand and is guaranteed to fill the seats of any arena. Upon the renewal of his player contract, Chamberlain demands that for each home game, twenty-five cents from the price of each ticket goes to him. The following scenario ensues.

> The season starts, and people cheerfully attend this team's games; they buy their tickets, each time dropping a separate twenty-five cents of their admission price into a special box with Chamberlain's name on it. They are excited to see him play; it is worth the total admission price to them. Let us suppose that in one season one million persons attend his home games, and Wilt Chamberlain winds up with $250,000, a much larger sum than the average income and larger even than anyone else has. (Nozick 1974: 161)

Nozick continues by stating that if we found the original distribution – where everyone had an equal share – to be just, nothing of moral significance has changed at the end of the season, even if Chamberlain is now considerably richer than anyone else. This is because each individual freely chose to spend part of their just holdings to watch Chamberlain play. No one forced them at gunpoint or tricked them into this transfer, hence, no injustice has taken place and Chamberlain is entitled to his new holdings. Now, very few possess the

natural dimensions, or lexicographic ordering of natural dimensions." (Nozick 1974: 156)

[29] Consequently, redistribution after the fact for transactions and exchanges with a just history is then seen as a form of theft.

marvelous talent of Chamberlain, so the possibility of striking this kind of deal is perhaps only available to Chamberlain and no one else.[30] This, however, is not a problem for the libertarian (at least not Nozick). Remember, by the power of self-ownership we have the sole right to the use of our body and person. This includes our innate talents and abilities, which we are legitimately entitled to (Nozick 1974: 225; Olsaretti 2004: 92). Whether or not we *deserve* these talents is up for debate, and something we will discuss further below. At the moment, let us accept the premise that everyone is entitled to their talents and, consequently, the benefits they can justly reap from them.

Of course, the agreement cannot be detrimental to the rights of the team, the supporters, or Chamberlain. As many libertarians will point out, it is not possible for Chamberlain to transfer his self-ownership to the team, since that would imply a form of voluntary enslavement that is inconsistent with the values of freedom and autonomy that lie at the heart of the libertarian tradition (see Rothbard 1982; Barnett 1998; Grunebaum 1987). But that is not to say that the agreement has to be maximally beneficial for all parties, as illustrated in this passage:

> A medical researcher who synthesizes a new substance that effectively treats a certain disease and who refuses to sell except on his terms does not worsen the situation of others by depriving them of whatever he has appropriated. The others easily can possess the same materials he appropriated, the researcher's appropriation or purchase of chemicals didn't make those chemical scarce in a way so as to violate the Lockean proviso. (Nozick 1974: 181)

One could argue that, in these instances, the seller and the buyer got what they wanted so everyone should be satisfied. Nevertheless, it seems that it would be better for those who needed the treatment if they could have a say in the price negotiation and negotiate in a more balanced setting. But, as long the appropriation and transfer are just, which Nozick finds true about the example above, it is not of interest what is agreed upon.

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[30] As Heath (2018: 18) writes: "The desire on the part of spectators in his example is not just to watch a basketball game, but to watch Wilt Chamberlain play basketball. This is not a competitive labour market. On the contrary, Wilt Chamberlain is a monopolist in the market for Wilt Chamberlain services. He exercises market power, which is to say: he is, through his supply decisions, able to raise the price of those services … [S]ome fraction of what he earns constitutes an economic rent – a payment that goes beyond what is needed to maintain the factor of production in that employment."

Looking at the other mid-level principles, we can find some compatibility even though there is no strict justification. This is because there is no "independent criterion for determining what a just division or distribution is, that is, no criterion defined separately from, and prior to, the procedure which is then to be followed" (Olsaretti 2004: 87).[31] If Chamberlain would agree to a desert-based, incentive-based, or equality-based deal, then that would be permitted from a libertarian standpoint, in so far as these transfers have the right kind of history. For example, rational utility maximizers would be inclined to accept an incentive-based negotiation since that (purportedly) leads to an efficient outcome.

Yet, from a libertarian standpoint, one cannot fault Chamberlain for not making a desert-based, incentive-based, or equality-based deal. These deals are *permissible*, but they are definitely not *required* by a libertarian account. Chamberlain could be criticized for not living up to the standards of a desert-based or incentive-based compensation scheme, but only if this is what was agreed upon before the season started. What is required from a libertarian perspective, and what ends up being the only justified view, is a procedural view of just pay. In the next section, I will take a closer look at utilitarian and efficiency-based defenses of the market.

Utilitarianism and efficiency-based views

Utilitarianism is the view that social practices are right or just to the extent that they produce the best social outcomes, which often is formulated as 'the greatest happiness for the greatest number'. This can be understood as both a principle of ethics (when it is applied to actions) and a principle of politics (when it is applied to broader institutions or conventions). Historically, utilitarianism has been championed as a political doctrine meant to influence all areas of society including "every measure of government" (Bentham 1789/2007: 2).[32] Since the Benthamesque mantra of 'the greatest happiness for the greatest number' has been criticized for being vague and even incoherent, modern approaches have refined what it means for a society and its social practices to be just in a utilitarian fashion (see Roemer 1998; Audi 2007;

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[31] That is, apart from the prohibition to give up your right to self-ownership.

[32] Although, it should be noted that Bentham's focus for institutional utilitarianism mostly centered around the penal system (see Bentham 1789/2007: ch. 13-15).

Croskery 1993; Hooker 2014).[33] While most accounts hold that happiness (or pleasure) is what should be maximized, they differ in terms of how this should be understood. Some will claim that social practices are only fair if they maximize *actual* utility, meaning that what matters are the actual benefits derived from having certain institutions and practices in place (see Roemer 1998; Kristjánsson 2005). Others will embrace a position akin to that of Mill, stating that social practices are fair when they have a maximum *expected* utility, calculated by multiplying the possible happiness of the outcome by the probability of that outcome occurring (Hooker 2014: 287). There is also the alternative of opting for a *satisficing* requirement, where the overall goal is to have social practices that are 'good enough' rather than maximizing (Hooker 2014: 281).

Further variations apply to these positions. For example, one can hold that social practices should first and foremost be inclusive such that they recognize how they can affect the greatest number and, after this has been settled, produce as much happiness as possible for this population (Audi 2007: 597). An alternative is to identify social practices that produce the highest total of happiness and, once this has been done, find a distribution that is as inclusive as possible without sacrificing total happiness (Audi 2007: 599). These views do not in any way exhaust the vast variety of utilitarian accounts out there, but they serve to offer a picture of the multitude of ways utilitarians may deem acts, states of affairs, institutions, and social practices to be just or unjust. The glue that binds them together is that social practices should strive to achieve the highest amount (if not the maximum) of happiness possible.

The market is then morally valuable in so far as it is better than any of its alternatives in promoting happiness. When it comes to evaluating the market, it is interesting to note that there are two quite separate strands of thinking among authors that call themselves (or are being labeled as) utilitarian. On the one hand, there are those who argue that the market is an excellent institution for allocating goods to their best use. By facilitating free transactions among the buyers and sellers of the goods, the market is responsive to people's wants and

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[33] Even though the doctrine of 'the greatest happiness for the greatest number' is usually ascribed to Bentham's theory, it is questionable whether it corresponds to the utility principle as originally stated: "[T]hat principle which approves or disapproves of every action whatsoever, according to the tendency which it appears to have to augment or diminish the happiness of the party whose interest is in question: or what is the same thing in other words, to promote or to oppose that happiness." (Bentham 1789/2007: 2)

preferences in a way which no government plan or centralized distribution mechanism ever can be. Another way to put this is to say that market-based solutions are *efficient* (see Heath 2018.).

On the other hand, there are utilitarian reasons to criticize the market on the grounds that it does not allocate resources on the basis of happiness per se, and that there are reasons to interfere with markets or for preferring alternative mechanisms that can redistribute resources to the people who need them the most (see Schweickart 1996). In what follows, I will not take a stand on this issue but instead explore both strands of thought – starting with the former and then proceeding to the latter.

Efficiency-based views and crypto-utilitarianism

Some will argue that welfare economics, expressed in terms of the fundamental welfare theorems, has a close connection to utilitarianism (see Atkinson 2009; Sandel 2013; Posner 1979; Sen 1985; Qizilbash 2019; Jacobs 2017). More generally, utility (broadly conceived) is often viewed as the primary good that the market delivers. As Sen puts it:

> Most defenses of the market are instrumental in terms of the goodness of the *results* achieved. It works "efficiently"; it serves our "interests"; it is "mutually beneficial"; it delivers "the goods"; it contributes to "utility"; it serves as the "invisible hand" by which man is led to promote an end which was no part of his intention. On this view, the market is good because its results are. (Sen 1985: 2)

These utility-based defenses of the market rely on concepts that are intuitively sound, such as efficiency. Yet, these concepts require more detail in order for us to be able to assess them properly (i.e., in terms of what *moral* good the market supposedly promotes). Let us start by unpacking what it means for a market to be considered efficient.

'Efficiency', especially in welfare economics, is usually meant to denote Pareto efficiency (see Heath 2014, 2018; Sen 1970a; Qizilbash 2019; Atkinson 2009). This states that changes in distributions are only allowed if one can improve the situation for at least one individual without making any other individual worse off. When there are no distributions available that can satisfy the Pareto requirement (i.e., we cannot make anyone better off without making someone else worse off), then we have reached a Pareto efficient (or optimal) distribution.

Proponents of the Paretian ideal, such as Heath (2014) or McMahon (1981), are sometimes labelled as utilitarian or 'crypto-utilitarian' (Sandel 2013; Gustafson 2015). However, Pareto efficiency is *not* strictly utilitarian. Whereas a utilitarian would allow for improving the situation for, say, a hundred individuals at the expense of one individual, these kinds of distributions are prohibited within a Paretian framework. If anything, it seems more appropriate to interpret the Paretian view as a rule-utilitarian approach (Cohen and Peterson 2020; Moriarty 2020b). Yet, the rule that we should strive for Pareto efficiency in spite of more maximizing alternatives tends to be rather inept. As Moriarty points out, if the requirement is that *no one* is made worse off, then under non-ideal conditions it opts for accepting the status quo since "almost any policy change … will create winners *and* losers" (Moriarty 2020b: 118). Alternatively, "if preventing the burning of Rome would have made Emperor Nero feel worse off, then we cannot conclude that its burning was a mistake" (Atkinson 2009: 798).[34] Hence, in order for efficiency-based views to become more palatable (and interesting) defenses of the market, it has been suggested that one accepts a less demanding Pareto requirement or embraces Kaldor-Hicks efficiency (see Moriarty 2020b; Mishan 1972).

Kaldor-Hicks efficiency is less strict, and allows for changes in distributions where someone is made better off even if someone else is made worse off as result, *as long as* those who are made better off can hypothetically compensate those who are made worse off. The compensation is, however, only hypothetical and need not take place. As such, a Kaldor-Hicks improvement can entail a situation where someone ends up actually being made worse off. If there is no available distribution where someone can be made better off whilst also being hypothetically able to compensate those who potentially become worse off as a result of the change in distribution, then we have reached a Kaldor-Hicks efficient distribution.[35] This, however, moves the notion of 'efficiency' closer to more standard utilitarian (or rule-utilitarian) views, since it allows for making someone better off at the (hypothetical) expense of others.

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[34] The quotation from Atkinson is inspired by Sen (1970b).

[35] These requirements are usually expressed in terms of welfare (which is not problematic in this context, since we equate welfare with preference satisfaction). However, both the Pareto requirement and the Kaldor-Hicks requirement can be expressed in terms of preference satisfaction as well. For example: "A distribution is Pareto efficient if no alternative distribution allows at least one person to reach a more preferred point, while nobody else is at a point which is less preferred." (Qizilbash 2019: 45)

Efficiency-based views seem to be able to grant a justification for two theories of just pay that are usually regarded as "pro-market". That is, the incentive-based view and the procedural view of just pay. Earlier I argued that the incentive-based view – with its focus on maximizing value for the firm rather than the employee – is more or less a doctrine of efficiency. Indeed, we can now see that the incentive-based view is a natural descendant from considerations of efficiency. This is because it holds that employees should only be paid up to the point where it is sufficient to attract, retain, and motivate them. Any lesser pay and the employees will be left unsatisfied. Any higher pay and the 'overpaid' employees will stand in the way of a more efficient distribution.

> I do not think that adopting the incentive view *requires* us to think that people should be paid as little as possible. But this seems like a natural pairing, especially if we think that what employees are incentivized to do is promote value for other people. Pay is a cost, so the more the firm pays its employees, the less there is left over for others. If this is correct, then the complete normative logic of incentive is cost-effectiveness. (Moriarty 2020a: 125)

Interestingly, the procedural view also finds support within the efficiency-based framework. If it is in the employee's (or, e.g., worker's, individual's, etc.) interests to be paid whatever the outcome is of a fair process, then considerations of efficiency work as a justification for this view. It is usually held that in an ideal market, goods and services are traded at the so-called market clearing price; that is, a situation where aggregate demand meets aggregate supply. This means that free and voluntary exchanges in a competitive market will, by necessity, also be efficient (Heath 2014: 189).[36] Moriarty (2020a) has put forth a procedural view of just pay based on efficiency considerations, as illustrated in the following passage:

> My suggestion is that, for the most part, wages should be distributed according to the normative logic of the price conception of wages, i.e., by the informed and voluntary choices of buyers and sellers of labor … it is to our advantage as a society for prices in general to be determined this way. When prices are set through people's informed and voluntary choices, scarce

[36] This is essentially the first fundamental theorem of welfare economics, stating that when there is perfect competition and complete information, markets will be Pareto optimal.

> resources flow to their most productive uses, as determined by people's wants. (Moriarty 2020a: 132)

That said, it is important to note that this is not a necessary relation, since we can imagine that efficiency is reached without free and informed exchange. Analogously, free exchanges need not generate efficient outcomes, since people can be mistaken about what is best for them or what they actually want (Miller 1989). In other words, Moriarty's premise that free and informed exchanges lead to efficiency is only valid under ideal market conditions.

We have now seen that efficiency-based views grant justification for the incentive-based view as well as the procedural view of just pay. As I pointed out above, however, efficiency-based defenses of the market tend to be viewed as incompatible with what we usually label as 'fair' distributions, such as egalitarian or desert-based distributions (Heath 2018). Yet, there are ways in which one can reconcile these 'fair' distributions with a utilitarian view of the market, which is what I will look into next.

Utilitarianism, preference satisfaction, and priority

To reiterate, the market is morally valuable for the utilitarian in so far as it is better than any of its alternatives in promoting happiness. One way of understanding 'happiness' within the market context is in terms of preference satisfaction (or wants and needs). We might then believe that markets that satisfy actual preferences are good markets in utilitarian terms. In other words, a market that saturates the desire for fidget spinners is on par with a market satisfying the preferences for employment. Yet, this is neither supported by classical utilitarian thinking (e.g., Mill's (1871/2011) distinction between higher-order and lower-order pleasures) or welfare economics (see Harsanyi 1995, 1997; Griffin 1986). Instead, one argument is that happiness (or welfare) should be equated with informed preferences, and markets should be assessed in terms of how well they satisfy these preferences (Qizilbash 2019: 40). This could, for example, take the form of idealized preferences, meaning preferences we would have if we were idealized versions of ourselves, perfectly rational and fully-informed (Harsanyi 1982). Alternatively, as Qizilbash argues, the preferred interpretation of 'informed preferences' could be more akin to what we call an objective list theory.

> [T]he relevant things – 'prudential values' – are the objects of informed desire. These include: autonomy and liberty; accomplishment; enjoyment;

> deep personal relations of the sort we find in friendship and love; and understanding. (Qizilbash 2019: 41)

Why does the distinction between actual and informed preferences matter? It matters for those who oppose the idea that the market is an 'anything goes' domain. Satisfying the preferences for fidget spinners is not equivalent to providing means to promote, say, autonomy and liberty. The purpose of the market, according to this view, is that it has to provide some kind of substantive value to people in order to be considered useful (see Atkinson 2009). For example, having a desert-based distribution of pay is justified if it satisfies the informed preferences of individuals to have a patterned distribution of this kind – at least if we suppose that it is an informed preference of workers to be paid 'fairly' (i.e., according to their deserts). On the other hand, a desert-based distribution can be costly for companies – as it might be costlier to pay people what they deserve rather than, say, below minimum wages – forcing them to reduce their workforce (Friedman 1962: 216). In such an event, a desert-based pattern is not preferrable since unemployment is detrimental to one's welfare and autonomy. Hence, whether or not a utilitarian account of this kind can work as a justification for desert-based patterns comes down to settling two matters: (a) whether those who are made worse off (the unemployed or those who are not paid fairly) can be satisfactorily compensated (hypothetically or actually), and (b) deciding which preference is of more importance (being employed or being paid according to one's desert).[37]

Another interesting aspect of the utilitarian approach is that it may require redistributions if income inequalities grow too large. This is due to its emphasis on the diminishing marginal utility of material resources and goods (Hooker 2014: 297). For example, if a CEO would get relatively little happiness from a $1,000,000 bonus payout compared to how their ten, lesser paid, employees would feel were they to split that bonus equally between them, a utilitarian will

[37] In fact, a non-desert-based as well as a desert-based distribution might be efficient (in terms of preference satisfaction) given that there can be a multitude of efficient distributions to choose from. For example, the set of people who become unemployed in a desert-based distribution can be distinct from – though equal in number to, and subsequently morally on par with – the set of people who become dissatisfied by not being paid fairly. In this case, it does not matter whether we opt for a desert-based or a non-desert-based distribution since, *ceteris paribus*, they satisfy preferences to an equal extent.

require that we redistribute the bonus to the ten employees since this will result in more happiness for more people.[38]

We can find stronger demands for redistribution by looking at a sibling to the utilitarian thesis, namely, prioritarianism (a.k.a. the priority view) (Parfit 2002).[39] Also heavily reliant on the idea of diminishing marginal utility, prioritarianism holds that we should strive for the outcome that results in the highest overall good, but considerations for those who are worst-off are weighted or prioritized. Unlike utilitarianism, which is impartial in its assessment of the goodness of an outcome, prioritarianism is biased toward the worst-off. (It also focuses on the broader concept of well-being instead of happiness.) Let us once again consider the $1,000,000 bonus for the CEO. If it were the case that the outcomes were equal in terms of level of well-being whether the bonus were granted to the CEO or their ten employees, then the utilitarian could arbitrarily opt for one distribution over the other. But when the two outcomes are on par in terms of well-being, the prioritarianist would grant the bonus to the ten employees simply due to the fact that they are worse off. According to this view, markets are valuable in so far as they bring about a higher level of well-being (weighted toward the worst-off) than any of the alternatives.

Hence, from the perspective of utilitarianism or prioritarianism, there are some aspects that speak in favor of moving towards a more equal distribution of pay, in line with equality-based views. This is since the move toward a more equal distribution of income will improve the well-being of those who are worst-off; and that the potential negative impact some forms of redistribution of wealth will have on the superrich is, in all probability, negligible. A utilitarian-based defense of the market may then *permit* a move toward equality if it generates more happiness, but it will not necessarily *require* a move toward equality.

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[38] Holding all else equal, of course. If the CEO were to leave if they did not get the bonus, and the company were to suffer badly as a result, then utilitarians might favor giving the CEO the bonus. Another way to look at the case, from a utilitarian perspective, is that people tend to resent unequal distributions (to a certain extent, and this resentment can be interpreted as pain or as a cause of pain (Audi 2007: 603). An additional, yet different, argument for granting the bonus to the ten employees instead of the CEO would be that it alleviates the ‘pain’ of experiencing inequalities.

[39] I want to make it clear that I do not necessarily deem prioritarianism to be a utilitarian view, even though the two views have a lot in common. For a discussion on this matter, see Otsuka and Voorhoeve (2018).

As we now move on to egalitarianism and moral desert, the relevant inquiry will differ slightly. So far, we have asked why certain theories think that markets *are* morally valuable. But since the theories that I will discuss in the following sections do not necessarily presuppose that markets (ideally or non-ideally) are morally valuable, the question at hand becomes what is required for markets *to become* morally valuable. We will start with egalitarianism.

Egalitarianism: Relations, auctions, and distributive patterns

Egalitarian theories hold that some good ought to be distributed equally; that people should be treated equally; that people should have equal opportunities; and so on. Ultimately, all egalitarian thinking is concerned with some demand for equality.

> Rawls … calls for examining the distribution of *primary goods* to evaluate the justness of a state … Sen … calls for distributing resources to equalize the *basic capabilities* of people, not their utilities. Dworkin … calls for equalizing *resources*; he includes among resources ones that come with the person. Marxian theories call for equalizing access to society's *means of production*. (Roemer 1986: 753)

Within this camp, one can distinguish between the egalitarians who are concerned with patterned distributions and those who are not.

Rawls's theory of justice is not necessarily committed to a specific distributional pattern. Rather, economic distributions of any form are to be tolerated so far as (i) they do not undermine basic liberties; (ii) they do not undermine the conditions for fair equality of opportunity; and (iii) they are to the advantage of those who are worst-off (Rawls 1999: 52, 65; Freeman 2018: 16). Hence, similar to the efficiency view discussed before, Rawlsian egalitarianism does not give any guidance or preference for a specific pattern; rather, it sets up requirements for what a distribution should achieve (or, what it should not neglect). Nor did Rawls oppose the market system in any strict sense. He did not believe that markets are self-correcting, and argued that regulation and insurances were needed in order to uphold the efficiency of the market. But given that certain background institutions are in place – such as corrective measures for market failures and jobs available for those who want to work (what Rawls calls the allocation and stabilization branch) – markets are

seen as "consistent with equal liberties and fair equality of opportunity" (Rawls 1999: 241).

Democratic egalitarianism, as put forth by Anderson (1999), is not necessarily interested in distributional patterns either, but in what potentially follows from them.[40] Anderson (1999: 313) claims that our fundamental concern should be to establish a social order in which persons stand in relations of equality to each other. This means that no one should be in a position where they can be exploited, marginalized, dominated, or demeaned. Analogously, no one should be in a position where they have this kind of power over other people. As Anderson writes: "Certain patterns in the distribution of goods may be instrumental to securing such relationships … But democratic egalitarians are fundamentally concerned with the relationships within which goods are distributed, not only with the distribution of goods themselves" (Anderson 1999: 314). Similar to Rawls, Anderson does not appear to have any quarrels with markets, so long as certain background institutions are in place:

> Once all citizens enjoy a decent set of freedoms, sufficient for functioning as an equal in society, income inequalities beyond that point do not seem so troubling in themselves … The degree of acceptable income inequality would depend in part on how easy it was to convert income into status inequality – differences in social bases of self-respect, influence over elections, and the like. (Anderson 1999: 326)

It is possible to view Anderson's position as sufficientarian (Herlitz 2019). This is because what is ultimately required is that no inegalitarian relations exist, and this can be ensured by granting people enough goods and resources so that they do not end up in such an exposed position.

Dworkin's (1981a, 1981b) luck egalitarianism is perhaps closer to what we call a patterned principle. The theory distinguishes between two kinds of luck. The first one is brute luck, which is fortunes or omens that befall us for reasons or states of affairs that are beyond our control. The second is option luck, which is fortunes or omens that befall us through "deliberate and calculated gambles" (Dworkin 1981b: 293). For example, I might get fired for skipping work for a week, hoping that no one will notice (bad option luck), or I might be out of a job because a meteorite fell from the skies and demolished the building where

[40] This position is sometimes also referred to as 'relational egalitarianism'.

I work (bad brute luck).[41] Roughly speaking, luck egalitarianism holds that inequalities that arise from brute luck should be rectified, whereas inequalities that arise from option luck should be tolerated. In what way is this a patterned principle? Dworkin does in fact argue for an initial equal distribution of *resources*. It is important to note, however, that 'resources' are defined as "whatever resources are owned privately by individuals", which also include talents and traits that are the result of good as well as bad brute luck. Dworkin invites us to imagine an 'equal auction' where all resources are up for sale and every participant has an equal number of resources to deal with. The auction ends when everyone is satisfied with the bundle of resources that they have acquired (hence, no one is envious of another's bundle of resources). Subsequent to the auction, insurance markets open up that allow people to insure themselves against bad brute luck (e.g., lacking marketable talents or becoming blind). And this is where option luck plays a central role, since those who choose *not* to insure themselves against bad brute luck (they might, for example, be more risk tolerant than others) and later suffer from it, will simply have to accept the resulting inequality as it was, in Dworkin's terms, a "calculated gamble" (Dworkin 1981b: 297). Hence, luck egalitarians opt for an ex-ante patterned distribution (i.e., the auction), but will not require redistributive measures to rectify inequalities in resources that arise as a result of option luck.

Another pattern-like account can be found in the scholarship of Sangiovanni (2007). The idea is that we view a just state as a cooperative venture with reciprocal relations between its citizens. Those who contribute to the well-ordered state, even in a negative sense (e.g., by not breaking the law), have a right to their fair share in a flourishing society. Now, it is certainly true that some citizens contribute more than others in a positive sense, but these contributions are dependent on the efforts and contributions of their fellow citizens. For example, those who reap enormous profits from the market are dependent on the preferences and participation of other market actors, as well as the necessary infrastructure that allows markets to exist. Further, one's abilities and talents that allow one to take up high positions and become rich can only be developed in a well-ordered society where everyone contributes by supporting the relevant institutions. Therefore, the doctrine goes: "others are owed a fair return for what they have given you, just as you are owed a fair

[41] The distinction is not black or white. As Dworkin (1981b: 293) puts it: "the difference between these two forms of luck can be represented as a matter of degree, and we may be uncertain how to describe a particular piece of bad luck".

return for what you have given others" (Sangiovanni 2007: 26). This form of reciprocal egalitarianism can then call for an ex-post (somewhat) equal distributional pattern, where individuals who owe their success to others should compensate those who have helped them on the way. With that in mind, let us explore how well these different variants of egalitarianism fit with mid-level principles of just pay.

There is of course a natural connection between egalitarianism and what I have called equality-based views of just pay. Regardless of whether you are a Rawlsian, democratic, luck, or reciprocal egalitarian, the distribution of income is instrumental to any end-state that you envision. For instance, with minimal economic means, people will not have equal opportunities in life (Rawls) nor can they reasonably be said to be compensated for what they are owed from others (Sangiovanni). In other words, while there might be other egalitarian 'currencies' that are deemed more valuable, insufficient economic means will in most cases prevent persons from having access to more substantial goods. Most egalitarians recognize this matter and will therefore hold that an equal distribution of any goods that are instrumental (e.g., income) to achieving equality of the relevant kind (e.g., equality of opportunity) should be *the default state*, unless we have a justified reason to settle matters in another fashion (see Quong 2018; Arneson 2013). Few egalitarians, however, would argue that an equal distribution of income is the desired *end-state*. Not even patterned principles of egalitarianism are necessarily committed to income equality. For example, luck egalitarians will only opt for income equality if all instances of income inequality are the result of brute luck, which is hardly the case. As noted above, Anderson's view can be interpreted as sufficientarian, which would at least justify the concept of living wages (but not equal pay). In short, since an equal distribution of income is seen as the default state, the burden of proof resides with those who believe that there should be an unequal instead of an equal distribution of income. I discuss the relation between income egalitarianism and other forms of egalitarianism further in paper 4.

Are egalitarian theories compatible with the procedural view? The answer seems to be a conditional "yes". Most aforementioned egalitarian accounts incorporate markets into their views after certain conditions have been met. Both Anderson and Rawls accept that, once background institutions have been instantiated and social insurances exist, we can leave "the rest to pure procedural justice" (Rawls 1999: 69). Dworkin adopts a similar view, stating that once the auction is over, individuals should be held accountable for the good

and bad choices they make. For example, a CEO has no moral complaints if they make a deal that is disadvantageous to them, assuming that it was the result of bad option luck. The reciprocal view of Sangiovanni is less compatible with the procedural view, since whatever economic gains and advantages a CEO can obtain through, say, compensation negotiations (and what enabled someone to be in that position in the first place) will in part be owed to others.

When it comes to incentive-based views, matters become a little bit more complicated. Incentive-based views suggest that the function of pay is to properly incentivize employees at the lowest cost possible. This is often understood along the lines of the goal of efficiency, but it can also be understood along the lines of some more specific interpretation of a just outcome. Interestingly, incentives play a large role in Rawls's theory as a means to satisfy the difference principle and reach efficient outcomes. Promising better prospects (e.g., higher incomes) for, say, entrepreneurs can incentivize them to create better conditions for the working class, thereby increasing 'the size of the pie'. Situations when it is "impossible to make any one representative man better off without making another worse off, namely, the least advantaged representative man whose expectations we are to maximize" (Rawls 1999: 69) are then just *and*, as a consequence, efficient in the relevant sense. Other views, such as reciprocal egalitarianism, seem to be more on the fence when it comes to incentive-based distributions. This is because even if CEOs would be more motivated to work harder were they not obligated to compensate the individuals they owe their success to, an efficient outcome will not be deemed just.

Lastly, let us briefly discuss egalitarianism and its relationship to economic desert. As I will explore in further detail in the next section, Rawls was a strong opponent of desert-based distribution, since he believed that the features that enable us to be deserving of a comparatively higher income, such as talent, are undeserved. Any desert-based distribution will then be deemed unfair since it does not satisfy the requirements for the 'justice as fairness' doctrine, and it can make some people worse-off through no fault of their own. On the other hand, luck egalitarianism is perhaps the most compatible version of egalitarianism with desert, since it allows for pay inequalities that arise via option luck. In some sense, then, one could interpret this as meaning that some people deserve a higher or lesser income based on what choices they made in their life.[42]

[42] I am not implying here that luck egalitarianism is a form of desert theory, merely pointing out the similarities. For discussions on the differences between the two, see Brouwer and Mulligan (2019) and Moriarty (2018a: 165).

Nevertheless, we should not forget that all forms of egalitarianism require some form of fair background conditions. As Olsaretti (2004: 28) puts it, "the defensible principle of desert is one which does not make the magnitude of people's unequal desert depend on unchosen, and unequally distributed, factors", which is more or less equivalent to Dworkin's claim that bad brute luck should not be a decisive factor in people's lives. Olsaretti also argues that only when certain (Rawlsian) fair background conditions are met will "people have a fair opportunity to acquire deserts, and their becoming more or less deserving than others is just". Seen this way, luck egalitarianism is able to conditionally justify desert-based distributions.

To sum up, we have seen that egalitarianism is quite open-ended when it comes to justifying different mid-level principles of just pay. For instance, it is compatible with both procedural views and incentive-based views, albeit this compatibility comes with the caveat that distributions of these kinds are only permitted once certain background institutions have been instantiated. It is compatible with an equal distribution of income as a default state, but is in some instances quick to deviate from this pattern if unequal distributions help us attain more substantive egalitarian goods. Perhaps surprisingly to some, we have thus asserted that egalitarianism is only under very specific forms a patterned principle in the way it has previously been criticized. The last theory we will discuss – moral desert theory – is very much a patterned principle. We will also see that it has very strict demands when it comes to which mid-level principles it is willing to support.

Moral desert: Markets and virtue

Put in very simple terms, desert is the practice of praising virtue and condemning vice in a specific manner (Mill 1871/2011: 90; Pojman 2001: 92). Desert-driven intuitions seem to find a place in every aspect of our lives. We believe that virtuous people deserve praise; criminals deserve punishment; ambitious students deserve high grades; people who are wronged deserve redemption; brilliant filmmakers deserve an Oscar; and hardworking people deserve a decent wage. It is essentially an input-output function – for whatever action a person performs, he deserves to get something in return.

When asked why people should get what they deserve, we might answer that it is a good instrument to incentivize people to act in certain ways. If we punish vice and praise virtue, people will (hopefully) try to act more morally. However,

most proponents of moral desert argue that it also holds intrinsic value. For example, Kagan states that:

> I think we should … accept the view that there is intrinsic value in people getting what they deserve. To be sure, desert can have instrumental value, but its value goes beyond that: it is *intrinsically* better when people are getting what they deserve. (Kagan 2012: 17)

Another way to think about it is that it is good when people get what they deserve because it restores some 'balance' to the world (see Honderich 2006: ch. 2; Feldman 2016: ch. 2).

Irrespective of its supposed intrinsic value, most desert theorist think of the relationship as something unique. As Feinberg (1970: 57) put it: "To deserve something … one must satisfy certain conditions of worthiness which are written down in no legal or official regulation." Not only is the deserving due to get something in return, but this something should stand in proportion to what he did. For instance, it would be unreasonable to sentence a shoplifter to death row or to host a parade for someone complimenting a co-worker's effort. Let us call this idea of a balance between input and output 'the proportionality requirement' (see Olsaretti 2004; Riley 1989; Arnold 1987). Utilizing the desert relation spelled out earlier will make this clearer (that is, "X deserves Y on the basis of Z"). According to this requirement, then, the deserved good (Y) has to stand in proportion to the desert basis (Z) (and vice versa). This is the first building block in desert as a patterned principle of distributive justice, but there are more requirements that dictate the preferred distribution schema.

Most desertists hold that desert is exclusively a backward-looking notion (see Mulligan 2018: 85).[43] People are rewarded or punished for actions or events that happened in the past. It does not matter that I will do my chores tomorrow or that I am going to run a marathon in six months. As long as these events have not taken place, I am not deserving as a result of either of them. Some will also hold that desert bases are restricted in the sense that they have to convey some fact about us or a trait that we possess (Feinberg 1970: 59). I cannot be deserving of a paycheck because there is a full moon tonight or because my mom wants me to get paid, since these are not facts about me. This is usually referred to as 'the aboutness principle', and prevents people to hold desert claims based on any arbitrary reason. For example, desert claims such as "Joey

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[43] Emphasis on "*most* desertists", since some have suggested that forward-looking desert is a possibility as well (see Brouwer 2020; Feldman 1995a).

the store clerk deserves a $2,000 bonus because George Washington passed the Delaware River" are nonsensical and bizarre. Rather, a claim has to be based on my contribution, effort, merit, talent, etc. In fact, some desertists will state that it is not enough that the desert base is a fact *about* me; I must also be *responsible* for that desert basis. Alternatively, I can only be deserving of factors and traits that are within my *control*. This means that I cannot be deserving as a result of luck, such as traits that I was born with, or outcomes of my actions that were unforeseen and unintentional (Miller 1999; Olsaretti 2004; Moriarty 2018a; Sadurski 1985). This is the so-called 'responsibility requirement' (or the 'control requirement') and, while it has been contested, it is usually regarded as the second building block in the distributive pattern of desert. Thus, we can spell out the pattern as follows: people deserve goods or treatments that stand in proportion to the actions or events that they are responsible for bringing about.

The latter part of the pattern is perhaps the most controversial aspect of desert theory. In the previous section on libertarianism, I briefly discussed Nozick's position on innate talents. According to his view, we are entitled to whatever we reap from our skills and talents, but he does in fact come across with a stronger point.

> It is not true, for example, that a person earns *Y* … only if he's earned (or otherwise *deserves*) whatever he used (including natural assets) in the process of earning *Y*. Some of the things he uses he just may *have*, not illegitimately. It needn't be that the foundations underlying desert are themselves deserved, *all the way down*. (Nozick 1974: 225)

Nozick's claim is a response to Rawls, who is a strong opponent of desert-based distributions. Rawls points out that we are not responsible for acquiring our innate talents any more than we are responsible for being born into a certain socio-economic class or being born with disabilities. And, since desert requires that we are responsible for the traits that make us deserving of something, basically all desert claims will be illegitimate by the arbitrariness of the genetic lottery (Rawls 1999: 89).[44] Now, there have been extensive discussions on how one can reconcile desert theory with this Rawlsian challenge (see Alm 2010; Olsaretti 2004; Kristjánsson 2005; Arneson 2003; Sher 2003). And, to be frank, Nozick's response is not the strongest reply for the desertist position. One particularly interesting defense comes from Moriarty (2002, 2003, 2005b). He

[44] I once attended a conference where one of the participants pointed out, jokingly, that they were not surprised that "all desert theorists appear to be white, privileged, men".

states that Rawls should not be understood as saying that *all* of our efforts and contributions are based on (undeserved) innate talents, rather, they are *partially* due to what is innate and partially due to things we can take credit for (e.g., the choices we make). In other words, Rawls's critique is not a metaphysical argument – such that it is impossible to generate legitimate desert claims – but an epistemological argument in the sense that it is very difficult to know what is owed to our innate talents and what is owed to our own, deliberate, choices. It might appear that Moriarty is simply splitting hairs, but the merit of this response becomes clearer if we make a quick detour to retributive desert claims.

Consider someone who commits a horrible and heinous crime. It would be strange to say that the criminal is not deserving of any punishment because they cannot, under any circumstances, be said to generate desert claims for any action they committed or choice they made in their life since these things are just products of the genetic lottery. In fact, we *do* believe that it is possible that the criminal can be credited with the crime (or *mens rea*), and subsequently be deserving of punishment. That is one of the reasons why we have a trial; it is to solve the epistemological problem of whether or not the crime was committed for reasons that are deserving of punishment. Moriarty's point is that we cannot reasonably hold that it is only possible for individuals to be deserving when they have done something bad or have committed a wrongful act. Rather, the Rawlsian challenge is better understood as an epistemological challenge to the desertists, for them to show how one can disentangle what can and cannot be attributed to our free choices when it comes to positive desert claims. It turns out that even if it is 'just' an epistemological issue, it causes a lot of problems for the desertists.

We can think of desert claims as either comparative or non-comparative. The former are desert claims that require that people who perform similar acts (good or bad) deserve equal treatment, and people who act differently deserve to be treated differently (Kagan 2012: 350; Miller 2003). The latter are claims where "we do not compare them with each other, but rather compare each in turn with an objective standard and judge each 'on his own merits'" (Feinberg 1973: 98). Since there are extensive discussions on the problems related to both kinds of comparisons later on in this thesis (Paper 1 and Paper 3), I will just briefly mention which issues the desertists are facing here. When it comes to comparative desert, the issue is comparisons themselves. How do we, for example, compare the contributions of the CEO to the contribution of low-paid workers? What is the appropriate metric for two people who perform

different lines of work? Is it even fair to assume that the CEO got their position due to factors entirely within their control? If not, how do we discount for that when comparing the two parties? I address these questions in greater detail in Paper 3.

When it comes to noncomparative desert, the problem is not so much that we cannot find standards to use in our comparisons. People who perform immoral acts deserve bad things happening to them, and people who perform virtuous acts deserve good things happening to them. But what things? And, more importantly, how *much* of it? Regarding being economically deserving, Miller (2003: 32) writes that there does not appear to be any "natural quantum of money or resources of other kinds that a person may deserve on the basis of her performance". Comparing people only to an objective standard – and judging them on their own merit – requires that we have some method of *translating* that deservingness into a proportional amount or degree of deserved goods or treatment. This is usually referred to as 'the anchoring problem'.[45]

Two matters remain in this inquiry. The first is how desertists view the market. The second is in what ways desert theory can grant justification to the mid-level principles of just pay. Most desertists will hold that markets are good when they are distributing goods in accordance with the pattern spelled out above, namely, in proportion to what people deserve for actions and features they are morally responsible for (see Miller 1999; Mulligan 2018; Feldman 2016). Some might even go so far as to say that the distribution of *all* goods in society (e.g., social welfare, jobs, healthcare) should be carried out in a desert-based fashion (Pojman 2001; Feldman 1995b). However, the more palatable views of desert will hold that while gains in the market should be a matter of desert, the distribution of other societal goods should be determined by other principles (utility, fair processes, need, etc.).

Let us then explore how desert relates to the different mid-level principles of just pay. It might seem obvious that most desertists would support what I have called desert-based views of just pay, given that economic desert is a subset of desert theory and thereby subscribes to the same distributional pattern. However, there are some aspects that need further elaboration. Desert theory holds that the virtuous deserve good things in life and implies that people who

[45] This problem is prevalent in retributive justice as well, where the question centers around which punishment and how much of that punishment certain crimes are deserving of (see Bentham 1789/2007: ch. 13-15; Von Hirsch 1993: ch. 5; Duus-Otterström 2013).

work hard and contribute to society are in some sense virtuous. So why would it recommend that we *pay* people who excel in virtue instead of merely praising them? As Feinberg (1973: 113) puts it: "Perhaps there are traits that deserve to be rewarded, but it is doubtful that larger economic allotments are the appropriate vehicles of rewarding … Indeed, there is something repugnant as Socrates and the Stoics insisted, in paying a man to be virtuous." What Feinberg overlooked with this comment is that he gave a perfectly good answer to these concerns in his earlier works. In its most basic form, virtue deserves praise, but when it comes to certain acts and traits, the deserved reward has to take on a more 'fitting' response (Feinberg 1970: 82; Moriarty 2018a: 153). What determines the fittingness are the rules of the institution in which the virtue takes place.

> This view suggest that responsive attitudes are the basic thing persons deserve and that "modes of treatment" are deserved only in a derivative way, insofar perhaps as they are the natural or conventional means of expressing the morally fitting attitudes. Thus punishment, for example, might be deserved by the criminal only because it is the customary way of expressing the resentment or reprobation he "has coming". (Feinberg 1970: 82)

Paper 1 expands on the link between being morally deserving and economically deserving. For now, let us conclude that paying people in proportion to their effort or what they contribute to work satisfies the desert-based distributional pattern.

Can desert theory grant justification to incentive-based views? The short answer is "no". This is due to several reasons. First, incentive-based views are forward-looking, whereas desert is a backward-looking concept. Stating that *x* is a just pay because it will (hopefully) properly incentivize the CEO lacks moral significance from a desertist perspective. This is because the CEO will have to *prove their worth* before they are deserving. Second, incentive-based views can allow for distributional patterns that are incompatible with the desert-based pattern. Suppose that CEO *A* is granted *x* amount of pay because they need that to be properly incentivized, whereas CEO *B* is satisfied with less, even though they are equally skilled and merited, and perform at the same level as *A*. Whereas desert theory would hold that *A* and *B* are equally deserving, incentive-based views will hold that – since *A* needs a higher pay in order to become properly incentivized – *A* is more deserving than *B*. Consequently, incentive-based views put the cart in front of the horse by letting well-functioning

incentive schemes dictate our level of desert instead of the other way around. Hence, desert theory is not able to justify incentive-based views.

Similar concerns apply to procedural views. An attempt to justify procedural views via desert theory would result in the statement that "The level of pay people agree to under fair procedures is what they deserve to get". Two equally deserving people (from the desertist's perspective) can thereby be rendered unequally 'deserving' according to a procedural view, given that they receive different pay as the result of a fair process. A proper desert statement would instead insist that whatever people deserve is what they should agree to get paid under fair procedures. The reason why this conflict arises should be well-known by now. Both incentive-based views and procedural views are unconcerned about distributional patterns, whereas desert theory is (relatively) unconcerned about fair procedures or what certain distributions achieve. The main concern is that the distribution follows a specific pattern. Of course, there is a conditional justification available. Namely, procedures are only just if they end up with people getting paid in accordance with their desert.

Claims for equal incomes or somewhat equal incomes are a different matter. As stated earlier in this section, desertists hold that people who behave similarly deserve to be treated similarly. Hence, equal pay for equal work is a doctrine that the desertist camp can get behind. However, this is where the similarities stop. Desert is, in its foundation, an inegalitarian principle and will tolerate large income differences as long as these differences are deserved. In other words, desert will agree with the claim that people who are equally deserving deserve equal pay, but no other claim for equality follows from desert theory.

Concluding remarks

By now, it should be evident that the debate on CEO pay goes beyond merely discussing whether their level of pay should be "this high" or "*this* high". It is a complex discussion that runs deep into the domain of political philosophy. Perhaps one can explain much of the disagreement on CEO pay as being dependent on which political tradition the debating sides subscribe to. Those who defend current pay practices will most likely hold libertarian or efficiency-based views of the market. Critics can have egalitarian views, being sympathetic to the procedural fairness of market transactions but holding that strict measures have to be taken when markets or the relevant background

institutions fail. Alternatively, they can hold a desert-based view, criticizing markets for not respecting the requirement of proportional distributions.

We could see that there is a 'natural pairing' between mid-level principles of just pay and principles of justice. Libertarianism justifies the procedural view, while only being compatible with the remaining three perspectives. Incentive-based views are an extension of utilitarian or efficiency-based views, while utilitarianism is also conditionally compatible with the rest of the just pay principles. The egalitarian view of the market is a trickier case, since its holistic view of a just society means that it has stricter requirements in terms of the basic structure of society rather than how markets should operate. Only if and when there is an appropriate basic structure can there be egalitarian support for the market. Although this view did not produce any stronger justification for any specific just pay principle, we could see that different versions of egalitarianism have some kind of compatibility with most principles. For example, Rawlsian egalitarianism resembles a mixture of procedural views and incentive-based views, and luck egalitarianism shares some features with desert-based views. Lastly, we could see that moral desert naturally supported economic desert as the most viable just pay principle. Interestingly enough, it lends little (if any) support to the other pay principles.

The purpose of this introduction has been to spell out, both descriptively and normatively, why CEO compensation has developed into what it is today. This introduction has highlighted and presented some of the most widely debated issues that go beyond the narrower issue of specific pay levels. These issues are layered and, in many ways, interdependent – which gives rise to questions on how to best approach different solutions to the problems discussed so far. For example, should firms disempower the CEO and run the risk of letting a less informed board decide the fate of the company? Cut down on CEO pay by removing performance-based compensation, and run the risk of "resetting" the agency problem? Nevertheless, let me be frank for a moment.

It is rather obvious that current CEO pay practices fail to live up to the standards of all the mid-level principles of just pay discussed in this introduction. We have seen that procedural views hold that a just pay is one that results from a fair procedure. I am however skeptical as to whether current procedures satisfy Nozick's requirement of transactions having "the right kind of history". Remember that, in the Wilt Chamberlain example, everyone starts off with equal shares. It is only after this set-up has been made that people, through their *free* and *informed* choices, grant Chamberlain a much larger slice of

the pie than anyone else is getting. However, due to the many ways in which executives can exercise managerial power (e.g., CEO duality), the freedom of pay negotiations can easily be compromised. Information asymmetries between the CEO and the board of directors pose a threat to the idea that both parties in the negotiation are fully informed. And it is perhaps a little optimistic to believe that the market will correct these problems by itself. Furthermore, it is important to consider who sits at the negotiating table. The board of directors is one of many parties that are potentially affected by the pay of a CEO and how well they perform.[46] There have been countless examples of firms that furlough large parts of their workforce while executives get to enjoy lavish bonuses and generous compensation packages. Shareholders lose out on increased value in company stock when companies counteract the dilution effect through stock buybacks as ESOs are about to vest. In extreme cases, such as the global financial crisis of 2008, millions of people lost their jobs, savings, and homes – partially due to the compensation packages that incentivized excessive risk-taking among executives. Reasonably, a fair procedure should involve most (if not all) parties that are affected by excessive compensation packages.[47] Since this is not the case under the status quo, I would hardly call any pay negotiation between CEOs and the board of directors fair in any substantial sense.

Incentive-based views recommend that pay is set at a level where CEOs are properly incentivized. The relevant question to ask, then, is how this line of thinking resulted in executives enjoying heaps of ESOs, restricted stock, qualified and unqualified bonuses, post-retirement benefits such as consultation contracts, and so on. One potential answer, as Kolb (2012: 159) states, is that when incentive-based pay "works 'according to theory', there can be little doubt that the operation of incentives creates more value than a nonincentivizing approach to compensation". The key phrase here being "according to theory", of course. Due to the many pitfalls and risks that are involved with incentive-based pay – such as misaligned incentives, excessive risk-taking, short-term thinking sacrificing long-term company performance – it is surprising that few

46 As I mentioned earlier, members on the board of directors have little to lose in being generous towards the CEO unless they have a large stake in the company (which is not always the case).

47 Attempts have been made to meet this requirement through the "Say on Pay" policy, where shareholders get to vote on compensation packages for the highest paid executives in a company. It is however questionable how effective this measure has been (see O'Byrne 2018).

companies appear to make a proper risk-assessment of the nature of their executive compensation packages. When the worst outcome of a practice involves contributing to financial crises (among other things), there has to be significant (moral and economic) advantages to act as counterweight to that potential bad effect. "Hold on!", someone might exclaim, "you are forgetting the agency problem". Indeed, it is important to align the interests of the CEO and the firm. But there was a time before performance-based pay made up roughly 85% on average of the compensation package, and business was not dead before the 1980s. Neither is it the case that companies in parts of the world where performance-based pay is the exception rather than the rule (e.g., Japan, Sweden, Spain) are struggling to make ends meet. With that said, am I stating that the agency problem is merely a mirage? Of course not, but I sincerely believe that the current imbalance between performance-based and non-performance-based pay in CEO compensation packages is an exaggerated response to this particular issue. We need to be more critical towards how well the idea of incentive-based pay working "according to theory" translates into the real world. Especially since there is ample evidence that firms can, not only survive, but thrive without promising their CEO an abundance of ESOs, restricted stock, and bonuses.

Desert-based views ask that CEOs are paid in proportion to their effort or contribution, or both. As I have been pointing out in this introduction, a palatable version of desert theory requires certain background conditions to be in place. For instance, everyone should have their basic needs met and everyone should have an equal opportunity to participate and contribute. Only then can desert claims have traction. In the papers included in this thesis, I discuss desert-based views on very favorable terms, meaning that I assume that desert claims can have traction despite the fact that fair background conditions are not fulfilled in the real world. It is necessary to assume these favorable conditions, otherwise it would be pointless to discuss desert theory in the first place. What is interesting is that, despite these assumptions, there is little support for current CEO pay practices from a desertist perspective. CEO performance is very difficult to track, and even if we were fully informed about how CEO performance affected firm performance, we do not seem to have an answer to what that performance is worth in monetary terms. Furthermore, as will become apparent in paper 2 and paper 3, desert is an elusive and obscure concept that lends itself to a multitude of – and sometimes contradictory – conclusions. If there is any value in being granted what you deserve, then it

might worthwhile trying to solve the inherent problems of the theory. Until those are resolved, however, we should be suspicious of any desert claims that relate to CEO pay.

Lastly, equality-based views demand equal pay, or at least a valid reason why pay should be unequal. It might be philosophically uninteresting to point out that it is wrong, from the perspective of equality-based views, that intra-firm pay differences become more and more unequal and that essential workers receive a significantly lesser pay compared to that of financial CEOs. But since incentive-based views, procedural views, and desert-based views all fail to morally justify current CEO practices, it becomes even more relevant to ask: why should not pay practices be more equal?

'Fixing' CEO pay is not done by flicking a switch. Rather, it requires a detailed diagnosis as well as balanced measures and compromises, meaning that plenty of philosophical (as well as interdisciplinary) work lies ahead. I hope that this introduction has provided some clarity as to why current CEO pay practices are morally unjustified. I will now conclude this introduction with a summary of the papers of this thesis and demonstrate how they relate to what has been discussed so far.

Introduction to the papers

Paper 1: Moralising economic desert

In this paper, we explore the concept of economic desert and its relationship to the broader category of moral desert. This inquiry was partly prompted by the bank executives' involvement in the global financial crisis of 2008 and the question of whether performance-based pay is legitimate in light of such behavior. The paper aims to develop a performance- or desert-based principle of pay that truly rests on the background theory of moral desert. Such a principle should be able to answer, among other things, Feinberg's challenge (noted above) regarding why and how economic reward can be a fitting response to virtue. The paper proceeds by comparing how economic desert is often contrasted with moral desert in the literature, seemingly implying that they are two different things.

First, different kinds of deserved goods and desert bases pertain to different kinds of values. Regarding moral desert, most argue that acts or traits of final value (e.g., virtue) should be rewarded with goods or treatments of final value (e.g., praise or happiness). When it comes to economic desert, workers deserve a wage, which only has instrumental value, and some have argued that one can only be deserving of a wage based on acts or traits that have instrumental value. We argue that even though desert bases such as effort and contribution are not to be viewed as having final value, work ultimately has to stem from – or produce – goods that have final value.

Second, many have claimed that economic desert is essentially a comparative notion. While we agree that non-comparative economic desert is problematic, we argue that it is not as incomprehensible as it has previously been portrayed. For example, it seems reasonable to suggest that anyone who works is at least deserving of a living wage, regardless of how well their colleagues perform.

Lastly, most argue that moral desert is a pre-institutional notion whereas economic desert is an institutional notion. We argue that although economic desert takes place in an institutional *setting*, its demands and requirements cannot be said to be fully institutional. One of the reasons for this is that, if one were to concede that economic desert is fully institutional, then this particular notion

of desert would collapse into the notion of entitlement. We conclude by stating that there are two necessary conditions one has to satisfy in order to be economically deserving: (i) one has to put in effort and contribute at work, and (ii) one's effort and contribution must have some connection to final value.

While this paper does not deal with the question of CEO pay directly, it nevertheless has some important upshots for that debate. First, the moralized view we present speaks very little in favor of high CEO pay, even if surrounding issues (e.g., the anchoring problem) leave us hesitant to provide any confident conclusions on the matter. Furthermore, we argue that people who perform work but lack a connection to a final value (i.e., the executives who worked for Bear Stearns and Lehman Brothers before the crisis) are (partially) undeserving of pay.

This paper is based on the ideas expressed in the last section of this introduction, namely, that all theories of just pay have some relationship to principles of justice. Put more firmly, all theories of just pay *must* have some relationship to principles of justice if their judgment on pay levels should be deemed legitimate from a moral point of view. This paper figures as a chapter in the anthology *Business Ethics after the Global Financial Crisis: Lessons from the Crash,* edited by Cristopher Cowton, James Dempsey, and Tom Sorrell, published by Routledge in 2019.

Paper 2: CEO pay and the argument from peer comparison

This paper dives deeper into the desert- and incentive-based views discussed in this introduction. More specifically, it tackles the argument from peer comparison that is often used in defense of high CEO pay. The main reasoning behind this argument appears to be along the following lines: Given the status quo where many companies pay their CEOs handsomely, it is only reasonable for company *X* to compensate their CEO at a level that is on par with other companies. Some will state that this is necessary if companies want to remain competitive; we bracket that discussion and focus instead on how this can be approached from a moral point of view.

When it comes to incentive-based views, firms are supposed to attract CEOs that will maximize their firm wealth ('bang for the buck'). CEOs, in turn, are supposed to take on positions that will maximize their personal utility and

wealth. Taking the effect of different comparisons into account, we argue that an incentive-based view can justify high CEO pay to some extent. We first consider the opportunity costs for CEO candidates. These candidates will have to weigh up different options (company offers) and consider the foregone gain that is the result of choosing one position over the other. If three out of four offers come with a very high pay and the jobs are sufficiently similar, it is only rational for the CEO to be dissuaded by the company that does not offer a competitive pay rate. We also consider relative social comparisons of income, meaning that people tend to assess their situation relative to what others get instead of in absolute terms. A preference for high social status and wanting to stay on top in social hierarchies may affect a CEO's decision to accept or reject a job offer based on its pay rate. Lastly, we recognize the so-called 'signaling effect' of pay. The idea is that companies who offer high CEO pay signal success to the market, whereas companies who offer low CEO pay will not be viewed as successful.

We also consider desert-based views. Here, we build our case on the assumption that economic desert is mainly a comparative notion. Given that it is difficult to establish an anchor for ideal pay, and that it is problematic to find desert bases that make for fair comparisons across all lines of work, we argue that it is first and foremost imperative to secure intra-occupational parity. That is, people who perform similar work are deserving of (and should receive) similar pay. Even in cases where we quite confidently feel that someone is getting more than they deserve, we might feel inclined to grant equal treatment to people who are equally deserving as that person, so that there is at least parity among equally deserving persons. We conclude the paper by addressing several objections to our desert-based argument. While we admit that it faces some problems, there are at least some points in our defense that most desertists will have to acknowledge. Hence, our case should be seen as a partial defense for high CEO pay from the perspective of desert- and incentive-based views. This paper was published in *Journal of Business Ethics* in August 2020.

Paper 3: Who deserves the most? CEO pay and contribution-based desert

In this paper, I ask whether contribution-based desert can act as a justification for high CEO pay. It picks up on some of the questions raised and left

unanswered in paper 2, namely, how to make fair comparisons between workers intra-firm as well as inter-firm (and inter-sector). One reason why this inquiry zooms in on contribution-based desert is that this notion of economic desert has been used to both defend and criticize current CEO pay levels.

I approach this matter by discussing the five different interpretations of contribution-based desert claims that appear to be the most widely held in the debate. These are that one's contribution is either one's market value, one's marginal productivity, one's actual production, one's Shapley value, or one's contribution to society. When it comes to contribution as market value, I deem it unfit for a desertist position based on two considerations. The first is that one's *actual* market value lacks moral significance. The second reason is that it is difficult, if not impossible, to identify a worker's *ideal* market value in a way that is not arbitrary. I also argue that it is unsuitable for a desertist to interpret contribution in terms of marginal productivity, the main reason being that it is concerned with output rather than what workers actually produce. Hence, these notions that are usually put forward as defenses for high CEO pay do not seem to hold water in a desertist framework.

I move on by discussing views that have been used to criticize high CEO pay levels. The first is an interpretation of contribution as a worker's actual production, which can in theory be measured by monitoring their performance. Although it appears to be a useful instrument for making intra-occupational comparisons, it does not translate as well for inter-occupational comparisons (e.g., CEO to factory worker intra-firm). Instead, I argue that in order to solve the problems arising with inter-occupational comparisons, we should rely on calculating the Shapley value. This is the most promising route for the desertist, and it also appears to be a good measurement for criticizing high pay differences between CEO and median worker pay intra-firm.

Lastly, I discuss one common criticism of high CEO pay, which states that CEOs must be overpaid because their contribution to society is minimal compared to that of, for example, essential workers. While there are many ways to understand what it means to contribute to society, two interpretations are especially salient: contribution in terms of preference satisfaction and contribution as a matter of promoting the requirements of a just society. These two different ways of understanding what it means to contribute to society helps to explain the disagreement between those who criticize and those who defend high CEO pay via contribution-based desert. While both sides of this debate appear to have this two-part understanding of what it means to

contribute to society, this suggests that defenders of CEO pay will value preference-satisfaction over promoting the requirements of justice, whereas the opposite will be true for critics of high CEO pay.

My ultimate point, however, is that contribution-based desert gives us little, if any, guidance for assessing CEO pay levels, and that we should be careful when stating what we can and cannot assert with confidence when it comes to this matter.

Paper 4: When too much is more than enough
An egalitarian argument for maximum income policies

This paper discusses maximum income policies (MIPs) and how one would go about justifying their implementation. It should be viewed as an inquiry taking place during the latter stages of the debate on CEO pay (i.e., the regulation question). Suppose that CEOs (and other extremely rich individuals) are overpaid: What should we do about it? This paper also addresses the question of how an equality-based view on just pay is best justified. I here explore the possibility of grounding such a view directly in a concern for equality rather than in other concerns.

The debate on MIPs has taken off in recent years, and two main defenses for MIPs appear to have taken center stage. Desert theory suggests that there is an upper limit to how deserving we can be of our income. The novel view of limitarianism states that in a non-ideal world, it is morally impermissible to be rich. In an attempt to find proper justification for MIPs, I discuss the merits of these defenses. After closer examination, it is evident that both accounts face major challenges. The indeterminacy of the details surrounding desert theory, in particular desert bases and how to make use of them, leaves it an open question whether desert theory is able to criticize current income inequalities. Robeyns' non-intrinsic limitarianism is backed up by two separate arguments. The democratic argument overlooks the fact that wealth disempowerment should be prioritized over MIPs if we are to protect democratic values. The indeterminate nature of the argument from unmet urgent needs leaves it open which intervention is the most suitable to remedy unmet urgent needs. Hence, limitarianism is compatible with – but does not grant strong support for – MIPs.

In the second part of the paper, I present what I find to be the most promising justification for MIPs. In very simple terms, it holds that income and wealth should be distributed equally unless we have good reason to do

otherwise. One of the strongest reasons for why we should opt out from an equal distribution of income is that it is inefficient. I address this objection and conclude that it does not weaken the egalitarianist support for MIPs.

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