

Jeremy Shearmur

Hayek, Social Justice, Gender Equality and the Environment

1. Markets, Rewards and 'social justice'

I have recently completed editorial work on the version of Friedrich Hayek's *Law, Legislation and Liberty* that will go into his *Collected Works*. It involved a great deal of work – not least because, as he was writing it from about my age of 71 into his advanced old age, there arose lots of problems with his numerous references and citations. The book, however, contains many striking ideas, not least his criticism of the idea of 'social justice'. Hayek's views about this are complicated, and involve some tensions.¹ But one of the issues which he raises seems to me powerful, and of great importance.

This, central, argument is the following. Hayek argues that prices in a market-based economy play a key social role. They enable us to enter a form of cooperation with one another, and, more particularly, to cooperate with people whom we don't know, and with whom we can't have face-to-face relations. If, say, I buy bottles of PZ Svirce Plavac Hvar, this gives incentives to its producers to produce more of the wine, and also to its British distributors to continue to make it available here. Prices are influenced by people's demand for goods and services. But they then serve as signals to each of us, as to what other people want. Assuming that we choose to be guided by prices, then these prices indicate to us what others would like us to do. Accordingly, as a somewhat unattractive, fat and almost bald man, I was guided by prices that people would wish me to teach philosophy and political theory, rather than, say, to appear as a lurex-clad go-go dancer in a cage in a night club. But equally, an academic colleague of mine who had taught logic, could be given signals through the price system that his talents would be more appreciated doing research for an IT company on fuzzy logic, than they would by his giving introductory logic lectures to university students.

So much is a commonplace among economists. But Hayek stressed, further, the social division of information, and the way in which prices allow people to use their own judgement, skills and knowledge, including knowledge of a tacit character, for the benefit of others. Think of the way in which consumer tastes, know-how on the part of entrepreneurs, and also the sheer ability of people in business to spot significant price discrepancies, all work to bring people's plans, and how goods and talents are made use of, better into alignment with demand. Hayek stresses the way in which the price system, together with clear and well-administered laws, provides something remarkably important for us

¹ Not least because he also favours the idea of a limited welfare state.

– such that it is difficult to see how rational economic decision-taking would take place in a large-scale economy, if we rejected it.²

But what, you might wonder, has all this to do with social justice? Hayek's argument was that market prices play a key role in the functioning of our society, but that they can't, at the same time, reward merit. Market-based rewards, Hayek stressed, may often seem arbitrary and unfair. Why, say, should an investment banker get a large salary and huge bonuses, while a nurse who works very hard looking after elderly people get a very small wage? Hayek acknowledged that these rewards would be unfair if they were the result of a process in which a group of wise rulers claimed to be able to determine what people really deserved. But this is not how things do, or could, work. Rather, a society like ours can only function if people are rewarded on the basis of what their services happen to be able to command. Someone may command a high price for their services because what they are offering is fashionable today – when it may not have been in the past and will not be in the future. Consider the way in which someone really tall, and who has excellent control of their limbs, might today make a fortune as a professional basket-ball player, while in the past, all that they might have done is got a slightly higher rate of pay than did other people for picking apples. In addition, judging the merits of other people is difficult, even if we know them quite well. (Are we, say, to take into account how hard they have to try, in order to get something done? What should we make of people trying really hard, but not producing something that others value? And how should we weigh different aspects of what people have to do in their various jobs?) But in a large-scale society, most of those involved in producing the goods and services of which we make use cannot be known to us, and certainly not to any degree of depth. Hayek wished to argue that the idea of judging people's merits was hardly something that made sense outside of a small group. But that, further, it would be horribly destructive if we started to demand that market prices should somehow be changed, so as to give people what they deserved as the reward for their work.

It was for this reason that Hayek argued that the idea of 'social justice' – if it meant that the economic system should be changed, so that people received what they deserved, morally, was a terrible idea. (He did not rule out the idea that a society might decide to give people financial support *outside* of the market – e.g. by way of some kind of guaranteed form of subsistence provided by means of taxation.) It is, however, worth noting that, in his argument, Hayek worked with a sharp dichotomy between an organization – such as a bureaucracy – within which he freely admitted that there might be some attempt to reward people on the basis of some idea about their merit, and something like a market economy, within which the outcomes – e.g. prices, etc – were the consequences of the actions of many different people, but which weren't designed by anyone.³ Within an organization, many different principles might be used as the basis on which people might be judged – e.g. as a basis for how people are promoted, more senior people's perception of how good people are at their jobs, how long they have been in the organization, and their educational qualifications. Other things which may be more significant in practise, are how well they can suck up to the boss, what their social cachet is like, and

² There was a debate in the first half of the Twentieth Century about the problems of economic calculation under socialism. It is still very much worth a look. A good source is Friedrich Hayek, *Socialism and War* ed. Bruce Caldwell (Chicago: University of Chicago Press, 1997).

³ And which could not be, without undermining the basis on which markets operate.

also their height: tall people tend to be paid more.⁴ Clearly, if we are dealing with a commercial organization, there are also economic constraints on what can take place; but on the face of it, there are in most cases limits as to how tight such controls on remuneration are. Hayek argued that pressing for reward on the basis of merit within a market-based form of social order would, in effect, amount to a demand that it be turned into an organization, like a bureaucracy, just because it was only within such structures that merit could, in some sense, be addressed systematically.

Now I have gone into all this in some detail, because in Britain, there is currently a lot of concern about the pay rates of women, and how they compare to those of men. There is also a concern about the levels of seniority reached by women within commercial companies. The government has, in recent years, required that companies furnish information about these matters. Companies which lag behind others in the pay-rates and promotion of women, are held open to criticism. All this is understandable and important. It seems to me to point to a flaw in Hayek's analysis – but also to leave us with a problem.

Hayek is, in my view, right about what he says concerning markets and prices. The flaw, is that in his discussion, he tends to write as if everyone participating in markets was an individual, when more typically they are employed within companies.⁵ But if one is working within an organization – even one which makes its living by selling things – what one is paid is not simply a matter of what one can command on the market. If the management did try to make things work like that, it would be exceedingly difficult for them to work out just what contribution any individual makes. After all, if you are working with others and what you produce is being sold, then it is a collective product which faces the market, rather than what you produce as an individual, while there are limits to the extent to which one can make use of pricing within organizations.⁶ Hayek, certainly, seems to me to risk losing sight of this by working with a dichotomy between a market order and an organization.

What actually serves to explain people's remuneration is, it seems, complicated.⁷ Education and more generally 'human capital', the time that people have spent in a company (and whether or not their employment there has been continuous) have been argued to be significant. In addition, there is the issue of whether there is a lively external market for an individual's talents. There would seem every reason to believe that custom, habit and discretion play a significant role in decisions about what employees receive. But this also makes it likely that matters of social class, ethnicity and gender also play a role. If this is the case, then there is plenty of scope for women to question the degree to which

⁴ See, among numerous reports about this, <https://www.theguardian.com/money/shortcuts/2015/apr/29/do-tall-people-really-deserve-to-earn-more>.

⁵ In 2017 about 15% of people in Britain were self-employed; but this is a rather different matter from their remuneration being set directly by the market. See for a brief report: <https://www.bbc.co.uk/news/business-44887623>.

⁶ The American businessman Charles Koch, impressed with Hayek's work, has explored ways in which this might be done. See for example: https://en.wikipedia.org/wiki/Market-Based_Management_Institute

⁷ See, for example, Richard B. Freeman, 'Labour Economics' (1987), and Christopher Taber and Bruce A. Weinberg, 'Labour Economics (New Perspectives)', *The New Palgrave Dictionary of Economics*, 2nd edition (London: Palgrave Macmillan, 2008). It is also well worth looking, in this context, at *The Economic Nature of the Firm: A Reader*, ed. L. Putterman and R. S. Kroszner (Cambridge: Cambridge University Press, 1996 etc).

there is leeway, within firms, concerning their pay and promotion prospects. That is to say it is understandable that, *within* organizations, there have been demands voiced concerning ‘social justice’, to the degree to which there is not a clear-cut economic rationale for how things currently stand.

This has been particularly striking, in Britain, in discussions round the British Broadcasting Corporation. This is a strange organization, funded in considerable part by the requirement that everyone who has a television, or who watches what would otherwise be broadcast content by means of the internet, has to purchase an annual licence fee. This is the BBC’s main source of income, and this arrangement has the considerable advantage of making sure that the BBC does not depend directly on the good-will of government for its income. (It also has various kinds of commercial earnings, and receives a fee from the British government for producing the World Service.)⁸ The BBC has recently been required to disclose what it pays to its senior people, and this has indeed shown that there are significant differences between the salaries of some men and of women who hold comparable positions. It looks plausible to say that how women are being rewarded is unjust; but an underlying issue here gets us back to Hayek’s concerns.

For one of Hayek’s key arguments, was that there is no reason to expect that *market* rewards will track merit. And to the degree to which we are dealing with purely market phenomena, then it may simply be the case that, given consumers’ current preferences,⁹ men doing certain jobs are simply more popular with them, and that it is an understanding of this on the part of not just the BBC, but of other corporations, that serves to explain why they are currently paid more. I am *not* advancing this as an argument as to why there are the particular discrepancies between the rewards of men and of women, or saying that it is a good thing that people should have such attitudes. But Hayek has advanced a powerful argument as to why we should not expect market prices to track our ideas about what people deserve – and has also argued that any attempt to change the price system *systematically* so that it behaves more like this, is likely to lead us to major problems.

The issue that then faces us, is this. If considerations of justice or equity are raised within commercial organizations, how are we to handle the fact that, in such organizations, there is also an interaction with commercial factors which don’t – and, indeed, can’t – track issues to do with justice? If, say, women, or members of ethnic minorities, raise the point that they are paid less than are other people with the same education and experience, and who are doing the same kind of job, are their objections to be met by way of the organizations making changes? But if they are, what do we do about a case in which there is a clear-cut difference in pay related to the fact that there is an external market that appraises different people differently? There are, indeed, two kinds of economic argument here. The first, is that in some cases it might be possible to determine that, despite equality in education and experience, one person simply contributes more to the profits of the firm than does another. Second, there is the fact that, again with two people of comparable characteristics, there is someone outside the firm offering much more for the services of one of them than they are for the other.

⁸ See for a brief overview, <https://en.wikipedia.org/wiki/BBC>.

⁹ There is also the issue of whether, if one looks at men and women in the aggregate, women’s preference to spend more time with their children when they are young, plays a significant role. But this, obviously leads on to wider questions which I cannot pursue here.

The underlying difficulty here seems to me to be this. Given the looseness with which purely economic considerations appear to dictate pay within organizations, one can well expect that people will claim that what they are getting, or how they are being treated, is inequitable. And they may well claim this correctly. But how, then, do we handle this, given that there are other factors at work in the economy – i.e. how people are ‘rewarded’ in the market, and how financial incentives operate – which work on an entirely different basis, one which has and can have nothing to do with merit, but which, as Hayek has argued, we need to have in place?

2. Problems about ‘consumer sovereignty’

So far, however, I have dealt with just one side of Hayek’s argument. But there is another aspect to it.¹⁰ It is that markets respond to consumer choice, but that there may be problems about what they are responding to in relation to the preferences of consumers. What I have in mind here is not the much-discussed issue of the influence of advertising on people’s preferences.¹¹ Rather, it is that people may have concerns that go beyond the immediate characteristics of the good or service that they are choosing, and which relate to how the good or service is produced, or to the wider consequences of their making a choice for one thing rather than another. Obviously, if those supplying the good think that this may be relevant to the selection of their product, they can supply information about it, at least to a limited degree. For example, meat or vegetables may be labelled ‘organic’ (whatever that means). Eggs and chickens may be sold as ‘free-range’ (whatever that means), or coffee may be marketed as ‘fair trade’. Cosmetics may be sold with a sticker indicating that they are not tested on animals. While produce may be sold with labels that indicate that it has been produced in accordance with Jewish or Muslim dietary law.

There are two problems about all this. The first is that the information that can be conveyed – e.g. by way of labels – is indeed limited, and may well not easily capture what consumers are concerned about. (Consider my example of ‘organic’ food: it is no accident that labels such as ‘organic’ are typically generic and vague. It is possible to offer precise definitions of organic certification, but there is then the problem of how to convey what this amounts to, to the consumer, not least as they may face many alternative certification systems.) The second, is that, depending on what concerns people, giving them the opportunity to exercise some preferences as a consumer might require that production is removed from the ordinary sources of supply, which typically involve market-based commodities. Consider, for example, a dedicated ‘greenie’ who objects to the use of fossil fuels. They could certainly decide to purchase a car that was purely electrical. But what of the manufacture of the car, and also of the various things that went into the manufacture of the car, of the manufacture of the various things which were involved in the production of these things, the transport that was used by people working in the factories, mines etc, and so on? By purchasing the electric car, they could well be ‘voting’, as it

¹⁰ I have discussed this in a widely-ignored paper ‘Consumer Sovereignty, Prices and Preferences for Higher-order Goods’, *Political Studies* 39, 1991, pp. 661-75.

¹¹ On which Hayek’s ‘The Non Sequitur of the “Dependence Effect”’ in his *Studies in Philosophy, Politics and Economics* (London: Routledge, 1967) is well-worth reading.

were, in the sense of communicating positive financial incentives for, all kinds of things which they abhorred.

We perhaps need here to distinguish between two things: overall consequences and clean hands. There are some situations in which people would favour a particular outcome, but would be delighted if it could be achieved without any sacrifice on their own part. For example, there are people who would like to enjoy clean air, but would be happy if this could be achieved simply by *other* people cutting back on 'dirty' emissions. But there are other people whose concern is with what is sometimes referred to as 'clean hands' – i.e. that they don't want to be involved in contributing to the problem, regardless of what others might choose to do. That is to say, while they would welcome everyone doing what they think is the right thing, they would still wish to do the right thing, even if others don't follow them.

There is, however, rather more to this aspect of the 'Hayekian' problem. For as the problems of global warming and other kinds of environmental degradation from which we are currently suffering indicate, we may encounter difficulties that emerge from the large-scale consequences of the actions of ourselves and others, but where it may not be clear just what actions are responsible for what effects. Further, while these complex products emerge from the actions of ourselves and others, if we are – as we should be – concerned about reducing these effects, it is by no means clear just what it would be most efficacious for us to do. It is not clear why anyone should, in principle, object to having to pay if what they are doing has adverse overspill effects on others, or object if they should be subjected to legal constraints on their actions, in order to limit these effects¹² But the bad effects may *only* be recognisable in the large. And just what aspects of our conduct should be modified in what ways, to address these problems most effectively, will typically not be something that we, as individuals, can judge. This suggests that the 'Hayekian' picture of 'consumer sovereignty' may need qualifying by the idea that the effects that come about as a result of the exercise of consumer preferences in the marketplace, may need to be controlled by collective action¹³ in the light of our recognition of problems at a macro level, and technical determination of what needs to be done to address them. We will then need to change our conduct at an individual level. But there seem to me strong 'Hayekian' reasons against thinking that individuals can be expected, themselves, to be able to tell what they should be doing.

It is important to note here that while 'greenies' may well be right about the urgency of our taking action in the face of global warming, our discussion here suggests that their typical approach to the problem – 'virtue signalling' – is likely to be hopeless. For the problem is that while we may be able to recognise a problem – say, of climate change – in the large, there is no reason why we should be able to judge correctly which of our individual actions makes a significant contribution towards addressing it. In addition, there is no reason to suppose that what it would be best for us to do will be appealing or obvious – any more than it would be the case that we could tell what would best fit other people's

¹² Although what should be subject to such action may be controversial. For example, we typically allow that someone's trade can be damaged by others opening up in competition with them.

¹³ This would typically be political, but that is not the only option. For the exploration of one (limited) alternative, compare my 'Living with a Marsupial Mouse' <https://www.cis.org.au/app/uploads/2015/04/images/stories/policy-magazine/2002-winter/2002-18-2-jeremy-shearmur.pdf>.

overall preferences about how we should act, without there being prices to guide us. Rather than actually addressing the problem, there is a risk that we will all end up doing things that seem highly significant to us – almost acts of personal sacrifice if not nature worship – which actually make no *significant* difference at all. What is needed, on the face of it, is hard-headed analysis of what needs to be done, submitted to critical discussion in the public sphere, and the enforcement of this by way of regulations and taxation. While we can appreciate Greta Thunberg's making a fuss about the importance of climate change, rather than going on strike from school work, it would seem to me more to the point to include discussion about the character of the problem, and how it might be addressed by means of public policy, as part of compulsory school education.

3. Implementation

But there is more. For Greta Thunberg and her followers tend to assume that, if the urgency of the problem were appreciated by politicians, effective actions by government could be expected to follow. However, there are further problems here, at which I can, in this conclusion, only hint. The first is that – as should be obvious enough – because something is in the general interest does not mean that it is equally in each individual's interest. Climate change is a problem, but some people lose out more than do others, while some (and I suspect that I and others who live in Dumfries in Scotland might be examples), have in fact benefitted from at least the changes that have taken place so far.¹⁴ More seriously, people in some areas of China might say: OK, climate change may be problematic. But for us, the fact that we are have the prospect of getting an electricity supply for the first time, is more important. We are willing to cut back on coal-fired power stations. But only if other people will provide the difference in price which would be needed to get us a reliable power supply by other means.¹⁵ This bargaining element of the political scene, means that to get everyone to agree on effective action on the problems of global warming, is likely to require negotiation, compromise and also compensation.¹⁶

More significant – and typically looked at by political scientists rather than economists – are also important problems about governmental action as such. For, as Pressman and Wildavsky explained in their classic study *Implementation*,¹⁷ there may be problems about bringing about consequences that everyone favours, because of the kinds of actions that would be required by different people involved in

¹⁴ Summers, here, have become warmer and drier, while winters have become milder and wetter (although here, without problematic floods)!

¹⁵ Obviously, the correctness or otherwise of this specific example is a matter for debate. An environmentalist research group has recently reported that in most markets, coal-fired power is uneconomic if compared to sustainable alternatives. (See <https://uk.reuters.com/article/uk-coal-power/nearly-640-billion-coal-investments-undercut-by-cheap-renewables-research-idUKKBN20Z01X>.) But as far as I know the validity of these claims has not yet been assessed by others. But however this may be, the general argument which this example was used to illustrate seems to me correct.

¹⁶ In fact, things are much more difficult than this, because of the roles played by interest-groups in the development of policy, and the way in which, as political scientists have explored, different interests in society are able to mobilise in different kinds of ways – which means that, to say the least, not everyone is equal.

¹⁷ Jeffrey Pressman and Aaron Wildavsky, *Implementation: how great expectations in Washington are dashed in Oakland : or, Why it's amazing that Federal programs work at all, this being a saga of the Economic Development Administration as told by two sympathetic observers who seek to build morals on a foundation of ruined hopes*, third edition (Berkeley: University of California Press, 1984).

the government process. While everyone might agree that, in general terms, something is really important, it is not necessarily the case that everyone will have good reason to do what they would need to do, if were to be able to achieve it.

If the ideas that I have explored here are even partly correct, there would seem to me every reason to appreciate that while concerns about social justice, equality and climate change are important, to address them is a much more complex matter than simply getting lots of people worked up about them. Rather than school strikes, we all need to educate ourselves not just about the real character of the problems, but also about the difficulties of addressing them – including the fact that some issues which seem important (such as some notions about social justice and equality) may not be things which can be achieved, in a world in which we need to have in place institutions which we can't do without if other important social goals are to be achieved.