PRINCIPLES OF ECONOMIC JUSTICE: MARKETPLACE AND WORKPLACE APPLICATIONS

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Abstract

Mainstream economics argues that ethical standards are essentially relative, that they differ from one person to the next, and are entirely outside the limits of legitimate inquiry for economic science. Our view is that there are certain objective ethical standards to be applied that parallel the three modes of human interaction in economic affairs: person to person, superior to subordinate, and member to group. Those standards are given by the principle of equivalence, principle of distributive justice, and principle of contributive justice.

The key to integrating those standards into mainstream economic thinking is to begin with what happens in every exchange involving economic agents who are well-informed and free to act. What is gotten in the exchange is more highly valued than what is given up. However, there must be limits to that gain -- identified in mainstream economics as profits, consumer surplus, and economic rent -- in order to prevent one party from taking advantage of another and to assure that market exchange serves all economic agents fairly and effectively and not just those with the power and will to turn gain into excess. Mainstream economists argue that sufficient limits are imposed by the "invisible hand." We argue instead that limits must be imposed more deliberately and directly by human economic agents and that those limits are supplied by the three principles of justice.

Are decisions regarding ethical issues in economic affairs entirely arbitrary, depending completely on the whims, fancies, feelings, opinions, attitudes, and values of the persons making those decisions? Or, are there objective standards that apply in economic affairs rendering ethical decision-making reasoned, defensible, and alike from one person to the next except in instances of specific extenuating circumstances? Overwhelmingly mainstream economics argues that ethical standards are essentially relative, that they differ from one person to the next, and therefore are entirely outside the limits of legitimate inquiry for economic science.[1] Our view is that there are certain objective ethical standards to be applied in economic affairs, and that proximately those standards come from ethics. However, ultimately those ethical standards originate in the human experience. Thus, shoplifting is destructive of retail trade because clearly it is unreasonable to expect a shopkeeper to operate his/her store when customers are entirely free to take whatever they want from the shelves and exit the store without paying. Indeed, not punishing shoplifting assures that few if anyone would be so foolish as to become a merchant and expect to earn a living. To teach and reinforce the ban on shoplifting, it is necessary to have laws and enforcement officers to assure that shoplifting is punished.

JUSTICE DEFINED

We begin with a general definition of justice. *Justice is the virtue or good habit of rendering to another that that is owed.* In economic affairs there are three principles of justice that apply: the principle of equivalence[2], the principle of distributive justice, and the principle of contributive justice. We call the three principles of economic justice because they apply strictly in the economic order. Other principles of justice as for example in criminal affairs with no direct ties to economic affairs as in the case of child or spouse abuse or treason are not our concern here.

There are three principles of economic justice because there are only three modes of human interaction in economic affairs: person to person, superior to subordinate, and member to group. The principle of equivalence sets forth the duty of buyer to seller in the marketplace and worker and employer in the workplace. The principle of distributive justice defines the duties of the superior to his/her subordinates whether that interaction takes place in the marketplace or the workplace. Finally, the principle of contributive justice sets down the duties of the member to the group in interactions occurring in the workplace or the marketplace.

<u>Economic Gain: Profits, Consumer Surplus, and Economic Rent.</u>

Before moving on to the principle of equivalence, it is instructive to address first what happens in a market exchange. Every exchange involving economic agents who are well-informed and free to act entails gain for the parties involved: what is gotten in the exchange is more highly valued than what is given up.[3]

[1] Samuelson's first edition *ECONOMICS* [p. 14] employs the relativist argument that ultimately there is no disputing ethics.

[2] Often referred to as the principle of commutative justice, and thereby perpetuating some confusion. We prefer to call it the principle of equivalence because as we shall see shortly this principle underscores equality in the exchange process.

[3] I am deliberately departing from the usual language of exchange value for what is given up in an exchange and use value for what is gotten because that terminology does not add substantially to our understanding of the source of

In the workplace, for example, when the baker hires a sales clerk to tend to his/her customers, there is gain for both parties. The baker gets the clerk's labor services that are more useful to him/her than the wages that must be paid, thereby adding to the baker's profits. Without that gain, the baker could not afford to hire the sales clerk. At the same time, the clerk contributes his/her labor services because the wages paid are more than the clerk otherwise would have accepted, and the clerk can save that gain (economic rent) or apply it to buying other things that he/she needs or wants.

The gain to the worker or the owner of natural resources that are used in the production process may be enhanced further by the generous employer/producer who pays more than is absolutely required perhaps in the expectation that his/her generosity will be repaid by more diligent workers and more careful suppliers, thereby adding to the employer's profits. The model employee or supplier is one who contributes more to profits than is normally expected.

In the marketplace, the baker produces more loaves of bread than can be used for his/her own personal consumption, and sells them provided the money gotten is greater than the cost to produce the loaves, thereby adding to the baker's profits. Without that gain, there is no incentive for the baker to produce and sell bread. At the same time, the baker's customer who does not bake bread, or does not make it as well or as inexpensively, buys from the baker because the bread that is gotten is more useful than the money given up. The gain achieved by the consumer (consumer surplus) can be saved or applied to buying other things that the customer wants or needs. A bargain is an exchange in which the consumer's gain is greater than initially expected.

Thus, profits flow from two sources because the producer engages in exchange in two markets each yielding its own gain. There is the gain that comes from the producer's buying inputs in the resource market for use in the production process, and the gain that derives from selling the finished goods in the product market. Thus the producer's profits are enhanced in two fundamental ways: by reducing the cost of production and by selling finished products at a higher price.

However, in the case of economic rent and consumer surplus alike, the gain originates in exchange that takes place in a single market. For the worker and the owner of natural resources, economic rent originates in exchange only in the resource market. For the consumer, it is exchange only in the product market that gives rise to consumer surplus. Though the language used in mainstream economics to designate these gains -- profits, economic rent, and consumer surplus -- suggests that they are incidental to the exchange process, the hard reality is that all three gains are absolutely necessary to that process. In their absence, exchange tends to break down.

Notice, however, that offering a gift to a loved one or friend differs from an exchange between a buyer and seller. The gift is given without demanding anything in return though the culture may encourage reciprocity, that is the exchange of gifts.

There must be limits to profits, consumer surplus, and economic rent in order to prevent one party from taking advantage of another and to assure that market exchange serves all economic agents

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economic gain.

fairly and effectively and not just those with the power and will to turn gain into excess. Those limits are grounded in the duties that economic agents owe one another under the principle of equivalence, the principle of distributive justice, and the principle of contributive justice.

PRINCIPLE OF EQUIVALENCE

The principle of equivalence states that buyer and seller in the marketplace and worker and employer in the workplace have two duties that are binding on both parties. First, they are to exchange things of equal value. Second, they are to impose equal burdens on one another. In many such transactions, personal experience informs us as to what equal value means. By equal burden we mean that the burden of the seller is to give up possession of the good or service in question. For the buyer, the burden is to give up possession of the money necessary to take possession of that good or service. For the worker, the burden is performing the work required by the employer. For the employer, the burden is paying the worker the wage to which they agreed.

For example, we may not know precisely the price of a Rolex watch but we very likely know that it does not sell for the same price as a Timex watch. Anyone attempting to sell a watch that is represented as an authentic Rolex for, say, $49 should be suspected of (1) selling a Rolex watch that is stolen, (2) selling a watch that actually is a counterfeit or a "knockoff," or (3) selling a genuine Rolex but having no real appreciation for its true worth. The principle of equivalence means that selling stolen goods is unjust because the seller has no right to sell what does not belong to him and the buyer has no right to buy and take possession of goods that belong to someone else. Indeed such practices are illegal precisely because they are unjust. Misrepresenting a "knockoff" as the genuine article is unfair because the seller is deliberately deceiving the buyer. Finally, and with one exception, buying a good at a price that is well below its current market price is unjust because the buyer has no right to exploit the seller who is unaware of the good's real value. There is, however, no such exploitation when the seller is fully informed as to the good's market price and freely sells it for less. In that case, the good exchanged is in part a gift.

There are other sources of information about what equal means in a marketplace or workplace exchange. They include information available through family members, friends, co-workers, neighbors, and persons who consult for a fee. There are published sources of information as well such as *Consumer Reports*, newspaper and classified advertising, and electronic exchanges such as E-Bay.

At times, the things exchanged at the very moment the exchange is executed are not of equal value, such as when a house is sold and the buyer makes only partial payment in cash but takes possession of the entire house at the time of closing. To simplify this example, we assume that the buyer does not obtain a mortgage from a third-party lender such as a bank. Rather the seller offers to lend the buyer the unpaid balance by allowing the buyer to make regular payments over time until the balance is paid in full. Notice at closing, the buyer's immediate burden is to make partial payment in cash to the seller. The seller's burden is to surrender the whole house, and accept the buyer's written promise to pay the balance in the future. Under those circumstances, the seller faces the risk that the buyer may not be faithful to his/her promise to make payments in the future until the balance is paid in full. And the seller must wait until payments are made and at closing forgoes the use of that money had he/she insisted instead on payment in full at that time. Consequently, the seller/lender is justified in requiring the buyer/borrower to repay more than the amount of money that was borrowed. Indeed, the seller/lender is justified in charging interest in order to equalize the burdens involved. The precise amount of interest that equalizes the burden is problematical. However, we know by experience that a rate of interest of 100 percent is excessive because it imposes an undue burden on the buyer/borrower. Similarly, a 50 percent rate of interest is excessively burdensome. However, in late 1980 banks across the United States were charging their most credit worthy customers an average of 21.5 percent on loans [Federal Reserve System, p. 3] and much more for other higher-risk borrowers. Today, credit card companies commonly charge 18 percent annual interest and, even though some cardholders are not able to pay their credit charges, most cardholders do pay what they owe. We conclude that 25 percent is a reasonable upper limit on the prime rate in a recent historical context and in the sense that it just barely satisfies the requirements of the principle of equivalence.

Common Expressions.

Some common expressions for the principle of equivalence in the marketplace, involving buyer and seller, are the money-back guarantee, the merchant's refusal to accept a third-party check, and the buyer's experience of getting his/her money's worth. The money-back guarantee is the seller's recognition that at times an honest mistake has been made in routine transactions, whether the fault lies with the buyer or the seller, and that the things exchanged are not of equal value. Merchants who depend on repeat business understand that the money-back guarantee is good for their business even though they might not understand consciously that they are being faithful to the demands of the principle of equivalence. Shopkeepers often refuse the third-party check because they are fearful that the check has been stolen by the third party to whom it has been made payable and that the person who issued the check has put a stop payment order on that check with his/her bank, rendering it worthless. "Got my money's worth" is a common expression for a buyer who has entered an exchange with a seller and actually received more than he/she bargained for. In the workplace, the common expression "full day's work for a full day's pay" is a reminder of the worker's obligation under the principle of equivalence. Reversing the language to "full day's pay for a full day's work" underscores the employer's duty to the worker.

Violations.

There are several specific ways in which the principle of equivalence may be violated in the marketplace. Shoplifting is one, and issuing a bad check is another. Loan sharking -- charging excessive interest -- and price gouging that may take place in an emergency such as a hurricane are two more examples. Counterfeiting, whether it involves paper currency or "knockoffs" violates the principle of equivalence as does the bait and switch scheme. Bait and switch is the practice of a merchant attracting customers into his/her store by offering an item at a very attractive price, telling customers as they enter the store that the item is sold out, switching them to a more expensive substitute item, and high-pressuring them into buying the more expensive item.

In the workplace there are several ways in which the principle of equivalence may be violated. We have enumerated five specific instances: expense padding, sweatshop, embezzling, pilfering, and featherbedding. All violate the principle of equivalence either regarding the duty to exchange things of equal value or to impose equal burdens on one another.

Expense padding means seeking reimbursement from your employer for personal expenses incurred when you have been traveling on official business. Or it may be seeking reimbursement for legitimate business expenses but those expenses have been inflated or padded. A sweatshop is an employer who abuses his/her workers in terms of wages, hours, or working conditions. Paying less than the minimum wage or the wage agreed to, forcing employees to work very long hours without rest or compensation, operating a workplace that violates the local building code or that is generally unsafe are ways in which an employer "sweats" his employees in order to reduce labor costs and add to profits.

Pilfering and embezzling are ethical twins. Pilfering happens when an employee steals supplies or merchandise from his/her employer. Embezzling takes place when an employee takes cash from his/her employer. Featherbedding occurs when an employee reports to work but does not perform his/her assigned duties. Instead the employee occupies him/herself with personal business such as surfing the internet, playing solitaire on the computer, balancing the personal checkbook, reading the newspaper, generally "schmoozing" with other employees, and the like. Featherbedding is an employee failing to in the obligation to perform a full day's work for a full day's pay. "Ripped off" often is used to express one's anger at being exploited and denied one's due under the principle of equivalence.

PRINCIPLE OF DISTRIBUTIVE JUSTICE

The second principle of justice -- distributive justice -- defines the duties of the superior to his/her subordinates. Specifically, distributive justice requires the superior to distribute the benefits and burdens of the group under his/her supervision among its members in some generally equal fashion. This does not mean strictly equal because there likely are significant differences among subordinates and it is entirely appropriate to take those differences into account. For example, handicapped employees appropriately may require different parking and restroom accommodations than able-bodied employees. Single parents in general shoulder heavier child care responsibilities than married parents. Persons of different faiths may observe different holy days. Distributive justice demands that the superior differentiate among subordinates only when the differences among them are real and substantial and require different arrangements. A superior may allow a single parent to rush home to tend to a sick child when the same permission might not be given to a married worker with a spouse who routinely stays at home to look after the children. A strict orthodox Jew may not be required to work on Saturday, the Sabbath in his/her religion, whereas persons of other faiths might have to work on that day.

Discrimination and False Stereotyping.

Discrimination occurs when the superior differentiates among subordinates for reasons that are insubstantial. In this regard, false stereotyping may be the device used to rationalize the difference in treatment among subordinates. For example, older workers may be treated differently because they simply have "less upside potential" than younger workers. Women may be treated differently because for them work is of secondary importance in their lives. Immigrant workers may be treated differently because they dress differently or speak with heavy accents. Favoritism is simply the other side of the coin of discrimination: treating some better than others for reasons that are superficial or based on the false stereotyping of others.

False stereotyping is especially insidious because until it is exposed false stereotyping blames the victim rather than the perpetrator for the discrimination, rationalizing the discrimination on the basis of an alleged defect in the character of the victim. Discrimination along gender, race, religion, and national origin was declared illegal in the Civil Rights Act of 1964. Special legal protection has been accorded women, African Americans, Native Americans, Jews and persons of other faiths, and persons born in other countries. In 1968 persons 40 years of age or older were included in the "protected class" through the Age Discrimination in Employment Act. Twenty-two years later the Americans with Disabilities Act included persons with disabilities in the "protected class."

Discrimination and the government intervention required to address it are evidence that the law of nature -- each individual economic agent in the pursuit of his/her own self interest also serves the common good through the invisible hand -- is not always sufficient to resolve important conflicts in economic affairs.

Two especially noteworthy violations of distributive justice are kickbacks and harassment. A kickback is the ethical equivalent of a bribe. A bribe is a payment to a superior in the expectation of special treatment. The payment *precedes* the special treatment. A kickback is a payment for special treatment wherein the payment *follows* the special treatment. A contractor bribing a state highway official in order to get privileged treatment in a contract award process makes payment beforehand. A contractor kicking back to a highway official promises beforehand to make payment after the deal has been closed. Harassment is the practice of a superior exacting special sexual favors from a subordinate, or touching or addressing him/her in ways that are disrespectful in exchange for a favorable performance evaluation, a raise, a promotion, job assignment, or the like.

Common Expressions.
"Equal pay for equal work" is a requirement under distributive justice. It means that persons doing the same work, with the same on-the-job-performance of their assigned duties, are to be paid the same wages. *Note that "equal pay for equal work" is not the same as "a full day's pay for a full day's work" that is the employer's duty under the principle of equivalence.*

"Equal opportunity" too is a requirement under distributive justice. It means that persons of equal experience and qualifications are to be afforded the same chance of being hired or promoted. "Affirmative action" is controversial because some argue that it is necessary and others assert that it is reverse discrimination. It is not possible to render an informed opinion about affirmative action in the abstract. In other words, it is futile to search for a argument that settles this matter once and for all. Instead affirmative action decisions must be judged for their ethical content on a case by case basis because the circumstances will differ from one case to another.

The principle of the double effect (see Grisez and Shaw, pp.138-146) is instructive regarding affirmative action because affirmative action -- the hiring and promoting of persons in the protected classes over others -- has two effects, one positive and one negative. The positive effect is the good that is done for the person(s) hired or promoted. The negative effect is the harm that is experienced by those who are passed over in the hiring or promotion process. The principle of the double effect says that: (1) the good effect must be greater than the bad effect, otherwise the superior/decision maker is doing more harm than good; (2) the bad effect must not be intended. That is, the superior/decision maker must not intend to bring harm to the person(s) being passed over, but recognizes that there is no way to hire or promote one or two from an applicant pool without passing over everyone else.

The principle of distributive justice has application in the marketplace too, but here the issues are not nearly as dramatic as in the workplace. In the marketplace, it is the merchant or shopkeeper who is the superior because he/she is the one who must treat his/her customers evenhandedly, without favoring some at the expense of others. There are several ways in which this is done. A merchant who makes rain checks available to his/her customers is saying in effect that when an item is put on sale at a very favorable price, he/she will treat all customers alike even those who come to the store after the supply of that item has been exhausted. Under those circumstances, the merchant re-orders the item in such quantities to satisfy all customers who have been issued a rain check. “Limit 3 to a customer” tells all customers that everyone is entitled to purchase no more than three of a specific item on sale so that one customer will not buy the entire available supply. “Everyday low prices” indicates that the store does not raise and lower prices from one day to the next so that every shopper has access to the item at the lowest price possible whenever that shopper enters the store. “Sale price effective as long as supplies last” tells customers when the item is put on sale that customers who delay in coming to the store may be disappointed in finding that the item has been sold out.

The key to understanding all such practices as meeting the merchant’s obligations under the principle of distributive justice is that while the specific terms of sale differ across these practices *once a specific practice is put in place* there is no difference in the way those terms are applied to any customer. Further, though some customers may not be able to take advantage of the favorable opportunities afforded by the merchant, due perhaps to their lack of transportation, their infirmities or disabilities, their being away from home on business, the merchant’s duties under distributive justice extend only to those who actually enter the store, provided the merchant has made an effort to properly inform his/her customers of the opportunities and to maintain the usual store operating hours.

PRINCIPLE OF CONTRIBUTIVE JUSTICE

The third and last principle of economic justice is contributive justice that lays down the obligation of the member to the group to that that person belongs. Insofar as a person receives benefits from the group, that person has a duty to maintain and support the group. Paying dues is the usual requirement for the persons joining and remaining active in a membership organization. Failure to pay those dues typically reduces a person to inactive membership status enjoying fewer or even little benefits of membership as compared to those in good standing.

Common Expressions.

Of the three principles of economic justice, contributive justice is least familiar in the United States because Americans think of themselves as individuals first and indeed have a high regard for "rugged individualism." For that reason, there are only weak examples of common expressions for contributive justice in the workplace and the marketplace. In the workplace, where employees commonly work in groups or teams, expressions such as "doing my fair share," "pulling my load," and "paying my dues" are sometimes heard. There are even greater problems in seeing contributive justice faithfully practiced in the marketplace. Even so, there are certain expectations when persons come together whether for a concert, ball game, or to enter a flow of traffic. The person who arrives last in a ticket line or traffic line is expected to wait his/her turn and not cut into the line. To do otherwise is disrespectful of those who have been waiting and sets an example for others to do the same in which case pushing, shoving, and cutting off other cars may become the rule rather than the exception. A general loss of civility may follow that is destructive of a sense of community.

Violations.
When it comes to violations of the principle of contributive justice, however, there are several powerful examples in the marketplace and the workplace. In the workplace, industrial spying and sabotage violates contributive justice because the person who appears to be a loyal and productive member of one business establishment actually is faithful to a rival organization and seeks to undermine the effectiveness of the first establishment by stealing secrets and disrupting work. Is it a violation to hire a person from a rival establishment and then pick his/her brain for whatever information he/she might be able to share with the new employer? It does, if they surrender proprietary information, that is information to that the former employer can claim a clear property right such as a secret formula for making a product.

Computer tampering violates contributive justice because the persons who use a common resource such as the internet are expected to respect the work and files of others using that resource. Otherwise, confusion and destruction reign, and the internet becomes a less effective tool for all who use it. Persons who provoke trouble on the job by spreading rumors, by exaggerating the faults of others, by complaining constantly about supervisors and working conditions violate contributive justice because they tear down the organization making it less effective and less successful in day-to-day operations.

Product tampering in the marketplace is the moral equivalent of computer tampering in the workplace. Tampering with a product is harmful to everyone who uses that product, because it makes them fearful that the product is unsafe to use. That in turn can have a powerful negative effect on the company that makes that product. Insurance fraud violates contributive justice because if a fraudulent claim is not detected by the insurance company, payment is made to the insured party that drives up the costs of the insurer who then may pass those additional costs on to all policy holders in the form of higher premiums. The Coalition Against Insurance Fraud estimates that insurance fraud costs Americans about $80 billion every year or $950 per family [Coalition, p. 1].

Insider trading is the practice of persons within a corporate organization whose shares of stock are publicly traded on a stock exchange using information that is confidential and not available to the trading public in order to buy or sell shares in that corporation for personal gain. Insider trading is morally the same as playing cards with a marked deck. The gains achieved by the insiders come at the expense of other traders who do not have access to that confidential information and therefore are buying shares that soon afterward will fall in value or are selling shares that later will rise in value. The federal Securities and Exchange Commission is charged with the responsibility of monitoring trades made by senior corporate executives involving shares of stock in their own corporation in order to detect and punish insider trading.[4] Unrestrained insider trading undermines the effectiveness of a stock exchange because in effect the big fish are eating the little fish.

Dumping involves the sale of a product made in one country in another country in circumstances where it is clear that the intent is not to compete but to destroy. An example will help illustrate the practice. The table below provides information on two companies manufacturing and selling DVD players, the one is American and the other is, say, Taiwanese. The American company sells its product in the U.S. market at $205 retail, and earns a profit of $60 per unit sold because its unit cost of production is $145. The Taiwanese company in Taiwan sells an equivalent DVD player at $180 and achieves a profit of $80 per unit sold because its unit cost of production is $100.

THE PROBLEM OF DUMPING

	U.S. Company	Taiwanese Company
Price in home country	$ 205	$ 180
Unit cost of production	145	100
Profit per unit sold	60	80

If the Taiwanese company begins selling in the U.S. market at the same price that it charges its customers in Taiwan, the U.S. company is put at a competitive disadvantage because its price is $25 higher. The U.S. company could become competitive again by matching the $180 price of the made--in-Taiwan DVD by taking a smaller profit on every unit sold or by reducing the cost of production in order to protect its $60 profit margin. To this point, there is nothing ethically untoward. This is the normal, everyday price competition between two rival firms. Indeed, there is nothing untoward even if the Taiwanese were to drop its unit price to $100 completely wiping out its profit margin. The U.S. company may find it very difficult to match that lower price, and may even be driven out of the DVD manufacturing business. This is "hardball" competition.

Dumping occurs when the Taiwanese firm sets its price in the United States below its own cost of production, thereby losing money on every unit sold. It is able to do this if it has earned profits in the past and has retained some of those profits in the form of cash on hand. The losses that the company in Taiwan takes on every unit sold reduces its cash on hand but does not drive it out of business. It is able to continue operating and paying for the resources that it uses in the production process in part from sales revenues and the rest from cash on hand. Or it may be subsidized by its national government in order to expand its operations, thereby providing more jobs for workers, more opportunities for local suppliers, and greater profits for its shareholders. This practice, selling a

[4] Bill Gates, for example, owns 1.163 billion shares of Microsoft [Microsoft, p. 5]. A one-cent fluctuation in the share price of Microsoft means a loss or gain for Gates of approximately $11,630,000.

product in another country below the cost of production, is dumping. Its purpose is not to compete with rivals but to destroy them in order to dominate the market and then be able to run up the price to the disadvantage of U.S. buyers of DVD players. The U.S. company that has been attacked this way can sue the Taiwanese company to stop dumping and to require payment for any financial damages that it might have suffered.

Under the Tariff Act of 1930, U.S. industries may petition the federal government for relief from imports that are sold in the United States at less than fair value ("dumped") or that benefit from subsidies provided by foreign governments. The U.S. Department of Commerce determines whether dumping or subsidizing exists and the margin of dumping or amount of subsidy. The U.S. International Trade Commission determines whether there is material injury or threat of injury to the domestic industry due to dumped or subsidized imports. In 2003 the Commission found evidence of dumping or subsidized imports with regard to, for example, lawn and garden fence posts produced in China, polyvinyl alcohol from Japan, and frozen fish fillets from Vietnam [U.S. International Trade Commission, pp 1-12] .

Tax evasion[5] – the deliberate effort to not pay the taxes owed under tax code – violates the principle of contributive justice because when evasion is successful other citizens are forced to make up the difference either in the form of reduced spending, higher taxes, or increased public indebtedness. Litter, trash, and environmental pollution are problems in contributive justice in that they are destructive of the air we breathe, the water we drink, and the wonders of nature we enjoy. It follows that every member of the community has an obligation in contributive justice to limit such destructive practices in order to help preserve those endowments of nature that are vital to the health and well-being of all living creatures. In general, violations of contributive justice are destructive of a sense of community.

JUSTICE IN WAGE AND SALARY ADMINISTRATION

All three principles of economic justice are directly relevant to the problem of wage and salary administration. For the persons who are responsible for sorting through the issues involved in wage and salary administration, there are two main tasks: evaluating performance and linking pay to performance. In this regard, there are three central questions that must be addressed. First, how much does the worker contribute as an individual to the assigned tasks, and how much is that work worth? Second, how much are others being paid for the same work? Third, how much does the worker contribute as a member to the success of the group or team to that he/she is assigned, and how much is that contribution worth?

Performance Evaluation.

Performance evaluation involves the careful, honest, and comprehensive evaluation of the amount and quality of the assigned work that the subordinate has carried out over a given period of time, the last week, month, quarter, year. Supervisors are expected to conduct performance evaluations of those persons who are known as "direct reports," that is they report directly to that supervisor.

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[5] Tax avoidance is an entirely different matter. Avoidance means arranging one's income in a way that conforms to the tax code but reduces the amount owed in taxes.

To the extent possible, evaluation should be quantifiable but for many professional workers the nature of their work does not always lend itself well to strict quantification. Inevitably, therefore, performance evaluation involves judgment on the part of the supervisor. There are two procedures that help reduce the arbitrariness in making judgments. First, the subordinate prepares his/her own performance evaluation and submits it to the superior for review and approval. Second, the performance evaluations conducted by the supervisor are subject to review by the person to whom the supervisor reports.

The best way to assure that performance evaluation is done properly is to select the right persons to serve in supervisory positions and train them well for the difficult task at hand. The mere fact that a supervisor may have done the very same assigned tasks as the person whom he/she is evaluating is no assurance that performance evaluation will be conducted carefully, honestly, and comprehensively. Ultimately, the supervisor must be a person of integrity.

Employer's Duties.

As to the problem of linking pay to performance, it is necessary to address the problem first from the perspective of the employer/supervisor and then from the perspective of the employee. The employer/supervisor has two obligations drawn from the principle of equivalence and the principle of distributive justice. In common-expression language, under the principle of equivalence the employer/supervisor has a duty to the employee for "a full day's pay for a full day's work." Under the principle of distributive justice, the employer/supervisor has an obligation for "equal pay for equal work." Failing with regard to the first duty is in effect to break the employment contract and the wages and work agreed to in that contract. Failing with the regard to the second duty is discriminatory.

Employee's Duties.

The employee also has two obligations, one drawn from the principle of equivalence and the other from contributive justice. "Full day's work for a full day's pay" is what the employee owes the employer/supervisor under the principle of equivalence, and as with the employer/supervisor, any failure effectively breaks the employment contract. The employee's second duty is to "do his/her fair share," "pay his/her dues," that is to contribute positively to the success of the group or team to that he/she has been assigned. This duty is less sharply defined than the first. Much depends on the circumstances at the moment in the workplace and the marketplace. More may be required of a person as a member of the team when the company is facing a very difficult deadline in making delivery to a customer, or when the necessary supplies for production are not readily available, or when someone on the team is sick or otherwise absent from work. Further, more may be required when the company is on the brink of financial failure. In that sense, the principle of contributive justice requires a member of the group or team to do all that is required for group success provided what is required is reasonable. Thus, judgment inevitably is a part of any decision as to one's duty under the principle of contributive justice. See Figure1 for a summary of the foregoing.

FIGURE 1. THE PROBLEM OF WAGE AND SALARY ADMINISTRATION

Wage and Salary Administration Involves All Three Principles
of Economic Justice Simultaneously To Address Three Central Questions:

1. How much work does this person (do I) do as an individual, and how much is that work worth?
2. How much are others being paid for the same work?
3. How much does this person (do I) contribute to the work done as a member of the team, and how much is that work worth?

- For the employer/supervisor the obligation is two-fold:

  (1) from the principle of *equivalence* to exchange things of equal value and impose equal burdens on the employee/worker:

  a full day's pay for a full day's work

  (2) from the principle of *distributive justice* to distribute the benefits and the burdens of the work in some equal fashion among all employees/workers:

  equal pay for equal work

- For the employee/worker the obligation is two-fold:

  (1) from the principle of *equivalence* to exchange things of equal value and impose equal burdens on the employer/supervisor:

  a full day's work for a full day's pay

  (2) from the principle of *contributive justice* to contribute to the maintenance and support of the work group:

  doing my fair share; paying my dues

<u>*Linking Pay to Performance: Individual and Company.*</u>
Pay at the time of hire often is driven by market conditions. Paying less than the market rate is an option provided the employer accepts being less competitive in the market for scare labor resources. Paying more makes the employer more competitive in the labor market but can increase the cost of production and thereby squeeze profit margins especially if other workers in his/her employ are successful in demanding equal pay for equal work.

Paying workers for individual performance is an obvious requirement. Paying them for company performance is strictly an option. Two examples illustrate how structuring pay to company performance can be implemented. In a petroleum refinery safety is an important daily issue in the operation of the facility. Improving safety enhances company performance, including profits, by reducing lost labor time. Accordingly, the refinery may decide to reward improvements in safety by setting different lost labor time standards for different work teams with different exposure to risk in the facility, and rewarding everyone on the team on a quarterly basis for which actual lost labor time is below the applicable standard for that team. The rewards can be cash or inkind. A system of inkind rewards can be devised using a gift catalog in which everyone eligible for a reward is allowed to choose an item from the catalog such as a stadium seat, a baseball cap, or a single setting of flatware.

In a physician's practice, the collection rate – the percentage of the amount that is billed for services rendered which is actually collected – is a powerful contributing factor in the practice's financial success. Increasing the collection rate therefore directly enhances the financial performance of the practice. Paying every nonphysician employee including, for example, the nurse, receptionist, and secretary a cash bonus for a monthly collection rate that is above some minimum standard such as 90

percent, with greater bonuses tied to higher collection rates, can provide the needed motivation for improving staff performance of those assignments that contribute to a better experience for the patient and therefore a greater willingness on the part of the patient to pay what is owed fully and on time.

FINAL REMARKS

Experience has demonstrated time and time again that limits are necessary to assure that competition and cooperation do not get out of hand. Typically these limits are embodied in laws that have been enacted in response to some abuse such as dumping, embezzling, and harassment. In the absence of limits economic affairs tend to degenerate into conflict, chaos, and exploitation. Ultimately it is the faithful practice of the principle of equivalence, the principle of distributive justice, and the principle of contributive justice that determine what limits are required to assure that economic affairs are and are likely to remain amicable, orderly, and mutually advantageous.

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