Why Profits Are Deserved

N. Scott Arnold

N. Scott Arnold is Professor of Philosophy at the University of Alabama, Birmingham. He is the author of Marx's Radical Critique of Capitalist Society *(1990) and* The Philosophy and Economics of Market Socialism, *(1994), and is a co-editor of* Philosophy Then and Now *(1998). A complete version of this essay can be found in* Ethics *(1987).*

. . . What I should like to do in this paper is to examine the category of profit in the light of contemporary distribution theory. Specifically, I want to argue that, in general, those who win profits in a market system deserve them. How considerations of desert fit into a theory of justice or ethical theory in general is far from clear.[1] However, it seems reasonable to suppose that, if someone deserves something, that is a prima facie reason why he ought to receive it. Thus if it can be shown that, in general, those who get profits deserve them, it will not follow that they ought to have them, all things considered. It would, however, be one reason in favor of that.

I shall begin by sketching a theory of the nature of profit in a market economy. Following that will be a general account of how desert claims are justified in institutional contexts. Finally, I shall apply these results to the question of whether profits are deserved.

I

As it was traditionally conceived, profit was the income that accrued to the owner of the firm after he paid off the work force and suppliers and set aside some funds for capital depreciation. In short, profits constituted the income of the capitalists. After the Marginalist Revolution of the 1870s it became evident that this picture obscured the fact that this income arose from two very different sources. These sources correspond to the two different roles that the owner of the firm plays. As a capitalist, he is a provider of capital goods for which he receives a return on his investment (over and above replacement costs). This role is functionally indistinguishable from that of a bondholder to whom interest is paid. The term "interest" took on a broader significance to include the return on investment to owners of capital. In a competitive economy, this rate of return tends toward equality as resources are shifted from less productive to more productive uses. The other source of income accruing to the owner of the firm is the result of his entrepreneurship. In the most dramatic cases, the entrepreneur is a great innovator and gambler. He conceives of a whole new product or service and brings together the needed factors of production. Entrepreneurship is not management; indeed, often entrepreneurs hire others to manage the firm. Entrepreneurship consists essentially of organizing production—deciding what to produce, when to produce it, and how much to produce at what price.[2] The gains, if any, that the entrepreneur reaps over and above the going rate of interest constitute what economists, following Frank Knight,[3] have called "pure profits" (hereafter just "profits"). . . .

. . . Suppose an entrepreneur figures out a way to drive down production costs (e.g., by adopting a certain technological or organizational innovation). The marginal value product of some of his factors of production will go up, since he is using less of them, let us suppose, to produce the product. However, he is paying the factor owners the going rate. The spread between cost and

price is his profit. A similar situation arises when a new product is produced and marketed for which there is great demand. Obviously, these situations cannot last, since competitors will imitate successful entrepreneurs; as a result, factor prices will tend to be bid up and product prices will tend to be driven down. Thus there will be a tendency for profits to be wiped out as a new equilibrium is approached. In this sense, all (pure) profits are ephemeral.

This story can be complicated in various ways to reflect more completely the real world. . . . However, the main source of profits in the final analysis is the malallocation of factors of production. This malallocation results from the fact that technology, consumer tastes, and other ultimate determinants of value are in a constant state of flux. Since no one is omniscient, some factors of production are always being used in nonoptimal ways. The successful entrepreneur is the one who is alert to differences in the marginal value products of factors of production and is in a position to do something about it. As Israel Kirzner has said, "Profit opportunities arise when the prices of products on the product markets are not adjusted to the price of resource services on the factor markets."[4] Other potential entrepreneurs are unaware of these discrepancies; otherwise they would have been competed away. The successful entrepreneur, then, can be characterized as someone who exploits social ignorance about the malallocation of resources.

An ethical evaluation of profit does not follow directly from a positive theory of the nature of profit. However, the latter suggests the outlines of such an evaluation that is probably consonant with a broad spectrum of opinion on morality and the marketplace, to wit: that entrepreneurial profit (which is, at bottom, pure speculative gain) is, on its face, ethically dubious but on balance morally acceptable because of its crucial functional significance in the successful operation of a market system. Libertarians and hard-line socialists who eschew markets would object to this ethical evaluation, but my guess is that, for those in between, this evaluation is attractive if not explicitly articulated. In what follows I should like to challenge this view directly by arguing that entrepreneurial profits are actually deserved by those who capture them. . . .

II

To make this case, it will be necessary to develop a general account of what it is to deserve something. Desert, in its primary sense, is a three-place relation among persons, things deserved, and what Feinberg calls basal reasons, that is, some fact about the person which grounds or warrants the desert claim. A general account of desert must explain what determines the basal reason(s) for desert claims as well as what determines the objects of desert or things deserved. Let us consider basal reasons first.

Basal Reasons

In his *Treatise of Human Nature,* Hume distinguishes natural and artificial virtues. The former are those "habits of mind" toward which we naturally feel approval. The artificial virtues—primarily justice according to Hume—do not command this instinctive approval. The approval they occasion is the result of artifice or convention. In more contemporary terms, these virtues might be called 'institutional.' If we think of basal reasons that warrant (positive) desert claims as virtues, Hume's distinction suggests that there are two kinds of desert claims—institutional and noninstitutional. The latter directly reflect general moral assessments of a person's character. Thus it is in this sense that good people deserve to be happy (Kant's *Summum Bonum*) and wicked people deserve to be miserable. On the other hand, institutional deserts are logically connected to particular social institutions.[5] The basal reasons (artificial virtues) that ground desert claims are determined by the nature of the institution and need not have any independent significance. . . .

In an institutional setting, the basal reason for a desert claim is determined by the goals or purposes of the institution. Consider a championship sporting event such as the World Series in baseball. The basal reason—being the best team—warrants claims of desert. If it is asked *why* being the best team warrants a desert claim, it is necessary to look to the institution's goals or purposes. In this case, the relevant goal or purpose is to discover and give positive recognition to the best team. Of course, the institution has other goals, such as making money and providing entertainment. However, for any social institution in which desert claims can be made, there is a goal or set of goals that are essential in that the institution would of necessity cease to exist if it lacked those goals.[6] A World Series could exist even if it made no money. It could not exist if it was not intended to discover the best team in U.S. professional baseball. It is these essential goals that determine basal reasons for desert claims.

Notice that it is possible for a person or group to deserve something without being *entitled* to it (and vice versa).[7] Entitlements are rights generated by the rules of the institution. They specify certain performance crite-

ria, the satisfaction of which entitles the person to claim various benefits; some of the latter are the objects of desert (e.g., victory, prizes). However, entitlement and desert may diverge. For example, in a footrace, the runner who crosses the finish line first (without violating certain side constraints) is entitled to claim victory and the prize. However, he might not have deserved victory if, say, the fastest runner unavoidably tripped. The latter deserved to win, though he is not entitled to claim victory or the prize. The reason he deserved to win is that the essential goal of the institution is to discover and give positive recognition to the fastest runner (among the competitors). The rules are designed to determine who that is in the most effective way. For footraces it is rare that the fastest runner (on that day) fails to win. The same is true of well-designed academic tests. In such tests, students who deserve A's (because they know the material best) will, for the most part, get them, and those who get A's will deserve them. . . .

Objects of Desert

The objects of desert or things deserved are also determined by the institution's essential goals, though in this case the determination is indirect instead of direct. To illustrate, consider contests. One of the things deserved in a contest is victory. Some of the entitlement rules specify conditions that must be met for someone to claim victory. These entitlement rules will be a subset of the rules which define the institution itself. Let us call them achievement rules since they specify what counts as a (positive or negative) achievement relative to the institution's essential goal. Of course, as noted above, these entitlement rules cannot guarantee that the entitled person will be the one who deserved the achievement; luck almost always can be a factor. But, and this is the crucial point, the rules are designed to bring desert and entitlement together. If the essential purpose of a contest is to determine who has the greatest skill of a certain sort, the achievement rules will be designed to find that out.

Achievement rules can be justified or criticized in relation to the institution's essential goal. If the achievement rules do not regularly bring it about that the most deserving persons are entitled to the achievement (and the consequent rewards or punishments, if any), the rules are defective. Who the most deserving persons are is determined by the basal reason, which in turn is determined by the institution's essential goal. If the rules only accidentally bring desert and entitlement together, then the institution is not what it appears to be.

Other objects of desert such as prizes and awards (or, negatively, punishments) are directly specified by another subset of the entitlement rules (e.g., the winner is entitled to a certain cash prize), which can be called 'reward rules.' The general character of the things deserved (as specified by these reward rules) is also determined by the institution's essential goals. Thus, Miss America deserves publicity and other things she would positively value (e.g., cash), since the essential purpose of the contest is to recognize, promote, and honor feminine virtues and excellences in America. A pie in the face resulting in public humiliation would be inappropriate given the essential goals of the institution. Nonessential goals and conventional elements can shape the exact nature of the (reward rules specifying the) things deserved. For example, a particular brand of goods may be awarded in exchange for promotional considerations. Nonetheless, what counts as appropriate or inappropriate will depend on what furthers the essential goal of the institution. This is why the reward rules guaranteeing publicity are appropriate whereas a rule guaranteeing a pie in the face would be inappropriate.

This suggests how reward rules can be criticized or justified, namely, by an appeal to the institution's essential goals. If part of the essential goal of the institution is to give positive recognition to a complex of characteristics, the reward rules can be criticized on the grounds that they are inappropriate for that goal. The rewards offered might be judged ugly or offensive or, what is perhaps more common, insufficiently attractive to motivate the best potential participants to participate in the institution (or, on the other side, to deter the most likely participants, as in the case of the law); the reward rules, like the achievement rules, can be justified (criticized) in terms of what promotes (impedes) the institution's essential goal. . . .

. . . Both achievement and reward rules can be criticized (or justified) on grounds of proportionality. If an institution fails to take this into account in its achievement and reward rules, then participants in the institution will not be getting their deserts. This proportionality principle, as it might be called, is a consequence of the root idea of desert, namely, that there should be a "fit" between the basal reason and the things deserved. The nature and degree of that "fit" is determined by the institution's essential goal. For example, if the essential purpose of the institution of academic testing is to reflect accurately (within limits) students' knowledge of certain material and mastery of certain skills, something like a standard A through F grading scale is appropriate (or more appropriate), whereas a pass/fail system is inappropriate (or less

appropriate). On the other hand, professional licensing or certification exams are often graded on a pass/fail basis, since the essential purpose of such tests is to certify a minimum level of competence. The object of desert is this certification, so the "fit" between the basal reason and the object of desert is not a matter of more or less. More fine-grained distinctions about competencies based on such tests are probably neither feasible nor necessary. . . .

A more fundamental objection to this general account of institutional desert surfaces when one considers institutions which are, by their very nature, morally objectionable. For example, if a criminal society sets up a competition of some sort to recognize and honor criminal skills, there could be desert claims made within this institutional context. What possible moral significance could such claims have? Perhaps the institutional desert claims of the sort identified in this essay are not moral in character.

The objection proceeds too quickly; from the fact that someone deserves something, it does not follow that, all things considered, he ought to get it. As I suggested at the beginning of this essay, desert claims are best thought of as having prima facie significance. An analogy with promise keeping is illuminating: from the fact that A promises B to do *x*, one cannot conclude that A ought to do *x*. It is, however, one reason in favor of A's doing *x*, though that reason may be overridden by other moral considerations. Similarly, desert claims within evil institutions do, on the interpretation offered here, have some moral significance, but such claims are easily trumped by a consideration of the wickedness of the institution in question. The institution of the Mafia comes to mind in this connection. Our sentiments are decidedly mixed when we consider the assertion that a lieutenant who double-crossed the godfather got what he deserved.

These concerns point to the larger question of how social institutions themselves are to be morally justified. Obviously, an adequate answer to this question cannot be given here. Nonetheless, institutional desert claims retain significance, however the larger question is to be answered. Their significance is best appreciated from the point of view of the reformer as opposed to that of the revolutionary. If entitlements significantly and systematically diverge from deserts (the latter, as I have shown, can be identified independently of the entitlement rules), that fact can serve as grounds for criticizing and urging reform of the entitlement rules (though these need not be the only morally relevant grounds for criticizing the entitlement rules). For example, if, as I shall argue, entrepreneurs generally deserve their profits in a market system, entitlement rules (i.e., laws) that impose confiscatory taxes on these profits violate the deserts of successful entrepreneurs; this is one reason why such taxes should not be imposed, even if this is not decisive or the only morally relevant consideration. On the other hand, the revolutionary wants to destroy existing institutions and replace them by different ones, perhaps because he believes that existing institutions do not adequately meet their essential goals. Both he and his supporters—as well as his critics—bear a heavy burden of proof; they must provide an account of how social institutions themselves are to be justified. By contrast, institutional desert claims are not justified at this fundamental level. Consequently, in the next section I shall make no attempt to justify "the market" as such. However, as I shall suggest at the end of this essay, this omission is not as serious as it might first appear.

III

It is now possible to consider the question of whether or not entrepreneurs deserve their profits in a market system. It is important to distinguish this question from a similar one about entitlements. Entitlements in the marketplace are determined by legal rules. The extent to which entrepreneurs are entitled to profits in a given market system can be discovered by reading the relevant part of the legal code. The question at issue here concerns desert. Furthermore, it is entrepreneurial profit that is at stake, not interest or rate of return on investment to capitalists qua capitalists.[8] Terms like 'capitalist' and 'entrepreneur' are functional, and it often happens that the two functions are exercised by one and the same individual. In this essay my concern is with the pure profits generated in the process of change in the structure of production. In what follows I should like to examine two attempts to justify the claim that, in general, entrepreneurs deserve their profits.

Profits as a Reward for Bearing Uncertainty

Although entrepreneurs need not be capitalists, they usually are. The entrepreneurial function consists in organizing (or reorganizing) productive resources. Typically, the entrepreneur will have to put some of his own assets (not to mention his reputation) on the line. Because a market system is in a constant state of flux, it is rare that anyone can genuinely know that a new or expanded venture will result in a better allocation of resources. The pervasive uncertainty of profit opportunities was thought by some earlier apologists for capitalism (e.g., J. B. Clark) to serve as a basal reason for a desert claim by entrepreneurs. That is, entrepreneurs deserve their profits as a reward for bearing uncertainty.

The main problem with this account of why entrepreneurs deserve their profits concerns what I have called the "proportionality principle." The basal reason—bearing uncertainty—is a magnitude, as is the thing deserved—profits. However, the proportionality principle will not in general hold. It might be thought that the more uncertain the investment, the larger will be the profits, if the venture pays off. Sometimes this is true, but there is no reason to think it will hold in general. The size of the profits that can be won depends ultimately on the existing malallocation of resources. If the entrepreneur is especially alert or if he uniquely possesses certain information, the uncertainty he faces might be small relative to his profits. Contrariwise, a small profit might be earned on a big gamble. If entrepreneurs in general deserve their profits, it is not because profits are a reward for bearing uncertainty.

Profits as a Reward for Entrepreneurial Creativity

A more promising approach suggests itself if we recall that the basal reason for a desert claim is determined by the essential purpose of the institution in question. The institution is the market in exchangeable goods and services. What is its essential purpose? . . .

To pin down the essential goal or purpose of a market system, consider what a market system *is.*[9] A market system is a production-distribution system which allocates, via voluntary exchange, (rights over) scarce goods and resources. The social point (essential goal) of this allocational system is to meet the wants and needs of the consumers that can be satisfied by scarce and exchangeable goods and services. This is true even if this allocation is not optimal and even if not all exchangeable goods and services are (or should be) allocated by market mechanisms.

To see what might count as a basal reason for a desert claim for entrepreneurs, consider what entrepreneurs actually do in a market system. Primarily, entrepreneurs are those who control productive resources (natural resources, labor, and capital). They decide which configurations of productive resources will exist and which will not. This entails making decisions about what to produce, how much to produce, what price to charge, and so on—or to set the broad parameters within which these decisions are to be made and to hire people to work out the details. (Deciding whom to hire is often the most critical task an entrepreneur executes.) Entrepreneurship is most visible in the waves of "creative destruction" described so eloquently by Schumpeter,[10] which are generated by, among other things, dramatic changes in tastes, discovery of new resources, and perhaps most importantly, advances in technology. Such developments create significant profit opportunities which entrepreneurs seek to exploit. However, in an enormously complex market economy, there will be many profit opportunities (some large, but many small) which can be exploited by those alert to inefficiencies in existing ways of doing business. This suggests that the basal reason for a desert claim on behalf of entrepreneurs is their alertness to an inoptimal allocation of resources. Entrepreneurial alertness uncovers malallocations of resources. But why do they deserve the profits they uncover rather than, say, a pat on the back and a letter of commendation?

The appropriateness or "fittingness" of (a rule) allowing entrepreneurs to keep the profits they have uncovered consists in the fact that this rule brings control over productive resources together with personal responsibility for results. This rule best promotes the essential goal of the market for three reasons:

> i) If an entrepreneur (a controller of productive forces) cannot keep the profits he discovers, the cost (i.e., his cost) of forgoing innovation and reallocating resources goes down dramatically. Conversely, if he is allowed to keep the profits, the cost of not correcting a perceived malallocation of resources can be quite high. (The cost of something is the value of the most favorable forgone opportunity, but it is the forgone opportunity for the person doing the choosing, i.e., those in control.)
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> ii) Another consequence of allowing entrepreneurs to keep the profits is that it tends to give (proportionate) control over productive resources to those who have demonstrated a capacity to use such resources wisely (i.e., to meet effectively the wants and needs of the consumers). The successful entrepreneur retains control over the productive resources under his command and usually reinvests some of his profits in an attempt to capture more profits. It might be objected that it is rare for an entrepreneur to have more than one or perhaps a couple of good ideas in the course of his career. However, this objection is based on a misconception about who the entrepreneurs are. Not all—or even most—entrepreneurs are inventors with a little marketing skill. In a capitalist economy, they are the independent businessmen, the promoters, the managers of large corporations with significant stock holdings, the arbitrage experts in the stock market, the instigators of hostile takeovers, and so on—and to a lesser extent, anyone who owns any stock in a firm; in short, entrepreneurs are the ones who decide where and how capital should be invested. They shape the structure of production in virtue of their control over productive resources, and their ideas are continually tested in the market.
>
> iii) Finally, the winning of big profits by some serves as an effective signal to competitors to follow suit by making

appropriate changes—or suffer the consequences. In a market economy there is a tendency for all (pure) profits to be competed away as factor prices are bid up and product prices are driven down; except for monopoly profits, all profits are ephemeral. However, if entrepreneurs were not allowed to keep their profits, it is not at all clear that those in control would rearrange the structure of production in such a way that these profits—and the malallocation of resources they represent—would disappear.

Notice that this account of the entrepreneur's deserts satisfies the proportionality principle. The bigger an entrepreneur's profits, the more serious had been the malallocation of resources. Finally, it is worth pointing out that this justification of the reward rule about entrepreneurial profit is consequentialist but not (or not necessarily) utilitarian. The essential purpose of the market is to meet people's wants and needs for scarce and exchangeable goods and services; promoting this goal may or may not maximize utility. However, observing this rule would, for the most part, give entrepreneurs their just deserts. . . .

Thus far the profits that have been discussed are the positive ones; the other side of the coin is equally important. This account of the deserts of entrepreneurs can also be applied to entrepreneurial losses (negative profits). If an entrepreneur acts on a false belief that resources could be better allocated in a certain way, he will suffer losses. In general, this is as it should be since, in retrospect, it is clear that he has squandered social wealth and impeded the essential purpose of the market system. In addition, allowing entrepreneurs to suffer their losses satisfies the proportionality principle—if the losses are big, the entrepreneur has seriously misallocated resources. Finally there are two further socially useful consequences of allowing entrepreneurs to suffer their losses—it tends to remove control over resources from those who use them unwisely, and it serves as a warning to others to avoid similar mistakes.

To sum up, the crucial point is that bringing control of productive resources together with personal responsibility for results best serves the essential function of the market. For entrepreneurs are the ones in control, the ones most directly responsible for shaping the structure of production. Rewarding them with profits and punishing them with losses (for their entrepreneurial alertness or thickheadedness as the case may be) is the most appropriate way for the market to bestow praise and blame. Attenuating the link between control and responsibility, either by confiscating (wholly or in part) the profits of successful entrepreneurs or by, for example, taxing citizens to cover entrepreneurial losses, impedes the market's essential function. . . .

IV

This completes my defense of the claim that entrepreneurs, by and large, deserve the profits they uncover. (I say, 'by and large' since no system can guarantee that desert and entitlement will always correspond.) One surprising consequence of this analysis is that capital gains taxes are, prima facie, immoral. However, there seems to be something suspiciously conservative about this account of who deserves profits. Those who deserve profits are those in control of the forces of production, the entrepreneurs. But what justifies their being in control in the first place? After all, not all of the assets entrepreneurs use to capture profits are themselves deserved profits that have been previously won. If possession of these assets is not deserved, then, so the objection runs, perhaps any profits that are won are not deserved. Indeed, if entrepreneurial alertness (itself an asset) is a natural talent, it too seems to be undeserved. In short, the undeserved nature of the asset base calls into question the entrepreneur's claims of desert.

The problem with this objection is that it rests on the principle that the assets used to capture objects of desert must themselves be deserved. However, this principle seems false.[11] Natural athletic talent is not deserved, and yet it is a major asset used to win things deserved. The only relevant constraint on assets is that the user be entitled to use the assets. A boy who has an engineer build his soap box racer does not deserve to win the Soap Box Derby because the rules of the institution require that the boy not get that kind of help. The analysis of institutional desert defended in this essay shows that the justification of desert claims need not be so "deep." Provided that the entrepreneur is entitled to use his assets, the mere fact that he does not deserve those assets cannot be used to subvert a desert claim.

Although these considerations show that one kind of attack on the rewards (and penalties) of entrepreneurs is misguided, they do not really show that entrepreneurs should be entitled to the assets they use to capture profits. In short, what justifies the entitlement rules themselves? To a certain extent, this question lies beyond the scope of this essay; some of the entitlement rules define the institution, so to justify these rules is to justify the institution itself. This sort of question needs to be taken up at a deeper level of analysis than can be provided here. However, this account of who deserves profits in a market system does permit the following relevant observations: (*a*) As noted in Section II, considerations of desert are relevant to the justification or criticism of at

least some of the entitlement rules, especially the achievement and reward rules. Since (as I have argued) deserts can be identified independently of entitlements, some of the entitlement rules can be justified or criticized on grounds of desert. (*b*) In a related vein, it should not be assumed that existing market systems perfectly apportion the objects of desert to those who deserve them, even aside from the usual vagaries due to luck. A case could be made for the claim that sometimes nonentrepreneurs deserve some profits. A worker who makes a suggestion which allows a firm to produce more efficiently, thereby allowing it to capture for a time some (pure) profits, would deserve some of those profits. In a capitalist system, such a worker sometimes gets some of these profits in the form of a bonus, but sometimes he does not, in which case he is not getting his deserts. However, he may not deserve all the profits his suggestion generates. Those in control may have exercised entrepreneurial alertness in hiring him over someone else[12] or in setting up a work environment more conducive to creative suggestions from employees. Finally, not all apparently good suggestions will produce benefits for the firm. It takes a special talent to separate the good ideas from the apparently plausible but ultimately unsuccessful ones. So, some employees are in part responsible for generating (positive) profits; their deserts are proportional. On the other hand, some employees are responsible for generating negative profits. They deserve to suffer some of the losses subsequently incurred. (*c*) Perhaps most important, the account of who deserves profits defended in this essay is completely general and is not restricted to capitalist market systems. This is significant in light of the fact that a new generation of socialist critics of capitalism believe that markets will have to be more or less widely employed if and when capitalism is abolished.[13] Under alternative institutional arrangements, however, the locus of entrepreneurship will shift. In a Yugoslav-type system, the workers in individual firms jointly exercise considerable entrepreneurship, since they decide some investment questions (or hire those who do—itself an entrepreneurial act) and receive consequent profits and losses. From the point of view of (institutional) desert, a particular market system can be justly criticized only if those who are responsible for changing the structure of production to capture profits are systematically prevented from getting those profits (or suffering the losses, as the case may be). Some market socialists have recognized the importance of tying responsibility for entrepreneurship to profit and loss. From the point of view of desert, this is appropriate.

In closing I would like to consider an objection to the general account of desert offered here and its application to market systems. Earlier I noted that desert claims could be made within the context of institutions which are, on balance, morally objectionable. Clearly such desert claims have, in the final analysis, little moral significance. Radical socialist criticisms of market systems would seem to call into question the moral significance of the claim that, in general, entrepreneurs deserve their profits.

It is true that if, morally speaking, the market system is on a par with the security organs of a secret police state, the desert claims of entrepreneurs would be of little ultimate significance. This turns out not to be a very serious problem. Though the abolition of all market relations used to be high on the socialist agenda (see Marx's *Critique of the Gotha Program*), twentieth-century experience with command economies has changed that agenda. Command economies, such as that of the Soviet Union, have structural problems that do not stem from wickedness and corruption.[14] The idea that complete central planning should entirely replace market structures is not on the agenda of socialists who think seriously about economics. The debate today, among those who deserve to be taken seriously, is not over whether or not markets should be abolished but over how extensive they should be and how they should be organized. The analysis given here provides part of an ethical perspective from which to view this debate.

ENDNOTES

1. Rawls, e.g., explicitly excludes considerations of desert from his theory. See John Rawls, *A Theory of Justice* (Cambridge, Mass.: Harvard University Press, 1971), pp. 104, 310–15.
2. For a more complete discussion of the role of the entrepreneur, see Israel Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973), chap. 2.
3. Frank Knight, *Risk, Uncertainty, and Profit* (Chicago: University of Chicago Press, 1971).
4. Kirzner, p. 85.
5. By 'institution' I mean a social activity governed by more or less explicit rules, which has, as part of its purpose, the distribution of certain benefits and/or costs. (Some of these benefits and costs will be objects of desert.) This notion is broad enough to include what social scientists call 'social practices' but not so broad to include things such as languages. The notion is a bit fuzzy but, as subsequent

examples will indicate, clear enough for the purposes at hand. Which institutions have deserts attached to them and why are questions I shall not explicitly address in this essay.

6. Talk about the essential goal of an institution obviously depends on a favored description of that institution; how one justifies one such description as favored is far from clear. For the purposes of this essay, I shall assume that the sort of distinction I am calling attention to here can be made and leave it to metaphysicians to give an adequate account of it.
7. Feinberg discusses this distinction, though it is not clear that he would agree with my account of it. See Joel Feinberg, "Justice and Personal Desert," in *Doing and Deserving* (Princeton, N.J.: Princeton University Press, 1970), pp. 55–87. See also John Kleinig, "The Concept of Desert," *American Philosophical Quarterly* 8 (1971): 71–78, p. 74.
8. I have discussed elsewhere the morality of the capitalist's (qua capitalist) return on investment. See my "Capitalists and the Ethics of Contribution," *Canadian Journal of Philosophy* 15 (1985): 89–105.
9. See n, 6 above.
10. Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper & Row 1976), pp. 81–87.
11. Robert Nozick has also argued against this principle. See his *Anarchy, State and Utopia* (New York: Basic Books, 1975), pp. 222, 223.
12. See Kirzner, chap. 2.
13. See, e.g., David Schweickart, *Capitalism or Worker Control?* (New York: Praeger Publishing Co., 1980); and Branko Horvat, *The Political Economy of Socialism* (Armonk, N.Y.: M. E. Sharpe, 1982).
14. For a good theoretical discussion of why central planning cannot replace markets without incurring gross inefficiencies, see Don Lavoie, "A Critique of the Standard Account of the Socialist Calculation Debate," *Journal of Libertarian Studies* 3 (1981): 41–87.