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# What's in a Wage? A New Approach to the Justification of Pay

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ABSTRACT: In this address, I distinguish and explore three conceptions of wages. A wage is a reward, given in recognition of the performance of a valued task. It is also an incentive: a way to entice workers to take and keep jobs, and to motivate them to work hard. Finally, a wage is a price of labor, and like all prices, conveys valuable information about relative scarcity. I show that each conception of wages has its own normative logic, or appropriate justification, and these logics can come apart. This explains some of the debate about wages and makes the project of justifying a wage *simpliciter* difficult. I identify which logic we should choose, since we must choose, and say what this means for how we should think about the justification of pay.

KEY WORDS: compensation, desert, incentive, pay, price, wage

When is a wage justified? I propose to make progress on this question by answering another, viz., what *is* a wage? A wage, I will argue, is many things. It is a reward, given in recognition of the performance of a valued task. It is also an incentive: a way to entice workers to take and keep jobs, and to motivate them to work hard. Finally, a wage is a price of labor, and like all prices, conveys valuable information about relative scarcity. In this address, I explore these conceptions of wages. I show that each has its own normative logic, or appropriate justification, and these logics can come apart. That is, different conceptions can justify different wages. This explains some of the debate about wages and makes the project of justifying a wage *simpliciter* difficult. I identify which logic we should choose, since we must choose, and say what this means for how we should think about the justification of pay. My purpose is more descriptive and diagnostic than argumentative and prescriptive. I am more concerned with articulating frameworks for thinking about the justification of pay than with defending a particular account of how pay should be justified.[1]

## PRELIMINARIES

I begin with a few preliminaries. First, my approach to the justification of wages is unusual. I do not start with moral principles or, more generally, reasons why it might

[1] I use the terms "wages," "pay," and "compensation" interchangeably. Distinctions can be drawn among these terms, but such distinctions are irrelevant here.

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be good for a certain worker to be paid a certain wage. Rather, I begin by reflecting on the ontology of wages, i.e., by thinking about what a wage *is*. To be sure, moral principles, or reasons for paying people certain wages, are present in my address. But the principles and reasons follow from the ontology. This has the effect of limiting the range of reasons that are typically found in normative discussions of wages.

Second, I will speak of the *justification* of wages. I will say that wages are justified, unjustified, or not justified (i.e., neither justified not unjustified). To say that something—e.g., an action or outcome—is justified is to say that there is good reason for it. Of course, there may be disagreement about what counts as good reason to perform a certain action or bring about a certain outcome. So there may be disagreement about whether a person is justified in doing something or in bringing something about.

Why do I ask whether wages are *justified*, as opposed to whether—as is often the case—they are *just* or *fair* (Moriarty, 2012)? I do so to remain neutral among the kinds of reasons that might be given to defend wages. There are different kinds of reasons: moral, legal, prudential, aesthetic, and so on. Moral reasons can be given for certain actions and outcomes. But there may also be legal or prudential reasons for those actions and outcomes. To show that a wage is just or fair is to say that there are good moral reasons for it. Moral reasons are important, but other kinds of reasons are important, too.[2]

Third, I do not claim that the conceptions of wages I explore are the only conceptions of wages possible. It is natural to think of wages as rewards, incentives, and prices, and these conceptions, as we will see, connect easily to moral considerations at play in familiar debates about wages. There is also a satisfying temporal completeness to these conceptions, considered as a set. Rewards look backward to what a person has done; incentives look forward to what she will do; prices refer to transactions that occur in the present.[3] Yet it is possible that alternative conceptions of wages will be identified. This would not undermine my argument. Instead, it would show that, when it comes to the justification of wages, things are even more complicated than I have suggested.

It will be useful in what follows to have a case at hand. Our case will be the 2017 compensation of W. Craig Jelinek, the chief executive officer (CEO) of the Costco Wholesale Corporation. Jelinek was paid $6.6 million in 2017, including salary, bonus, stock grants, and other forms of compensation.[4] This is a lot of money, but

[2] My inquiry does not make contact with the “just wage” tradition, especially as it is found in Catholic social teaching (see, e.g., Epstein, 1991; Leo XII, 1892). In this tradition, it is important for workers’ wages to be sufficient to meet their needs. As we will see, none of the conceptions of wages I consider has “need” as a normative logic. I regard this as a feature rather than a bug of my analysis. Need is a suitable reason for charity, not pay.

[3] I owe this point to Jeff Frooman.

[4] One might object to my choice of a CEO’s pay as the case here. CEO pay may seem too different than other people’s pay. In response, because of their relative importance to their firms, CEOs do tend to get paid more than other workers, and more of their pay is variable rather than fixed. But this is irrelevant to my analysis. A CEO’s pay can be understood and evaluated in exactly the same way as any other worker’s pay. A CEO is, in the end, just one more worker in a firm.

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not that much for a CEO of a large corporation in the United States. By market capitalization, Costco is one of the one hundred largest corporations in the United States, but at least 850 CEOs in the Russell 3000 index were paid more than Jelinek.[5] And many CEOs of private firms and hedge fund managers were paid considerably more. It is also noteworthy that, relative to its competitors, Costco pays its employees well (Cascio, 2006; Gray, 2018). The starting pay of a Costco employee is $14 per hour, which is 27 percent higher than the starting pay at Walmart and 16 percent higher than the starting pay at Target (Gray, 2018). Finally, Costco had a good year in 2017, as its stock price went up 16 percent. My point is not that Jelinek's pay is beyond question; my goal is simply to forestall knee-jerk objections to it. People object to CEO pay when it is very high compared to other CEOs' pay, when the ratio of CEO pay to worker pay within a firm is unusually high, or when CEOs are paid a lot and their firms perform poorly. Arguably none of these is true in Jelinek's case.

## REWARD

One way to think of a wage—e.g., Jelinek's $6.6 million—is as a *reward*. A reward is a valuable thing or treatment that a person receives for something valuable that he or she has done. A person might receive some money for finding a lost dog or providing information about a crime to the police. The valuable thing—the money—is given *in recognition of* the valuable action—finding the dog or calling the police. Similarly, the wage an employee receives can be understood as a reward for the valuable thing that he has done for the employer. The wage *recognizes* the value of what the employee has done.

If we think of wages as rewards, then we are thinking of them as deserved, for desert is bound up with the recognition of value. Thus the normative logic of reward, I suggest, is *desert*. To say that someone deserves a certain thing is to say that, because of what she has done, it is "fitting" that she gets it. A person might deserve a medal for an act of bravery or punishment for a criminal offense. Desert is connected to evaluative attitudes, such as praise and blame. (Feinberg 1999/1963; Olsaretti, 2004). Certain evaluate attitudes are appropriate for, or fit, certain valuable performances (e.g., heroism or law-breaking). The treatments that people deserve (e.g., medals or punishment) can be understood as the concrete expressions of those attitudes. To express those attitudes in these ways is to treat people as they deserve.

We have arrived at a substantive conclusion: if wages are understood as rewards for work, then they are appropriately distributed on the basis of desert. That is, a person's pay is justified just in case she deserves it, and this in turn is based on the value of what the person has done (cf. Feldman, 1995; Schmidtz, 2006). But while this principle provides some direction, it leaves other questions unanswered.

Consider Jelinek's pay. Did he deserve $6.6 million in 2017? To answer this question, we must consider the value of what Jelinek did for Costco. This is not a straightforward task. Jelinek did many things, many of which were valuable.

[5] My source is the AFL-CIO's Executive Paywatch, accessible here: https://aflcio.org/paywatch.

He attended meetings, visited stores, developed ideas, scrutinized plans, approved budgets, hired subordinates, communicated messages, and more. Which of these things matter for desert?

This is the question of what the "desert-base" for wages is, and three main answers to it can be found in the literature. According to one, the desert-base is effort (Sadurski, 1985), understood as the physical and mental exertion required for the worker to perform his job.[6] According to another, it is contribution, understood as the worker's economic contribution to the firm's product (Miller, 1999). According to a third, both effort and contribution count, in a multiplicative fashion (Hurka, 2003). On this view, neither contribution that requires no effort nor effort that yields no contribution is a basis of desert. There is a lively debate about which of these views is correct (see, e.g., McLeod, 1996; Miller, 1999; Olsaretti, 2004).

Disagreement does not end once we specify the desert-base. The desert-base needs to be measured and mapped to a deserved treatment. For a person to receive what he deserves, the value of what he has done must match or fit the value of what he receives. So we need to be able to say, e.g., how much effort Jelinek has put forth, and how much pay he deserves because of that effort. This may be hard to do; people will disagree about how to quantify effort. Contribution might seem easier to measure and map to a wage. You might think that we simply need to assess the monetary value of what Jelinek has produced, and that is the wage he deserves. But there are challenges here, too. Jelinek is part of an executive team, which is itself part of a large organization, and it is difficult or impossible to tell which part of Costco's revenue is due to any one individual.[7]

I say all this not to suggest that it is impossible to determine the pay that Jelinek or anyone else deserves. I say it only to mention the kinds of things we will be thinking about when we see wages as rewards. To justify a person's wage considered as a reward, we will be assessing the value of what he has done; we will be trying to measure it; and we will be mapping that value to a wage.

Comparisons matter when we think of wages as rewards. There are two reasons for this. The first is that desert is noncomparative as well as comparative (Kagan, 2012). We can talk about the wage that a person deserves based on what she has

[6] Some writers argue that wages are deserved as compensation for the costs of work. A job can be costly insofar as it is unpleasant, dangerous, tedious, frustrating, or humiliating, or insofar as it requires extensive preparation and training. For defense of this view, see Feinberg (1999/1963) and Sher (1987). For a criticism of it, see Olsaretti (2004). It is possible to understand cost as a distinctive desert-base for wages. But I think it makes more sense to see it as part of the effort that the worker expends. Part of the worker's effort consists in meeting the immediate challenges of the job; another part is what he did to get himself to the point where he can do so.

[7] Marginal analysis—where we ask what a firm would produce without a certain employee and what it would produce with that employee—is problematic. We can see this in the Jelinek case. It is not as if Costco would have had *no* CEO if Jelinek didn't work at Costco. It would have had a different CEO. We could try to compare how much better Costco does with Jelinek than with an "average" CEO, but it is hard to see how this would work. How could we tell how well Costco would have performed? Moreover, this analysis leaves out the contribution that both Jelinek and the average CEO make, since it focuses on the difference between them. For an incisive discussion of the problems with using marginal productivity as a measure of contribution, see Heath (2018). For a contrary view, see Mulligan (2018).

done *simpliciter* (noncomparative desert), and we can talk about the wage that a person deserves based on what she has done in comparison to what others have done and the wages they have received (comparative desert). The second is that claims of comparative desert are easier to justify than claims of noncomparative desert (Miller, 1999). It is hard to determine in an absolute sense how valuable Jelinek's (e.g.) contribution is, and how much pay he deserves for that contribution. It is easier to determine that Jelinek's contribution is more valuable than the contribution of someone else at Costco—e.g., its chief financial officer—so if that person is paid a certain amount, Jelinek should be paid more than that amount.

Many people will immediately recognize the salience of the reward conception of wages—especially in connection with comparative desert—in their own lives. Perhaps you think that your own pay is too low. You might arrive at this judgment by thinking about what others in your organization are paid and what they have accomplished in comparison to what you are paid and what you have accomplished. You might say: "What I've done is just as valuable as what they have done, and yet I receive less pay." If you think this way, then you are thinking of wages as rewards, and you are insisting that considerations of comparative desert are relevant to wage determination (Moriarty, 2016).

To sum up: we can understand wages as rewards, and if we do, then it is appropriate for people to be paid in accordance with their deserts. Desert is the normative logic of reward. To justify a wage on this conception, we must assess the value of what the worker has done, and we must map that value to a wage; neither task will be uncontroversial. Finally, comparisons will be important, because it is often easier to say what people deserve compared to each other than what they deserve in an absolute sense.

## INCENTIVE

Another way of thinking about a wage is as an *incentive*. An incentive is a benefit that is offered to someone for achieving a certain goal, or more generally, for acting in a certain way (Grant, 2012). States incentivize their citizens to donate to charity by offering them tax breaks. Parents incentivize their children to clean their rooms by offering them screen time. The receipt of a benefit offered as an incentive is contingent upon the person's acting in a certain way. Citizens will receive tax breaks only if they donate to charity, and not otherwise. Children will receive screen time only if they clean their rooms.

Incentives are forward-looking. Their function is to get someone to do something in the future. By contrast, rewards are backward-looking. Their function is to recognize the value of what someone did in the past. Of course, rewards can have an incentive effect. If the child is given screen time when he cleans his room, he may clean his room on a future occasion, in anticipation of receiving more screen time. And incentives can feel like rewards when they are received, since they can feel like recognition of what one did.

Wages can be understood as incentives because wages have an incentive effect. In particular, employers offer employees pay in order to get them to show up for work, work hard, and work in the right way (i.e., take actions that benefit the firm as opposed to themselves). When justifying pay in public statements, especially of top executives, firms often speak about the need to "attract, retain, and motivate" their employees (Conyon, 2006; Zajac & Westphal, 1995). When firms speak this way, they are speaking the language of incentives.[8]

I claimed that the normative logic of reward is desert. If wages are understood as rewards, then workers should be paid in accordance with their deserts. I now claim that the normative logic of incentive is *effectiveness*. The point of incentives, we said, is to get people to do certain things. An incentive is justified insofar as it gets people to do those things.

To see whether Jelinek's pay is justified on the incentive view, we must first consider what Jelinek's pay is supposed to get him to do. The standard answer—but not the only possible answer—is: maximize shareholder wealth (Bainbridge, 2008; Hansmann & Kraakman, 2001). So the question is whether paying Jelinek \$6.6 million accomplishes this, all other things being equal. To answer this question, we have to consider not just how *much* Jelinek is paid but *how* he is paid, i.e., what the structure of his compensation package is (Jensen & Murphy, 1990). As with most CEOs, Jelinek receives pay in different forms, and different forms of pay serve different functions. Salary may be what attracts Jelinek to the job. Bonuses and stock grants might be what keeps him motivated to work hard and in a way that benefits shareholders.

There is a complication here. Jelinek may not be the only employee at Costco who is incentivized by his pay. People lower than Jelinek in Costco's organizational hierarchy may be working hard so that one day they may become CEO and enjoy similarly high pay (Lazear & Rosen, 1981). But it is also possible that some employees may be disincentivized by Jelinek's pay, if it gets too high compared to their own. There is evidence that steep compensation structures inhibit collaboration and teamwork and thereby lead to poor performance in organizations in which these behaviors are important (Shaw, Gupta, & Delery, 2002). There are two lessons to be learned. First, when considering whether Jelinek's pay is justified on the incentive view, we must consider the full range of its incentive effects. Second, these effects will not always be easy to discern.

If we see pay as an incentive, we will naturally tend to ask not only whether it achieves the desired result, but whether it achieves this result *at the lowest cost*. This means thinking about whether the same result could be achieved with less money. We might think in terms of necessary and sufficient conditions. When we ask about the effectiveness of Jelinek's pay, we are asking whether \$6.6 million

[8] It might be thought that only some forms of pay are incentives. In particular, it might be said that bonuses and stock options are incentives, whereas base salaries are not. On this view, incentive pay is pay that is received for doing one's job particularly well, while non-incentive pay is pay that is received for doing one's job well enough not to be fired. In reply: this is a perfectly reasonable distinction—and sometimes I will avail myself of it—but it does not pose a problem for my claim that *all* forms of pay can be thought of as incentives. Even pay that is not "incentive pay" *functions* as an incentive. A base salary is part of what motivates an employee to show up for work, and he will not receive that salary if he does not show up.

is sufficient to attract, retain, and motivate him. When we ask about cost, we are asking whether $6.6 million is necessary to do so.[9] In fact, since incentives can be a matter of degree, we can be more precise than this. We might say that, according to the incentive view, Jelinek should be paid up to the point at which one more dollar of pay produces less than one dollar of shareholder wealth.

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 being 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.

To sum up this section: wages can be understood as incentives, and if we understand them this way, then it is appropriate to distribute them, in the first place, on the basis of effectiveness and, in the second place, on the basis of cost. Understood this way, a wage is justified just in case it produces the desired effect at the lowest cost. Justifying a wage understood as a reward requires looking back, to see what a worker has done. By contrast, justifying a wage understood as an incentive requires looking forward, to discern what the worker will do. Indeed, we may need to look beyond the worker who receives the wage, since one person's wage may have effects on other people.

## PRICE

In addition to rewards and incentives, wages can also be understood as *prices*. The price of a good or service is the amount of money, or other valuable consideration (hereafter I will simply say "money"), that is paid by the buyer to the seller for that good or service.[10] In our case, the good in question is a person's labor.

There is an overlap between the conception of a wage as a price and the conception of a wage as an incentive. Understood as a price, a wage is what the employer pays the employee in order to purchase an amount of her labor time. Assuming the transaction is completed, the wage is sufficient to attract the worker to the job. The wage is "effective" in this sense. But the incentive conception of wages differs from this in two ways. First, to understand wages as incentives is to emphasize *motivation*. Wages incentivize not just by getting people to show up and stay at a job (attraction and retention) but by inducing them to do good work (motivation). Second, the incentive conception of wages is associated not just with effectiveness

[9] Things get tricky here. This can be brought out by asking: necessary *relative to what*? To perform the job of Costco CEO, Jelinek needs food, water, shelter, clothing, and a few other basic necessities. All of these could be had for much less than $6.6 million. But he might need $6.6 million in a market economy, where other employers are willing to pay nearly as much for his services. I am using "necessary" in the latter sense, i.e., necessary relative to market demand. For discussion of this issue, see Moriarty (2009).

[10] I have defined "price" in terms of what is *actually* paid by the buyer to the seller. We might refer to this as the *transaction price*. It's the price at which the transaction takes place. This can be distinguished from the *asking price*, or the price at which the seller offers the good for sale. Hereafter, by "prices" I will mean *transaction prices*, unless otherwise indicated.

but with cost. To fully justify a wage on the incentive view, it must be shown that it is sufficient and necessary to get the person to act in the desired way.

The most important difference between understanding wages as incentives and understanding them as prices—and more generally, the most important thing about understanding wages as prices—is seeing labor as just one of many things for sale in a market. You can buy all kinds of things in markets: houses, cars, dental services, education, admission to academic conferences, and more. All of these things have prices. You can also buy labor. This, too, has a price, but we give this price a special name, viz., a wage. Seeing wages as prices is important because our views about how prices in general should be determined will inform our views about how wages should be determined.

What is the normative logic of price? I don't think that we can infer from the concept of a price how the price of a certain good or service should be determined. A price is simply the money that is exchanged between the buyer and the seller of the thing being sold. But I suggest that we can infer from the role that prices play in the economy how they should be determined. We might say that prices don't have an essential logic but they do have a functional logic. The function of prices is familiar but bears repeating.

Most of the world's economies are market economies. This means that, for the most part, decisions about what to make, how much of it to make, where to distribute it, and what to sell it for are made by private actors.[11] You can make pencils if you want, as many as you can, and sell them wherever you want. How will you make these decisions? Prices help. They have a *signaling* function, telling us about shortages and surpluses. The price system is, as Hayek says, "a mechanism for communicating information" (1945: 526). When prices rise, this tells us that more of the good is wanted. When prices fall, this tells us that less of it is wanted. In this way, prices tell producers to make more of what people want and less of what they don't want. In doing so, they direct society's limited resources to their most productive uses.

There is a crucial qualification to this story. That is, prices only serve this function if they are set through the informed and voluntary choices of buyers and sellers. People cannot be ignorant of what they are buying and selling and what options are available to them, and they cannot be forced to exchange. When prices are determined by informed and voluntary choices, they reflect facts about relative scarcity and abundance, as determined by people's wants. If prices are set in another way—say, by an independent authority—then they will not perform this signaling function well, or at all.

The story I have just rehearsed goes not just for goods and services but for labor. If the price for finance professors is high and the price for philosophy professors is low, this is a signal that society wants more finance professors than philosophy professors, relative to their supply. More precisely, society wants more of the knowledge and skills that finance professors have than the knowledge and skills that philosophy

[11] I say "for the most part" because all actual market economies feature some planning, especially with respect to the provision of public goods, such as infrastructure and national defense.

professors have. You may still decide to study philosophy. You might like it more, or maybe you don't have the aptitude for finance. But this price signal will make a difference for some. Insofar as it encourages more people to study finance, it gives society more of what it wants.

I stress that this is the role that prices *actually* play in the economy. Prices need not have played this role. We could have had a planned economy, and in that economy, prices would have played a different role. In a planned economy, decisions about what to make, how much of it to make, and where to distribute it are made according to economic plans. What role do prices play in this system? The answer is: any role the planners want. They can decide that prices should correspond to the economic cost of producing the good, the value of the good itself, or the value of the labor that went into producing it.[12]

Let us apply these observations to Jelinek and his pay. If wages are understood as prices, then Jelinek's pay is justified insofar as it is the result of an informed and voluntary agreement between Jelinek and Costco.[13] To see whether Jelinek's pay is justified, we would ask questions like: Did Costco voluntarily make him the offer of $6.6 million? Did Jelinek voluntarily accept that offer? Did Costco have an adequate understanding of Jelinek's skills and experience, and did Jelinek know what it would be like to be the CEO of Costco? To be sure, the salary that Jelinek demanded, and that Costco offered, would be informed by each side's estimation of the relative value of Jelinek's labor, or what a certain compensation package would incentivize him to do. But as far as the *justification* of that package is concerned, all that matters on the price conception of wages is whether it was the subject of an informed and voluntary agreement. This is because prices in general, including the price of labor, should be determined this way. When prices are determined this way, resources are directed to their most productive uses and satisfy people's wants to the greatest extent.

Above we observed that distributing wages according to the normative logics appropriate to the reward and incentive conceptions is not necessarily a simple task. We might disagree about what makes work valuable or what optimally incentivizes employees. The same goes for distributing wages according to the normative logic appropriate to the price conception. On this conception, wages should be determined by the informed and voluntary choices of buyers and sellers. But there will be disagreement about what counts as an informed agreement and what factors undermine its voluntariness. Disagreement about what information is required for transactions to be fair can be found in debates about nondisclosure in sales (Carson, 2010; Strudler, 1997), and disagreement about the nature of voluntariness can be found in debates about exploitation in sweatshops (Kates, 2019; Zwolinski, 2007).

[12] Why has most of the world chosen a market economy, where prices serve as signals of supply and demand, and not a planned economy, where prices play other roles? The short answer is that things just seem to work better this way.

[13] In fact, the agreement is between Costco's *board of directors* and Jelinek. For convenience, I refer to Costco's board of directors simply as "Costco."

To sum up: a wage can be understood as a price, or the amount of money that is paid by the buyer to the seller to acquire or use what the seller has. Understood in this way, it seems appropriate for wages, like all prices, to be determined by the informed and voluntary choices of buyers and sellers. This is not derived from the concept of a price itself but by the role that prices play in a market economy.

## JUSTIFICATIONS IN CONFLICT

I have argued that wages can be understood in different ways, and depending on how they are understood, different normative logics are appropriate. If wages are understood as rewards, then they should be distributed on the basis of desert. If understood as incentives, then they should be distributed on the basis of (cost-) effectiveness. If wages are understood as prices, then they should be determined by informed and voluntary exchanges between employers and employees. In this section, I will argue that these justifications can come apart: different conceptions justify different wages. The way I will do this is by considering an argument where this is *not* the case—that the wage a person receives will always be simultaneously justifiable as a reward, an incentive, and a price—and showing that it fails.

Here's why you might think that the three normative logics always coincide. Let us again use Jelinek as an example. It seems likely that Jelinek's pay was the subject of an informed and voluntary agreement between him and Costco. Costco and Jelinek are both sophisticated parties who know what they are doing. And, as a general matter, employers are not forced to hire particular people, and people are not forced to work for particular employers. If so, then Jelinek's pay is justified on the price conception of wages. But why would Costco have agreed to pay Jelinek this amount of money? It might be said that Costco would only do this if it were necessary to incentivize Jelinek to take the job and optimally motivate him. Costco operates in a competitive environment and if they waste money on excessive pay, then they will put themselves at a competitive disadvantage. On the basis of this reasoning, we know that Jelinek's pay is sufficient to incentivize him, because he is actually working at Costco, and necessary to incentivize him, because this is what market competition requires. If this is right, then Jelinek's compensation is justified based on the incentive conception of wages. But what is so important about *Jelinek's* labor? Why did Costco extend an employment offer to *him*? The answer to this question might seem to be that Jelinek's labor is *that* valuable. If it were not, then (again) Costco would put itself at a competitive disadvantage by hiring him. If this is right, then Jelinek's compensation is justified based on the reward conception of wages.

A similar story can be told, it might be said, about every other person in the labor market. If a worker's labor is worth a certain amount of money (reward), then an employer will have to offer her this amount to get and keep her labor (incentive), and this will be the amount that they voluntarily agree to (price). In this way, the story concludes, the normative logic of reward, incentive, and price always coincide.

In response: this story may accurately characterize the pay of all workers in the simplest model of the labor market. It may also accurately characterize the pay of some actual workers. But it is unlikely to characterize the pay of most, or even many, actual workers.

There are a variety of reasons why the wages that are appropriate as rewards, incentives, and prices may all differ.[14] One is lack of knowledge. An employer and an employee might agree to a certain wage X. But the employee's work may be worth X + N. The employee may not demand, or get, X + N in negotiations because neither she nor her employer knows that her labor is worth that much. This is a case in which the wage justified by the price conception of wages differs from the wage justified by the reward conception of wages. Or, an employer may think that, if an employee receives a compensation package worth X, that employee will be optimally incentivized. And so the employer may offer X and the employee may accept this offer. But the employer's belief may be false. The employee may enjoy his work and be willing to work just as hard for less. In this case, the wage justified by the price conception of wages differs from the wage justified by the incentive conception of wages.

Another reason that the three conceptions may justify different wages is that people are different. Suppose that employee A loves her coworkers, but employee B, who performs the same job for the same firm equally well, hates them. As a result of their different preferences, A is willing to work for less than B. And suppose the firm takes advantage of this fact to offer A less pay than B. This is a case in which the wage justified by the price conception of wages differs from the wage justified by the reward conception of wages.

The evidence provided so far for why the different normative logics do not coincide derives from familiar facts about people. Additional evidence comes from organizations' pay practices. Some firms choose unusually "steep" or unequal compensation structures. These structures pay people at the top more than their work is worth and those at the bottom less than their work is worth. A firm might do this because individual performance is vital to its success, and it wants to incentivize its employees to climb the organizational ladder. By contrast, some firms choose unusually "flat" or equal compensation structures. These structures pay those at the top less than their work is worth and those at the bottom more than their work is worth. A firm might do this because it emphasizes teamwork, and it doesn't want to create jealousies among employees (Gerhart & Rynes, 2003). Firms that adopt unusually steep or flat compensation schemes, however, still find people to work for them, i.e., people willing to accept the wage offers they make. This suggests that, in many organizations, people's wages are justified on the price conception of wages but not on the reward conception of wages.

The skeptic will have noticed a shortcoming of my argument. I have claimed that it is difficult to measure the value of a person's work. It is equally hard to assess whether a certain compensation package is an optimal incentive. So it might be said that, for all we know, the three normative logics—of reward, incentive, and

[14] Note also that this story assumes that the wage that is appropriate as a reward is the wage that a person deserves based on the value of her contribution. If we reject this assumption, the argument does not get off the ground. I owe this point to Santiago Mejia.

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price—*do* always coincide. It might *seem* that flat compensation structures pay workers at the top of the hierarchy less than their work is worth and workers at the bottom of the hierarchy more than their work is worth, but this may be an illusion. On this objection, we should trust the story I told at the beginning of this section as opposed to any countervailing evidence we have since uncovered.

In response: while this argument cannot be decisively refuted, only a devotee of a rather simplified economic outlook would accept it. Common sense and empirical evidence tell against it. There is good evidence that the three normative logics come apart in the real world—that a wage that is appropriate based on one conception will be different than a wage that is appropriate based on the other two conceptions. The result is that, in the usual case, there is no *single* wage for a worker that is subject to multiple justifications. Instead, it will be possible to justify, using different logics, *multiple* wages for a single worker.

## WHAT CAN WE LEARN?

I described three conceptions of wages and identified the normative logic appropriate for each. I then explained how these logics can come apart. Now what? In this section, I offer three suggestions based on my conclusions thus far. These suggestions are not meant to resolve tensions or bring debates to a close. No grand Hegelian synthesis is in the offing. Rather, my goal is to help us make sense of the jumble of intuitions we have about wages. It is only by clarifying what is at issue in debates about wages that we can hope to resolve them. In the final subsection, I come out in favor of determining wages according to the normative logic of the price conception of wages, i.e., through informed and voluntary agreements. But I insist that the price conception is not the only correct one, and I explain why, even if we ultimately favor its logic, we should be sympathetic to justifications based on alternative logics.

### *Different People, Different Logics*

My first suggestion is that different conceptions of wages will appeal to different people. Depending on what role you are in, you will naturally think about wages in a certain way, though of course it will be possible for you to think about wages in other ways. Below, I explain what it means to "think like" an employee, an employer, or an observer about wages. My claims should be taken as hypotheses. They strike me as intuitively plausible, but they are empirical claims that stand in need of empirical support.

If you are an employee, I suggest, then you will think about wages primarily as rewards. Given the logic of reward, you will want to be paid in such a way that the value of your pay matches the value of your work. To the extent that you can quantify the value of your work in absolute terms, then you will think that you deserve all or at least some portion of that value in your pay. If you are solely responsible for making a big sale or inventing a new product, and you see none of the value of that sale or innovation in your pay, you will feel slighted. You will think that, because of what you have done, you deserve some kind of recognition,

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and economic recognition will seem to be the most appropriate kind. Comparisons with your coworkers will also be important. If one of your coworkers does work that is exactly as valuable as your work but gets paid more than you do, then you will think that this discrepancy is undeserved and therefore unjustified (Adams, 1963). While different employees may have different views about what makes work valuable, all will think that the value of their work should play a major role in the determination of their pay.

By contrast, if you are an employer, then you will think about wages primarily as incentives. To run your business, you need certain inputs, and to get those inputs, you need to offer money in exchange for them. In addition to things like office space and equipment, one of the inputs you need is labor. Now, when you think about the amount of money that you need to offer for an amount of labor, you will have to think about the value of what you are getting. You don't want to pay more for an input than it is worth. But once this is accounted for, your goal will be to pay as little as possible. The plausibility of this suggestion can be seen by imagining the owner of a firm asking its manager to justify the pay of a certain worker. The owner asks, perhaps skeptically: "Why pay the worker that much?" The manager's safest response is: "I had to pay her that much to get her to work for us." The manager is saying, in other words, that the employee's pay is cost-effective for the firm.

Who will think about pay as a price? My answer is third parties, or observers to the employer-employee relationship. Imagine that you are such an observer. Noticing that a certain employee works for a certain employer, you will assume that the employer offered the employee a certain wage, and the employee accepted that offer. Perhaps the employee accepted the first offer the employer made, or perhaps there was some negotiation. Still, the deal must have been completed, with both sides agreeing to it (even if reluctantly), otherwise the employee would not now be working for the employer. In the same way, if a friend of yours moves into a new house, you will assume that she purchased the house from someone else (assuming she did not build it herself). The previous owner possessed the house; your friend made an offer; perhaps there was some negotiation; but ultimately the deal was completed. Otherwise your friend would not now be living in the house. The same goes for anything else that a person buys, such as a car, a piece of clothing, or a cup of coffee. The thing in question moves from the possession of one person to another for a sum of money, and that sum is the price.

Again, in saying that how people think about wages depends on who they are, I am making a claim about how it is natural for people in certain roles to think about wages, or what their default conception of wages will be. I am not saying that it is only possible for certain people to think about wages in certain ways. It is natural for employees to think of wages as rewards, but it is possible for employees to think of them as incentives. In thinking of wages the latter way, I am suggesting employees would be putting themselves in the shoes of employers, or "thinking like" employers. Similarly, while it is natural for employers to think of wages as incentives, it is possible for employers to think of them as rewards. In thinking of wages the latter way, employers would be "thinking like" employees. And so on.

*Explaining Disagreement*

My second suggestion builds off of the first. I suggest that the fact that wages can be understood in different ways helps to explain some of the debate about them. That is, people disagree about wages in part because they understand wages differently.

Consider CEO pay. Critics often point out that CEOs of large corporations are paid hundreds of times what average workers are paid. For example, with his $6.6 million compensation package, Jelinek's pay is 235 times the starting pay of a Costco employee (Gray, 2018). A critic might say that there is no way that Jelinek's labor is 235 times as valuable as the entry-level employee's labor, and so Jelinek's pay is unjustified. Defenders of CEO pay might reply that firms are careful buyers of labor, and no one forces them to pay CEOs what they do. Since Jelinek's pay is the result of an informed and voluntary agreement between Costco and Jelinek, the defender might claim, his pay is justified.

Critics and defenders in this scenario may *both* be right. It may be true *both* that CEO pay construed as a reward is unjustified *and* that CEO pay construed as a price is justified. Jelinek may not deserve the pay that he gets given the value of his work, compared to what other workers are paid and the value of their work. But Jelinek's pay may be the result of an informed and voluntary agreement between Jelinek and Costco. What is going on here is that critics and defenders of CEO pay are talking past each other. This is because they are adopting different views of what a wage is. Critics are assuming that wages are rewards, and defenders are assuming that wages are prices. To make progress on this issue, they must begin by making explicit their assumptions.

My point is not that *all* critics of CEO pay think of pay as a reward and *all* defenders of CEO pay think of pay as a price. One might think of pay as a reward and *defend* CEO pay on the grounds that their labor is several hundred times more valuable than the labor of average workers. Or one might think of pay as a price and criticize CEO pay on the grounds that the agreements between CEOs and firms are not truly voluntary (Bebchuk & Fried, 2004). The incentive conception of wages might also be appealed to in defenses or criticisms of CEO pay. My goal here is simply to illustrate how the debate about the justification of CEO pay can derive from the fact that pay is conceived of in different ways.

The case of CEO pay is one example of how different conceptions of wages might lead to disagreement about the justification of wages. There are others. An employee who is committed to his firm may get paid less than a similarly valuable employee who is not so committed (Moriarty, 2014). The committed employee may think that his wage is unjustified, because he sees his wage as a reward for his work. But his employer may think that his wage is justified, because she sees his wage as an incentive to optimally motivate him. A group of employees may complain that the high pay their manager receives is unjustified. They may be right, if the wage is construed as a reward. The manager's work may be worth less than what she is paid. But the manager's high pay might be justified because of its incentive effects, not just on the manager but on her subordinates (Lazear & Rosen, 1981). It might be claimed that the pay that an entry-level worker receives is unjustifiably high, on both the reward and the incentive conceptions of wages. His pay may exceed the value of his work and may be more than what is needed to attract, retain, and motivate him. But the worker's pay might be justified on the price conception of wages, for the wage might have been the subject of an informed and voluntary agreement between the employer and employee. The employer may have believed that it was important to offer all employees a living wage, even if it isn't deserved or necessary, and the employee may have been happy to accept that offer.

Based on what I said above, we should expect that disagreement about whether a wage is justified insofar as it is based on different conceptions of wages will also be disagreement *between* people in different roles. Employees may think that high pay for CEOs is unjustified, citing considerations of desert in support of their view. We should not be surprised, then, that Executive Paywatch—a website that tracks US CEO pay relative to average worker pay—is maintained by the AFL-CIO, a federation of unions representing rank-and-file workers. Investors may focus their attention on whether CEOs are properly incentivized by their compensation packages. They may embrace the influential Jensen and Murphy argument that CEOs should receive most of their pay in the form of grants of stock and stock options, so that they have "the right monetary incentives . . . to maximize the value of their companies" (1990: 139). Observers, including academics who study compensation, may focus on the character of the agreements between employers and employees. Bebchuk and Fried (2004) do just this in their "managerial power" critique of CEO pay, according to which CEOs use their power over boards to extract above-market rents from their firms.

To be clear, my suggestion provides at best part of the picture. *One* reason why employees may object to high pay for CEOs, and investors may not, is that they have different conceptions of wages. *Another* reason may be that they have different interests, and this colors their sense of what is justified. Employees may object to high pay for CEOs because they think that, if CEOs are paid less, then they will be paid more. Investors may defend high pay for CEOs because they think that if corporations have very talented CEOs, then this will improve corporate financial performance, and they will receive larger dividends. My suggestion is simply that *some* of the disagreement about the justification of wages can be explained by people's having different conceptions of wages, and their having different conceptions of wages can be explained to some extent by what role they occupy.

### *Choosing a Logic*

It may now seem vital that we determine which conception of wages is correct. To be sure, this wouldn't solve all debates about the justification of wages. Even if we agree, for example, that wages are rewards, and so should be distributed on the basis of the value of a person's work, we might still disagree about what makes work valuable. But at least it would tell us what sorts of questions we need to answer.

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In response, I agree that it would simplify our inquiry if there were a single correct conception of wages. But I deny that there is. I think that it is *legitimate* to conceive of wages in each of the ways we have specified, viz., as rewards, incentives, and prices. I do not have much else to add by way of proof of this claim. My hope is that, based on our discussion so far, it seems intuitively correct. It accurately characterizes, I submit, the phenomenology of wages. What I want to do now is suggest what we should do with this conclusion.

We can't allow ourselves to be paralyzed by the fact that wages can be understood in different ways. They must be distributed according to *some* normative logic. 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. The reason for this was given above. That is, 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 resources flow to their most productive uses, as determined by people's wants. We could try to bring it about that people's wages are appropriate as rewards or incentives. But insofar as this yields a distribution of wages that sharply differs from the distribution that would be produced through informed and voluntary agreements, it would have undesirable effects on the efficiency of markets, and hence on social welfare.

I do not suppose that I have said enough to establish the truth of this view. Here I just want to clarify what this view is. My conclusion is that there are *good reasons* for wages to be determined according to the normative logic of the price conception of wages. My conclusion is not that wages ought to be conceived of as prices *exclusively*. Wages remain rewards and incentives as well. And because of this, there are reasons to distribute them according to the normative logics appropriate to these conceptions of wages. But, I claim, these reasons are usually less *weighty* than the reasons given by the price conception of wages and are usually overridden by price-based reasons.[15]

Two final qualifications. First, notice that in the above sentence I said "usually." There will be some occasions in which the reasons provided by the reward and incentive logics are strong enough to override the reasons given by the price logic. If, e.g., a person's wage is too far out of line with what she deserves, as determined by the value of her work, then we might find her wage objectionable on balance, even if it was the subject of an informed and voluntary agreement. Second, the reasons given by the reward and incentive conceptions do not vanish, even when they are overridden. Even when we have a stronger reason to allow wages to be determined by people's informed and voluntary choices, we may still have *some* reason to distribute wages in other ways. Thus, we may have legitimate complaints about a person's wage, even if it is determined in the way that we think is best on balance. We might agree that, e.g., Jelinek's pay is justified on balance but think there is some reason for it to be decreased (because he does not deserve it) or increased

[15] Here I disagree with Heath (2018), who argues that wages should be understood as prices exclusively. Heath and I are (mostly) in agreement, however, about the value of allowing wages to be determined through informed and voluntary choices.

(because it does not provide an adequate incentive). We should not dismiss these complaints as confused. They are based on legitimate ways to think about wages. What I hope to have provided in this paper is an account of where the complaints come from and why they cannot be dismissed.

## CONCLUSION

This article introduced a novel way to think about the justification of wages. To determine whether a wage is justified, we need to first ask what a wage is. I articulated three conceptions of wages and argued that there is a different normative logic appropriate to each. If wages are rewards, they should be distributed on the basis of desert. If they are incentives, they should be distributed on the basis of (cost-) effectiveness. If wages are prices, they should be determined by the informed and voluntary choices of employers and employees. I argued that these justifications can come apart, in which case a person's wage—e.g., the $6.6 million Jelinek was paid by Costco in 2017—can be justified in one sense but not in other senses. This explains, I claimed, some of the disagreement about wages. If, as I argued, we are forced to choose, we should choose the normative logic of the price conception of wages, according to which wages should be determined by informed and voluntary agreements. But it is also legitimate to conceive of wages as rewards and incentives, and there are reasons to distribute wages according to the normative logics of these conceptions as well.

There is much work left to do. I have been more concerned to describe the landscape in which the problem of wage justification is located rather than to argue for any particular point of view about how wages should be determined. Arguments are needed. What I hope to have provided is a framework in which these arguments can be productively advanced.

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