TOWARD AN OPTIMAL LEVEL OF INCOME INEQUALITY

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CHAPTER I

Introduction

In the U.S. ninety percent of the people own less than a quarter of the nation's wealth (as measured by net worth). The richest half of one percent own almost a third (Mishel and Frankel 1991). Many hard-working people have negative net worth, and almost thirteen percent are in poverty. When confronted by such statistics few would regard such a distribution fair. It is inconceivable that the holdings of the wealthiest group are in any way proportionate to their contribution to society. Yet such inequality persists and is generally tolerated.

Beliefs which underlie tolerance of such inequality will be explored and challenged in this paper. What is hoped will be a more rational and humanly beneficial basis for determining income and wealth distribution will also be presented.

The first part of this study describes the moral, philosophical, and ideological framework of issues related to our inquiry. The more economics pretends to be a value-free positive science, describing timeless truths independent of ideology, historical time, and cultural norms, the more the falseness of this proposition becomes evident. Other authors have demonstrated this theme well, so I will not belabor it here. The point is made to avoid making the same mistake. Chapter II was written with the conviction that it is better to affirm and be aware of the value assumptions that underlie our studies so that they may be thoroughly thought out.

This paper is elaborating and extending on ideas presented in the system of socio-economic thought developed by the Indian social philosopher P.R. Sarkar. He called his system Prout, an acronym for the Progressive Utilization Theory. Relevant aspects of the theory will be also be presented in Chapter II.

In the second part I discuss elements of human productivity, and from these I derive a model for determining what amount of income inequality between individuals is actually justified in society.

Chapter IV presents ideas that have been presented by various economists for reducing income inequality.

CHAPTER II

The Philosophy of Inequality and the Proutist Challenge

There is little that has more impact on income and wealth distribution in a society than the attitudes of that society toward the institution of private property. The philosophical origins

of attitudes toward private property which are dominant in the U.S. today will be discussed in this chapter, along with the rationale for the Proutist challenge.

Locke and the Justification of Private Property

A wide range of income and wealth inequality is tolerated in the United States, and has been since the nation's inception. To suggest that such inequality does not serve our society well contradicts a long-standing tradition and conflicts with deeply ingrained habitual patterns of thinking. Central to this tradition is an unquestioning acceptance of the absolute validity of the institution of private property.

Early philosophical articulation of modern attitudes toward private property can be traced to the seventeenth century writings of John Locke. While he acknowledged that the bounties of the earth in their natural state were common to all, when transformed by human labor they became private property:

Though the earth and all inferior creatures be common to all men, yet every man has a "property" in his own "person." This nobody has any right to but himself. The "labour" of his body and the "work" of his hands, we may say, are properly his. Whatsoever, then, he removes out of the state that Nature hath provided and and left it in, he hath mixed his labour with it, and joined to it something that is his own, and thereby makes it his property (quoted in Lekachman 1976, 59).

What is immediately striking about this passage is the duality of its viewpoint. God provides the goods of Nature, and Man appropriates them for his use. But God is separate from Nature, as is Man. Man as an individual, distinct and separate from his fellow men, is also emphasized.

Here is an idealized view of the primitive state of nature and early society that was typical of the social contract thinkers of Locke's era. These fanciful accounts served as convenient premises to explain and justify the institutions the thinkers were familiar with (Mini 1974, 32). Needless to say, Locke's account had little to do with the reality of his present or of primitive times. Primitive hunting, gathering, and to a lesser extent craft production were collective efforts. Particular fruits of labor could not be easily attributed to a single individual. By Locke's own time in his country there were few unowned spaces or natural resources that any person could "mix his labour with" to create something of his own.

Leckachman points out that up to this point, Locke's philosophy is fairly egalitarian. As he quotes Locke, the doctrine could even be considered environmentally sensitive by contemporary standards:

As much as any one can make use of to any advantage of life before it spoils, so much he may by his labour fix a property in. Whatever is beyond this is more than his share, and belongs to others. Nothing was made by God for men to spoil or destroy...As much land as a man tills, plants, improves, cultivates, and can use the product of, so much is his property (1976, 60).

Here is recognition of the illogic of possession beyond what can be reasonably used or consumed. But Locke goes on to argue that inequality is necessary and inevitable as society

evolves. As both people and property goods increase, property must become more removed from the labor which originally produced it. Society codifies systems of exchange and inheritance to regulate the flow and possession of goods. So "private men...by compact and agreement, settled the property which labour and industry began (Lekachman 1976, 60)."

The development of money in particular contributed to inequality. Also "by compact and agreement" humans conferred value to money. By this act they gave consent "to a disproportionate and unequal possession of the earth." Money could not spoil, negating the necessity for the limits argued in the passage quoted above: "...a man may, rightfully and without injury, possess more than he himself can make use of by receiving gold and silver, which may continue long in a man's possession without decaying for the overplus (Lekachman 1976, 60-61)."

While the influence of Locke gradually declined in Europe in the century following his death, his social contract thought, and particularly his defense of property, took firm root in the new American republic (Sibley 1970, 413). Property was further seen as the guarantor of liberty -- only citizens with their own property and means of livelihood could resist usurpations by the state. Even today the American reverence for the institution of private property may be unequaled anywhere in the world. This is evidenced by an aversion to taxation for government services and amenities, far greater than any seen in other advanced industrialized countries.

One need not look long to find flaws in the Lockean justification of private property. It is true that money itself cannot spoil, but it can allow the purchase of tangible goods in excess of what an individual can use. Furthermore money must be seen as an economic resource that can be hoarded or squandered, with opportunity costs of great consequence to the well-being of society. If one accepts that possession of property is crucial to defend liberty it becomes all the more important that social mechanisms be in place to ensure property is fairly and rationally distributed among all. But this may require compromising the sanctity of the private properties of some individuals (Sibley 1970, 511).

Prout and Property under Cosmic Inheritance

Deriving from an entirely different epistemology, the ideological system of Prout challenges the moral validity of private property with the doctrine of Cosmic Inheritance.

In expounding his doctrine, Sarkar begins similarly to Locke, affirming the joint right of all to the gifts of the Creator:

We cannot create anything original...We can change their form and create chemical compounds or physical mixtures... Rudimental factors cannot be created by human beings. Hence ownership lies with the Cosmic Entity and not with the individual. We can only use them (Sarkar 1987, 1).

But soon Locke and Sarkar part ways. Where Locke depicts individuals rightfully taking as their own the resources of the universe by adding their own labor, rightful ownership never leaves the Creator in Sarkar's system. Human rights to the material world are usufructuary, not those of ownership. The Divinity remains ever-engaged with His creation, inspiring and attracting its individual forms to move toward the unity and perfection of His own being. Physical resources are divided not as by competitors, or even as by contractual partners, but

as would be done in a loving family which needs to use its limited resources in a way that best aids the development of each member of the family:

This universe is our common patrimony. Ours is a universal joint family, Parama Purus'a or Supreme Consciousnes being Supreme Father. Like members of a joint family we should live with the policy of "Live and let others live." The exploited and unexploited potentialities of the world do not belong to any particular person, nation or state. They can only enjoy them. We are to utilize all the mundane and supramundane wealth accepting the principle of Cosmic Inheritance. (Sarkar 1987, 1)

The implications for the kind of economy that arises from this perspective are several. First, in the Sarkarian view the Creator is not separate from the creation, but permeates it and resonates in every particle of it -- the Creator and creation are inseparable. There are no inanimate objects, but all is vital with latent consciousness. Human labor need not mix with the things of nature to confer on them value, they have inherent value simply by reason of their existence, or as Sarkar puts it, they have existential value (as opposed to utility value) (Sarkar 1982, 63). Humans do not have the right to destructively exploit plants, animals, and other materials, with no regard for their well-being. The Creator invites humans to use, but not abuse.

Personal property may be recognized as a social convenience, but its absolute moral validity is not recognized. A scarce productive resource, not being owned individually, cannot be used however an individual who finds herself in possession of it likes, according to arbitrary individual standards of utility. Indeed, standards must be defined and policies determined for utilizing the resources and distributing them in order to ensure that they provide maximum benefit for all members of the universal family (i.e., ensure the growth and development of the potentialities of the individual.)

Motivations that drive the economy are no longer simply to accumulate as many material goods as possible, as is assumed in our present economy, and in the Lockean model of private property. We don't own the vehicle that takes us on life's journey -- we drive a borrowed car. We are grateful to the Owner for providing it for us and recognize that He will be upset if we misuse or damage it. And we need to keep it in good shape so that others in the family can use it. Personal actions are aimed at character growth rather than material growth; development of talents and potentialities, growth in wisdom and knowledge, expansion of consciousness, and spiritual realization. But in keeping with the family metaphor, this growth does not occur under conditions of self-absorption, but in an atmosphere of communitarian concern, with each person helping the other attain their higher goals -- just as in a healthy family where all cheer on and help each other attain their potentialities.

Taking the family metaphor still further, it does not exclude all materialism. Every child in every family likes to receive gifts. But wise parents will provide gifts that are not only enjoyed, but encourage a child's creative and developmental growth. Gifts may also be given as rewards for outstanding accomplishments.

The careful reader can see that these implications of the doctrine of Cosmic Inheritance permeate the principles guiding a Proutist economy that are described in the next section.

Principles Guiding a Proutist Economy

The subject of this paper is efficient and equitable income distribution. But income distribution in any system cannot be understood without seeing how use and distribution of all resources are prioritized. Since a Proutist context will be assumed in the model of ideal income distribution to be introduced later in this paper, it will be helpful to be aware of some of the guiding principles of Prout.

Subjects dealt with here are 1) minimum necessities, 2) the theory of atiriktum, or incentive, and 3) the five fundamental principles of Prout. These were first introduced by Sarkar in the late 1950s in the last chapter of a book entitled Ananda Sutram. The book was written in the traditional Indian Sanskrit sutra form, which consists of concise aphorisms followed by explanatory commentaries. Here I will give translations of the relevant aphorisms (or sutras), and explain their importance to our subject.

1) "The minimum necessities of all should be guaranteed in any particular age (Sarkar 1987, 23)."

This must be the primary function and duty of any economy. Without the necessities of life -- food, clothing, medical care, housing, and education -- human beings cannot progress to achieve individual potentialities or develop a high level of culture. Nor can they undertake rigorous spiritual disciplines which can bring their minds to the state of supreme bliss of union with the Infinite Consciousness, which Sarkar would regard as the ultimate goal of individuals and society.

The reasoning here is not unlike that developed by Abraham Maslow in his humanistic psychology (Friedman, 1977). Maslow established a hierarchy of human needs. From lower to higher, they are physiological, safety, belongingness and love, esteem, and self-actualization. Lower needs must be met in order to progress to meeting higher needs. At the level of self-actualization individuals have most physical and psychological needs met and are free to be altruistic and to develop their higher potentialities. Above this level is what Maslow called the transpersonal. Activity here is purely spiritual, characterized by meditative introspection, perfect contentment, complete unselfishness, feelings of harmony and oneness with the universe, and experience of higher states of consciousness. According to Maslow, using this model it is possible to determine "better" or "poorer" cultures, the better ones gratifying all basic human needs and permitting self-actualization (Maslow 1968).

Sarkar stresses that a healthy economy and society require that the basic necessities not be distributed directly by any official agency. Rather they should be purchased in the marketplace with income earned in useful employment. The government must have a policy of one hundred percent employment, with a minimum wage set at a level adequate to purchase the necessities. It should also be understood that the standard for minimum necessities will change with time and place.

2) "The surplus goods and services, after distributing the minimum necessities, are to be given according to the social value of the individual's production (Sarkar 1987, 23)."

After an economy is able to provide the minimum necessities to all, it will have to decide how to distribute the remaining surplus. To distribute it equally would violate the laws of Nature, argues Sarkar: "Diversity is the law of nature and uniformity will never be...Those who want to equate everything must fail, for this is unnatural (1987, 22-23)."

Neither does Sarkar accept the communist ideal: "'Serve according to your capacity and earn according to your necessity' sounds good to the ears, but will reap no harvest in the hard soil of the world (1987, 24)."

Rather, the surplus "will have to be distributed among talented people according to their merit." This surplus that is used as an incentive to coax greater service for society from the especially capable is known in Proutist economics by the Sanskrit word Atiriktum. Atiriktum is given in the form of salary, but that is not its only form. Since its purpose is to increase the capacity of those with high potential to benefit society, atiriktum can take the form of special task-related priviledges. For example, a talented researcher may be given access to expensive specialized equipment, such as an electron microscope, or a particularly effective and selfless social service worker may be offered more staff to work under her.

In an article published shortly before his death in 1990, entitled "Minimum Necessities and Maximum Amenities (Sarkar 1989, 31)," Sarkar expanded on the relationship between minimum necessities and amenities offered the meritorious. He stressed that even with the minimum necessity rule, people should not be left with a bare-bones existence. While amenities need to be provided to the meritorious elite, efforts should be made to maintain the common people at an economic standard that is appropriate for that time and place and allows what most consider to be a reasonably dignified and care-free life.

While Sarkar does not accept equality as an ideal, he insists there must be limits to inequality. As there is a minimum wage, Sarkar also proposes a maximum income. Efforts should be made to close the gap between the two by increasing the minimum.

Sarkar has not defined the meaning of the term "social value" in the aphorism above. In the opinion of this author the connotation is normative, and does not necessarily imply simply technical valuations based on marginal costs, marginal revenue products, scarcity, etc., although those factors may enter into valuation.

3) The following five sutras define the principles by which resources are distributed under Prout. Together they comprise what are known as the five fundamental principles of Prout (Sarkar 1987, 24-28). A unique aspect of Proutist thought brought out in these sutras is that resources, human and non-human, are recognized to be trifarious in nature, comprised of physical, psychic, and spiritual qualities.

"No individual should be allowed to accumulate any physical wealth without the clear permission or approval of the collective body."

This sutra recognizes that physical resources are scarce; hoarding or misusing any resources necessarily diminishes opportunities for others. Accumulating material wealth is inescapably a social act. Letting wealth sit idly rather than investing it directly reduces the opportunities for the wealth of others in society. On the other hand, the nature of investments made in a community also has a direct bearing on the quality of life there. The community must have a say in how resources are invested. Presumably this principle would be implemented through community investment boards which would give permission for raising and investing funds for specific purposes.

Limits on incomes that are in excess of what can normally be consumed help alleviate the problem discussed here. Prout proposes cooperative banks as the prefered medium for saving and disbursing investment funds.

"There should be maximum utilization and rational distribution of all mundane, supramundane, and spiritual potentialities of the universe."

Maximum utilization means to make full use of resources at human disposal, with both maximum economic and mechanical efficiency. It is the conviction of Prout that all can be maintained at a successful standard of living if resources are used intelligently. Prout agrees with the late R. Buckminster Fuller when he said, "We have enough technological know-how at our disposal to give everyone a decent life, and release humanity to do what it is supposed to be doing -- that is, using our minds, accomplishing extra-ordinary things, not just coping with survival (quoted in Friedman, 1977)."

But intelligent use is the key. As the saying goes, we have enough for everyone's need, not everyone's greed.

Coming back directly to the topic of our paper, excessive wealth concentration has much to do with poor utilization of the earth's resources. For example in Third World countries where most land is held by an elite few, it often sits idle or is used to produce profitable exports. Most rural residents are forced to work marginal land, with dire ecological consequences.

Waste of supramundane, or intellectual-oriented, resources occurs, for example, when people are not educated, or are denied opportunities to contribute ideas because of racial or sexual discrimination. One cannot help but wonder what delights would be brought to human life if the creativity employed in advertising to convince us to purchase what we don't need were instead directed in humanly beneficial directions. The same can be wondered about the engineering skill now used in military design. The spiritual potentialities within each human being, with their capability of bringing peace, harmony, wisdom, wholeness, and lasting happiness to human life, remain undiscovered in materialistic cultures. Mystics of all cultures have made it the goal of their lives to realize this inner treasure, and have developed disciplines and methods to accomplish this.

Rational distribution refers to the system of atiriktum explained above: "...apart from meeting the indispensable minimum necessities of all, the necessities of the meritorious people and those with special requirements must also be met (Sarkar 1987, 25)."

"There should be maximum utilization of the physical, metaphysical and spiritual potentialities of the unit and collective bodies of human society."

This sutra affirms the interrelatedness of individual and collective well-being. Healthy individuals make up a healthy society and a healthy society fosters the development of healthy individuals. According to Prout there is no inevitable conflict between individual and collective interests. Rather, their true interests are shared.

The results of excessive individualism can be seen in the breakdown of society now occurring in the inner cities of the U.S. In keeping with the dominant ideology of individualism, most seek to add comfort and wealth to their own lives while ignoring the needs of others. When desperate and resourceless people resort to crime and drug use until it

reaches a scale that threatens the safety of all, the political system still refuses to address the underlying problems and opts to build more jails. The crime is seen as an individual moral failing.

Neither does this sutra support abandoning all individualism for the supposed good of collective society. The the demise of communism has amply demonstrated the danger of excessive collectivism. Instead of an ideal society, communism has brought inefficiency while stealing all joy from life, making life mechanical.

The importance of the concept of common individual and collective good behind this sutra to income distribution is obvious. Where there is excessive income and wealth concentration it is not possible to channel resources for the common good.

"There should be a proper adjustment amongst these physical, metaphysical, mundane, supramundane and spiritual utilizations."

We have seen that Prout rejects notions prevalent in neo-classical economics, that resources should be distributed and used in accordance with absolutists ownership rules and individual utility decisions. In the commentary for this sutra Sarkar defined alternative criteria for deciding how to use resources when competing possibilities present themselves.

Here physical and metaphysical potentialities refer to those of the individual and society, or human resources, while mundane and supramundane refer to the potentialities of the rest of the created universe. Of the kinds of resources mentioned, the spiritual is most rare and valuable. Metaphysical and supramundane potentiality, having to do with the psyche and intellect, are more rare and valuable than mundane and physical potentialities. Where there are competing uses for any resource the more rare and valuable quality of the resource should be used.

A true saint who is capable of imparting spiritual wisdom is certainly a rarity in today's world. She may be capable of doing tasks requiring intellect such as research or design, and may be capable of physical labor. But to occupy most of her time in such intellectual or physical labor would be a tragic waste for society. She should be allowed to spend her time with her meditation and in teaching others.

For another example, an area with inspiring scenic beauty would find preferable use as a park rather than a mineral mine.

Sometimes market outcomes are the same as Proutist utilization criteria would determine, but often they are not. Where they are not Prout would support intervention in the market. Where concentrated wealth rules markets outcomes consistent with Prout are unlikely.

A. C. Pigou, one of the first economists to write extensively on the problems of income distribution, described well the more rational use of resources that results when income inequality is lessened:

If income is transfered from rich persons to poor persons the proportion in which different sorts of goods and services are provided will be changed. Expensive luxuries will give place to more necessary articles, rare wines to meat and bread, new machines and factories to clothes and improved small dwellings; and... other changes of a like sort(Pigou 87)."

"The methods of utilization should vary in accordance with the changes in time, space, and person, and the utilization should be of a progressive nature."

This sutra acknowledges that change is constant, and affirms that it is better to embraces it and direct it rather than fear it. Technological progress can free human minds and hands for higher pursuits.

It is income and wealth concentration that often lead to the negative consequences of technological change that people often fear. Individuals with great wealth can control the direction of research, and use that power to increase their wealth still more. Again, this market outcome may in some cases be beneficial for society, but often is not. Production technologies designed to profit the few often result in unemployment and environmental degredation.

Chapter III

Productivity and Income Inequality

Maslow and Eupsychian Management

It is often argued that wide disparities of income are needed to encourage the most talented to be more productive and accept jobs that are more challenging. We have accepted that some income inequality can be beneficial to society if it actually provides an incentive for greater productivity. However it must be recognized that human motivation is complex -- there are many reasons why humans choose to be productive, only one of which is income. This diminishes the need to rely on income incentives alone to raise productivity. For that reason in this section we will digress to explore non-income related aspects of productivity.

Maslow has explored this theme at length. He found that healthy, self-actualizing people become devoted to their work because of their interest in the work itself, not because of external rewards. He reverses usual assumption of the disutility of work prevalent in neo-classical economics, which demand explanations for exerting effort in work:

A good question: Why do people not create or work? Rather than, Why do they create? Everyone has the motivation to create and to work, every child, every adult. This can be assumed. What has to be explained are the inhibitions, the blocks, etc. What stops these motivations which are in everyone (Maslow 1965, 8)?

Maslow's answer to his question lies in negative aspects of the work environment. On the other hand, a well-managed, positive work environment can greatly enhance the natural desire to do good work. Employing strategies to foster such a positive work force and work environment Maslow called eupsychian management. The beneficial effects of such management can affect the whole society:

These highly evolved individuals assimilate their work into the identity, into the self, i.e., work actually becomes part of the self, part of the individual's definition of himself. Work

can be psychotherapeutic, psychogogic (making well people grow toward self-actualization). This of course is a circular relationship to some extent, i.e., given fairly o.k. people to begin with, in a fairly good organization, then work tends to improve the people. This tends to improve the industry, which in turn tends to improve the people involved, and so it goes. This is the simplest way of saying that proper management of the work lives of human beings, of the way in which they earn their living, can improve them and improve the world and in this sense be a utopian or revolutionary technique (Maslow 1965, 1).

Maslow found it counter-productive to assume people will avoid work if given the chance. Most "are for good workmanship, are against wasting time and inefficiency, and want to do a good job, etc... (1965, 17)."

These positive findings are dependent on psychologically healthy individuals working in a healthy environnent. Where these are lacking coercive management and material incentives must play a larger role (Maslow 1965, 32). By Maslow's thinking then, excessive reliance on material incentives may be indicative of systemic breakdown. It is not surprising that Maslow is highly critical of conventional economics, with its stress on money as a motivator:

In the textbooks I've seen, this is based almost entirely on an obsolete motivation theory of lower basic needs exclusively (leaving out higher needs and metaneeds); furthermore it assumes that these can be phrased in interchangeable terms, which in turn implies that any accounting deals entirely with objects or qualities or characteristics that can be phrased in terms of money and therefore put into a money accounting balance sheet (205).

Still, Maslow acknowledges the place for healthy competition, writing, "A boxer needs a good sparring partner or he will deteriorate." Some income disparity can also be beneficial: "... then it is very desirable (and perhaps even theoretically necessary), that cream be able to rise to the top of the milk. The best product should be bought, the best man should be rewarded more (212)."

Elements of Productivity

In his study of worker motivation, John F. Tomer (1981) has proposed the following model to explain motivation in a work environment:

$$U = F(E,P^*,DO,WE,FG)$$

This is expanded from a model developed by Leibenstein (1975) to include humanistic factors adapted from Maslow's theory of motivation. In keeping with economic convention, U here stands for an individual's utility. E is the amount of directed work effort. P*, standing for personality, is starred to distinguish it from the similar factor offered in Leibenstein's model based on id and superego (constraint concern). To this Tomer adds individual drive and maturity or psychic health. Here Tomer cites Maslow that a healthy individual is self-actualizing, and therefore more self-motivated and less dependent on external motivators. DO stands for the demands of the organization, along with its accompanying pressure.

The element WE, or work environment, can also be broken down into distinct, though interacting elements. First, there must be a match between the individual and the job or organization. A person can be more or less suited for the nature of a job (ie., whether it

involves social interaction or is solitary, literary or mechanical skills, etc.) or to the management style of an organization (competitive, or cooperative and consensus-oriented). Second is the structure and supervision of a job. Third, both the organization and particular jobs require meaningful goals. Finally, there are implicit contracts, a term coined by Arthur Okun to denote unwritten standards of fairness which govern employer-employee relations.

FG represents future growth, the potential perceived by the employee to grow and learn in the present job. Presumably, such potential will increase self-esteem, enhancing job satisfaction and bring motivation for a higher level of performance.

This is an improvement over Leibenstein's model, U = F(E, P, DO), which implies that the only way to improve productivity is to increase pressure from the boss. Tomer points out that his model shows a trade-off is present from this pressure. Short-term productivity may rise, but at the cost of long-term productivity, as employee satisfaction erodes. Further, Tomer's model emphasizes that long-term motivation, resulting in higher productivity, comes from a high-quality, humanistic work environment. Development of such an environment requires investment in what Tomer has coined organizational capital.

Here I present a model that is similar, yet has important differences. I forgo the economic convention of using "U" for "utility, replacing it with "Pr" for productivity. We are not measuring individual utility which results in productivity, but will look at productivity directly. (Tomer's model seeks to identify those factors which affect an individual's utility to expend effort on a job.) It was judged that there are causal factors important to creating ultimate productivity, such as talent, but are not related to any conscious or even unconscious utility calculation.

Let us look closely at the model that will be developed through the rest of this paper.

Pr = F(A, P, Ed, Ex, WE, SC, MI)

"A" stands for individual ability. I will assume that there are innate differences in abilities and talents that affect one's productive capacities.

The designation of P for personality is accepted here as in the previously cited models. Tomer's expansion of the personality concept to include psychic health according to Maslovian self-actualizing criteria is also accepted here -- self-actualizing people are likely to be more productive. Work ethic should also be considered as a personality trait, related to psychic health, yet distinct.

Acknowledging the contribution of the human capital theory in labor economics, education (Ed) is included in the model. Even critics of this theory must acknowledge that formal training has at least some relation to the productivity, and consequently the value, of an employee. However the importance of experience (Ex) is also acknowledged, as is emphasized in the competing Institutionalist school (Osberg 1984).

Also accepted here is Tomer's inclusion of WE for work environment.

A new element introduced in this model is SC, for service culture. This refers to the degree to which service and self-sacrifice are encouraged in the culture. Assuming the organizational

objective is worthwhile, a person more enculturated in a service ethic would be more motivated to expend effort toward that objective in his or her organizational role, without expectation of personal reward.

Finally comes the element of MI, or material incentive. As can be seen, this is only one of several factors involved in achieving productivity, and should not be overemphasized. However, it is this factor which must be viewed separately in our discussion of optimal income inequality.

All of the variables can be assumed to interact. For example, those with greater ability are likely to pursue more education, and more education may enhance abilities. Experience will reinforce the effects of education as well as enhance ability, while both ability and education will open doors to gain experience. The quality and organization of the work environment can also reinforce or detract from the effects of the other variables, as does the quantity and nature of compensation.

This extensive interaction among the variables makes the Cobb-Douglas functional form most suitable to specify the model:

Pr = A P Ed Ex WE SC MI

In the following section we will be most concerned here with the effect of MI in the equation above, or in mathematical terms, MI/ Pr. The other factors are held constant, but are assumed to be established at very high or optimal levels. We are assuming a progressive society where a quality work environment, high educational standard, etc. are demanded, and as a result productivity is raised all the more.

Toward an Optimal Level of Inequality

Now that we have discussed some of the elements of human productivity we can proceed to our next logical jump. We have examined the nature of material incentives, and found them to be only one of a number of factors which contribute to productivity. However we accept that material incentive can make a difference in individual productivity, a difference that varies from person to person. Our next step is to use this understanding to create a model for finding the theoretically optimal level of inequality. The logical bridge to be used here will be the introduction of a new idea which is both a value judgment and a statement of reason: that the only justification for any level of income inequality in society is the incentive that is provided which spurs greater human effort, benefitting society.

The economics discipline has long struggled with questions of how to achieve the most efficient output and distribution, as well as the most equitable. But efficiency and equity have generally been regarded as matters that need to be considered separately. Indeed some have insisted that questions of equity are not even proper to be considered by economists; such normative matters are the jurisdiction of moral philosophy and politics. The eminent welfare economist Tibor Scitovsky (1972) wrote, "Equity is a matter of conscience, not economics.

In his classic work The Economics of Welfare the British economist A. C. Pigou employed the law of diminishing marginal utility to argue that redistribution of income in favor of the poor would maximize economic welfare for society as a whole.

Since the utility derived from each additional dollar declines, a poor person receives greater utility than a rich one loses if a dollar is taken from the rich person and given to the poor. Such reasoning led early economists to conclude that an ideal distribution of income is a perfectly equal one. The weakness of this conclusion soon became apparent. The amount of income available for distribution depends on the incentive to produce income. The incentive is lost when all income is equal. (Scitovsky 1972, 288)

Economists were left with a conflict between maximizing social well-being and maximizing the output needed by society: an impasse between efficiency and equity. Prout provides the theoretical means to break the impasse: atiriktum.

Here atiriktum may be defined as amenities above and beyond the minimum necessities of life provided to the meritorious in proportion to their merit. In short, it is the incentive that society provides to induce individuals to provide beneficial service to society. The doctrine of atiriktum solves the age-old conflict between efficiency and equity by producing exactly the amount of inequality in society that is both just and efficient.

Most people would agree that perfect equality is not a just distribution -- those who work harder or have invested in acquiring higher-level skills that make them more productive deserve a greater return for their work. But a degree of inequality has an instrumental purpose as well. It provides the incentive for greater efforts that serve society, and for individuals in society to conduct their business efficiently. They are confident that if they work hard and well, they will be rewarded appropriately. So a certain degree of inequality is both just for the individual and serves society well -- it is efficient.

The question then arises: how much inequality is needed to provide optimal economic efficiency? How much is too much? The answer is that inequality becomes excessive when its cost to society exceeds the value of the increased productivity that results from its incentive. In other words, inequality is only justified as an incentive -- any material benefits (or non-material benefits, such as power) that are provided an individual beyond what would make that person perform at the peak of his or her ability represents a waste to society. Let us use some standard concepts and tools of economics to clarify this important point.

A central principle of economics is the law of diminishing marginal returns. The principle can certainly be applied to atiriktum: there must be diminishing marginal returns to incentive. This fact will allow us to determine an optimal level of inequality in society.

Figure I shows an S-shaped curve shaped similar to those seen in all microeconomic texts, demonstrating varible rates of return from the increase of a certain factor of production. Here the changing productivity of a hypothetical individual is plotted as more material incentive is provided. The curve begins, or crosses the horizontal axis, at minimum wage. (This figure assumes a Proutist economic framework in which the minimum wage is set at a level that allows the minimum necessities of life to be purchased. Therefore, all wages shown in the diagram represent incentive to achieve beyond the minimal level required to retain employment.) Productivity is assumed to increase sharply at first, then levels off. At the peak

of the curve the productivity of the individual has reached its highest potential; he cannot possibly do more. No amount of additional incentive will further raise productivity. In fact, further incentive in the form of salary may actually decrease total productivity, as an "income effect" sets in, and the individual decides he can afford more leisure. At this peak (point B on the verticle axis) the marginal product of material incentive is zero.

If the sole justification for this individual to receive a higher salary than another is to provide an incentive to greater productivity, there is no reason for society to provide a salary higher than point B. Any salary beyond point B is nothing more than a windfall for the individual (economic rent in economist's jargon) and a waste, or inefficiency, on the part of society.

We now know that the amount of incentive society will want to pay this person is less than AB, but we can use diagramatic analysis to precisely pinpoint the optimal level of incentive from society's point of view. In Figure I notice the ray coming from the origin at a 45 degree angle from both axes. This is the "break even line," upon which every point represents a level of incentive which yields an exactly equal return to society in greater productivity. Where the individual's productivity curve meets this line, the incentive paid equals his increase in productivity. Any incentive paid beyond this point (shown by segments AC or AD) costs more to society than is justified by the increase in productivity it brings. However, if any amount of incentive is paid that is less than the amount represented by AD, society loses the opportunity to benefit from a value of productivity that exceeds its cost to society. Therefore AD represents the optimal level of incentive for this individual. (In economic terms, at point D the marginal product of incentive equals its marginal cost to society.) The shaded area, between the individual productivity curve and the break even line from the origin to D, represents the net gain enjoyed by society from its investment in incentive. (Stated mathematically, f(MI)-MI.)

The advantages to society are many when productivity is so optimized by the proper use of atiriktum. Recall that atiriktum is the part of a worker's wage that is excess over the amount needed to comfortably purchase the minimum necessities of life. So with atiriktum the worker's basic needs are met (certainly a fundamental function of any economy), and the worker's amenities are provided for at a level that is fair and appropriate from the standpoint of society. Moreover, she is fulfilled because society shows that it values and recognizes her unique contribution. Society benefits from her productivity, which is maintained at a high level. She produces a surplus for society, which may be used to raise the minimum wage, provide public goods, or to provide atiriktum to those such as artists, whose skills are valued by society, but not in a way that is clearly reflected in the marketplace. This surplus would also subsidize the minimum wage of those the value of whose work would not be sufficient to equal the minimum wage due to handicaps or other reasons.

The question may arise, if AD is the optimal amount paid from the standpoint of society, why is it that in a market economy some may receive salaries vastly greater than this amount? The answer is complex, involving social and institutional factors as well as economic ones. Let us first look at the economic aspects of the question.

Market economies are run not on principles necessarily designed to maximize and harmonize individual and social well-being (not only physically, but also on a psychic and spiritual level), but run on the principles of profit maximization, and supply and demand. Indeed, sometimes the Invisible Hand told of by Adam Smith will see that the interests of society are best served when individuals see to their own self interest, but few of even the most

traditional economists are naive enough to believe this necessarily happens. Both employers and employees want to maximize their earnings, the employer by paying less, the employee by demanding more.

To see the dynamics of this interaction let us invert the axes in Figure I, so that productivity is shown on the horizontal axis, and incentive wages are shown on the vertical axis. The resulting inverted function shown in Figure II becomes a supply curve for an individual's productivity. Notice that the line becomes nearly verticle toward the right, indicating that there are no further gains in productivity as incentive (or wage) increases -- productivity becomes completely inelastic. The diagonal lines moving from the upper left to the lower right are typical demand curves, showing that at a lower wage, society will demand (that is, be willing to buy) a greater amount of productivity. Where the demand and supply lines meet, the market sets the level of the wage and productivity. (The demand curve is made up of points where the value of the productivity is equal to its cost. It can also be known as the marginal revenue product curve.)

The demand curve D1 crosses the supply curve where increases in productivity are still possible. In this case the demand curve serves a useful social function by determining the level of productivity desired by society, as determined by its willingness to pay.

However, demand curve D2 meets the supply curve at a wage level far beyond what would induce any further productivity. Segment BC shows a portion of the wage paid that represents a waste on the part of society.

Economic efficiency requires that this amount be used by society to increase productivity elsewhere. Note that since the wage level at B is well beyond what is required to meet the individual's real needs, and even allows a considerable amount of amenities, the individual is hurt little by being denied BC.

The Persistence of Unjustifiably High Wages

What would cause so high a demand curve as described above? An individual could have an extremely rare skill that is in high demand in society -- such as a professional football player's ability to score goals, or an inventor's genius. This gives the individual the economic equivalent of a monopoly for that skill, allowing him to demand very high wages. Nations with even the most laissez faire economies recognize the need to regulate the monopoly power of firms for the public interest, but nowhere is this applied to individuals.

An example of the high demand curve can be seen in American professional baseball. Before 1976, salaries of baseball players were held down by restrictive contracts that forced players to stay on the teams they joined. However, that year players won the right to "free agency," or the right to join the team that bid the highest salary. While the public was amazed to see salaries quickly double or even quadruple, economists argued that the new salaries were more fair, and more accurately reflected the players' revenue contributions to their teams (their marginal revenue product). (McConnel and Brue, p. 181) Today one third of baseball players earn over $1 million per year. While the economists' arguments of fairness have some merit, and most would prefer that the difference between the old and new salaries go to the players rather than into the owner's pocket, it cannot be demonstrated that the quality of the

play of baseball has improved. In other words, the higher salaries have had no incentive effect. From society's standpoint, the higher salaries had little justification.

As a postscript to this example, it shows not only the monopolistic power of rare skills, but also that such high salaries are more likely to occur in highly monopolistic industries such as professional sports.

Other extremely high salaries in American society cannot be so easily explained in economic terms. Recently salaries of top corporate officials have grown to scandalous levels. Between 1986 and 1987 average CEO salaries for the 800 largest corporations grew by 8 percent. The highest corporate compensation (including salary, bonuses, and stock gains) of 1987 was $60,034,000 for Charles Lazarus of Toys "R" Us, earning him an astounding $20,845 per hour. (Braun, p. 10)

It is normally assumed that such high salaries can only be rewards for leading corporations to extraordinary success, but that is often not the case. Much of American CEO compensation comes in the form of stock options, which are hoped to unify the executive's personal financial interests with those of the corporation he leads. However, too common is the practice of allowing the executive to exchange his stock for newer, lower-priced stock when the fortunes of the corporation decline. A recent "60 Minutes" (November 10, 1991) brought attention to another common practice, exemplified by high bonuses paid to the CEO of General Dynamics even though the corporation was suffering losses. The program further reported the whistle-blowing of the famous compensation consultant, Bud Crystal, who has publicized the exorbitant salaries of chief executives. Expressing his frustration at watching salaries go up and up with no corresponding improvement in performance, he commented, "They'll say, in the good times we have to pay people highly -- because after all, that's only fair; that's just. And they say in the bad times we have to pay people in order to hold them in the company. There's only two types of times -- the good times and the bad times! But when do we get to the part when we cut the pay? Well, we don't."

It is fallacious to argue that these high salaries are needed to encourage the executives to ably guide the companies. The performance of Japanese corporations has been consistently superior to that of many American corporations, yet Japanese executives somehow manage these achievements at a fraction of the salaries of their American counterparts. (Braun 1991, 13)

The multi-million dollar salaries of American executives have lost all touch with economic rationality. Further evidence comes from a multiple regression study commissioned by Fortune magazine which found that only 39 percent of the variation in ultimate CEO compensation for the largest 170 U.S. corporations could be attributed to rational factors which would normally justify a salary level. In other words, for nearly two thirds of the variation no logical justification could be found. (Braun 12)

The explanation for these high salaries has more to do with institutional power than economics. John Kenneth Galbraith makes this point clear:

Power...plays a prime role in determining compensation. As a man proceeds up the corporate hierarchy, his power increases. This power includes, inevitably, the power to influence his own compensation or that of the managerial category to which he belongs. This is a simple, not very controversial, and extremely important fact (Galbraith 1973, 254-255).

Galbraith further disputes the often assumed role of the impersonal market in determining high corporate salaries:

There is no evidence and no reason to suppose that the supply of executive talent requires the stimulation of the present prices. The number of able and eager candidates is consistently large. Those who get the largest pay have the most pleasant jobs. They are also the people whose performance depends least on pay -- those who most pride themselves on their moral commitment to their work. In contrast those who do the most unpleasant and soul-destroying jobs get the least pay. And these are the people for whom pay is most important for extracting effort (Galbraith, p. 256).

The chiefs of our major corporations have grown in power with little accountability either to their stockholders or the public. Boards of directors have been ineffective as checks on the actions of executives, as they are usually composed of executives of other corporations, with similar mentalities. The high salaries are reflections of the power and greed of the executives, not their productivity.

The Economist cited several trends which are contributing to high executive salaries:

-reductions in middle management make higher salaries more affordable.

-Junk bonds have lessened constraints capital shortages formerly would have imposed on leaders.

-"Leapfrogging" -- the desire to pay one's own executives at levels that are above the average. But this inevitably pushes up the average.

-"Poaching" -- recruiting executives from outside the company is more common rather than grooming them from within. Executives from the outside need to be attracted with higher salaries.

-Stock options are growing in popularity in compensation packages. While they may seem to be without cost to boards of directors who hand them out, their value to the executive can be huge. (The Economist, pp. 79-80)

But whatever the cause of the excessive salaries, they still demonstrate the central point being made here. They clearly exceed what is needed as incentive to achieve high performance, creating waste, or economic inefficiency, for society.

CHAPTER IV

Solutions: How to Reduce Inequality

It is more efficient to structure an economy so that it distributes income equitably in the first place than to attempt to redistribute income through taxation or other means. Without

denying the present necessity for a progressive tax structure to redistribute income, Galbraith wrote,

For promoting equality a reasonably equal distribution of income is much superior to an unequal distribution which is then remedied by taxation. Once people have income, they have a not wholly surprising resistance to action, however righteously inspired, to remove it. And their ingenuity in defending possession is great (Galbraith 1973, 258).

Ravi Batra, in his writings, agrees. He notes that besides the difficulty in relying on the honesty of the rich to pay their taxes, tax redistribution schemes must rely on the honesty of government officials to properly distribute the funds to the poor rather than to line their own or their relatives pockets or support their favorite pork-barrel projects (Batra 1973, 28). Such corruption is particularly an obstacle to redistribution in Third World countries.

A recent study estimated the marginal efficiency cost of redistribution (MECR) for various redistribution schemes (Ballard 1988). If the condition of the poor is improved by one dollar, but the cost to the rest of society is more than a dollar, the excess cost is the MECR. Three schemes were described, a universal cash grant, a notch cash grant (in which only the poor are targeted, and richer classes are taxed higher), and a wage subsidy. The latter would be most similar to what has been proposed in this paper, a high minimum wage. (Presumably this would involve some degree of subsidy, as a few in society would not achieve the level of productivity worth at least the minimum wage. However a progressive society would minimize the number of such people with effective education and health care systems and a sound social structure.) The highest MECR was for the universal cash grant. Under varying conditions, the cost was estimated between $.519 and $2.03. The notch grant had the second highest cost, between $.105 and $.459. However the MECR for wage subsidies was near zero or below, suggesting it is the most efficient means to redistribute income.

Batra has devised the following system for distributing income, based on the principle of atiriktum. In the following formula A stands for atiriktum, NNP for net national product, L for labor force, and w for the real wage required for the minimum standard of living. Recall that atiriktum has been defined as the surplus remaining available to society after at least the minimum wage, or the minimum standard of living, has been supplied to all. Then

$A = NNP - wL$

If TPj is the total product of the jth individual who contributes more to the economy than the minimum wage, then the incentive income for that person could be given by the formula where n is the number of individuals producing more than w.

Batra offers as an example a simple economy with a labor force composed of five people (L = 5). Their current monthly income in rupees is 100, 200, 300, 1000, and 1500. (That brings NNP to 3100.) But 500 is require to purchase the minimum necessities. The summed TP of those earning above the minimum is 1000 + 1500 = 2500, and n = 2. A = 3100 - 2500 = 600 The incentive income for the person now earning 1000 would be 600 x (1000/2500) = 240.

The income distribution would go from (100, 200, 300. 1000, 1500) to (500, 500, 500, 740, 860).

Batra's scheme assumes that the two wealthiest earners were earning at first according to their real marginal productivity, an assumption he admits may not be valid. As has already been mentioned, many authors, Galbraith prominent among them, stress that wages are institutionally determined and have little to do with any real measured productivity. If power relations do indeed play a roll in determining wages, setting a reasonable maximum distance between the accepted minimum and maximum becomes all the more important, as will be discussed next.

It is a basic tenet of the theory of atiriktum that there must be a relationship between the minimum and maximum wage in a society. Both psychological research and economic reasoning give evidence to this necessity. Without an upper limit the power of incentives is weakened, as the ever-present possibility of more encourages demand for more. The resources of the economy are strained, and inequality is increased.

The wise have always known that more material accumulation will not necessarily make a human being more happy. In fact research shows that people in poor countries generally consider themselves about as happy as people in materially affluent countries. What makes a difference in personal satisfaction is a person's relative economic position in society. Those who are relatively better off report that they are happier than those that are relatively worse off. (Daly and Cobb, p. 86)

The economist Pigou made a similar observation: "If a man who had all his life slept in a soft bed was suddenly compelled to sleep on the ground under the sky, he would suffer greatly; but does a man who has always slept on a soft bed enjoy his nights more than one who has always slept under the sky? Is it certain that a hundred Rolls-Royce cars in a Rolls-Royce world would yield a greater sum of satisfaction than a hundred dog-carts in a world of dog-carts?" He went on to doubt "... whether substantial reduction in the real consumable income of rich people, provided it were general, would, after time had been allowed for adaptation to it, appreciably diminish their economic welfare." (Pigou, p. 84)

This reasoning shows that it is not the absolute quantity of material goods that gives satisfaction. It is one's position in relation to one's peers that counts. If there is an extremely wide range of income disparity in a society, it will take much larger increments of incentive to induce greater productivity, particularly in the higher income level. However, if the range is narrow a smaller amount will have a greater effect in changing the person's perception of her position in society; the efficiency of incentive will be increased. The dictum of Prout that there must be a maximum as well as a minimum wage, and that society should constantly strive to narrow the difference between the two makes good economic sense.

There is growing acceptance of the idea that there should be a relation between the minimum and maximum wage given in a company or industry. Writes Galbraith, "The most forthright and effective way of enhancing equality within the firm would be to specify the maximum range between average and maximum compensation (1973, 260)." Such policies are already in place in many European and Japanese firms, and in a small but growing number of American firms.

But in order to have a greater impact on inequality in society minimum and maximum wage rules need to be enforced society-wide. This proposition is also growing in popularity as is evidenced by a soon to be published book by Sam Pizzigati with the title The Maximum Wage. The economists Herman E. Daly and Ravi Batra have also championed this principle.

The question remains as to how to set the maximum standard. (Setting the minimum wage is easier -- it must be at or above the family poverty level.) If attempts at setting the optimal individual wage as was described in the previous section became commonplace (assuming personnel managers became skilled in the practice) statistical studies could determine the interval between the minimum and maximum wages in these firms, and use these results as guides for the rest of society.

Others would not have patience for such a drawn-out process that could have dubious results, even if the conditions for gathering the data were in place. Many are rallying behind what Pizzigati has coined the Ten Times Rule -- the maximum wage should be no more than ten times the minimum. Batra first proposed this rule in the 1970's and defends it forcefully. He argues that attempts at finding optimal levels of inequality have produced unsatisfactory results, and are unlikely to do any better in the future because of difficulties in measuring utilities and differences in criteria. The practical problem of inequality cannot wait for useless theoretical constructions. He writes,

As a practical guideline, the decimal scale for income distribution is unimpeachable. It is simple, and not riddled with loopholes. Given the will of the people and governments, it should not be difficult to enforce it. Let us not waste any more time and proceed to implement it (Batra 1979, 32).

It will be argued by conventional economists that imposing maximum wages will introduce artificial distortions into the marketplace which will impede its functioning. While such a change will certainly not come without some difficulties, particularly in the beginning phases, the idle, unproductive concentration of great wealth in few hands brings far greater distortions into the economy. Aside from the waste already discussed, it distorts the nature of the goods demanded from society. The tastes of a few disproportionately, but without moral or economic justification, dictate what is produced. The needs of the masses may be left wanting. Certainly such a situation cannot describe a well-functioning market.

CHAPTER V

Conclusion

It has been shown in this paper that a degree of inequality serves society by increasing the fruits of productivity available to all. But inequality must be limited or any benefits will be lost. The implementation of a maximum wage would effectively remedy excessive income inequality.

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