Imagining Sustainable Social and Economic Equality: A Maximum-Wage

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Abstract
The New Zealand Government first embraced Neolibral market dergulation and privatisation in 1984, when policy took a sharp turn towards minimising the role of the State and opening the market. New Zealand has hence endured an explosive and sustained rise in income inequality (1985 Gini co-efficient = .271; 2000 Gini co-efficient = .339, OECD, 2013b). One might see this trend across South America, Asia, and Europe, with very few exceptions. New Zealand is a particularly strong example, with the Gino co efficient increasing in the late 1980s into the 1990s more than any other country recorded by the OECD in that decade (Ministry of Social Development N.Z., 2013). We argue that the neoliberal policy regime of market deregulation and minimal social support drive income disparity and a host of other undesirable social phenomena. From a Marxist perspective we find a root cause is the underlying mode of production - capitalism itself – and suggest that a solution is a maximum-wage cap. We expect that such action would not only be an immediate step towards reducing income disparity but would also instigate mass-deconstruction of ideology that is maintaining inequality across a board of indicators. With a vision to more extensive and enduring effects than could be anticipated by policy alone, we place our recommendation of a maximum-wage within a larger, long-term strategy to build the social consciousness necessary to sustain more equal societies.

Introduction

Countries across the world, including New Zealand use the neoliberal doctrine to enhance international competitiveness, provide capital accumulation, entice foreign investment, and stimulate growth (Harris & Twiname, 1998). We find evidence to suggest that it also drives income disparity and a host of other undesirable social phenomena. First, we provide an outline of the neoliberal doctrine followed by insights into the inequality it brings. Next, we make an argument for legislated and shareholder enforced maximum-wages for sustained social and economic equality, followed by a discussion of some potential outcomes.

The Neoliberal Doctrine

Bedggood (1980) identified the New Zealand government's heavy borrowing from the International Monetary Fund (IMF) in the 1960s as the catalyst to New Zealand's move into neoliberal global capitalism. In 1984, acting on recommendations from a business elite connected to the global influence of the New Right, the Fourth Labour Government dismantled what had been described as the "welfare-state". The changes were argued favour economic policies that allowed New Zealand exports to be more internationally competitive, provide capital accumulation, and foreign investment to stimulate growth (Harris &

Twiname, 1998). In addition, the Fourth Labour Government also deregulated capital flow and the labour market, removed tariffs and subsidies, and privatised 40 state assets (Harris & Twiname, 1998; Curtis, 2004). What was then a radical approach has since become standard neoliberal doctrine around the world. The free marketplace replaced class and rewarded ability and drive (Jones, 2012). For a newly colonised country such as New Zealand, the idea of fair competition signalled opportunities for individuals and the country to rise against colonial elitism. However, it is (sometimes) argued that the business elite have become the new ruling class (Bedggood, 2004).

In 1776, just before England's industrial revolution, Adam Smith documented the neoliberal ideology (Harris & Twiname, 1998). Although a politically conservative doctrine, initially neoliberalism claimed to promote individual freedom from the domination of the ruling elite (Sernau, 2011). Hayek (1974) also argued against notions such as (primitive) collectivism in favour of competition towards individual achievement (Peck, 2010). In turn, Jones (2012) suggests a climate of distrust in governments and collectivism. These arguments enable supporters of neoliberal ideals to champion trust in markets and individual freedom. As such, supporters of neoliberalism promote individual freedom as both ~~The~~ the economic solution and the way forward for humanity.

A utopian anticipation of the benefits of a free market justifies global domination of the neoliberal doctrine (Peck, 2010). Generally, a neoliberal policy regime includes large-scale cuts to social spending, privatisation of state assets, and constructing an environment that is attractive to foreign investment. Promoters of neoliberal doctrine, including the Chicago School, claim that the optimal role for the state is to maintain conditions favourable to the market. They claim that a free market allows for 'Economic Darwinism' (Siglitz, 2010) to take place, ensuring the best services and products survive in the competitive marketplace (Pusey, 1993, as cited in Curtis, 2004). As such, from a neoliberal perspective, wage regulation is a heavy-handed state intervention, a threat to competition, and growth that would result in stagnation, inflation, and destitution (Harris & Twiname, 1998).

Overall, neoliberal reform is argued to pose mutually beneficial social and economic benefits. Through privatisation of state assets, nation states make short-term gains. It is argued that through privatisation the public may gain access to higher quality services and resources than their state would provide. Advocates of neoliberalism contend that, through deregulated markets, competition will drive quality and efficiency while simultaneously keeping prices low and enhancing investors profit opportunities - which by virtue of trade will "trickle-down" to others.

Supporters of neoliberalism argue that any negative effects of neoliberal reform result from inadequate implementation (Kerr, 1997, as cited in Harris & Twiname, 1998).

For example, they often argue that the Global Financial Crisis is the result of interference by nation-states and the IMF rather than the result of free markets (Harvey, 2007). However, with Stiglitz and many others, we argue that absolute belief in the free market is unfounded, in the face of overwhelming evidence of its detriment (Stiglitz, 2010).

Neoliberal reform is prescribed to combat economic stagnation and inflation. However, Marxists also note its capacity to enable capitalist accumulation (Bedggood, 2004). Peck (2010) questions the extent to which the neoliberal doctrine has in fact generated growth for post-industrial economies. Many theorists argue it is incorrect to assume that profit will "trickle down" to the less fortunate (Klein, 2002; Harris & Twiname, 1998). Wilkinson and Pickett (2009) suggest large-scale inequality results from the sale of state-owned assets and subsequent failure to redistribute profits. A 2011 Organisation for Economic Co-operation and Development report OECD, 2011) regarding pay disparity in 34 countries illustrates a persistently widening gap that had increased more from 2007 to 2010 than it had in the previous twelve years (OECD, 2013a). These statistics portray a gap that grew exponentially during the mass-privatisations the 1980s and 90s and is continuing on this trajectory some 30 years later. For example, Mueller's research (2006, as cited in de Wet, 2012) finds that during the 1990s managerial compensation increased more than could be accounted for by increased productivity. In New Zealand, as in other countries, the strains of inequality have been softened by tax-benefits, fiscal stimulus packages, and bailing-out failing enterprises. Such government interventions may relieve the symptoms of inequality; however, they do not address the cause, nor are they consistent with neoliberal notions of faith in free markets or Economic Darwinism.

Neoliberal theorists suggest inequality is a stimulator for economic growth, capable of driving effort and efficiency (Davis & Moore 1945, as cited in Sernau, 2011). Others argue inequality inhibits motivation and efficiency (Tumin, 1953, as cited in Sernau, 2011). Wilkinson and Pickett (2009) further contend there is only so much that economic growth can do to benefit societies; at some point other goals must take higher priority to satisfy other needs. When attempting to justify a climate of inequality for its potential to promote competition, one must ask - at what level do social costs outweigh potential for economic growth? Who should take steps to address income disparity?

The Effects of Inequality

The neoliberal doctrine regime is largely credited with stimulating investment, lowering inflation, and decreasing in the rate of poverty around the world (Harvey, 2007). Reform in New Zealand in the 1980s stimulated growth and shifted investment away from manufacturing to concentrate in national resources and value-added service sectors where New Zealand holds a competitive advantage (Cronin, 2006). Economic Darwinism prevailed. However, large parts of the manufacturing industry were not able to compete against economies of scale. Consequently, high unemployment emerged with its accompanying social effects. More recently, theorists such as Haro and Sullivan (2009) find neoliberal doctrine implemented through the 1970s to 1990s directly accountable for the dot-com crisis in the United States in 2000 and responsible for the subsequent mortgage crisis, which itself exacerbated the immensity and severity of the 2008 Global Financial Crisis. Collectively, they argue that negative effects under neoliberalism, particularly those tied to inequality, outweigh the problems of stagnation and inflation it was prescribed to resolve. Jones (2012) also reports blame for the 2008 financial crisis has been attributed to "corporate greed". In New Zealand, this was perhaps the closest workers have come on a mass-scale to being aware of class-conflict.

According to Bedggood (2004), as long as workers believe that exchange relations between owners and producers are fair, they will be unable to understand conflict (such as inequality) or bring about change. Peck (2010) argues that as threats to social stability, such as privatisation and deregulation, become normalised they become harder to identify and resist. Neoliberal doctrine is often promoted through reduced tax burdens to the state, translating into reduced tax upon citizens. Conversely, Stiglitz (2012) argues that deregulation is costly to the state not solely during periods of economic downturn but where the market is so efficient at meeting the needs of business and extracting surplus value, that the state is prompted to support those less able to compete, namely an underclass of working poor, and the environment.

A study in the United States estimated that the ten most powerful fast-food organisations cost the United States Government around US$3.8 billion annually, due to state subsidies on account of insufficient minimum wages (National Employment Law Project, 2013). This process is also evident in New Zealand's extensive tax subsidy system. Stiglitz (2012) identifies both financial and social costs due to social disharmony generated through the individualistic profit-orientated policies in neoliberalism and their accompanying tensions of inequality. Foreign ownership further exacerbates this process as profits are siphoned to overseas shareholders, leaving behind their associated social costs. As a result of open, interdependent markets, fallout from the Global Financial Crisis of 2008 was experienced to a much greater degree in New Zealand than was the Great Depression in the 1930s. Amidst claims of ‘capitalise the wealth and socialise the loses’, the government bailed out South Canterbury Finance, Allied Nationwide and Equitable Mortgage (McManus, 2011). Paralleled across the world, this was a cost, which unlike profits did “trickle down” in the form of job losses and economic stagnation.

Income disparity has been found to have extensive negative effects that become entrenched in the social fabric (Wilkinson & Pickett, 2009). Wilkinson and Pickett’s (2009) study of international data revealed that higher levels of inequality are associated with lower levels of: trust, life-expectancy, educational performance, social mobility; and higher levels of mental illness, addictions, infant mortality, obesity, teenage births, homicide and imprisonment. To improve life for citizens, as measured on a number of associated indicators, Wilkinson and Pickett argue countries should strive for equality. However around the world class difference is expanding. To halt this escalating trend we recommend income regulation by both governments and shareholders. We anticipate that over time, as prompted by sanctioned action to regulate wages, the perpetuating ideology will be deconstructed and the trend will become one of growing equality.

It is tempting to think of New Zealand as a small apparently classless nation, that unlike more densely populated and competitive world powers such as the United Kingdom and the United States of America, does not have the economic climate, much less the capital, for oversized executive remuneration packages. However, in 2009 and 2010, 1% of New Zealand’s population received around 8% of all taxable income. Although this figure is lower than many other OECD nations, it is the highest in New Zealand’s history (Ministry of Social Development N.Z., 2013a) and represents a shift on many indicators away from social well-being. Unfortunately, across the world, state support is withheld in observance of the neoliberal mantra (Harris & Twiname, 1998) that interference only weakens the market’s ability to provide for the needs of society. Supported by figures of growing inequality, we argue that the ability of the market is limited to the needs of business. Therefore, state and shareholder intervention is required to care for societies and the environment.

Our Goal: Sustained Social and Economic Equality

> "*Will we seize the opportunity to restore our sense of balance between the market and the state, between individualism and the community, between man and nature, between means and ends?*" (Stiglitz, 2010, p. 296)

Supported by the political right, market deregulation has enabled increased executive pay coupled with associated income disparity, social costs, and exploitation of lower level workers (Cunat & Guadalupe, 2009, as cited in de Wet, 2012). Marxist Theory maintains that as long as underlying economic models privilege the accumulation of capital above all else, any threat to profit regardless of social and environmental benefits will be met with powerful and sustained resistance (Marx, 1970). This has been confirmed throughout history, when institutions have opposed social change to protect profit, most notably in the abolition of slavery (Kleinman, 2012).

The “free market” is not fair for it privileges economies of scale and rewards exploitation of the disadvantaged and defenceless such as unskilled labour and the environment. The “free market” cannot meet the broad and complex needs of people because, as presently prescribed, it is not free to put any need before that of capital accumulation without shareholder intervention. In societies structured to meet the needs of the market, individuals tend to privilege ‘economic growth’ above social needs. We argue this neoliberal privileged focus is not sustainable. What the market neglects is to the detriment of the state and those less able to compete, including the environment. Wilkinson and Pickett (2009) suggest that through consumerist culture inequality itself acts to sustain the neoliberal model. They suggest class-inequality makes status observable and meaningful, encouraging consumerist cultures as people use material goods to indicate their status. Such behaviour is also detrimental to the environment. Wilkinson and Pickett recommend that generating economic growth must not confine innovation; it must better meet the needs of societies, while facilitating environmentally-friendly practices and use of resources.

Many academics and economists are calling for a return to greater balance between markets and state (Stiglitz, 2010). According to agency theory, great profit to achieve the interests of shareholders must motivate executives. This in turn drives directors to allocate vast resources to executive compensation. Stewardship theory attests that pay-for-performance is insufficient; motivating performance instead with other incentives provides potential for growth and improvement (McConvill, 2006, as cited in de Wet, 2012). There is growing recognition that means other than exorbitant economic reward for executives and under reward for lower level workers need to movitate employees. Organisations need to give greater priority to their social and environmental obligations. Theorists and economists are now looking back to the role of the state to achieve this. We challenge shareholders and governments to reduced income disparity within their countries/ organisations.

Empirical evidence suggests an enormous wage is unrelated to a company’s performance (Jensen & Meckling, 1976, as cited in de Wet, 2012), does not make a person any happier, (Kahneman & Deaton, 2010) and may increase burden on the state through poor profit distribution and the social ills that accompany inequality. It is in the interest of states, as well as for the well-being of societies, that wages become capped and income disparity reduced. Opportunities for power, competition, and accumulation will remain, only without severe consequences for those at a competitive disadvantage. Allowing the state more power to intervene, and stakeholder support, may eventually lead to many of the benefits originally expected from privatisation and deregulation such as better-quality products, services, and labour conditions at prices that are more accessible and fair to local populations. From a Marxist perspective, what is at risk is hegemonic ideology that legitimises a system to generate and sustain inequality.

Concern for equality is not a recent phenomenon. Various solutions have been suggested including Franklin Roosevelt who in 1942 proposed an income cap of $25,000 with all income above this level subject to 100% tax (Blumkin, Sadka, & ShamTov, 2013). More recently ‘responsible capitalism’ is a phrase gaining traction. Although it does not necessarily extend to a maximum-wage, it refers to reducing inequality in place of relentless drive for growth. Adherents such as Ed. Miliband advocate more equal distribution of wealth and power and that those at a competitive disadvantage in the marketplace be provided with state support (Stedman Jones, 2012). Ramsay (2006) maintains that growth is negatively associated with inequality and suggests a relative earning limit of ten-times the lowest wage. Ramsay advocates that pay-for-performance could remain achievable and individualistic individual behaviour (at the expense of others) may reduce. These proposals may require some radical amendments to organisation policy. Worker resistance will be minimal, as they will benefit the majority (Ramsay, 2006). However, powerful executive level resistance is likely to emerge; backed by extensive financial resources and motivated by fear of lost reparation. Therefore, we support government intervention in the form of legislated maximum-wages.

We fear that the capitalist drive for accumulation would persist under government implemented maximum-wage cap policies. As such, underhand tactics to exploit loop-holes through gain-sharing incentives, outsourcing, contracting or other such ‘creative incentives’ could be expected to threaten government interventions. Consequently, many of those previously receiving inflated incomes may continue to receive excess compensation. Therefore, we also argue for shareholder enforced maximum-wages.

Should governments implement maximum-wage caps, executives may attempt to move to other organisations or countries to gain uncapped higher personal income. Such executive movement could negatively affect economies such as New Zealand’s. However, those executives that focus primarily on financial rewards are likely to be those that give priority to short-term organisational gains at the absence of long-term organisational sustainability. Klein (2002) further argues that executives are easily replaceable and as their skills are easily transferable across industries. Therefore, although short-term economic growth may be subdued, maximum-wage cap initiatives may provide the conditions for long-term economic as well as social wellbeing. Nevertheless, we advocate for both government and shareholder implemented maximum-wage caps to reduce the capacity of executives moving to uncapped high incomes across borders.

Maximum-wage caps appear to be a viable first step towards greater equality and return to more equal societies, with possible benefits outweighing any anticipated threat to economic growth. Interest for sustained equality is the potential for this policy to promote dialogue regarding unfettered, unjustified (apparently limitless) management privilege. Maximum-wage caps would provide organisations with additional surplus capital to remunerate (and motivate) those on the lowest levels. Thus, as a result of maximum-wage caps implemented by both governments and shareholders, international labour markets may grow and working conditions may improve, especially if minimum and maximum wages were coupled.

Recommendations: Raising Consciousness

Prior to neoliberal reform, Bedggood (1980) wrote from a Marxist framework about the exploitation inherent in the structure of the welfare-state by virtue of it being founded on a capitalist mode of production. Writing again in 2004, he argues that the reforms of 1984 only exchanged a production structured for extraction of surplus value for the benefit of the British and colonial ruling classes, to a structure of more efficient extraction for the benefit of an international elite (Easton, 1997, as cited in Bedggood, 2004). Immense policy reform did not impact the fundamental relationship between capitalists and workers then, and accordingly policy for maximum-wage cannot be expected to do so today.

Boje’s (2010) strategy for greater equality is founded in Marx’s (1970) theory of the relations of production that suggests that the only way to achieve sustained change is at the economic base level in the consciousness of workers (Marx, 1970). To create change at this fundamental level, Boje (2010), writing from a postmodern extension of labour process theory, recommends generating awareness through education and encouraging deconstruction of hegemonic ideology. According to Boje (2010), key ideological narratives act to mystify capitalist hegemony by privileging the right of management to power and profit in the production process. As ideologies, they are not objective truths. Yet due to their totalising hegemony, go largely unquestioned. Particularly relevant for this topic, elitism encourages the belief that leaders (executives in particular) possess special qualities. We anticipate that a maximum-wage will instigate questioning of the legitimacy of executive elitism and find it to be false, which we hope will promote more discourse, to eventually re-structure the means of production to remove class-conflict and bring about sustainable social and economic equality.

Although the idea of an ideological superstructure may be a bit abstract, the self-perpetuating ways of humanity and society can be intuitively understood. Wilkinson and Pickett (2009) cite empirical studies that suggest that at a biological level personality traits designed for life in a competitive, individualistic environment are encouraged in new generations through not only environmental shaping, but also from genetic components that are instigated by conditions in the womb. Wilkinson and Pickett (2009) highlight that many private corporations have economies larger than those of countries, for example, General Motors is larger than Denmark. In a world where access to resources largely equates to power, this model is concentrating power in the hands of those who will act to primarily meet the (self-)interests of business. The extreme opposite to foreign ownership, which is often divorced from the needs and conditions of its production force, is co-operative ownership, which places ownership in the hands of those who often live in and are therefore more connected to the needs of communities and environments. Wilkinson and Pickett (2009) cite evidence that suggests that employee-owned companies, such as Mondragon Corporation, make more ethical choices with more sustainable outcomes. Both models may then be self-sustaining.

An Orthodox Marxist view of society is arguably economically-reductionist in that all aspects of social life are a reflection of the underlying economic model (Marx, 1970). According to the relations of production, one might divide all economic and social activity into two conceptual structures: the economic base and the ideological superstructure. The economic base consists of the means of production, including workers. The ideological superstructure pertains to all resulting social and economic activity, including media, law, education and religion. The ideological superstructure (Marx, 1970) will primarily maintain its own economic base. Policy cannot change exploitive relationships, only reinforce them. According to this argument, only limited and superficial effects could be expected from a state-mandated maximum-wage. Therefore, we advocate for both state mandated and shareholder mandated maximum-wages, ideally coupled with increasing minimum-wages.

Conclusion

The traditional responsibility of 'the state' has been to protect its people from the interests of foreign powers (particularly from greed) and to make decisions that will enhance citizen's quality of life. In New Zealand, where inequality was present under a welfare state system, executive greed has become magnified since neoliberal reform in the 1980s. Neoliberal ideology is both self-legitimising and self-perpetuating, as it "enables" more efficient exploitation of surplus value by privileging the rights of management to power and profit in the production process. The only way for equality to be secured is to redistribute power over the production process. Empowerment will not be achieved by radical policy alone but requires demystification of management and capitalist ideology to promote a revolution of consciousness. Resistance is to be expected when change threatens previously unchallenged assumptions, and will threaten concentration of profit in the hands of the few. Just as abolishing apartheid and gaining the female vote, ultimately policy is a step towards equality that will be sustained only when change has also occurred at the level of consciousness. There is growing recognition that exorbitant economic rewards for executives and minimal rewards for lower level workers are unacceptable. Unfettered executive incomes increase the burden on state governments, through poor profit distribution and social ills. To halt escalating inequality, we recommend income regulation by both governments and shareholders. Maximum-wages could bring citizens much needed support and protection against large economic powers. Over time, the perpetuating neoliberal ideology could be deconstructed and instead the trend could be one of growing equality. Citizens might be able to experience, not just imagine, the benefits originally expected from privatisation and deregulation.

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