



## Don't expect the market to pay just deserts

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July 27, 2017

In a post on Tim Montgomerie's new website, *Unherd*, [Charlotte Pickles highlights polling](#) from the US and UK showing which groups of rich people the public believe are "deserving" of wealth.

The results are perhaps unsurprising: high-skilled engineers and scientists, inventors of new products and services, owners of technology firms and founders of manufacturing companies were all regarded as deserving; sports stars, pharmaceutical companies, Hollywood actors and senior bankers were seen as undeserving. The results for chief executives and real estate investors were ambiguous.

What should we make of this? On one level, the results are an interesting reflection of what "society" views as just deserts. But this becomes much more problematic when the implied reaction is that "something must be done about it" from a policy perspective.

That's because we should not expect market transactions to follow claims of moral desert. Yet it does not follow that setting maximum wages, fixing pay ratios with others or redistributing large amounts of income in that pursuit would be good for society or produce just outcomes either.

As Friedrich Hayek wrote in *Law, Legislation and Liberty*, "the manner in which the benefits and burdens are apportioned by the market mechanism would in many instance have to be regarded as very unjust if it were the result of deliberate allocation to particular people. But this is not the case." In a free market, the distribution of income depends not on what an individual "deserves" but the value of particular activities as determined by supply and demand.

That is the main problem with the way many people on the political Left judge market outcomes and inequality – they assume that a market judgment is akin to a moral one. "Surely it is morally wrong that a footballer earns so much more than a teacher or a nurse?" is a frequent lament. And to be fair, some on the political Right make this same mistake too, seemingly claiming that all returns to labour or investments are deserved or just and that those on low incomes deserve their relative misfortune.

Both views are misguided. In fact, prices and wages are important not because they reflect desert, but because they provide information to producers about which products, services, individual skills and attributes are desired. Prices reflect the aggregation of individual transactions, and the supply and demand decisions of millions of individuals across different sectors, which subsequently lead to the commitment of new investments and shifting resources to areas where they are most valued.

The arguments against fixing people's wages or seeking to redistribute vast amounts of income are therefore nothing to do with assuming the status quo reflects "just deserts" or the inherent morality of market outcomes. No, the argument against having government or some central planner, or even majority opinion in this case, determining who gets what, is based on the unachievability of, and inefficiency caused by, central planning to achieve "just" income levels.

First, by fixing or ignoring prices, resources will be misallocated away from where they are most productively used, making us all poorer overall. Second, the state faces a huge knowledge problem – it is virtually impossible for it to judge how much success or failure is attributed to skill, wise or bad investments etc as opposed to luck and, hence, how to redistribute accordingly. Even if we set out to link pay or at least post-tax incomes with "desert", we could not. And, third, the state would have to make vast intrusions against economic liberty and our freedom to pursue our own wants and desires in any attempt to structure economic outcomes according to desert.

All this is not to say that a form of social insurance would be unacceptable given the ebbs and flows of capitalist activity. Hayek himself argued for a basic safety net. But attempting to make income and wealth outcomes reflect a majoritarian view of "desert" would be both unattainable in practice whilst inflicting vast economic damage.

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