A modest proposal: the case for a maximum wage

MAUREEN RAMSAY
University of Leeds

New Labour’s approach to inequality stresses equal opportunities and personal responsibility. The state ensures that all citizens have access to a wide range of basic goods and services to put a floor under rising inequality and to prevent social exclusion. The emphasis on personal responsibility makes clear that the benefits and rewards of the opportunities offered must in some way be earned or deserved. Those in receipt of them have a parallel responsibility to that of the state to give something back in return. The doctrine of rights and responsibilities implies that those who remain economically and socially disadvantaged deserve their plight, if they have not taken the opportunities offered to escape it.

Government action to address inequality has concentrated on the poor and it seems that judgements about benefits conditional on personal desert and responsibility apply only to those at the bottom of society’s pile. There is no equivalent reciprocal responsibility demanded from those in receipt of society’s highest rewards. There is no similar judgement made about high earners’ worth, nor any insinuation that some people are the undeserving rich. The government recognizes the need to intervene in the operations of the market to counter its anti-egalitarian effects for those who would otherwise lose out. It recognizes no similar need to tackle inequality by intervening to impose limits on individual rewards for those who are able to take full advantage of market freedoms. In a Newsnight interview with Jeremy Paxman in June 2001, Blair stated that it was unacceptable that people were not given opportunities, but ruled out any state intervention to set boundaries on how much people earned. He simply couldn’t understand why it mattered, insisting that ‘if you end up going after those people who are the most wealthy in society, what you actually do is in fact not even helping those at the bottom end’. This response suggests that the government is concerned only with improving the situation of the poorest by providing opportunities through a ‘trickle-down’ effect, which by making the rich richer will make the poor richer too. But New Labour’s faith in trickle down together with the provision of opportunities such as the minimum wage, Sure Start programmes, New Deal schemes and Family Tax Credits have not reversed the dramatic growth in income inequality over the last 25 years. The top 1% of the population increased its share of overall income from 6.5% in 1980 to 13% in 1999. The top 0.1% doubled its share over a similar period. At the end of the seventies the richest 10% of the population received 21% of disposable income. This had risen to 29% by 2002–3. The poorest 10%
received roughly 4% of disposable income at the end of the seventies, a figure that had fallen to 2.5% by the late nineties. Analysis of data by the Institute for Fiscal Studies reveals that the net effect of the relatively large redistributive programme introduced by New Labour since 1997 has been to leave inequality effectively unchanged. Blair has claimed ‘that it is a government goal to narrow inequality’. Alan Milburn, the party’s election co-ordinator, has expressed the need for Labour’s third term to offer ‘a more expansive form of equality’, but that ‘social mobility’ is to remain the focus of future policy directions for securing change. There are no specific proposals to shrink the gap between high and low incomes and wealth.

In this article I will argue that if the government is serious about narrowing inequality it should apply the same standards of desert and responsibility to the rich as it does to the poor. If it believes that some do not deserve their poverty, then consistency dictates that it should also acknowledge that some do not deserve their wealth. If it demands that the poor have a responsibility to make use of their opportunities and give something back to society in return, then it should insist that the same applies to those who have the opportunities to claim a generous share of the social product. There is a need not only for a floor under rising inequality but also for a ceiling on unlimited wealth. To this end I will put forward a modest policy proposal for a maximum wage as a multiple of the minimum wage. This would address two aspects of inequality that the government is trying to counteract. It would reduce both the gap between the rich and poor and enhance the opportunities and life chances of the poorest. But, first, it is necessary to counter theoretical and practical arguments, which suppose that there is no justification for putting limits on what people earn. I will illustrate the case by concentrating on Chief Executive Officers’ (CEOs) pay. Despite the vast amounts earned by some accountants, barristers, consultants, entertainers and premier league footballers, CEO pay has come to symbolize the polarization of income and the government’s reluctance to intervene to remedy inequality by limiting the pay of top earners.

Over the past decade average earnings have grown by 45%, yet in the same period average earnings of the leading executives of the FTSE 100 companies have grown by 288%—six times as fast. The Guardian’s annual pay survey reveals that directors’ pay climbed by 12.8% last year at a time when average earnings rose by 4.7%. The highest paid executive, Tony Ball (form CEO of B Sky B), was paid a total of £11.4 million. The pay of eight executive directors of Tesco ranged from £1.9 million to £8.6 million. In total, these eight men earned £26 million between them last year. Nearly 190 directors were paid more than £1 million. The average pay for a CEO was £1.7 million, 72 times more than the average pay in the UK.

The worst paid workers are in the food and drinks industry, in pubs, restaurants, hotels, supermarkets and in the retail trade. The average pay at five companies was less than £10,000 p.a. Tesco workers were the ninth lowest paid, earning just under £13,000 p.a. In contrast, Sir Terry Leahy, Tesco’s CEO, earned a total of £4.3 million in cash and long-term benefits, the same as 335 of his employees. Tony Ball (B Sky B) earned the same as 447 of his members. In comparison to the USA these figures are modest. In 2000, the highest paid CEO in the UK, at the Royal Bank of Scotland, earned the equivalent of $3 million. His American counterpart at Citigroup earned $127 million, 42 times more.
Are pay differentials deserved?

Blair professes that New Labour’s aim is ‘to create a Britain in which everyone can go as far as they have the talent to go, in which we achieve true equality—equal status and equal opportunity, rather than equality of outcome’. In this he follows the traditional meritocratic liberal justification for unequal rewards. When competition takes place in a context of equal opportunities, it is thought to be inevitable and morally right that the most able, the most talented, deserve to be rewarded the most. But the possession or lack of talent on its own cannot justify different incomes.

It is a commonplace of contemporary philosophy that a necessary condition for saying that A deserves X in virtue of Y, is that A is responsible for Y. It is a familiar criticism that to the extent that marketable talents are determined by prior biological, psychological, social and cultural factors for which the individual is not responsible, the rationale for rewarding according to talent or ability is seriously undermined.

In any case, if the government believes that unlimited high pay is justified because people deserve to be rewarded for their ability, then its position is inconsistent. It recognizes that those who lack the ability to compete through no fault of their own do not deserve their disadvantage—hence the various welfare measures and the minimum wage to ensure that they do not fall as far as they would otherwise fall. To be consistent, however, the government should also recognize that some people owe their earning power to brute good luck or to contingencies for which they are not responsible. Just as some people do not deserve their poverty, some people may not deserve their wealth. If this is so, then there is also a case for government intervention to prevent the undeserving rich from going as far as they would otherwise have the ability to go.

A greater contribution?

Despite Blair’s implicit justification for differential rewards in relation to abilities and talents, he cannot mean that those with greater ability *prima facie* deserve more from society, independent of their relative contribution. The abstract principle of deserving a reward for the value of a contribution made cannot provide a justification for high or low pay for any particular job. One obvious problem is that of measuring or defining in any objective way the value to society of different jobs. The value created might be qualitative or quantitative, intrinsic or utilitarian, aesthetic or cultural, scientific, scholastic or educational, a public service or profit generating. There are different views reflecting different beliefs about which jobs contribute the most value to society.

Certainly, it would be difficult to make a rational or moral case for the hierarchy of differentials that actually exists. It is difficult to imagine that any rational decision-making procedure to determine the worth of individual contribution would decide that talk show hosts, entertainers and supermodels should be near the top of the list. It is equally implausible that it would be reasonable to decide that premier league footballers should earn more in a day than a nurse earns in a year; or that a top QC should earn £1,000 an hour and a retail worker £5, or that a care assistant is worth a 100 times less than her chief executive.
Defenders of different rewards according to contribution often claim that it is
the market that measures and decides the value of the contribution. The market,
however, does not measure contribution and correlate this with levels of rewards
in any moral or objective way. It measures how much a contribution can be sold
for. And, of course, New Labour recognizes this. The introduction of the
minimum wage itself is recognition of the fact that the market can undervalue a
person's contribution and fail to provide a living wage. But the market can also
overvalue a person's contribution. If intervention in the market is justified
because the market cannot be relied upon to determine how little is too little,
then intervention could be justified at the other end of the spectrum, where the
market is blind to how much is too much.

Whatever problems the market experiences in determining the value of a
person's contribution, the market does not set executive pay; remuneration com-
mittees do so and it is widely recognized that this process is deeply flawed. In
2001, just 392 people made up the remuneration committees of 98 of the largest
UK companies.10 CEOs and members of remuneration committees who belong
to the same web of boards, peer groups and social networks operate a system
of mutual exchange of high remuneration.11 Empirical studies confirm that recip-
rocity, rather than an assessment of actual contribution, plays a role in the esca-
lation of CEO pay.12

The scandal of executive pay is precisely that their earnings are not the
outcome of the efficient workings of the market where CEOs receive wages equiva-
 lent to the value of the marginal product of their labour. There are numerous
instances where CEO salaries and share option packages have increased even
though the performance of the company has deteriorated. A study in 2000 by
Kepler Associates, a UK management consultancy, found an inverse relationship
between pay and performance in the FTSE 100 companies. A typical boss of a
poorly performing company was earning £175,000 more than a world-class
player.13 In three companies where CEO pay had increased the most (more than
1,000%), Aviva saw profits fall by 152%, GUS by 23.3% and Marks and Spencer
by 25%.14 Similarly, in 2001, a Management Today survey showed that pay increases
were not related to performance,15 a finding consistent with other recent studies.16
While real sales and pre-tax profits of the FTSE 100 companies increased by 50% in
the period 1983–2002, aggregate CEO pay rose by more than 500%.17

This mismatch between pay and performance is not untypical, nor confined to
the UK. In the USA, Woodworth has compiled evidence that demonstrates percent-
age increases for CEOs despite a drop in sales.18 During the second half of
the nineties low interest rates generated a tide of speculation which benefited
CEOs with share option packages, regardless of their performance.19 In 2001 the
value of stock options given to the CEOs of America's largest S&P 500 companies
rose by 43.6% when total returns of those companies fell by 20%.20 In 2002 the
median pay of 365 CEOs covered by Business Week increased by 5–8% when
the total return of the S&P 500 companies went down by 22%.21

Even when and if there is a convincing link between pay and performance it is
not clear that this would justify excessive rewards for CEOs or any other worker.
The pay-for-performance justification makes the assumption that innovating or
successful managers are individuals who single-handedly identify market oppor-
tunities, develop goods and services, create employment, and that they alone are
responsible for the prosperity of the company and any social benefit its products
might bring. But individuals never produce in a vacuum. The present financial performance of a company is shaped by the decisions of previous CEOs. Given the time lag between investment, research and development expenditure and its impact on the competitiveness of the firm, present CEOs might not be responsible for its success. The long-term value of any company also depends on the macro-economic situation, technological developments, the fluctuation of the market, and on luck or chance rather than any individual contribution. Moreover, the justification for executive pay relative to individual contribution underestimates the difficulty of separating out a specific person’s contribution to a joint social product, which is the result of heterogeneous labour or collective endeavour. It overlooks the inherent teamwork and collaborative nature of corporate enterprise, which makes the excessive salary of a single person illegitimate as a reward for their particular performance.

Compensation

If CEO pay is not deserved as reward for contribution, perhaps it can be justified as compensation. Here, income is thought to be deserved as compensation for some cost, some harm, or loss incurred for work undertaken. A typical rationalization for the high income of various professionals, managers, executives, and entrepreneurs is that the work they do is a reward for training, intellectual effort or for their complex responsibilities and willingness to take risks. This argument makes several assumptions. First, that training, intellectual effort and risk taking are something arduous, rather than interesting, stimulating or exciting, and that they are more demanding and costly and therefore more deserving than hard physical labour, technical training or the risks involved in other forms of work. Second, that responsibility is always a burden and not satisfying, rather than bringing its own rewards in terms of greater control over work and power over the organization and outcome of work. Three, the justification for increased remuneration for the risks that executives take overlooks the fact that in the corporate world bad risks rarely carry costs or penalties. Top executives can be fired and their companies threatened with merger or takeover, but presiding over corporate failure often brings huge payoffs in addition to the high level of remuneration already secured. A CEO of a giant US or UK company typically enjoys a decade or more of high earning power. Generous pension payments, golden parachutes and windfall payments on a ‘change of control’ cushion risks. Witness the £15 million payout to Michael Green, ousted chair of Carlton TV. Green left Carlton with a £1.8 million golden parachute and a further £3.8 million from share-related schemes, £7.3 million of which was triggered from a ‘change of control’ clause. Moreover, sacked executives walk into other well-paid jobs. Their employees are more likely to bear the negative consequences of their risk-taking behaviour. If companies are not successful, workers are laid off, without any golden handshake. It is estimated that the average male job tenure is five and a half years and that three million middle-aged workers who lose their jobs never get another one.

The notion that the pay of CEOs is justified as reward for their ability, skill, productive contribution or as compensation is unconvincing. Even if these qualities could be justified criteria for desert, this does not entail that it is also justified to receive rewards in terms of vast differences in income, and so of wealth, status
and social power. It is not clear that justice demands that those who display such qualities deserve to get paid many hundreds of times more than others because of this. The maximum wage is an attempt to determine just what the multiple should be.

**The maximum wage**

The idea of a maximum wage to restrain pay differentials is not new. Pizzigati traces the history of previous political attempts to directly limit personal income and wealth in the USA.\(^{25}\) Recently in the UK, the New Economics Foundation (NEF) proposed the introduction of a maximum wage in response to unease about the excessive pay of CEOs.\(^{26}\) The NEF suggest a number of measures that would place a voluntary limit by employers on wage differentials in their organizations, which could eventually lead to legislation. These could take the form of voluntary imposition of pay ratios between top and average earners within a company, as some Japanese firms do, or the voluntary imposition of pay ratios by employers with reference to the average or minimum wage of society as a whole. Alternatively, it could mean the pooling of a total remuneration package for senior executives with limits on any one individual’s pay (a model used by the US basketball team), or the voluntary imposition of a 100% marginal tax rate by an organization by its executive, above a certain limit. It suggests that the limit should be £1 million, with excess monies going to charity. A similar scheme could be implemented by government, with a 100% cut off beyond £1 million and with funds going into a personal trust or voluntary foundation for charitable purposes.

The purpose of the NEF proposal is mainly polemical in order to encourage debate about executive pay and corporate social responsibility. It is not an attempt at income redistribution. The maximum limit is set so high that few would be affected and it would not increase government tax revenue or directly help the poor. Moreover, its voluntary nature undermines the force of its argument that such a proposal is politically feasible. It seems unlikely that without a form of public control and back-up sanctions, calls for voluntary pay restraint will continue to be resisted.

Pizzigati’s proposal for a Ten Times Rule is somewhat more radical. He advocates a maximum wage that is ten times the minimum wage. All income above this maximum would then be subject to an income tax of 100%. After tax, no one would have more than ten times the annual income of the minimum wage worker. All tax rates would be keyed to the minimum wage, not just the tax rate applied to the highest incomes. This proposal has the advantage that it would both reduce the gap between the rich and poor, and link the well-being of the worst off to the best off. It would also make a redistributive difference. Hacker, in making a series of calculations on income figures for 1994, shows that if incomes had been capped at $200,000, then the Internal Revenue Service would have collected above-normal tax collections—enough money to double the average income of America’s poorest 19.8 million households.\(^{27}\) Pizzigati estimates that applying the Ten Times Rule to 2003 would have led to an increase in $450 million collected in tax revenues.\(^{28}\) Daly also argues for a maximum allowable income, which is tied to a minimum income.\(^{29}\) The minimum income is explained as some culturally defined amount sufficient for food, clothing, shelter, and education. The maximum
might be ten times the minimum, as Pizzigati, suggests or some other multiple. Daly argues that whether the maximum is four times, ten times or twelve times the minimum is not particularly important. The point is that the Ten Times Rule is a benchmark which represents a move from unlimited to limited equality. The exact ratio is less important than the principle that limits be placed somewhere, and can be adjusted on the basis of experience.

The problem of incentives

Any proposal for a maximum wage would have to confront the objection that capping wages would damage incentives to productive and entrepreneurial activity. This in turn would have adverse effects on the economy and diminish aggregate social utility. However, it seems implausible that it is necessary to make some individuals hundreds of time richer than others in order to retain incentives. It is highly unlikely that bankers, barristers, company directors, consultants, and footballers would idle their time away if the highest pay they could earn was ten times more than the minimum wage. People in well-paid jobs work for a variety of reasons, because they enjoy producing goods and services other people value, because they want to use their talents and skills. They have reasons to work, which are unconnected to material reward such as prestige, respect, status, recognition, fame, social approval, and self-esteem. If financial advantage were the only reason why people wanted to become doctors, lawyers, politicians and businessmen then it is doubtful that they would be the best people for the jobs in question. They are more likely to be corrupted by monetary rewards rather than perform any socially useful function that benefited others. The assumption of a general willingness to work with no additional income beyond a certain cut-off point is more plausible, given additional assumptions. These include the possibility of substituting monetary incentives with the provision of a quality working environment, changing conditions, company structures and work–life balance to make work less stressful and more satisfying. It is not obviously the case that the incentive of excessive financial reward is necessary to attract people with the ability and drive to do the jobs in question. Nor is it obvious that maintaining the entrepreneurial spirit is in principle incompatible with wage limits. In fact it could be argued that in some cases of CEO pay in particular, extreme rewards weaken incentives for good performance. For example, Paul Volcker, the former head of the Federal Reserve, America’s central bank, believes that the large share options that CEOs are privy to create perverse incentives to push short-term share price inflation over the company’s long-term well-being. Rewards for failure, frequent negotiation of golden parachutes and windfall payments drastically reduce incentives for managers to be efficient and to fulfil shareholder value and wealth creation.

If the fear that the introduction of the maximum wage would threaten incentives is correct, then we would expect to see the most production in countries that have the highest after-tax wage rate. Japanese CEOs earn less than a fifth of their US counterparts and have substantially higher marginal tax rates. Yet there is no evidence that the Japanese work less hard or shorter hours than American CEOs. US CEO salaries were ten times those of the UK in 2001. British CEOs earn more than their French or German counterparts even though the productivity of the latter is higher. In 2001 a US CEO was paid 31 times more than the average
worker. This compares to 25 times in the UK, 15 in France, 13 in Sweden, 11 in Germany and 10 in Japan.  

The above suggests that neither higher taxes, nor less income, nor a narrower gap between top and average earnings causes a reduction in effort or acts as a disincentive to productivity. Moreover, the general claim that high marginal tax rates significantly reduce the effort people put into production has little empirical support. Repeated studies have shown that a higher progressive tax system does not reduce motivation to work. Goolsbee notes than an ‘extensive literature of labour economics shows little impact of changes in tax rates on the labour supply of most people, especially prime age working men’.

When the maximum wage is tied to the minimum wage there are good reasons to suppose that rather than threatening productivity and economic growth and diminishing social utility the reverse could be the case. Funds from capping wages could be used for investment in health, education, research and development, safer workplaces and working conditions that are also prerequisites for a lasting productivity. Higher taxes stimulate growth by reducing poverty and welfare expenditure, raising living standards and boosting consumer demand for products in general consumption categories. Moreover, research shows that high growth rates are associated not with high economic inequality as predicted by ‘trickle-down’ theory but with less relative inequality. Several empirical studies demonstrate a negative correlation between various measures of income inequality and economic growth in cross-national data. The same pattern emerges in other studies examining the correlation between income inequality and growth across time. Corry and Glyn argue that though relations are complex, aggregate evidence suggests that greater relative equality is associated with better economic performance, rather than damaging efficiency.

A self-defeating proposal?

It is often argued that increasing the tax rate is self-defeating, first, because the wealthy will try to evade tax by taking their income in less taxable forms, and, second, because higher rates of taxation act as an incentive for potential high earners to migrate to states where there is a lower tax rate. The wealthy would transfer their assets out of the country and take their investments elsewhere. This would threaten economic stability and the poor would lose their jobs. With regard to the first of these issues, Goolsbee analysed data for 1992–3 and showed that high taxation only has the effect of inducing the wealthy to substitute other perks for income over a short period of time. Over a longer time span it does not change the taxable income totals of the rich significantly. The taxable incomes of the rich throughout the twentieth century do not increase when tax rates are less progressive and do not diminish when they are more progressive.

There is little evidence of a global market for top management jobs and that therefore CEOs from high-tax states could relocate to low-tax nations. Apart from the USA, British CEOs currently earn more than their counterparts elsewhere, but there are few entrants into this labour market from around the world. Research by the New Work Foundation found that 86% of FTSE 250 CEOs came from the UK and that most businesses did not recruit from outside or via any competitive market. Khurana similarly demonstrates that there is no internal or external market for CEOs in the USA. In 2001–2, 75% of the S&P
500 had CEOs recruited from within the company and most had long careers with their firms. This research also shows that CEOs are rarely exceptional. They are custodial rather than entrepreneurial, stewards, not change agents, administrators not leaders, and that there is no hot market for their talents.

Capital flight is a problem that could be limited by instituting controls on the transfers of fiscal assets, legislating to prevent the rich exiting the country with assets over a certain amount and by applying the Ten Times Rule to any income from the sale of those assets. But it would be difficult to eliminate capital flight completely, simply by making it illegal. There would be some incentive for high earners to stay within their own country after the introduction of the maximum wage. A country with a high tax rate would provide benefits such as high-quality public services, a well-educated and contented workforce and an environment of social cohesion with less crime and less cost of monitoring and protecting property. These offsetting advantages may not be enough, however, to induce high earners to stay since the wealthy can pay for services themselves and insulate themselves from the costs of rising inequality. Any country that introduced the maximum wage unilaterally would be vulnerable to exit in the form of capital flight.

The capital flight objection predicts only that high earners would be prepared to migrate to different locations to avoid tax. It does not demonstrate that they would not work productively or that stability would be threatened if the maximum wage were introduced everywhere. It does demonstrate, however, that those who manoeuvre to avoid tax or threaten to withdraw their labour or take it elsewhere lack any sense of social responsibility. Cohen demonstrates why this is so.

Social responsibilities

In a number of articles critiquing Rawls’ Difference principle, Cohen challenges the view that unequal incentives are necessary for efficiency or to promote the interests of the badly off. Cohen argues that unequalizing incentives are necessary only if and because of the unwillingness of productive people to work so productively without them. On this view, it is only because of the self-seeking motivation of productive people that progressive taxation would make everyone worse off than they would be under a less progressive system. It is this self-interest that renders optimal a tax regime that results in so high a multiple reward. Lower incomes would be higher if people were willing to work productively without excessive pay. What this argument shows is that incentive effects depend to some extent on the social norms that inform individual behaviour. Unequalizing incentives are necessary to the extent that selfishness and greed are the accepted social norms. As long as government policies encourage and the logic of the market dictates that people engage in productive activity purely for their own advancement, the desire to appropriate as much as possible is likely to remain a necessary incentive. Even though people have other motivations to work productively, any proposal that involved substantial redistribution would be hostage to the prevailing personal motives of selfishness and greed.

Many of the difficulties of unequalizing incentives would be overcome if a different social ethos were cultivated and institutionalized. Carens envisages a hypothetical egalitarian society where people are motivated by a social duty to
make as much pre-tax income as they are capable of. The state then taxes all income at 100%, spends some revenue on basic needs and various collective goods, and the remaining money available for consumption is distributed equally. In this society moral incentives are as powerful as material incentives and a sense of social duty is the engine of motivation for production. People work productively, even though they do not keep the pre-tax income they earn because they believe that a high level of production is a collective good and that it is morally praiseworthy to contribute to the well-being of society.

Carens argues that if people were raised to value the satisfaction gained from social duty as much as that derived from their income, then an egalitarian society could function as effectively as an orthodox economy. The point here is that the stronger the social duty, the more feasible it is to introduce policies that place limits on what people can earn without the threat of capital flight or a reduction in productive output. Societies that foster and endorse this social duty would find it easier to impose a maximum wage than societies in which this social duty is absent.

New Labour is constantly stressing some notion of social duty in the hope that this will motivate productive effort and reduce dependency, free-riding and antisocial behaviour. But its mantra of ‘no rights without responsibilities’ is targeted at the poor. The rich can benefit unconditionally from the opportunities offered. This could be because New Labour believes that the rich fulfil their social responsibilities contingently. That is, appeal to greed induces skilled and inventive people to engage in activities that have trickle-down societal benefits. This argument assumes that no one could expect top earners to work to contribute to the well-being of society or to accept limits on what they earn. It is as though it is too risky to appeal to a sense of social responsibility for top earners to be productive to generate decent opportunities for all or to eliminate serious inequality—hence the faint-hearted approach to setting a limit on CEO pay. The government does not apply the ‘no rights without responsibilities’ sanctions to earners in this income bracket; it merely colludes in and perpetuates the myth that there is a happy coincidence between the pursuit of unlimited gain and the general interest. But, this approach usually guarantees only that the acquisitive and competitive will pursue their own interests, not that they will promote economic progress, prosperity and well-being for all. All too often the pursuit of private gain fails to translate into the social optimum. Competitiveness, profitability, productivity, and the personal fortunes of entrepreneurs depend on cutting the costs of labour and of production and are the driving forces behind environmental pollution.

Corporate performance can improve in inverse proportion to the public good. But, even assuming present motivations, if entrepreneurs are rational self-interested actors motivated only by their own gain, then in a society that has accepted the maximum wage, they will have an economic incentive to work productively to raise their own income by benefitting the worst off. If those on the maximum wage can only earn a multiple of those on the minimum, then the rich can only become richer if the poor become richer first. The rational self-interested entrepreneur who is at or near the maximum wage and who wants to increase their income will have an economic incentive to increase the well-being of the less wealthy. Only by using their abilities and skills for the benefit of society will they be able to ensure a rise in the upper limit of maximum allowable income.
The economic incentive created by the Ten Times Rule or by a democratically decided personal wealth allowance provides a motivation to produce and to benefit society in order to gain more personal income or wealth. Those on or near the maximum wage no longer have any self-interest in advocating projects that do not have a beneficial effect on others. Traditional self-interested behaviour is redirected to serving a wider social rationality and there is a strong incentive to promote quality growth. Rational self-interest is deliberately aligned to the interests of the worst off in a way that the invisible trickle-down theory cannot guarantee. A maximum wage tied to a minimum would have an advantage over the more conventional strategy of progressive taxation in that it is reciprocal, not just progressive. It gives the wealthy reason to care about levelling up the bottom of society, rather than just reason to find ways to evade or subvert higher taxes.

The adult rate for the minimum wage until October 2005 is £4.85 per hour. At 40 hours a week, a full-time minimum wage earner works 2,080 hours a year earning £10,088. As a multiple of ten, the maximum wage would be set accordingly at £100,880 p.a. For every increase in the hourly minimum wage, an extra £20,800 would be added to the annual maximum. It may be objected that increases in the minimum would cause job losses for those at the lower end of the market, resulting in higher rather than lower income inequality. But recent research offers compelling evidence that shows that increases in the federal minimum wage in the USA had zero or positive, rather then negative, employment effects. Minimum wages had a ‘ripple effect’ in many firms with pay increases for workers earning slightly more than the minimum, reduced worker turnover and improved productivity and efficiency leading to gains in output and employment. These positive effects were in response to a moderate rate of minimum wage increases. Economists agree that if the minimum wage is increased too much, it would have adverse effects on employment. However, this prediction relates to the effects that a substantial minimum wage increase would have on its own and not its effects when indexed to and offset by a maximum wage. There is a wide range of indeterminacy within which the minimum could be increased without affecting employment, and the maximum could be decreased without loss of incentive or negative effects on production. This would, in part, depend on society’s attitude towards relative inequality and redistribution.

According to New Labour’s doctrine of personal responsibility, people are expected to give something back to society in return for the opportunities offered. High flyers have been given the opportunity to go ‘as far as they have the talent to go’ and beyond. They too, should have a positive social duty to give something back in return, not just, at best, as an unintended side-effect of self-interested action. To allow some people to make use of their opportunities without demanding reciprocal responsibilities is to view productive people as outside of community.

New Labour has been concerned with the social exclusion of the poor, whose undeserved disadvantage prevents them from playing a full part in work, social life, and citizenship. In response it has created opportunities to put a floor under inequality and in return has demanded reciprocal responsibilities. New Labour should be equally concerned with the voluntary self social exclusion of the rich, whose undeserved advantage enables them to buy themselves out of community concerns and public services, hold society to ransom and divest
themselves of the duties of citizenship. In response, the government should seek to place a ceiling on inequality and require the rich to abide by the same principles of wage restraint and social responsibility as it prescribes for other citizens. Then, perhaps, as White argues, high earners would not be so hostile to tax increases or abandon their country for lower taxes elsewhere 'if they see their working lives as connected with good citizenship, with being a contributor to a common project in which all do their bit'.

A modest proposal

The idea of introducing a maximum wage with a ratio of ten to one to a minimum wage is a modest proposal for several reasons. It does not demand the strong sense of social duty required by Carens’s proposal for an egalitarian society. It only requires that society has a narrow egalitarian ethos that encourages a reduction in excessive self-seeking behaviour from those who benefit disproportionately from present income distribution. The Ten Times Rule is an attempt to draw the line at some approximate point where it becomes unreasonable to expect an increase in personal benefit over the collective good.

The proposal only limits inequality. A maximum wage of ten times the minimum compresses wage differentials but leaves room for different rewards that reflect undeserved differences in skills, ability and productive contribution. It allows unequal compensation for special labour burdens even though such judgements and comparisons are dubious. It also permits different rewards as incentives for labour that cannot be summoned by any other or more honourable motives. There is some evidence that limiting wage differentials within a narrower range concurs with existing public attitudes. Social Attitudes surveys consistently indicate that around 80% of people across all income groups, including the highest earners, regard the gap between rich and poor as unacceptably wide. A substantial majority support the proposition that workers receive less and businessmen more that they deserve. When asked whether salaries are appropriate for different jobs, people dramatically increase the salaries of the lowest earners and reduce the salaries of the highest. For instance, they believe that shop assistants and skilled and unskilled factory workers should earn more, and that solicitors, factory managers, judges and chairs of large companies should earn less. They change the ratio between the highest and lowest from what they actually earn at 13.8:1 to what they ought to earn at 6.3:1. A clear majority believes that the government has a responsibility to reduce inequality.

A maximum wage as a multiple of the minimum has the advantage that the non-rich majority has a tangible, direct and vested interest in actively supporting the proposal and it would not offend against popular notions of fair proportion or taxation determined by ability to pay. Voters may look favourably on policy proposals which really do benefit the majority. The maximum wage set at £100,800 or ten times the minimum is a modest proposal since according to Inland Revenue Income Tax Liability Tables for 2005–6 only approximately 1% of the population will have pre-tax incomes higher than this.

In the 2003–4 tax system, 64% of the population had incomes below the national average of £408 per week. Only 11% of all taxpayers and 7% of all adults had incomes above the current higher tax threshold of £31,400 and most of these were drawn from the richest 10%.48
The idea of a maximum wage is a modest proposal because an upper bound on income does nothing to limit personal wealth; it only ensures that wealth would be accumulated less rapidly. This is significant since wealth is more unevenly distributed than income. The total value of personal wealth in the UK in 1999 was £2,752 billion. The top 50% of the population held 93% of all wealth. The top 10% earned half of all personal wealth. Between 1988 and 1999 the top 1% increased their share of personal wealth from 17% to 23%. The top two to four million households own assets worth £1,300 billion, while the bottom 12 million households own assets of £150 million. The percentage of household without any assets climbed from 5% to 10% between 1979 and 1996; 31% of households in the lowest income decile had no assets.\(^{49}\)

The maximum wage fossilizes inequalities in wealth and does nothing to address inequalities in the ownership and control of productive forces, but it is a simple and direct way of limiting the degree of economic inequality and it is compatible with other measures such as a wealth, inheritance or progressive consumption tax, or with more radical proposals such as the provision of a basic income. The proposal for a clear upper boundary on the dynamics of the market spotlights existing injustices, explicitly quantifies the responsibilities of the super-rich and directly addresses the question of the relative worth of different jobs.

A maximum wage as a multiple of a minimum wage would reconcile two egalitarian aims which often have different policy implications. Some egalitarians claim that any unequal distribution is unjust in itself and therefore argue that any reduction in the gap between rich and poor is an improvement. Prioritarians are concerned with the absolute level of advantage people have and give priority to improving the interests of the least advantaged. Egalitarians who want to limit relative inequality may support policies that reduce the income or wealth of the well off, even if this benefits no one. A maximum wage set at £1 million, such as the NEF proposes, would reduce relative inequality without necessarily benefiting anyone else. Prioritarians would find this pointless. They would support policies that allow greater inequality when and if unequalizing incentives create more wealth to be redistributed to the worst off.

It seems that New Labour’s fundamental aim in relation to inequality is prioritarian. That is, not to reduce the gap between the rich and poor but to reduce the disadvantage of the least advantaged. Therefore, it would not support any policy that advocated a cap on income, believing that any such policy benefits no one. But a maximum wage that is tied to a minimum wage is an instance of a case where a more equal distribution, which reduces relative inequality, also involves enhancing the opportunities of the least advantaged. Therefore, New Labour would have good reason to support such a proposal even if it were not committed to valuing equality for its own sake.

Despite this logic and the modesty of the proposal for a maximum wage, it is fanciful to imagine that governments in the embrace of economic liberalism would entertain such a measure or that there would be no serious opposition from those whose interests it threatens. The point of the proposal is to fill a political vacuum and provoke debate about what should be done to tackle income injustices at the top as well as at the bottom end of the spectrum. It is to encourage reflection on a rational justification for principles to govern pay differentials, to counter government failure to build a consensus in favour of a more equal
income distribution and to show that the doctrine of rights and responsibilities ought to be applied consistently to all citizens.

Notes

23. Ertuk et al., op. cit.
34. C. Brown, ‘Will the 1988 Income Tax Cuts either Increase Work Incentives or Raise more Revenue?’, *Fiscal Studies*, Vol. 9, No. 4, 1988, pp. 93–107; C. Brown and C. Sandford,


41. Khurana, *op. cit*.


49. Incomes Data Services, *op. cit*. 

---

A modest proposal 215