Compensation Ethics and Organizational Commitment

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ABSTRACT: If an employee is committed to his firm—if he is "attached" or "bound" to it—then his firm may be able to obtain a discount on his labor. This paper asks: Is it wrong for firms to do so? If we understand just or fair pay solely in terms of voluntary agreements between employers and employees, the answer seems to be 'no.' Against this, I argue that, in some cases, it is 'yes.' In particular, it is wrong for firms to try to obtain discounts on their committed employees' labor when their employees reasonably expect that they will not try to obtain them. In the process, I probe the limits of exploitation and question the relevance of contribution to fairness in compensation.

KEY WORDS: commitment, compensation, ethics, expectations, exploitation

IF AN EMPLOYEE IS COMMITTED TO HIS FIRM—if he is "attached" or "bound" to it—then his firm may be able to obtain a discount on his labor. Committed employees are willing to work for below-market wages, or for less than similarly productive non-committed employees (Pfeffer & Langton, 1993; Wasserman, 2006). Is it wrong for firms to try to obtain discounts on their committed employees' labor? If we understand just or fair pay solely in terms of voluntary agreements between employers and employees (Boatright, 2010; Machan & Chesher, 2002), the answer seems to be 'no.' But intuitively, we might think there is (Wasserman, 2006). I will argue that, in some cases, it *is* wrong for firms to try to obtain discounts on their committed employees' labor. In particular, it is wrong when employees reasonably expect that their firms will not try to obtain them. While focused on a particular case, our discussion has implications for a variety of topics within compensation ethics, including the limits of exploitation and the relevance of contribution to fairness in compensation (Moriarty, 2011). This paper does not purport to be the last word on compensation ethics and organizational commitment. Its goal, rather, is to introduce it as a subject for reflection, and to make some progress toward resolving the ethical issues to which it gives rise. Much more remains to be said.

1. ILLUSTRATION

It will be useful to have an example to focus our attention on. Suppose that Forklifts, Inc. (F) is a manufacturing firm employing 500 workers, and Ed Edwards (E) is its CEO. Suppose the market price for CEOs of firms like F who have the talent

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and experience of people like E is $500,000. E could get another job as a CEO of a firm like F for $500,000 per year. Conversely, if E left F, then F would expect to pay $500,000 to a replacement CEO as qualified as E.

But suppose that F currently pays E $400,000 per year. Not only is this less than the market rate for E's labor, it is less than F pays some of E's subordinates. (However, let us suppose that F's paying E $400,000 does not violate any moral or legal rules against discrimination based on E's membership in a protected class.) E does not volunteer to be paid a substantially below-market wage; he prefers to be paid more. And F could easily pay E the market rate of $500,000. But F cannily realizes that it does not need to. F is able to "get away" with paying E $400,000 per year because E is *committed* to F. E helped to found F, shares F's values, thinks of himself as an "F-man," and so on. For this reason, E is willing to work for F for a substantially below-market wage. But, let us suppose, E is not willing to work for F for less than $400,000. Finally, let us suppose that F did not *do* anything special to deserve E's commitment. It did not shower him with praise, develop his human capital, hire his dependents, or pay him above-market wages early in his career.[1] To bolster this assumption, let us assume that most of the rest of F's employees evince little or no commitment to F.

I will ask: is there anything wrong with how much F pays E in this case? Has F *wrongly exploited* E? Is $400,000 per year an *unfair* wage for E, given his labor's *worth*? More generally, has F *treated* E wrongly in some way in the compensation process?

I have chosen this example because there is evidence that precisely this sort of thing happens. Wasserman (2006) observes that executives of firms who are also their founders receive less pay, on average, than executives of firms who are not their founders, controlling for factors such as firm size, type, and revenues, as well as the executives' human capital characteristics (e.g., education and experience). Founder executives are sometimes paid less than their direct subordinates. Of the "290 CEOs who were founders, 77 (27 percent) were paid less than at least one of their direct subordinates, and another 69 were paid the same amount as direct subordinates" (Wasserman, 2006: 972). To explain the "founders discount," Wasserman speculates that founders "derive more nonmonetary benefits from working in [the] companies" they founded than non-founders derive from working in their companies (i.e., companies they did not found), and that "founders' strong *attachment* to the companies they start might compromise the credibility of threats to leave if their compensation demands are not met" (Wasserman, 2006: 972, emphasis added). In sum, founders "get more" in psychic benefits out of their work, but at the same time, and for the same reason, are able to "get less" in monetary compensation out of their boards, than comparably situated non-founders.[2]

The case of F and E, however, is an illustration of a general phenomenon. Many types of employees may become committed to their firms, and for many different reasons. Theorists distinguish three types or aspects of organizational commitment: affective, continuance, and normative (Mathieu & Zajac, 1990; Meyer & Allen, 1991; Meyer & Allen, 1997). Affective commitment is characterized by identification with the organization or endorsement of its values and goals; continuance

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commitment is associated with high personal costs of exit; normative commitment is characterized by feelings of moral obligation. But theorists are quick to add that these distinctions are not sharp, and that any given person's commitment to his firm—his psychological bond to it—may be a function of two or more of the above factors (Meyer & Allen, 1997; O'Reilly & Chatman, 1986). Our example features a CEO whose commitment to his firm is best described as affective. Because he helped to found the firm, he has a strong emotional attachment to it and identifies with it. But it might just as easily have featured a line worker whose commitment to his firm is continuance-based—perhaps because he has children in the local school or aging parents who live close by. So the conclusions we draw about F and E have implications for a wide range of cases.

2. THE MINIMAL VIEW OF COMPENSATION ETHICS

We need a sense of what makes a wage—any wage—just or fair. I will begin by sketching a familiar view of compensation ethics that I will call the "minimal view," and then considering what this view implies about the case of F and E.

According to the minimal view, the fair wage for a worker is *whatever* wage he and his employer agree to, provided this agreement is reached through a fair process. A fair process, in turn, is typically understood as one that is free of force and fraud (and other forms of misrepresentation) (Boatright, 2010; Machan & Chesher, 2002).

Machan and Chesher say that "a just or fair wage [is] one that each side agrees to, so long as there is no misrepresentation, fraud, or coercion" (Machan & Chesher, 2002: 89). Anyone who rejects this view, they go on, is not merely wrong but confused: "a fair wage, understood as anything other than the wage freely agreed to, is a conceptual error" (Machan and Chesher, 2002: 88). Boatright agrees that "each person has a right to whatever he or she gains by exchanging his or her property through voluntary transactions" (Boatright, 2010: 172), but he defends this view on normative rather than on conceptual grounds. He says that it is an implication of capitalism, an economic system that can be justified by "many different theories [of distributive justice]" (Boatright, 2010: 175). It is fundamental to capitalism, Boatright says, that people can exchange what they own for what others own on *any* mutually agreeable terms. A worker (1) "has a property right in his or her labor," (2) "has a right to exchange this labor for wages," and (3) thus "has a right to whatever wage an employer is willing to offer and the worker is willing to accept" (Boatright, 2010: 172). Firms too have property rights in certain resources and can exchange them for people's labor on whatever terms they wish. Provided that the exchange occurs without force or fraud, Boatright says, the resulting pay arrangement is fair.[3]

The minimal view of compensation ethics is probably *too* minimal to constitute a complete account of justice in wages. Most notably, it suggests that a wage can be just even if it discriminates against a member of a protected class.[4] A firm might separately reach voluntary agreements with a woman and a man that have the effect of paying the woman less than the man to do the same job equally well, with the same amount of merit, seniority, and production. Many would say, however, that it is wrong for a firm to do this.

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Yet the minimal view has a certain intuitive appeal, at least as a default principle. Thus we might think that, if a wage is agreed to by both parties without force or fraud, then it should be presumed to be just, unless good reasons can be given for thinking that it is unjust. In the above case, the reason is a right not to be discriminated against on the basis of sex.

What does the minimal view say about the case of F and E? So far this case is insufficiently described to permit evaluation by this view. But let us add that neither F nor E lie to or otherwise deceive each other about any fact relevant to their potential work arrangement. Suppose further that neither party threatens or otherwise coerces the other into agreeing, or not agreeing, to any term of the resulting labor contract. Given these assumptions, the minimal view seems to say that there is nothing wrong with F's paying E $400,000 per year—or at least that this amount of pay is justified unless good reasons can be given to the contrary. Can they? Below I consider several attempts to show that this result is morally problematic.

3. QUESTIONABLE VOLUNTARINESS

Wasserman (2006) thinks that, at least in some cases, the founder's discount *is* a sign of an underlying moral problem. In some cases, Wasserman says, founders "voluntarily accept less cash compensation, especially when doing so can help their ventures during their 'cash poor' early stages of growth" (Wasserman, 2006: 963). But in others, their acceptance of lower compensation may be "involuntary" (Wasserman, 2006: 963). Their "strong feelings of stewardship" leave them "vulnerable to boards' *imposition* of lower compensation" (Wasserman, 2006: 971–72, emphasis in original). Wasserman identifies as a worthy subject of research a study of "the extent to which lower founder compensation is voluntarily accepted or is imposed on founders by boards" (Wasserman, 2006: 972).

Wasserman may be seen as offering a way to challenge the fairness of E's compensation from within the minimal view of compensation ethics. We stipulated that F does not deceive, threaten, or otherwise coerce E into accepting a below-market offer. But, following Wasserman, one might claim that this does not guarantee that E's consent to F's offer is voluntary. Instead, F might have used E's commitment to *impose* a certain pay package on E *against his will*. If this is an accurate description of our case, then even on the minimal view, it is unfair.

But this is not an accurate description of our case. Indeed, it would be extraordinary if *any* of the founder-executives in Wasserman's study accepted their compensation packages involuntarily, or had them imposed on them by their boards.

Wasserman seems to mistake *unhappy* or *grudging* acceptance of a wage with *involuntary* acceptance of it. Executives who accept below-market compensation to "help their ventures during their 'cash poor' early stages of growth" may be happy to do so (Wasserman, 2006: 963). Executives who accept below-market compensation because they cannot get their firms to make them higher offers, even though their firms could afford to make them, may be unhappy about doing so. But in both cases, executives' acceptance of their wages is likely to be voluntary.

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In general, the voluntariness of an employee's consent to the terms of his labor contract is undermined by his lack of mental competence or (a reasonable belief that he lacks) decent options (Nelson, Beauchamp, Miller, Reynolds, Ittenbach, & Luce, 2011; Olsaretti, 2004). The former might the case if the employee has a mental disability or if the contract's terms are unusually obscure and complex. The latter might be the case if the employee would face unacceptable outcomes if he did not accept them, e.g., if he or his dependents would face severe economic hardship.

Neither appears to be true of Wasserman's founders, whose average salary, including the discount, is $177,300 (Wasserman, 2006: 968). The fact that they can command pay this high for their labor suggests they have comparatively rare and valuable skills, not that they are mentally challenged or desperate. So Wasserman is wrong to suppose that there is even a question about "the extent to which lower founder compensation is voluntarily accepted or is imposed on founders by boards" (Wasserman, 2006: 972). His founders, if they accept their compensation packages, *clearly* do so voluntarily. The only question is whether they do so happily or grudgingly. The same goes for F and E in our example. We have no reason to suppose that E is incapable of understanding the terms of F's offer. And we stipulated that E is capable of finding employment with another firm as its CEO for $500,000 per year. So while E may be *unhappy* about that offer, or accept it *grudgingly*, if he accepts it, he does so voluntarily, on any plausible definition of 'voluntary.'

4. EXPLOITATION

Even if E does not agree to F's wage offer involuntarily, still, one might think, there is something defective about the nature of E's agreement to it. Remember that E does not *volunteer* to be paid less for the good of the firm; he prefers to be paid more. This thought might be captured in the suggestion that F *exploits* E. In particular, it might be said, F exploits E's commitment to the firm by paying him a significantly discounted wage. Is this right?

It is true that F exploits E in the sense that F makes use of E to acquire a benefit for itself (Valdman, 2009). F uses E's labor to help manage the firm. But this type exploitation is both familiar and unproblematic. A chess player may exploit her facility with the Steinitz Defense to counter her opponent's use of the Ruy Lopez Opening. A golfer may exploit the direction and speed of the wind to go for the green in two. In this sense, we might equally say that E exploits F, since he uses employment at F to acquire a benefit for himself.

We are interested in whether F's exploitation of E is *wrongful*. This matter does not admit of a simple answer. This is because there are many theories of wrongful exploitation. It would be impossible to consider every such theory here. So we cannot establish conclusively that F does not exploit E. Below I consider some of the most widely discussed theories of wrongful exploitation. As I will show, on many of them, F does *not* wrongfully exploit E. On at least one of them, however, F *might* wrongfully exploit E. (Hereafter, I will drop the qualifier 'wrongful'; by 'exploitation' I will mean *wrongful exploitation*). Below I review the theories according to which F does not exploit E and the theory according to which F might exploit E. If

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the former are correct, I will argue, then exploitation is not an issue. If the latter is correct, I will then show, exploitation is not the real issue.[5]

Harm

According to some theorists, harm is a necessary condition of exploitation. Thus Munzer says that persons "are exploited if (1) others secure a benefit by (2) using them as a tool or resource so as (3) to cause them serious harm" (Munzer, 1990: 171). According to Buchanan, exploitation is commonly understood as "the *harmful, merely instrumental utilization* of [another person] or his capacities, for one's own advantage or for the sake of one's own ends" (Buchanan, 1985: 87, emphasis in original).[6] Importantly, on these accounts, harm is understood relative to a no-transaction baseline. E is exploited by F only if his transaction with F leaves him worse off than if he did not transact with F. On these accounts, E is not exploited by F. For while F uses E's labor for its benefit, F does not, in doing so, harm E relative to a no-transaction baseline. F benefits E by paying him $400,000 for a year's labor, far more than most people earn in many years.[7]

Vulnerability

Other accounts of exploitation emphasize the *vulnerability* of the exploitee. Sample says that "vulnerability is typically . . . at the root of exploitation" (Sample, 2003: 75), and Goodin says that exploitation "consists in . . . wrongful behavior [that violates] the moral norm of protecting the vulnerable" (Goodin, 1988: 147). Wood says that we exploit people when "we treat their vulnerabilities as opportunities to advance our own interests" (Wood, 1995: 150–51). We might be tempted to say that F exploits E on these accounts of exploitation. E's commitment to F makes him eager to work for F, so much so that he is willing to give F a deep discount on his labor. F evinces no such commitment to E, and helps itself to the full value of the discount (as opposed to, say, meeting E halfway). But we should resist the temptation to say that F exploits E on these accounts. It is one thing to be *committed* to an organization or person and another to be *vulnerable* to it or him. A starving person is vulnerable to a person with an ample supply of food; a drug addict on the verge of withdrawal is vulnerable to a drug dealer (Wood, 1995); a friendless child is vulnerable to the harsh words of bullies. Vulnerability—at least in the sense required for exploitation—is a function of physical or psychological *need*, not preference. Sample is clear about this. "When we exploit others," she says, "we make use of their *genuine need* for the sake of advantage in ways that fail to respect them" (Sample, 2003: 75, emphasis added). If a worker were pathologically committed to his firm, such that he would work for it for little or no money, at a substantial cost to his well-being, then we might say that he is vulnerable to it. But E is not like this. Nor is E like the starving person, drug addict, or friendless child. He has no need, pathological or otherwise, to work for F. E is not at F's mercy. After all, E will refuse to work for F if he is paid less than $400,000 per year. It follows that E is not vulnerable to F.[8]

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Vulnerability + Unfairness

Still other accounts of exploitation pair an emphasis on vulnerability with a consideration of the terms of the agreement between the parties. Benn says that "exploitation demands [two] conditions: that there is no reasonably eligible alternative [for the exploitee] and that the consideration or advantage received [by the exploiter] is incommensurate with the price paid" (Benn, 1988: 138). Valdman says that exploitation is when "one extracts excessive benefits from someone who cannot, or cannot reasonably, refuse one's offer" (Valdman, 2009: 9). On these accounts, one person does not exploit another merely because he uses the other's vulnerability to advance his own interests. He must also, in doing so, extract an excessive or incommensurate amount of benefits from the other. To decide whether F extracts excessive or incommensurate value from E, we would need precise definitions of *excessive* and *incommensurate*. But whatever these definitions are, F does not exploit E on these accounts of exploitation, and for the same reason that F does not exploit E on the "pure vulnerability" accounts, viz., E is not vulnerable to F.

We have considered three types of accounts of exploitation on which F does not exploit E. If they are correct, then the problem with E's pay, if there is one, is not a problem of exploitation. There is one type of account, however, on which F *might* be said to exploit E.

Unfairness

In a well-known discussion, Wertheimer says that "A engages in mutually advantageous exploitation [of B] when A gains unfairly or excessively by an action or transaction that is beneficial to B" (Wertheimer, 1996: 207). Similarly, Mayer says that exploiters "do harm to their victims, even when their interactions are mutually advantageous, by failing to benefit [them] as fairness requires" (Mayer, 2007: 138). It might be thought that Mayer's account is more similar to the harm-based accounts considered above than to Wertheimer's. This is not so. The reason is that Mayer understands harm relative to a fairness baseline as opposed to a no-transaction baseline. Both he and Wertheimer would describe a transaction that is beneficial to both parties relative to a no-transaction baseline as exploitative just in case one party does not receive a fair benefit from the transaction. The difference is that Mayer classifies a person's "benefiting, but not fairly benefiting" as a kind of harm, while Wertheimer does not. It is *possible* that F exploits E on these accounts of exploitation. Whether F does depends on whether E's pay is unfair.

Mayer does not go on to offer a theory of fairness in transactions, but Wertheimer does. I consider it in the following section. But I do not do so in the context of a discussion of exploitation. We can now see that, on the one type of account of exploitation according to which F might be said to exploit E, the primary or fundamental question is about fairness. In particular, it is about whether the amount of pay that F gives to E is fair. That is where we must focus our inquiry. There is a further debate to be had about whether unfair treatment of this sort is a kind of exploitation, as Mayer and Wertheimer believe, but we cannot resolve it here.

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5. WERTHEIMER ON FAIRNESS

According to Wertheimer, "the notion of a hypothetical market price—the price that would be generated by a competitive market— . . . provide[s] a plausible conception of a fair transaction at least for a certain range of cases" (Wertheimer, 1996: 231).[9] This is the price that an "informed and unpressured seller would receive from an informed and unpressured buyer" (Wertheimer, 1996: 230). To illustrate, Wertheimer gives a case involving a person selling his house to a friend. Due to their friendship, they want the sale to occur at a fair price. So they ask an independent expert to give them "an estimate of the 'fair market value' for the house" (Wertheimer, 1996: 230), and then complete the sale at that price. The price the expert arrives at is the hypothetical market price, i.e., the fair price. According to Wertheimer, this price does not correspond "to any deep principle of desert or value" (Wertheimer, 1996: 231). Rather, its moral attractiveness consists in the fact that it is the price at which "neither party takes *special* unfair advantage of particular defects in the other party's decision-making capacity or special vulnerabilities in the other party's situation" (Wertheimer, 1996: 232, emphasis in original).

Is the transaction between F and E fair, on Wertheimer's account? Some of Wertheimer's claims can be used to support the view that E's pay is *unfair*. Consider again his claim that the fair price is the "price that would be generated by a competitive market" (Wertheimer, 1996: 231). Arguably, E does not receive fair market value for his labor. The market rate for a CEO as talented and experienced as E is $500,000. If E's pay were to be set by an independent expert—as the price of the house is in Wertheimer's example—then it would be $500,000, not the $400,000 E receives.

But other claims—and arguably more claims—can be used to support the view that E's pay is *fair* on Wertheimer's account. Consider again his claim that the fair price is the price that would be generated by a competitive market. Our example does not deny that there is a competitive market for E's labor. Indeed, it assumes that there is one, since E can sell his labor to other firms. This suggests that E's pay is fair, since it *is* generated in a competitive market.

Perhaps most importantly, Wertheimer's *argument* for why the competitive market price is fair supports the conclusion that E's pay is fair. He says that the competitive market price is fair because, at that price, "neither party takes *special* unfair advantage of particular defects in the other party's decision-making capacity or special vulnerabilities in the other party's situation" (Wertheimer, 1996: 232, emphasis in original). This suggests the following conditional. *If* "neither party takes *special* unfair advantage of particular defects in the other party's decision-making capacity or special vulnerabilities in the other party's situation," *then* the price they reach is fair (hence not unfair). It does not seem that F takes special advantage of defects in E's capacity or situation. For there seem to *be* no such defects. First, there is no reason to suspect that E is a poor decision-maker. He is a highly capable executive. Second, as seen, however much E is committed to F, E is not vulnerable to F. If so, then there is nothing unfair about E's pay on Wertheimer's account.

Overall, it seems likely that Wertheimer would say that E's pay is fair. More importantly for our purposes, Wertheimer offers us nothing in the way of a defensible

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theory of fairness in wages that could be used to criticize E's pay. I consider one such theory next.

6. FAIRNESS AND CONTRIBUTION

Some writers believe that a worker's compensation should equal his contribution. Thus Boatright says that "a worker's just share of the . . . revenues [generated by the firm] is the amount that he or she contributes to production" (Boatright, 2010: 172; see also Miller, 1999).[10] Friedman says that "[t]he ethical principle that would directly justify the distribution of income in a free market society is, 'To each according to what he and the instruments he owns produces'" (Friedman, 2002/1962: 161–62). This "contribution view" might be used to argue that E's pay is unfair. In particular, it might be argued that E's pay is unfair because it is less than the value of his contribution.

To establish this conclusion, we need, first, an argument for why workers should be paid according to their contributions. Proponents of the contribution view appear to believe that its attractiveness lies close to the surface. In this spirit, Friedman says that "[s]ome key institutions must be accepted as 'absolutes,' not simply as instrumental. I believe that payment in accordance with product . . . is one of these" (Friedman, 2002/1962: 167). Boatright says simply that "each person has a right to the full value of whatever he or she produces" (Boatright, 2010: 173). Gauthier locates moral force of paying workers according to their contributions a short step away. He understands the contribution a person makes to a productive enterprise as a cost, and the compensation he receives from it as a benefit, and says that "the equation of income with marginal contribution ensures . . . [an] impartiality [between cost and benefit]" (Gauthier, 1986: 97).

Second, we need a way of measuring workers' contributions, such that E's contribution is greater than his actual pay. The common economic understanding of contribution in terms of marginal product appears to provide a way. To this end, Boatright says that "in a market in equilibrium, each input should receive its marginal product," and that "the amount that [a person] contributes to production" can be understood, "in economic terms," as his "marginal product" (Boatright, 2010: 172–73; see also Nozick, 1974). Similarly, Gauthier says that "[i]n the free exchange of the market each may expect a return equal in value to her contribution . . . or the marginal difference she adds to the value of the total product" (Gauthier, 1986: 92–93).

Putting the first and second ideas together, if E's pay should equal his contribution, then he should receive the market value of his labor, viz., $500,000. Because E gets paid $400,000, he gets paid less than he contributes, which is unfair.

This argument fails. The argument's second part—purporting to establish a link between market wages and contribution—faces familiar difficulties. First, it does not follow from the fact that workers receive their marginal products in perfectly competitive markets at equilibrium that they receive them in actual markets (Lipsey & Chrystal, 2007). No existing market is a perfectly competitive market at equilibrium. So we cannot "read off" people's marginal products from their actual pay—or

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more precisely, from the "going rate" for the type of work they do. Indeed, it may be difficult or impossible to determine what any given worker's marginal product is, especially if he works in a team (Alchian & Demsetz, 1972; Rose, 2002). Second, the equation of contribution with marginal product is problematic (Freeman, 2011; Wertheimer, 1996). The marginal product of labor is the revenue generated by the last unit of labor the firm hires. This is not the same as the amount of value that any given worker adds to total firm value. Suppose, for example, that two laborers A and B together produce 60 widgets per day. Now suppose that, when C joins them, they produce 100 widgets per day. Perhaps dividing the labor process into three rather than two segments increases its output significantly. The marginal product of labor in this case—the additional contribution C makes—is 40 widgets. But this does not reveal that A, B, and C each contribute 40 widgets to the total production. After all, together they produce only 100 widgets per day. "The concept of a marginal product," Wertheimer explains, "is meant to guide the allocation of marginal resources, not to measure the relative contribution of factors of production" (Wertheimer, 1996: 229). It tells firms whether to spend extra resources to hire more labor or buy more capital, not how productive their existing labor or capital is (Sen, 1992). Even if workers' pay did equal their marginal products, then, it might not equal their contributions. The implication for our case is that the conclusion that, because E gets paid $400,000 instead of the market rate of $500,000, he gets paid less than he contributes to F, is unjustified.

A defender of the above argument might respond by searching for another way to measure workers' contributions (Sternberg, 2000). Nothing I have said rules out the possibility that, by some other measure, E gets paid less than he contributes. But now I want to suggest that, even if we could measure workers' contributions, fairness does not require paying workers according to them. So the argument's first part should also be rejected.

For various reasons, a firm might choose to implement a compensation scheme that is unusually "flat," i.e., one that rewards those who contribute much to the firm (e.g., its executives) less than the value of their contributions, and rewards those who contribute little to the firm (e.g., its entry-level workers) more than the value of their contributions. It might do so because it satisfies the egalitarian instincts of the firm's founders, because it fits with the firm's culture, or because it is efficient. As an example of the last reason, a firm's production processes might require its employees to work together harmoniously in teams, and a more egalitarian compensation structure might promote this end (Bloom, 1999; Cowherd & Levine, 1992).[11]

Now consider a modified version of the example with which we began. Suppose that F is an egalitarian firm with an unusually flat compensation structure. Suppose that this structure is deeply entrenched in F's culture: it is known to all current employees and made known to all prospective employees. Suppose now that F is recruiting E from outside of the firm to become its next CEO. Because of the compensation structure it has adopted, F offers E a compensation package worth $400,000. In doing so, F tells E: "We know that, if you take this job, you will make a contribution to the firm worth $500,000. We also know that, because of this fact, you could command $500,000 in the market. But we will not offer you that much

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for working here. We have chosen an egalitarian compensation structure in our firm. That is what works for us. We would like you to become our CEO, but those are our terms." As before, E is not eager to be paid a below-market wage. But overall, F's offer is more appealing to E than any other option he has, so he accepts it.

Is there anything wrong with how much F pays E in this case? According to the contribution view, there is. E gets paid less than he contributes. But intuitively, I suggest, there is *nothing* wrong with this. F voluntarily makes a certain offer to E, which E voluntarily accepts. We reach the same conclusion in an analogous case in which F offers E *more* than he is worth, e.g., $600,000. F might do this because it has adopted an unusually "steep" or "tournament" compensation structure, i.e., one that pays its top employees more than the value of their contributions and its bottom employees less than the value of their contributions (Anabtawi, 2005; Lazear & Rosen, 1981). We even reach this conclusion, I suggest, if we imagine F's wage offer to E to be *wholly unrelated* to the worth of E's work. This might be the case if F has adopted a Marxian compensation structure, i.e., one that pays each employee according to his needs while requiring a contribution from each according to his ability (Marx, 1986). In this case E may be paid less than someone who contributes less to the firm, if E has fewer needs. Writers who support the contribution view, such as Boatright (2010) and Friedman (2002/1962), claim that it is intuitively plausible. I do not deny that it has *some* intuitive plausibility. But the intuitions that support it are overpowered, I suggest, by the intuitions generated by the above cases. The contribution view prescribes a one-size-fits-all approach to compensation. Against this, firms seem to have wide, though perhaps not unlimited, moral flexibility in designing their compensation systems. Since the contribution denies this, it should be rejected (Moriarty, 2011).

It should be observed that the above argument, if successful, tells against both "absolute" and "comparative" versions of the contribution view. The version described above is absolute. According to it, workers should be paid an amount of money that is exactly equal to the value of their contributions. On a "comparative" version of the contribution view, employees should be paid an amount of money that corresponds to their contribution, *compared to what other employees contribute and are paid* (Sternberg, 2000). On the comparative view, assuming that E's contribution is worth $500,000, it would be permissible for F to pay him $400,000 just in case F also underpays its other employees a proportional amount (e.g., workers who contribute $100,000 are paid $80,000). There is a problem only if F pays its other employees more, given their contributions. But this is precisely what the egalitarian (or inegalitarian or Marxian) firm in the above example does. All of these compensation structures fail to compensate employees in proportion to their contributions, and hence are condemned by the comparative version of the contribution view.

My criticism of the contribution-based critique of E's pay is different than my criticism of the voluntariness-based and exploitation-based critiques of it. E's pay would be problematic if he accepted it involuntarily or if he were exploited. But it is implausible to say that this happens. In contrast, it is possible that (though difficult to determine whether) E gets paid more or less than he contributes to F. But there is nothing wrong with this outcome per se.

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7. THE MORAL RELEVANCE OF EXPECTATIONS

We seem to have argued our way in a circle. Understood as a default principle, the minimal view of compensation ethics says that, if a wage is agreed to by both parties without force or fraud, then it should be presumed to be just, unless good reasons can be given for thinking that it is unjust. The compensation agreement between F and E in our example was made without force or fraud. I have now considered a variety of reasons for thinking that it is unjust, and found them to be problematic. Moreover, my argument against the contribution view relied on intuitions about the moral significance of voluntary exchange. Should we conclude that, ultimately, E's pay in our original example is fair? Not yet. In the modified but not the original example, it was made clear that E did not *expect* to be paid—or, more precisely, to be offered—a certain wage. Building on this idea, in this section I identify an expectation-related moral principle, and use it to show when it is wrong to pay committed workers below-market wages and when it is not.

Other things equal, it is bad when people's expectations are disappointed. The experience of having one's expectations disappointed can be painful in itself (Narveson, 1971), but it may also have further bad effects on one's well-being. Moreover, since expectations are important to planning, it may compromise one's autonomy by making it more difficult to shape one's life as one wills. Suppose that Q expects P to give him a ride to work on a certain morning. But suppose that P does not give Q a ride. The moment Q realizes that P is not in fact coming to get him may be psychologically painful. Q may feel abandoned or exposed. But Q's failure to get a ride to work from P may have further bad effects on Q's life. He may have to scramble to find another mode of transportation to work; he may be late; he may earn the ire of his supervisor; and so on. In general, Q may find it more difficult to achieve his goals, or to live his life according to his plans.

According to some writers, the badness of having one's expectations disappointed helps to explain the wrongness of deception and promise-breaking (Mason, 2005; Scanlon, 1998; Sidgwick, 1981/1907).[12] The deceiver and promise-breaker cause a person to expect one thing—e.g., that one will be given a ride to work—but bring about another thing, causing that person to suffer a loss. But the badness of this state of affairs should make us sensitive to other ways that it can obtain that do not involve deception or promise-breaking. In general, we should try to avoid bringing about bad states of affairs. So we should try to avoid bringing about this one.

In promise-breaking and deception, one person intentionally causes another to have a certain expectation. But it is also possible to cause others to have certain expectations *without intending* that they should have them. Suppose that P has given Q a ride to work every day for many months. While P never told or promised Q that he would always give him a ride to work, P also never indicated to Q that he might stop giving him a ride to work at any moment. P offered to give Q a ride one day, Q accepted, and that is how it has been ever since. In these circumstances, I suggest, it is reasonable for Q to expect P to give him a ride to work. Assuming that it would be bad, for the kinds of reasons given above, for Q's expectation to be disappointed, P should avoid disappointing it. This suggests that people should

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avoid disappointing the reasonable expectations that they cause others to have, not just intentionally (e.g., through telling or promising), but negligently.

In fact, Q can reasonably expect that P will perform a certain action even if P himself did not cause Q's expectations, either intentionally or negligently. Suppose that Q and P both live and work in the U.S. P hails a taxi, which is driven by Q, and instructs Q to drive him to work. The metered fare is $50. It is reasonable, I suggest, for Q to expect that P will pay him more than $50, i.e., that P will give him a tip. This is because it is *common practice* in the U.S. for customers to tip taxi drivers. Assuming that it would be bad for Q's expectation to be disappointed, P should avoid disappointing it. Again the role of expectations is critical. In places where it is not common practice for customers to tip taxi drivers, P does nothing wrong when he does not tip Q, but instead pays him only the metered fare. This example suggests that we should avoid disappointing reasonable expectations that others have of us, even if we did nothing to create them.

Our discussion to this point suggests the following moral principle: we should—in the sense that we have a *pro tanto* moral obligation to—avoid disappointing the reasonable expectations that others have of us, if our doing so is likely to cause them significant losses. Let us call this the Expectation Principle, or EP.[13]

The EP places an epistemic burden on moral agents. We need to think about the expectations that we intentionally cause others to develop (e.g., through telling or promising), the expectations that we negligently cause others to develop (e.g., through repeatedly performing certain types of actions), and even the expectations that we did not create, but that are common in society. And we should avoid disappointing them, if our doing so is likely to cause them significant losses. One of the ways that we can avoid disappointing others' expectations is by doing what others expect. Another way is by ensuring that others do not expect us to do something that we do not plan to do, i.e., by giving others fair warning of our plans.[14]

I lack the space to offer a comprehensive defense of the EP. But to forestall objections, let me highlight several of its features.

First, the EP does not say that people should avoid disappointing *whatever* expectations others have of them. Those expectations must be *reasonable*. Expectations can fail to be reasonable on epistemic or moral grounds (Brand-Ballard, 2010). Suppose that Q expects P to give him a ride to work on a certain day because he had a dream in which P gave him a ride to work on that day. Q's expectations are epistemically unreasonable: no theoretically rational person would have formed those expectations on the basis of that evidence. Or suppose that Q expects P to be his getaway car driver on his (Q's) next robbery because P told him he would. Q's expectations are morally unreasonable: what he expects P to do is intrinsically immoral. In neither case does the EP say that P should do what Q expects. These results accord with intuition. There is no simple test to determine whether or not someone's expectations are reasonable. In some cases it may be clear; in others it may not be. But this does not mean that a moral principle, such as the EP, cannot invoke the concept of reasonableness. This concept is indispensable in morality and law.

Second, we violate the EP if we disappoint others' expectations in a way that is *likely* to cause them significant losses. As this suggests, our failure to fulfill oth-

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ers' expectations need not be *guaranteed* to cause them losses. Suppose that, by a stroke of luck, P's failure to tip Q does not cause Q to suffer a loss. Q's next fare is so moved by Q's misfortune that he pays Q double his metered rate, more than compensating for P's failure to tip Q. Still, what P did was wrong according to the EP, because it created an unacceptably high risk that Q would suffer a loss. In the same way, it is wrong to run over people with your car, but also wrong to do things that create an unacceptably high risk that you will run over people with your car, such as drink and drive.

Finally, the EP articulates a *pro tanto* moral obligation, i.e., an obligation that there is good but not conclusive reason to observe. Suppose that P has led Q reasonably to expect that he will give him a ride to work on a certain day, and that Q is likely to suffer a significant loss if P does not do so. But suppose that, on that day, P's child suffers an injury which requires immediate medical attention. P rushes his child to the hospital instead of giving Q a ride to work. In this case, P's actions seem morally permissible, even morally required. The EP says only that there is a moral reason for P not to have done what he did, but one that was overridden.[15]

8. COMPENSATION AND EXPECTATIONS

The EP is a general moral principle. It applies to all types of situations in which people reasonably expect others to do certain things. But it has a special relevance for firms' decisions about the compensation of their committed employees. Below I explain in general why this is, and then return to the case of F and E.

We begin with the fact that, when people's expectations regarding their compensation are disappointed—i.e., when they get paid less than they expect to be paid—they may suffer losses. Some of these losses are positional. It is important to employees not only to make a certain amount of money, but to make as much as some and more than others (Frank, 1988). When people's compensation expectations are disappointed, their perceived rank may be lowered, with deleterious effects on their self-esteem. Other losses are plan-based. People make plans to do things (e.g., purchase a house in a certain neighborhood) or not to do things (e.g., save a certain amount of money for retirement, seek a higher-paying job) based on the amount of pay that they expect to receive from their firms. When they receive a lower amount, these plans may be upset.

This fact helps to explain why it is wrong for firms to tell or promise employees that they will give them a certain (higher) amount of compensation and then offer them another (lower) amount. Both types of actions are likely to cause harm and undermine autonomy. This is no surprise. To say that firms should not do this is only to say that they should not defraud their employees, which is prohibited by the minimal view of compensation ethics.

The EP requires firms to look beyond the expectations that they intentionally create in their employees to those that they negligently create in them, or those that they simply have, through no action of the firm's own. Above we noted that P can negligently create an expectation in Q that he (P) will give him (Q) a ride to work by consistently doing so. Similarly, I suggest, firms can negligently create reason-

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able expectations in their employees by consistently making the same compensation decisions. For example, if the firm always pays its workers a holiday bonus, then they will come to expect a holiday bonus. Similarly, I suggest, employees may join firms with expectations about their pay based on what is common practice in society. For example, they may expect to receive their pay in semi-monthly as opposed to semi-annual installments. The EP tells firms that they need to be aware of employees' reasonable expectations, and act so as not to disappoint them. In these ways the EP makes demands on firms that go beyond the minimal view's demands.

I have claimed that the EP has special relevance for committed employees. This is because committed employees are especially susceptible to suffering losses when firms deviate from expected compensation decisions. Other things equal, the gap between a committed employee's actual wage and his reservation wage—i.e., the lowest wage he will accept—is larger than the gap between the uncommitted employee's actual wage and his reservation wage. The committed employee will continue to work for his firm at a wage considerably below the wage at which an uncommitted employee will leave. This explains Wasserman's (2006) findings, where committed employees actually do get paid less than similar uncommitted ones. It is thus not only possible but *tempting* for firms to violate the EP when dealing with committed employees.[16]

Let us now reconsider the case of F and E in light of the EP. Remember that, in this case, the market value of E's labor is $500,000, but F is able to obtain a discount of $100,000 on it because E is committed to F. The question is whether F acts wrongly in obtaining this discount. The EP tells us to consider whether it is reasonable for E to expect F not to do so, e.g., whether it is reasonable for E to expect F to offer him the market rate of $500,000. Of course, it would be reasonable for E to expect F to offer him the market rate if F told or promised him that he would be offered this much. But E might reasonably expect F to offer him the market rate for his labor in other circumstances as well. F should act in these cases so as not to disappoint E's expectations, either by doing what E expects or giving E fair warning that it will not.[17]

Suppose, for example, that E has been F's CEO for many years. And suppose that E has been committed to F from the start. Many of E's family members and friends live near F, and there are few other comparable firms in the area for which E could work. Suppose also that F has taken advantage of E's commitment from the start. F has *never* paid E the market rate, and has instead *always* obtained a commitment-based discount on E's labor. In this case, F does not violate the EP by offering E the substantially below-market wage of $400,000. For in this case E cannot reasonably expect to receive the market wage of $500,000. If there is no other wrong-making feature of F's treatment of E, then E's pay should be presumed to be just.

If we add different details to the case, however, we get a different result. Let us suppose, as before, that E has been F's CEO for many years and that E has been committed to F from the start. But now suppose that F has always paid E the market rate for his labor, and that, while F never told or promised E that it would always do so, it also never indicated to E that it would try to obtain a discount on his labor. In these circumstances, I suggest, it is reasonable for E to expect to be paid the market

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rate of $500,000. But now suppose that F decides that it can use E's commitment to obtain a discount on his labor. "E isn't going anywhere," F realizes. So F makes E an offer of $400,000, which E grudgingly accepts. It seems that, *pace* the minimal view of compensation ethics, there *is* something wrong with what P does in this case. The EP allows us to say what it is. E's compensation is problematic not because he accepts it involuntarily, because it is exploitative, or because it is less than the value of his contribution. Rather, the problem is that F violates the EP: he does not do what E reasonably expects him to do, causing E to suffer a significant loss.

It might be objected that, while E in the above example might actually expect to be offered a market wage of $500,000, it is unreasonable for him to do so. While perhaps not itself a game, business has some of the characteristics of a game. And just as a batter in baseball game is properly understood to be "in the dark" about what pitch the pitcher will throw next (e.g., a fastball or a change-up), so a worker in a firm is properly understood to be "in the dark" about how much compensation his employer will offer next. On this objection, F does not violate the EP when it offers E the below-market wage of $400,000, even after paying him the market rate for many years.

In reply, it is true that players in games are properly understood to be in the dark about what moves their opponents will make next. In many cases, this is an important part of the game. And it is also true that *some* business interactions resemble moves in a game. Engineers at one technology firm, for example, are properly understood to be in the dark about what products engineers at rival technology firms will create next. In these special contexts, the EP does not apply. But it seems false that *all* business interactions have this character, i.e., the character of a competitive game. Some business interactions, especially those *within* firms, have a more cooperative character (Heath, 2007; Soule, 1998). This is especially true of the interactions among workers in a firm.[18] They all "pull together" to generate revenue for the firm by making and selling its goods and services. The cooperative nature of in-firm interaction is incongruous with the idea that workers are properly understood to be in the dark about what decisions affecting them their firms will make, including how much compensation they will offer them. Cooperation is only possible when there is a certain predictability of behavior. Indeed, people enter into employment relationships, as opposed to selling their services to others on the open market, in part to make their incomes more predictable. This objection assumes that this is not in fact obtainable: workers cannot reasonably expect their firms to make similar compensation offers from pay period to pay period. This is implausible.

It might be acknowledged that it is wrong, as the EP implies, for firms to make surprise lowball compensation offers to long-serving employees. But, it might be objected, this is not typically how firms obtain discounts on their committed employees' labor. It is more common for firms to do so, when they do so, in small and incremental ways. F might begin by offering E the market rate for his labor. But soon after E is hired, having discovered E's commitment, F might begin to let his compensation slip below the market rate. F might do this by offering E less frequent or less generous cost-of-living increases. After several years of this, E will earn significantly less than the market rate, e.g., he may earn $400,000 instead

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of $500,000. The EP, it might be said, does not condemn discounts on committed employees' pay obtained in this manner.

Note that, even if this is true, it is not an objection to the EP or its implications per se. It is an objection to a claim that I have made about the EP, viz., that it is especially relevant for the assessment of committed workers' compensation. The objection is that the underpayment of the majority of committed workers is not condemned by the EP.

It is not clear that this is true. The question, again, is what a worker can reasonably expect of his firm. After years of receiving below-market raises from F, it is reasonable for E to assume that, the next time he negotiates his pay, F will offer him below-market compensation. But we must also consider the matter from the perspective of E as a new employee. Is it reasonable for "new" E to assume that, the next time his pay is negotiated, his firm will use his commitment to obtain a discount on his labor? Is it reasonable for E to assume that F will do this going forward?

It might be thought that, provided that F has not told or promised E that it would not use his commitment to obtain a discount on his labor, F is morally in the clear. For there is no history of F's treatment of E on the basis of which E might have formed reasonable expectations about his pay. But the EP requires firms to consider not just the expectations that they intentionally or negligently produce in workers, but those that workers bring to the firm, as a result of what is common practice in society. And there is reason to suppose that it is common practice for firms *not* to take advantage of workers' commitment to obtain discounts on their labor.

Most firms use "job-based" compensation systems. That is, they pay their employees on the basis of the objective features of their jobs, such as the amount of effort they require, the conditions under which they are performed, and their degree of responsibility (Milkovich & Newman, 2008). "Skill-based" and "competency-based" systems, which reward workers on the basis of the skills and competencies, respectively, that they develop and deploy at work, are also in use. It is true, as we have seen, that some firms use their workers' commitment to obtain discounts on their labor. But the fact that workers are typically paid on the basis of their jobs, skills, or competencies may lead them to expect that they will *not* be paid on the basis of their commitment, and in particular, that it will not be used to obtain discounts on their labor. To test this hypothesis, we might consider how workers would react if their firm announced that it would be using their commitment to obtain discounts on their labor. Would this be greeted with a collective yawn? ("Of course.") Or would it be greeted with surprise? ("I thought you cared only about my performance!") I suspect that most workers would have the latter reaction. This suggests that it is common practice for firms not to obtain commitment-based discounts on their employees' labor, and hence that it is reasonable for E to expect that F will not try obtain such a discount. In comparison, if a taxi dispatcher announced to prospective customers that drivers were usually tipped, no one would be surprised.

I have not proved conclusively that it is common practice for firms not to obtain discounts on their committed employees' labor. Ultimately, this is an empirical matter. And what is common practice in one industry or region may differ from what is common practice in other industries or regions. But I have given reason to suppose

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that the morally sensitive firm, such as F in our example, must be on guard. It must manage the expectations of its employees, such as E, so as to avoid disappointing them. F would be wise, in particular, not to obtain a discount on E's labor, unless it has provided fair warning that it will do so. Otherwise, it risks violating the EP.

9. CONCLUSION

It is possible for firms to obtain discounts on their committed employees' labor. In this paper, we considered whether it is wrong for them to do so. If we understand just or fair pay solely in terms of voluntary agreements between employers and employees, as the minimal view of compensation ethics does, the answer seems to be 'no.' Against this, I suggested, by appealing to the EP, that there is something wrong with this in certain circumstances. In particular, it is wrong for firms—in the sense that they have a *pro tanto* moral obligation not—to obtain discounts on their committed employees' labor when doing so would disappoint those employees' reasonable expectations, making it likely that they would suffer significant losses.

I have used the EP to shed light on committed employees' compensation. But, as mentioned, the EP is a general moral principle. It applies to any case where any agent has reasonable expectations of any other agent. In business, it applies not only to the decisions that firms make affecting their employees, but to the decisions that employees make affecting their firms, and to the decisions that both groups make affecting other stakeholders. Future research on the EP might focus on explicating its conditions and understanding its implications for other areas of business. Another pressing issue is determining how strong the obligation articulated by the EP is, especially compared to other *pro tanto* moral obligations. The EP can be a conservative influence, telling people to continue to do what they have typically done. But in competitive markets new pressures can arise which make different actions more attractive. An inquiry into the EP's strength will help to determine when these pressures may be accommodated and when they should be resisted.[19]

NOTES

1. Questions can be raised about the moral limits on firms' efforts to foster commitment in their employees. We might regard some as harmless (e.g., occasional company picnics) and others as harmful (e.g., a totalizing social environment). These questions do not arise in our case, given the assumptions we have made about the source of E's commitment to F.

2. As Wasserman suggests, the behavior of founders may be described by stewardship theory (Davis, Schoorman, & Donaldson, 1997). Steward-managers are "organizationally centered executives . . . who identify closely with their organizations and thus derive higher satisfaction from behaviors that promote the organizations' interests than from self-serving behaviors" (Wasserman, 2006). The behavior of non-founders, by contrast, is typically described by agency theory (Jensen & Meckling, 1976). Agent-managers "take actions inconsistent with the best interests of their organization's shareholders when doing so is possible and serves [their] self-interest" (Wasserman, 2006: 961). Alternatively, we might say that stewards and agents are equally self-interested, but that stewards get more personal satisfaction out of their organizations' successes than agents do.

3. Executive pay often presents a slightly more complicated case. For there are usually one or more intermediaries in addition to a buyer and a seller. The firm is represented in pay negotiations with the CEO by its board of directors, which has an obligation to represent the firm's interests loyally and carefully. This

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is sometimes put negatively: the board must keep an "arm's-length" distance from the CEO. Likewise, if the CEO employs an agent to negotiate his pay, he must represent the CEO's interests loyally and carefully. In fact, most of the discussion of the ethics of executive compensation focuses on the question of whether pay negotiations between executives and boards are carried out at arm's-length (Boatright, 2010). Some think they are, and that the current level of executive pay reflects the relative value of their skills (Gabaix & Landier, 2008). Some think they are not, and that executives use their power over boards to extract above-market rents from them (Bebchuk & Fried, 2004). It should be emphasized, however, that the obligations of firms' and CEOs' negotiators do not *replace* the minimal view of compensation ethics. Rather, they are a *supplement* to it. The idea is that, *provided that* the firm's and the CEO's negotiators represent their clients' interests loyally and carefully, fair pay for the CEO is whatever pay he and the firm agree to without force or fraud.

4. It might be wondered whether the group of committed workers should be considered a protected class, like race or sex. If so, then paying committed workers less because they are committed would be just as wrong as, e.g., paying women less because they are women. Committed workers should not be considered a protected class, for two reasons. One is that, for a group to have this status, it must be socially salient. Membership in the group must be "important to the structure of social interactions across a wide range of social contexts" (Lippert-Rasmussen, 2006: 169). Since commitment is an internal trait, and can have many different bases, the group of committed workers is not socially salient. Second, protected classes are typically groups whose members have been the target of wrongful discrimination, and who as a result have been historically subordinated in society (Hellman, 2011). Status as a protected class is an attempt to ameliorate this subordination. Committed workers have not been subordinated.

5. The following classification of theories of exploitation owes much to Wertheimer, 2008.

6. Similarly, Zwolinski (2007) says that exploitation occurs only if the exploiter violates the exploitee's rights.

7. Harm need not be understood relative to a no-transaction baseline. We might understand it, as Mayer (2007) does, relative to a fairness baseline, and say that E is harmed because he is paid less than he ought to be paid. I consider Mayer's view below.

8. 'Vulnerability' is sometimes used to mean *weakness*. A person who likes chocolate might be said to be vulnerable to the smells wafting from the chocolatier's shop. E in our case might be vulnerable to F in this sense. But, as mentioned, those who think that exploitation requires vulnerability have in mind a stronger sense of vulnerability. Vulnerability in this sense is connected to need, and more generally to situations where one's "back is against the wall," and one cannot reasonably refuse the offer one is made (Valdman, 2009). E is not vulnerable to F in this sense; he can reasonably refuse F's offer. There will, of course, be borderline cases where we cannot say for sure whether employees like E are vulnerable in the strong sense to their firms. This is because the concept of need is, like many normative concepts, vague.

9. Wertheimer takes this view to be similar to Aquinas's idea of the "just price." For a defense of this understanding of Aquinas's view, see de Roover (1958). For a contrary interpretation of it, see Koehn & Wilbratte (2012). Arnold (2003) and Valdman (2009) provide extensive critical analysis of Wertheimer's view.

10. It is curious that Boatright endorses the contribution view, since it is in conflict with his claim that the just wage is *whatever* wage employers and employees agree to without force or fraud (the minimal view). It is unlikely that the wages employers and employees will agree to will be equal to employees' productive contributions (Frank, 1984). And Boatright is aware of this. At the same time, it is fair to ascribe both views to Boatright, since he explicitly endorses both.

11. Flat compensation schemes are unlikely to be more efficient in all types of organizations. When employees work mainly on their own, or when monitoring costs are high, "steeper" or even "tournament" schemes may be better (Gerhart & Rynes, 2003; Lazear & Rosen, 1981).

12. Not all writers think that the wrongness of deception and promise-breaking are best understood this way. On promises, see Habib, 2008. On deception, see Carson, 2010.

13. In his (1998), Scanlon articulates several moral principles that relate to expectations. Briefly, they are: (1) one should not manipulate others into expecting that one will act in a certain way when one has no intention of acting in that way (Principle M), (2) one should exercise due care to ensure that one does not produce false expectations in others regarding how one will act, if those expectations are likely to cause others harm (Principle D), (3) if one intentionally or produces false expectations in others, one should try to prevent any losses that they might suffer as a result (Principle L), and (4) if one has assured another that one

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will perform a certain action, one should perform that action (Principle F). The EP's implications overlap considerably with the implications of Scanlon's M, D, L, and F. But the EP goes beyond Scanlon's principles in a crucial respect. The EP requires moral agents to avoid disappointing the reasonable expectations that others have of them, but that they did not create, either intentionally or negligently.

14. How much warning counts as "fair" depends on the circumstances of the case. In the case of the ride to work, it may be just a day in advance. This might be so if Q lives close to a bus stop and information about the bus schedule is easily obtainable. In the case of the tip, it might be before the customer enters the taxi. This would give the driver an opportunity to decide whether to take the fare.

15. I have formulated this principle in terms of expectations. Some might claim that it is better formulated in terms of trust (Soule, 1998). We might say, that is, that we should avoid disappointing others' *trust* in us, if our doing so is likely to cause them significant losses. This formulation, it seems to me, captures but goes beyond the EP. It captures it because trust implies expectation: if Q trusts P to perform a certain action, then Q expects him to. It goes beyond it because trust requires more than expectation; it assumes a certain level of care by the trustee for the trustor (Baier, 1995). Thus the EP is compatible with a similar trust-based principle, but—I think correctly—assigns obligations to agents in cases in which trust is absent.

16. It might be thought imprudent for a firm to obtain discounts on its committed employees' labor. Minimally, it could undermine their commitment; more seriously, it could lead to shirking or theft. It is unclear that this is right. The employers in Wasserman's (2006) sample, since they actually obtain the commitment-based discount, have apparently concluded that its benefits outweigh its costs. More importantly, our question is whether it is morally permissible, not imprudent, for employers to obtain this discount.

17. As said, however, the EP articulates a *pro tanto* moral obligation, which F may be permitted or even required to violate in some cases. This might be so if the price of F's paying E in accordance with his expectations is failing to pay its suppliers, threatening its survival.

18. I am not suggesting that *only* interactions within firms have a cooperative character. Workers from different firms may interact with each other in a cooperative way, if, for example, one of the firms is a supplier of the other.

19. Versions of this paper were presented at Université Catholique de Louvain, Georgetown University, the Society for Business Ethics, and the University of Pennsylvania (The Wharton School). I thank those audiences for helpful comments, and John Hasnas for additional e-mail correspondence. I also thank Ann Dexter, executive director of human resources at Bentley University, for instructive conversation about these issues. Finally, I thank three anonymous referees at *Business Ethics Quarterly* and Associate Editor Alan Strudler for exceptionally detailed and challenging comments on a draft of this paper. All remaining errors are my own.

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