

# Defending the One Percent?

Poor Arguments for the Rich?

By Peter Baumann

## Abstract

**T**HIS PAPER DISCUSSES THE PHILOSOPHICAL VIEW PROPOSED BY GREGORY MANKIW in his recent article “Defending the One Percent” (JEP 27-3, 2013): the just deserts view in application to income distribution. Mankiw’s view suffers from three unsolved problems: the Criteria Problem, the Measurement Problem, and the Problem of the Missing Desert Function. The overall conclusion is that Mankiw’s normative “Defense of the One Percent” fails quite drastically.

I. IN “DEFENDING THE ONE PERCENT” GREGORY MANKIW MAKES A COUPLE OF remarkable claims about income inequality in US society since the 1970s (similar claims will apply to similar societies):

“These high earners have made significant economic contributions, but they have also reaped large gains.” (22)

“Rather, it seems that changes in technology have allowed a small number of highly educated and exceptionally talented individuals to command superstar incomes in ways that were not possible a generation ago.” (23)

“It makes sense that a nation would allocate many of its most talented and thus highly compensated individuals to this activity...the vast personal reward may well exceed the social value of what is produced.” (24)

“...and their greater intelligence will be reflected, on average, in higher incomes.” (25)

“...most of the very wealthy get that way by making substantial economic contributions...” (30)

“In light of these facts, the most natural explanation of high CEO pay is that the value of a good CEO is extraordinarily high...” (31).<sup>1</sup>

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Different types of claims are being made here:

- (a) Mere correlation claims: High incomes are highly positively correlated with significant contributions to society or with high talent and intelligence;
- (b) Causal-explanatory claims: Significant contributions (or high talent and intelligence) bring about high incomes.

Apart from these descriptive claims Mankiw also has in mind a

- (c) Normative-justificatory claim: Significant contributions justify high incomes (for the contributors).

Defending (c), Mankiw proposes a “just deserts’ perspective” (32).

One might suspect that claims (a) and (b) are also normative insofar as the notion of significance is a normative one. However, even if that is the case, the normativity of the notion of significance does not seem essential to claims (a) and (b). One can reformulate such claims without loss of substance by talking about contributions the author finds significant. This makes the descriptive nature of these claims even more obvious.

One question one should then raise is whether (a) and (b) are true. Mankiw does not offer much evidence for the correlation claims here apart from some brief references. The causal claims require more than evidence for correlations and are also in need of more support. One major problem might be the operationalization of the notion of “significant contributions.” As long as it is unclear how to accomplish that, empirical testing of claims (a) and (b) seems out of reach.

II. HOWEVER, I DON’T WANT TO PURSUE THESE POINTS (OR ANY OF THE ECONOMIC POINTS Mankiw is making in his paper) any further here. Rather, I would like to set them aside and focus on the justificatory claim (c) and the openly philosophical side of Mankiw’s paper. What exactly is the normative idea in (c)? According to desert theories of justice (see Sadurski 1985, ch.5, Miller 1999a, 1999b) everyone should get what they deserve: “*suum cuique*” as Ulpian and others had it. Applied to income distribution, the view says that everyone should have the income they deserve. Which factors are relevant to and determine desert is controversial amongst defenders of desert views: Is it the effort that counts or rather the outcome of the effort or a mix of both? It seems Mankiw favors an outcome or performance-based view of desert. Let us go with that and not bother with the reasons why this version of the view is preferable to the others.

A performance-based just deserts view of monetary income can be formulated thus (following up on Mankiw’s brief remark (32) that “people should receive compensation congruent with their contributions”):

- (JDI) For any amount A of monetary income: Receiving A is deserved if and only if A is the right compensation for the significance of the contribution the earner has made.

(JDI) is still quite rough. Perhaps it does not hold for some amounts of income and needs to be restricted in its domain. Perhaps a bi-conditional is too strong and needs to be replaced by a simple conditional. However, we can put these worries about potential complications aside here because they won’t affect the main points here.

III. IN ORDER TO GIVE (JDI) SOME SUBSTANTIAL CONTENT, ONE NEEDS TO ANSWER several questions. First of all: What are the normative criteria of significance

and why should one accept them? Suppose a group of CEOs is very successful in proposing, marketing and selling a new product. Additional jobs are being created, but the new production line also creates bad environmental side effects. What is the normative significance of the CEO's performance? One would have to weigh the positive effect on the job market against the negative effects on the environment. This requires a broad and deep normative view about what is important in life and about relative degrees of importance. Such views are typically quite controversial within societies, and it is not clear at all how such controversies can be resolved. Can philosophy help? Certainly economics can't. Even if measurement in utilities (monetary or not) was feasible, this would not help with the normative question of which utility function is the normatively adequate one. Unfortunately but also unsurprisingly, there is no help on this to be found at all in Mankiw's paper. Call this first major problem with Mankiw's view on just deserts the "Criteria Problem."

IV. SECOND, AS NO ECONOMIST SHOULD BE SURPRISED TO HEAR, THERE IS A "Measurement Problem." (JDI) does not merely say that the person who made some contribution should get *some* compensation. The amount of the compensation has to correspond in some precise way to the degree of significance of the contribution for which the person is compensated. So significance of contribution comes in degrees, and we have to be able to measure those degrees. This is a huge problem even if we put aside the Criteria Problem. Mankiw says nothing on this issue in his paper. The problem is not to assign precise values to degrees of significance (say, real numbers between 0 and 1). We can live with vaguely demarcated intervals. Even then, it is hard to see how anyone could measure such degrees of significance.

V. THIRD, EVEN IF WE PUT BOTH THE CRITERIA PROBLEM AND THE MEASUREMENT Problem aside, we still have one "killer" problem left: How to justify the claim that certain amounts of money constitute the right compensation for certain kinds of contributions (characterized in degrees of significance)? Sure, if degree of significance can be measured in monetary terms, then this task is not so difficult: Just make the amounts equal. But who would think that one can measure normative significance in monetary terms (see above)? One thus still has to come up with and argue for a function from degrees of significance to amounts of income. Call this the "Problem of the Missing Desert Function." It seems to be a fact of human psychology that those who receive high incomes are typically inclined to think that they deserve at least those incomes if not even higher ones. However, the question why certain amounts are justifiable remains wide open and has certainly not been answered. Mankiw's remark that "...the vast personal reward may well exceed the social value of what is produced" (24) suggests that the value of the income should be equal to the value of the outcome of the performance of the earner (assuming the latter is not measurable in monetary terms). The person should get a reward for her contribution, and the value of the latter should be equal to the value of the former. The idea of a fair exchange of commodities might have its intuitive appeal, but it remains radically unclear what equality of some monetary value with some non-monetary value could even

mean. And the project of measuring normative value (ethical value, for instance) in monetary terms seems hopeless. Hence, Mankiw's just deserts view stands and falls with a solution to the Problem of the Missing Desert Function.

In a recent article for the New York Times, a former hedge-fund trader writes: "In my last year on Wall Street my bonus was \$3.6 million—and I was angry because it wasn't big enough" (Polk 2014, 1). Is he right? Would he have deserved more? What would Mankiw say? And what about the bottom one percent—do they deserve even less? Or do they also deserve a hefty bonus? And what kinds of social reform would this require? What would Mankiw say? Given the theoretical resources Mankiw is offering (if any), there is simply nothing he can say in response to such questions. There is no principle in sight which we could use in order to solve the problem of the Missing Desert Function.

VI. MANKIW DOES NOT SOLVE ANY OF THE THREE MAJOR PROBLEMS FOR HIS VIEW: neither the Criteria Problem nor the Measurement Problem nor the Problem of the Missing Desert Function. He does not even discuss these or similar problems. Why, then, should anyone be rationally convinced by what he is saying? Apart from these problems, it is also a wide open question why one should favor a (any) desert view of justice in the first place. John Rawls (see 1971, sec. 48) has famously rejected desert views with an interesting though, admittedly, controversial objection. Here is a version of it. Suppose we are discussing the claim that someone S deserves something D for some outcome O brought about by S's act P. P has a "basis" in abilities and resources which enable S to bring about O. Call this the "desert basis." Typically, the desert basis is not itself deserved by S. The additional assumption that (for any S, D, O, P)

*S deserves D for O as brought about by P only if P's desert basis is itself deserved*  
plus the assumption that

*P's desert basis is not itself deserved*

entails the conclusion that

*S does not deserve D for O as brought by P.*

This is a general claim concerning many types of desert claims.<sup>2</sup> Whatever one thinks about desert views of justice at the end of the day, objections like the above need to be addressed. One final worry deserves to be mentioned briefly, at least: There will also be questions about the possibility or scope of individual desert in a world of social cooperation. Didn't Caesar have at least a cook with him when he beat the Gauls?<sup>3</sup> Does it make any sense to try to separate individual contributions to essentially social activities? If yes, how can it be done?

VII. HOW GOOD A VIEW IS ALSO DEPENDS ON HOW BAD THE ALTERNATIVES ARE. MANKIW briefly discusses utilitarian (see, e.g., Smart 1978, Sadurski 1985, 267–275, Schmidtz 2006, 140–149) views (27–29) and, admittedly, makes a few fine points against the basic utilitarian idea (without going into the details of different versions of utilitarianism). Egalitarian (see, e.g., Dworkin 1981a, 1981b, Sen 1992) views are the main target here, but they are not explained and discussed to any sufficient degree of sophistication; what Mankiw is dealing with is rather a very primitive version of egalitarianism few egalitarians would take seriously.<sup>4</sup> And what about need-based views (see Sadurski 1985, ch.6, Miller 1976, ch.4, 1999c)? Are

they disqualified from the beginning? Mankiw very briefly touches on Rawls' theory of justice,<sup>5</sup> which has been the most influential view on justice in recent times. Interestingly, Mankiw does not even mention Nozick even though he uses a variation of Nozick's famous Wilt Chamberlain-example (21; see Nozick 1974, 161–164). Nozick is not a desert but an entitlement theorist. Would a view which justifies claims to property on the basis of the "justice of acquisition" of the piece of property be an alternative for Mankiw's attempt of defending the one percent? Perhaps not: not if many or most of the relevant claims to entitlement have a history involving some relevant force and fraud in the past (see as a vivid illustration of the problem Tucker 1996, 391–393).

But perhaps I've attributed too much theory here to Mankiw? Perhaps he does not really have a desert theory in the more precise sense in mind. Perhaps he just wants to say that people should get what they deserve where "what they deserve" is to be explained as "what they should get"? Hopefully, that is not his position because it would lack content. It is more charitable to attribute a desert view in the more specific sense to him. However, without any progress towards the solution of the triad of problems mentioned above (Criteria, Measurement, Desert Function) Mankiw's view still lacks a lot of content and argumentative support. What we have so far isn't much more than the bare normative claim that the one percent more or less deserve what they are getting.

VIII. ONE FINAL CONSIDERATION THAT SPEAKS AGAINST THAT CLAIM EVEN IF ONE WORKS with a desert view. Compare nurses with the top one percent. The average annual wage of registered nurses in the US in 2009 was \$66,530 (see: <http://www.nursingworld.org/MainMenuCategories/Policy-Advocacy/Positions-and-Resolutions/Issue-Briefs/RN-Employment-Earnings.pdf>). Does the significance of the work of a nurse really amount to only a fraction (say, a bit more than 1/20) of the significance of the contribution of the typical member (like the former hedge-fund trader quoted above) of the top 1-percentile (\$1,219,700 in 2009; see 30)?

Or consider inequality at a global level. According to a recent Oxfam briefing paper, "[a]lmost half of the world's wealth is now owned by just one percent of the population" (Oxfam 2014, 2). Also, "[t]he wealth of the one percent richest people in the world amounts to \$110 trillion. That's 65 times the total wealth of the bottom half of the world's population" (Oxfam 2014, 2). The paper adds that "[t]he bottom half of the world's population owns the same as the richest 85 people in the world" (Oxfam 2014, 2).<sup>6</sup> Would Mankiw or anyone be ready to defend these 85? What if this number went down to 50? Or to 2? Defending the Two? Defending the One?

Again, I'm not discussing the economics of inequality of wealth and income but rather a certain widespread normative view used to justify such inequalities. Even if a desert account can be made to work and the three main problems mentioned above can be resolved, it hardly seems plausible that it would allow for a defense of the one percent as they are now in the US and other countries. One the other hand, if such a desert account cannot be made to work, then we should look for better alternatives to Mankiw's proposal. One way or the other, Mankiw's case is threatened by immediate collapse.

IX. MANKIW DOES NOT SEEM TO WORRY MUCH AT ALL ABOUT ANY OF THE POINTS MADE here or about the type of problems any just deserts view brings with it. His paper ends with a section entitled “The Need for an Alternative Philosophical Framework.” Not much is offered on that account here. To be sure, Mankiw admits from the start that he will be playing “the role of amateur political philosopher” (22). But still, even from an amateur one would—and could—expect more. What is needed are detailed and careful normative arguments rather than mere assertions of some political view.

### Notes

<sup>1</sup> There is no reason to worry that these quotes might be taken out of context; the context in which they are made in Mankiw’s paper is irrelevant to my focus here.

<sup>2</sup> To guard against a possible misunderstanding: This does not mean that one would be justified in not giving D to S for P or in taking D away from S. It just means that desert does not constitute an entitlement to D. There is all the difference in the world between saying “You should not have this” and “That’s not a reason why you should have this.”

<sup>3</sup> “Cäsar schlug die Gallier. / Hatte er nicht wenigstens einen Koch bei sich?” (Brecht 1981, 656)

<sup>4</sup> The scenario of “perfect economic equality” with which the article opens is a bit of a caricature of more serious egalitarian views. The whole article seems to focus exclusively on this rather extreme idea of perfect income equality. However, a crucial question for any egalitarian is, as Amartya Sen has forcefully proposed to anyone partial to the relevant debates, “Equality of What?” (see Sen 1982) Marx’ famous objection against egalitarian income distribution (see Marx 1962) might have been motivated by similar considerations.

<sup>5</sup> —again, not without seriously misconstruing the view under attack: Mankiw’s kidney analogy and the conclusion that Rawlsian principles would justify “government-mandated kidney donation” (32) ignores the role of the first principle of justice in Rawls’ theory. See Rawls 1971, *passim*.

<sup>6</sup> For these data, Oxfam refers to the Global Wealth Report 2013 by Credit Suisse.

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