

Case For Maximum Wage

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Abstract:

Should Incomes Be According To Need Or Ability. A More Left Leaning Political View Would Argue For Incomes To Be Based On Need, Whereas A Right Leaning Political View Would Argue For Ability. But Even When Incomes Are Based On Ability Is It Actually Ability Or The Intersection Of Demand And Supply For Such Said Ability. And Demand And Supply Curves Change All The Time With Education And Tastes. Hence Would It Not Be More Sensible To Base Incomes On Needs. At Any Rate, How Much Inequality In Labour Incomes Can We Tolerate? What Is Shocking Is That Sometimes Maximum Labour Incomes Are Almost 1000 Times Minimum Labour Incomes. Even If One Sets Aside Moral Issues Of Such Inequality, The Question Of Optimality Of Welfare Demands A Reduction In Inequality Of Labour Incomes.

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I. Introduction

Karl Marx, is by far the most influential economist, that ever lived. Communism may have all but disappeared. However, communism has changed the world. Tax to GDP ratio of capitalist nations increased from 5-7% of GDP before Russian revolution to around 35-45% of GDP soon after Russian revolution, as capitalist nations began to spend for human development in terms of education and healthcare.

Karl Marx said “From each according to abilities to each according to needs”. This would mean everybody should get equal income. This may be unrealistic. However income levels should not be very different.

However we find that income levels in capitalist nations have become phenomenally different. Incomes at top range can be almost 1000 times the minimum wage on average. That it is morally and ethically wrong is one part of the discussion. The second part of discussion is that such unequal income distribution leads to sub optimal welfare.

Most nations have minimum wage designed to ensure that people are able to meet their needs of food, education, healthcare and housing. But shouldn't there also be a maximum wage not only on ethical and moral grounds but also on grounds of reducing waste and maximizing social welfare. This paper points to the extent of inequalities in income and makes a case for Maximum Wage.

Unacceptable levels of inequalities of income

Of course some level of inequality of income is acceptable. After all Prime Minister of a Nation cannot earn the same salary as the person sweeping streets. But beyond a point inequality becomes unacceptable. Take for instance the fact that Akshay Kumar a movie star earned 4000 million rupees in 2019, which is 1000 times Prime Minister of India's salary and 40,000 times minimum wage and 10,000 times starting salary of medical doctor in government hospital.

But of course India is not the only nation to be blamed. In USA, the average CEO salary is around 10 million dollars a year, which is almost 1000 times the minimum wage of USA, of 7.25 dollars per hour multiplied by acceptable number of working hours a year which could be around 1400 hours a year. And some CEOs in USA get almost 100 million dollars a year.

Annual CEO wage-country wise

Country	CEO Salary / average worker Salary ratio multiple	
United States	265	
India	229	
United Kingdom	201	
South Africa	180	
Netherlands	171	
Switzerland	152	
Canada	149	
Spain	143	

Germany	136	
China	127	

Source: Statista

The above table captures the extent of difference between CEO salary and average salary.

A nation like India where 50% of the population is malnourished, and where till recently 60% of the population did not have toilets having a CEO earning \$ 1.15 million which after adjusting for Purchasing Power Parity amounts to 5 million dollars in OECD nations. There is something deeply unethical and immoral about such pay differences. However, the pay differences in the government and public sector are not so much.

For instance in the USA, where the average worker earns 50,000 dollars a year, the head of the army earns just 250,000 dollars which is 5 times the average worker's salary and not 250 times the average worker's salary. Similarly in India, average workers earn 300,000 Rs and the head of civil services earns 30,00,000 which is 10 times the average worker's salary. That is an acceptable wage difference compared to 229 in the private sector. That is an acceptable wage difference on grounds of morality and ethics.

Sam Pizzigati the author of *The Case for Maximum Wage* (2018) points to the fact that the ratio of CEO salary to average worker's salary is 8 times what it used to be in 1980. This proves that just 40 years ago the wages at the top level in the USA were not that high.

Most nations of the world have a minimum wage law. What is needed is a maximum wage law because in an economy everybody is buying services from each other. Just as a doctor buys the services of a barber, so does a barber need to buy the services of a doctor? With increased incomes at the top range, barbers will not be able to buy the services of doctors. For instance, in the USA, health care expenditures are 20% of GDP whereas in most OECD nations health care expenditures are 10% of GDP:

Maximum wage as Morally Acceptable Multiple of Minimum Wage

The author of this paper has published a paper in an economic journal titled "Maximum Wage as Morally Acceptable Multiple of Minimum Wage".

In this paper the author has argued that there are several reasons for controlling maximum wage such as

1. A very huge gap between maximum wages and minimum wages creates many economic, social and political problems apart from being immoral and unethical.
2. A huge gap between minimum wage and maximum wage leads to deprivation among those earning minimum wage and also lead to wasteful expenditures towards those earning maximum wage.
3. A huge gap between minimum wage and maximum wage will leads to corruption among government and public sector employees who will try to match living standards of private sector employees.
4. A huge gap between minimum wage and maximum wage will increase crime in society and nation, since there is proven correlation and even causal relationship between inequality and crime.
5. A huge gap between minimum wage and maximum wage will increase black money and tax evasion, since those earning high maximum wages will have resources and incentive to evade taxes.
6. A huge gap between minimum wage and maximum wage will increase unemployment, since if higher minimum wage can increase unemployment as some economists argue, it should be obvious that by the same logic higher maximum wage will increase unemployment among white collared knowledge workers.
7. A huge gap between minimum wage and maximum wage will increase prices and inflation because goods and services produced will become expensive when high salaries have to be paid.
8. A huge gap between minimum wage and maximum wage will reduce exports and increase imports because because as prices become high, exports will become non competitive and equally since wages are high imports will increase due to consumerism thus increasing trade deficit and disturbing balance of payments.

Hence it is incumbent on governments of nations of world to reduce the gap between maximum wage and minimum wage. A starting point could be that maximum wage in private sector can be indexed to maximum wage in government and public sector

Sam Pizzigati on Maximum Wage

Sam Pizzigati, an USA economist has written a book "the case for maximum wage".

When contacted by author and asked on why maximum wage law was not being implemented, Sam Pizzigati had this to say

- "The idea of a maximum wage continues to gain new ground. The latest example: A former UK cabinet minister, John Battle, has just suggested trying "even a statutory maximum wage (including bonuses)" to combat rising inequality. Earlier this year, one of America's premiere business journals, *Fortune*, ran an analysis that asked "Should there be a 'maximum wage?'" *Fortune* also ran a poll this year that found an "overwhelming majority" of respondents — 65% — "saying yes."
- "In India, meanwhile, groups like Teachers Against the Climate Crisis are calling for a new maximum wage in each state for anybody that should be no higher than certain times the state's minimum wage."

- "So the idea of a maximum wage continues to resonate and inform policy debates. Maximum wage advocates see this debate playing out in stages. In the United States, for instance, progressive lawmakers are calling for legislation that penalizes corporations for paying their top executives above a fixed multiple of their median employee compensation. Inequality.org is tracking these initiatives at the U.S. local, state, and national level."
- "Holders of grand fortune would rather, of course, that any talk of a maximum wage start fading away. And their control over major media outlets makes the going tough for those of us committed to a more equal distribution of society's rewards. But advocacy for a maximum wage continues to build, in all sorts of different forums, from talk shows and online musings to op-eds in major publications."
- "Opponents of the idea of a maximum wage have clout and resources that dwarf the means of maximum wage advocates. But progress towards an income maximum is moving ahead at the local level, with two major cities in the United States enacting legislation that moves us towards an income limit."

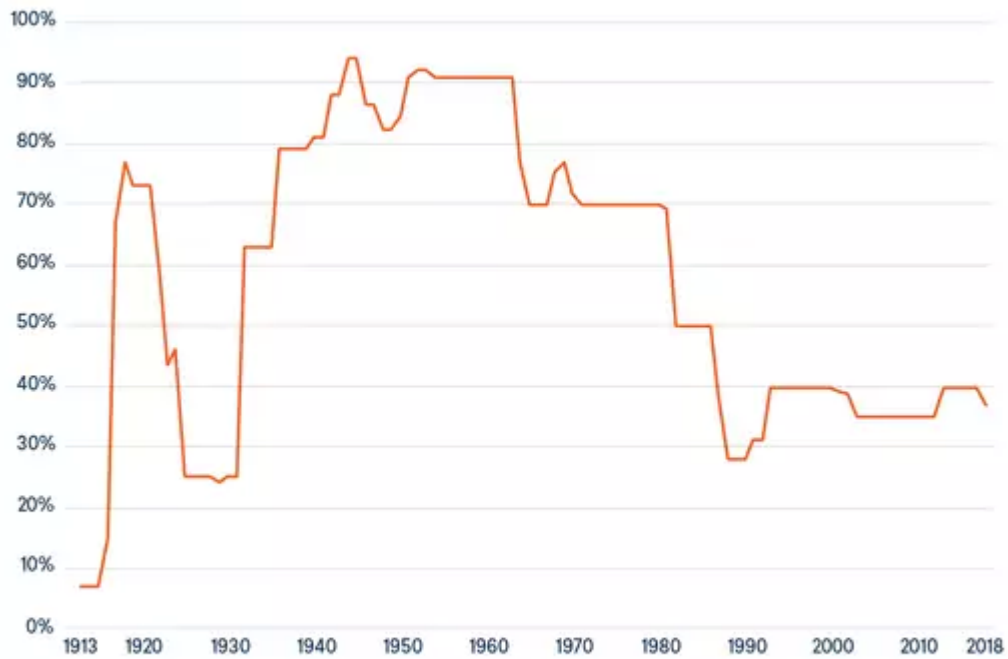
Inequality must be curbed

In their book "The Spirit Level", Kate Picket and Richard Wilkinson have shown that inequality leads to increased index of social and health problems.



As the figure above shows nations with higher inequality have higher index of health and social problems. Hence it figures that inequality must be reduced to curb health and social problems.

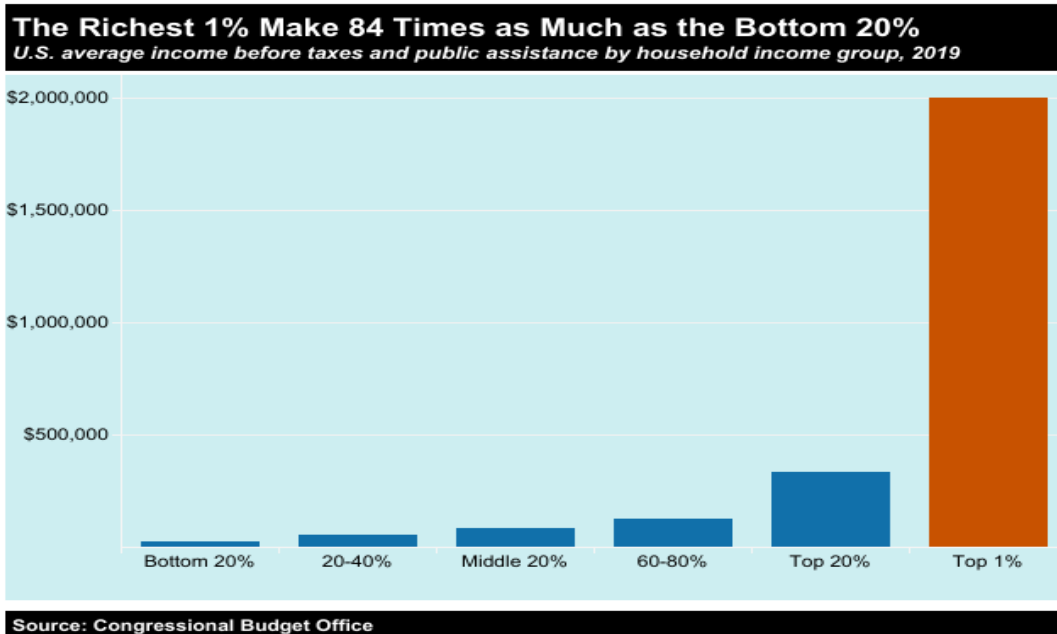
U.S. Top Marginal Tax Rate (federal income tax)



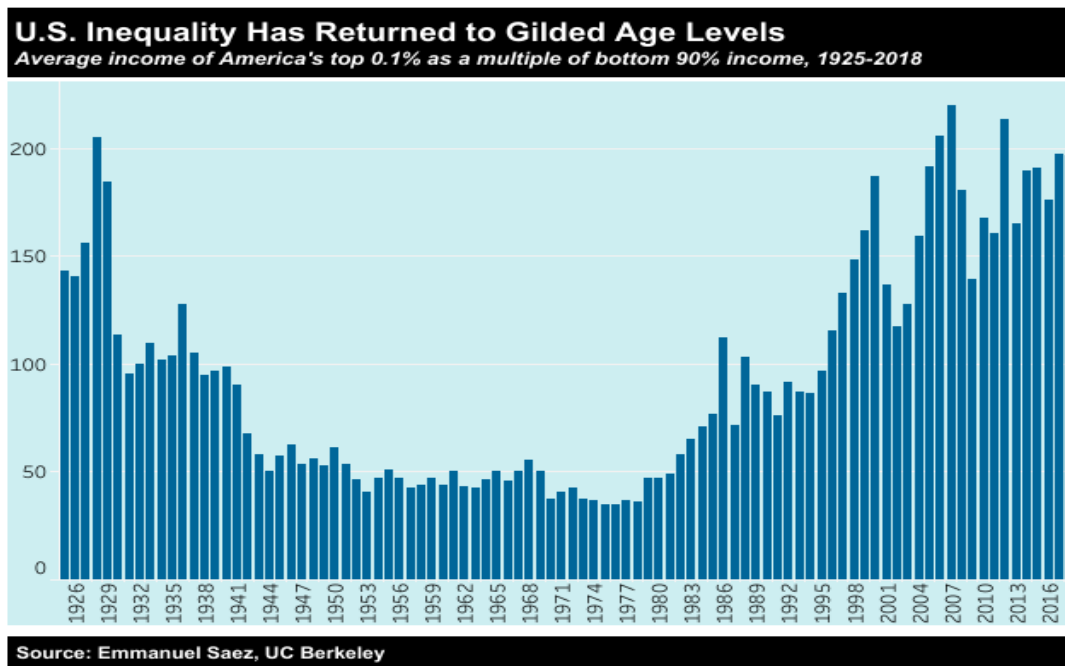
Source: Tax Policy Center.

COUNCIL ON FOREIGN RELATIONS

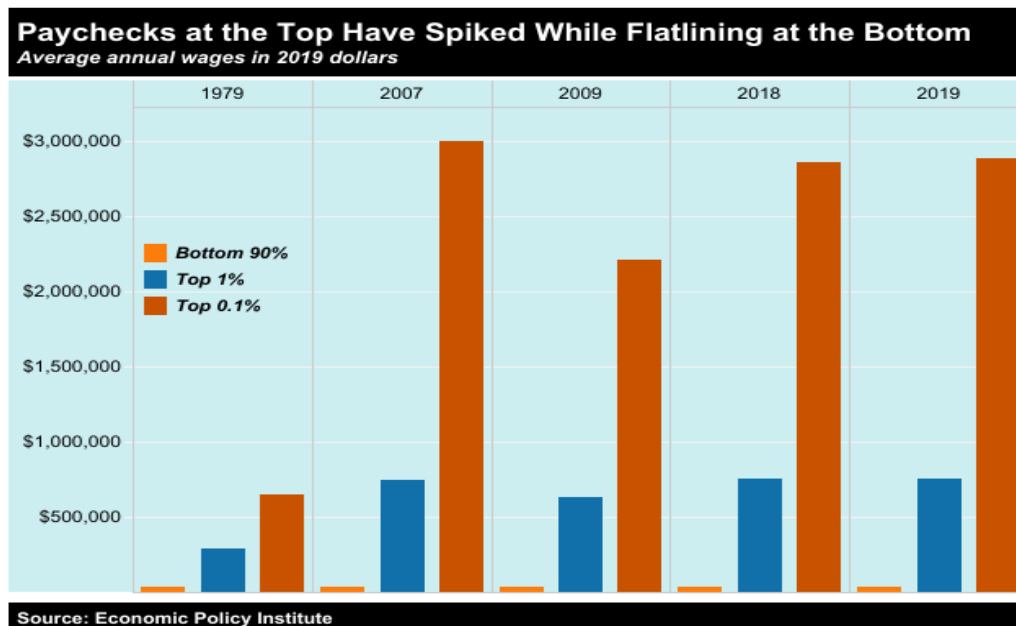
However efforts to curb inequality have reduced since 1950s especially in USA. As the graph above shows the US top marginal tax rate has decreased from nearly 90% to around 40%.



As the above graph shows top 1% of Americans make almost 84 times the income of bottom 20%. However inequality was not always this bad. Indeed inequality had reduced substantially in 1970s and inequality has increased since then.



The figure below shows how incomes were not that different in 1970s.



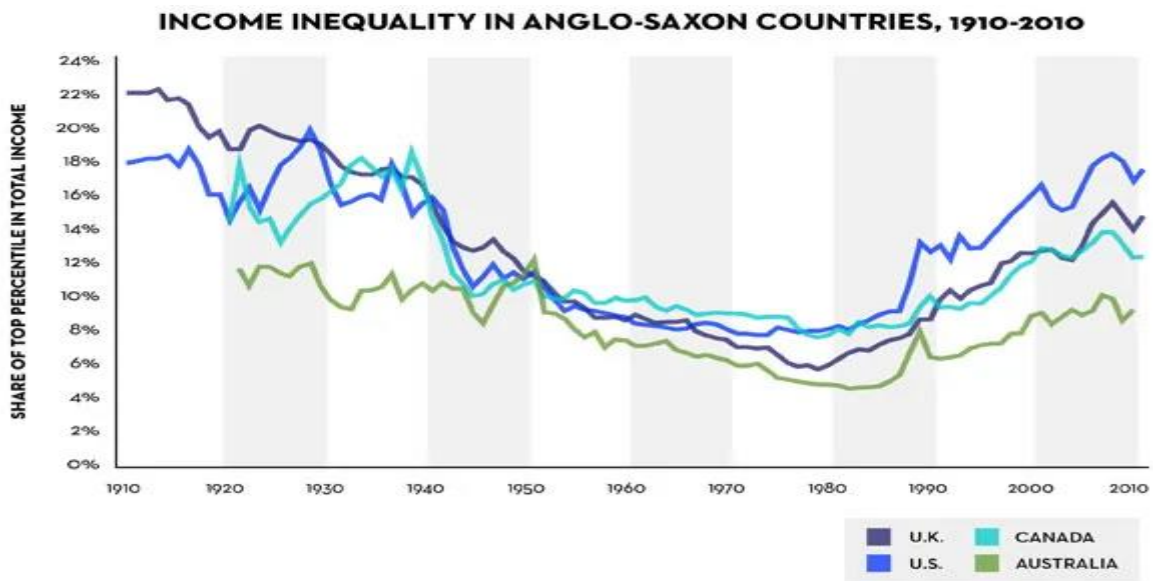
Piketty's Inequality

French economist Thomas Piketty has written an interesting book – “Capital in the Twenty First Century” – a new book about rising inequality. Thomas Piketty is regarded as Marx of 21st century. Now a detailed discussion of Piketty’s work is beyond the scope of this paper. However a perfunctory idea of Piketty’s argument can be easily grasped with few charts.

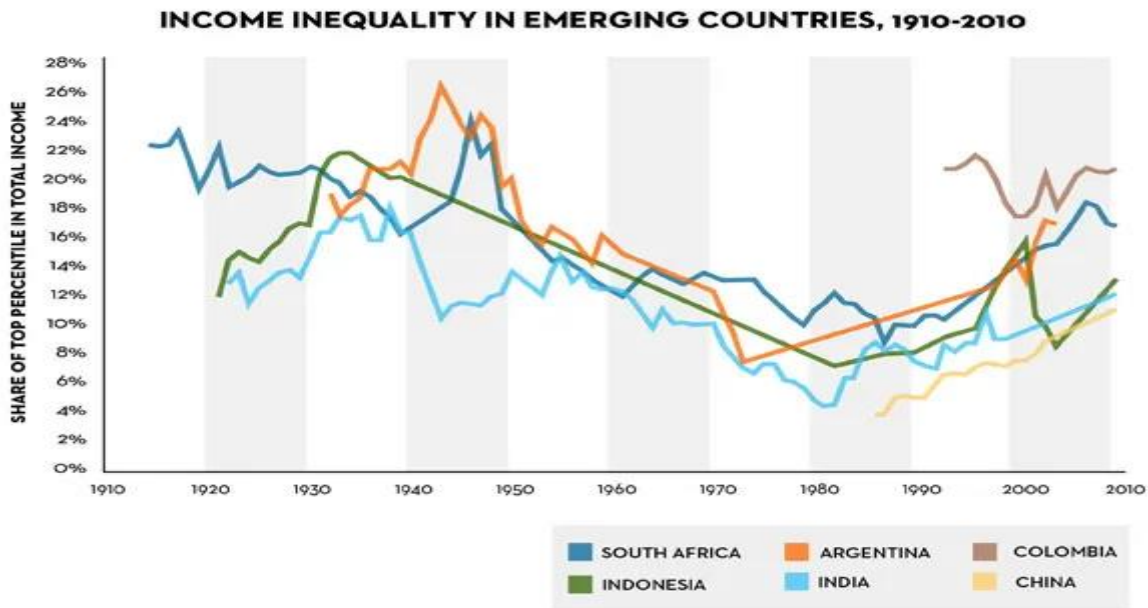
Let us examine the first chart below here which examines income of top 10% of American population from 1910 to 2010. While inequality climbed in 1920s it declined and was stable from 1940s to 1970s and then eventually started rising again



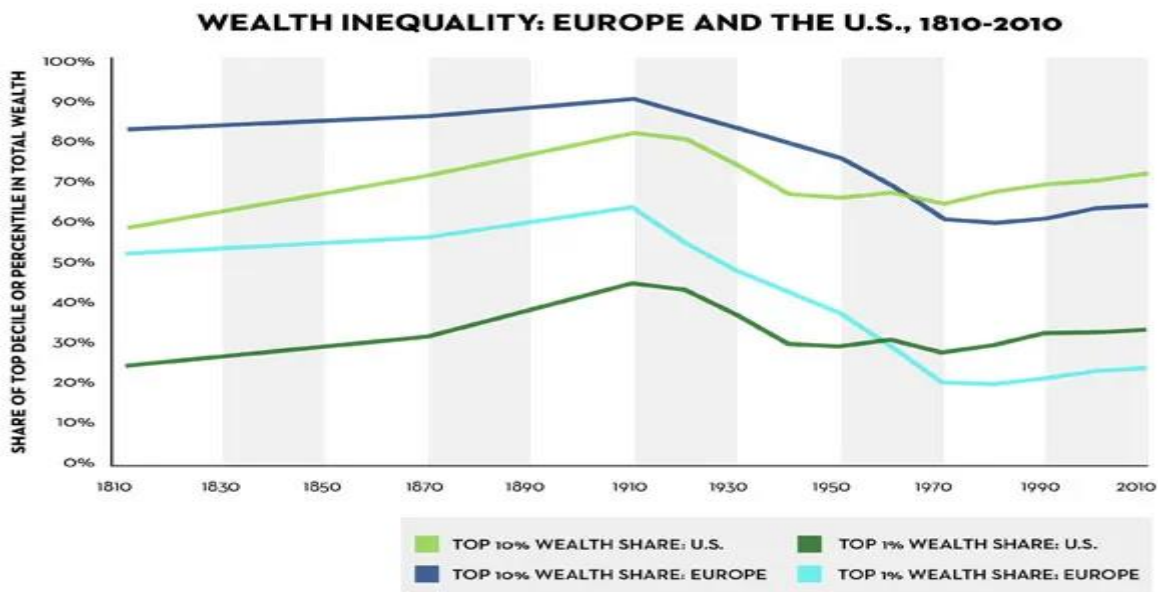
Piketty compares the other Anglo- Saxon countries – Australia, Canada and United Kingdom and confirms that rising inequality is a global phenomenon. Since 1980, the share of income going to top 1 percent has risen sharply in those three nations too. However the United States is far more unequal, though this was not the case 90 years ago.



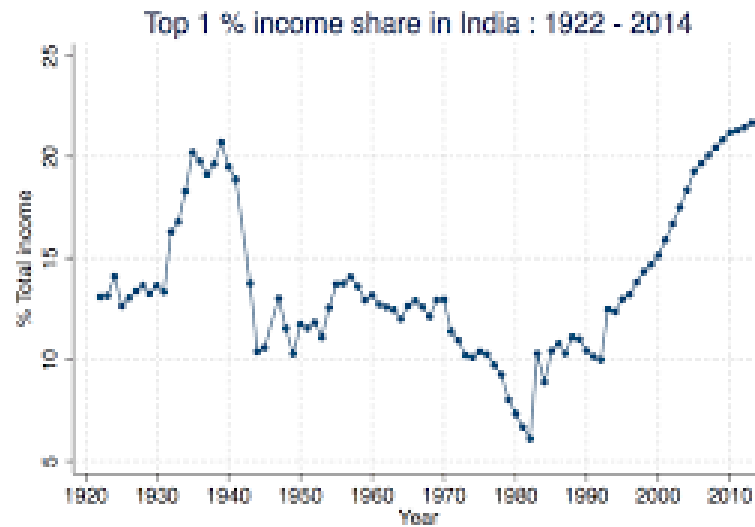
Piketty points out that the growing inequality is story is true in emerging markets as well – India, Colombia, Argentina, China, South Africa and Indonesia.



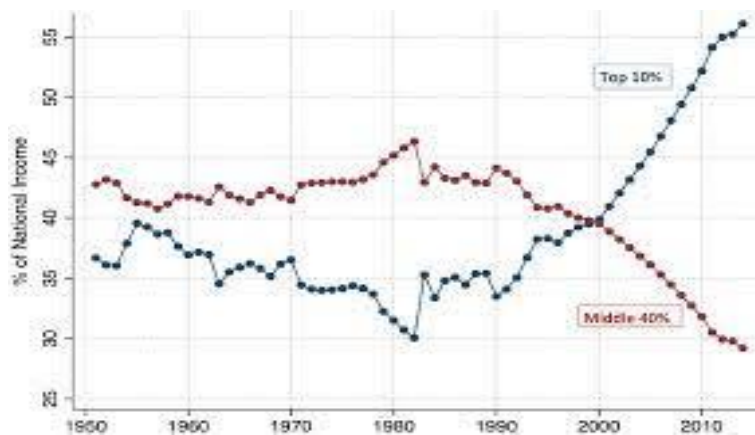
Piketty then turns the share of wealth in Europe and the USA and points out that the U.S. monied elite has outstripped its counterpart on the other side of the Atlantic, and wealth has become even more concentrated in the United States than it is in Europe. In 2010, the American one per cent owned about a third of all the wealth: the European one per cent owned about a quarter.



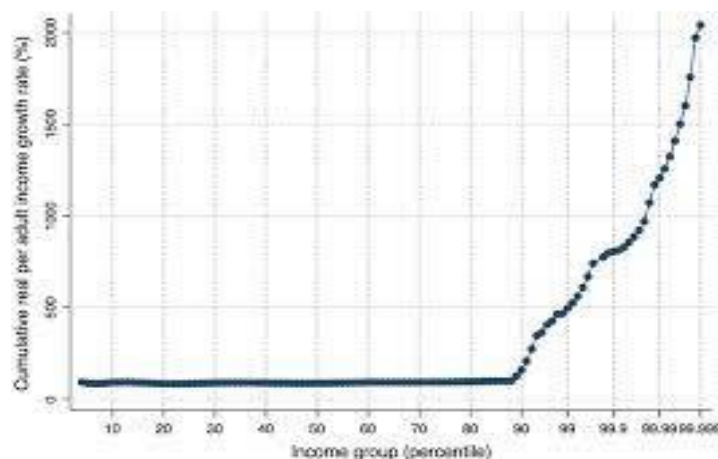
On India Piketty has something more to say. He has pointed out in his work – “From British Raj to Billionaire Raj”, how inequalities had decreased in India from 1920 to 1980 and has increased since then. Piketty and Chancel have studied inequality of income in India have following observations to make. The top 1% of earners captured less than 21% of total income in the late 1930s, before dropping to 6% in the early 1980s and rising to 22% in the recent period. Over the 1951-1980 period, the bottom 50% group captured 28% of total growth and incomes of this group grew faster than the average, while the top 0.1% incomes decreased. Over the 1980-2015 period, the situation was reversed; the top 0.1% of earners captured a higher share of total growth than the bottom 50% (12% vs. 11%), while the top 1% received a higher share of total growth than the middle 40% (29% vs. 23%).



Piketty shows through various charts that the top 1% income share in India decreased until 1980 and has started to increase since then. Piketty has also shown that while the incomes to top 10% have increased the incomes of middle 40% have decreased since 1980s.



Piketty in his figure below shown that the bottom 90% has seen a lower growth rate in income than the top 10% as can be seen in figure below.



This through his various studies in India , Europe and other emerging countries Piketty has demonstrated conclusively that inequality has increased considerably all over the world.

II. Conclusion : Do not throw the Baby with the Bathwater

Demise of Communism in late 1980s and early 1990s, has led to total rejection of equality as a virtue to maximize optimum social welfare. Of course capitalism has increased incomes tremendously. One needs to only see how China has grown manifold times since 1980s to realize the benefits of capitalism. China is another instance in East Asian Miracles economies such as Japan, South Korea, Taiwan, Hong Kong. India is a smaller miracle. But incomes have substantially increased in India leading to higher life expectancy and higher educational levels. But while transitioning from communism or socialism to capitalism, we have thrown the good parts of these systems along with bad parts. Of course socialism and communism can cramp a growth rate which is bad, but socialism and communism emphasized equality of incomes which not only made moral and ethical sense, but also led to moral optimal welfare of society. Somehow after 1980s we have unabashedly embraced capitalism without mitigating the inequalities spawned by capitalism. In some sense we have thrown the baby with the bathwater. We need to have best of both worlds. We need to have the cake and eat it too. We need to have good growth rates and equality too. The first step in this direction will be maximum wage and taxes on wealth.

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