Claiming Our Future IDEAS Maximum Income Briefing Sheet

Briefing Note Number Two – maximum income

This briefing note aims to give facilitators and participants some basic facts, information and tools about maximum income.

The more equal the economy is the less prone it is to crisis and the quicker it is to emerge from crisis. Wilkinson and Picket show more equal societies are the most economically sustainable societies (2009)[1]. It makes sense therefore to try and contain levels of income inequality. This can be done from the bottom by making sure no persons income drops below a certain level; i.e. a minimum income. It can also be done from the top by making sure no person's income goes over a certain level; i.e. a maximum income. It can also be done by a combination of the two approaches.

Maximum income is not a new idea

- More than 100 years ago, the business financier, JP Morgan – then one of the most powerful men in America – argued that executives should earn no more than twenty times the pay of the lowest paid company employee.
- In his 1943 essay, 'The Lion and the Unicorn`, George Orwell recommended a maximum differential of 15:1.
- Franklin D Roosevelt argued for limits between the top and the bottom as part of the strategy to revive the US economy after the great depression .
- JK Galbraith has also argued for limits between the top and the bottom.

In the post-war decades differentials were much closer to these 10:1, 15:1 or 20:1 levels than they are today, where in some companies they stand at several hundred to one or even more.

- Twenty years ago, in UK the typical chief executive of a FTSE 100 company earned some 25 times the pay of the average worker, by 2008 it was close to 120 times. (COMPASS) The British High Pay Commission (2011) showed income dropping for first time in 30 years as prices rose faster than incomes but boardroom remuneration rose by 55% last year. By 2025 the top 0.1% of earners will take home 10% of the national income and by 2030 reach levels of inequality not seen since Victorian England. The FTSE top 100 CEO pay was 145 times average in 2010 and is expected to be 214 times in 2020.

- In 1960, US CEOs made 41 times what the average factory worker did. In 1993, CEOs made 149 times what the average factory worker made.

- In Ireland 2009 pay of CEO's was 14 times higher than Principal Officer level pay in the public sector and 136 times the level of income considered to put people at risk of poverty or the level of one in six of Irish households (ICTU 2010)

Practical examples exist of maximum incomes

In the Mondragon cooperative network in the Basque region of Spain, where industrial co-ops in the 1970s and 1980s had productivity increases far surpassing American industrial companies,

---

[1] Richard Wilkinson and Kate Pickett (2009), ***The Spirit Level: Why More Equal Societies Almost Always Do Better***

the highest paid manager received no more than three times more than the lowest paid worker on the shop floor

In the US military uses the 10:1 ratio; Japan culturally restricts high income inequalities.

Some countries (including the UK) have used the concepts wind fall taxes of up to 90% in order to mitigate high incomes through bonuses, or once off incomes. Obama has capped bank CEO salaries.

Ireland now caps icnoem of bank CEO's and accepts in principle the idea of maximum public salaries.

Practical lobbies exist and there is now application of the idea of maximum incomes The Greens/Green Party USA adopted into its national platform planks calling for a Guaranteed Minimum Income and a Maximum Income. They call this the 'Ten Times Rule. French Green Party (Alain Lipietz), argues keeping the minimum wage at 50% more than the minimum income would provide adequate incentive to work. This concept has also been aired in the 2010 UK General Election debate,

Applying to Ireland

Terence McDonough has illustrated different ideas of maximum income for Ireland. HEAP chart shows 10% have incomes over 115,000. The ten times rule maximum would impact on less than 5% of the highest income earners in Ireland.

Min income benchmark	Income	Maximum net income	Maximum net income
Minimum income (SWA)	10,000	180,000	260,000
Minimum wage	18,000	100,000	145,000

However he makes the point that achieving maximum distributive outcome requires allowing the market to give a high gross income and then maximizing revenue by taxing the high income sufficiently to achieve the required net maximum income.

Cultural Norms and Arguments against a maximum income

The rising inequality of recent times is the product of a cultural and political shift, from one that once operated with a series of implicit 'social norms` about what was acceptable behaviour and which worked to impose a kind of natural limit at the top, to one that now defers too easily to wealth and power.  In the process,  the 'shame gene`[2] that once worked to prevent excessive abuse by the economically powerful has been eroded. Rising Inequality is creating an economic elite which wields enormous power but appears to have lost touch with how the rest of us live.Consistent with present cultural norms some people feel a maximum income would work against enterprise, incentive and rewarding hard work and/or risk taking and would interfere with a 'free market' and would curtail economic growth.

It is assumed the people earn their income. However Hughes shows that from 1998-2008 tax relief for pensions cost €28.5b or almost €3b p.a. (most of this went to the richest 20% of the population. High incomes are thus not always a product of the market but a result of policy. We have choices to achieve greater income equality through tax, wage, welfare and pension policies.

[2] Stewart Lansley (author of *Rich Britain, The Rise and Rise of the New Super-Wealthy)*