With Liberty and Justice for Some

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As Americans, we are in love with the concept of justice. Freedom and fairness are as integral to our identity as hot apple pie and cookouts on a summer's day. I feel lucky to be here—in a land of opportunity where the hardworking are rewarded. In my readings of works by the recent stars of economic commentary (Milton Friedman, Steven Levitt, and Stephen Dubner to name a few), it has become quite clear that our nation's success is formally attributed to our warm embrace of democratic and capitalistic ideals. We are described as the world's wealthiest country in terms of GDP (Gross Domestic Product), yet what does that wealth mean? Who owns it?

In terms of financial wealth—described by UC Santa Cruz professor G. William Domhoff as "total net worth minus the value of one's home"—in 2007, 42.7% of our nation's wealth was owned by the top 1% of our population, and another 50.3% was owned by the next 19% in the economic ladder (Domhoff, par. 7). With some simple number crunching, a shocking and unnerving statistic unfolds: the wealthiest 20% in our society own a whopping 93% of our nation's wealth (Domhoff, table 1). That leaves a paltry 7% of wealth to the bottom 80% of Americans (Domhoff, table 1). Maybe these discrepancies are a good thing. Maybe they prove that if you work hard in life, you're going to be living large. To me, however, these statistics spin a tale much different than that of the American dream. They bastardize any notions of equality, justice, and social responsibility that I once identified as truly American. Though no economic system is perfect, the structure of the one present leaves the poor grasping for straws as the rich enjoy the fruits of their labor.

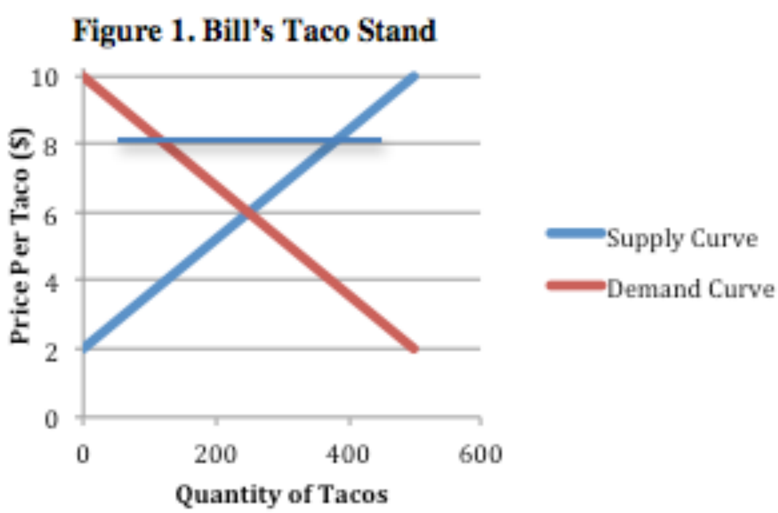
Unless you're in this top 1% bracket (in which case go ahead and burn my paper, you won't find comfort here), you should be angry! Why should a select few Americans live in the lap of luxury while the others are forced to live paycheck to paycheck? I'm no socialist nut; I agree that people should be rewarded for their hard efforts. However, there must be a way to narrow the gap, to spread the wealth a little more. Seven percent of wealth for eighty percent of the people just doesn't *sound* right. With this in mind, I plan to target the highest echelons of our society and find an alternative to the economic depravity America faces.

A fun little riddle before we delve deeper: name one thing NBA basketball players and AIG bailout executives have in common. If you can't think of an answer besides that they both have ridiculous amounts of money, you're probably not alone. In the sports world, the commonality is known as a salary cap—there's a literal limit to how much LeBron can make a year for his excellence on the court. In the real world, however, it has been called a wage ceiling or a maximum wage—a government set standard on how much an earner can take home. Yes, I said it. Cue the USSR anthem and call up the retired McCarthyites to put me away for good. I think there's a maximum amount of money you should be legally allowed to make. Try your best to swallow my words. Remain skeptical; don't trust me yet. But, I beg you to keep an open mind. Remember, I am no politician; I'm not trying to trick you with some underhanded rhetoric. I have a bona fide, genuine concern for the majority of Americans who are fighting an uphill battle in their "pursuit of happiness," and I will use the principles of Macroeconomics to fortify my argument and fight for you—the little guy.

Though I am arguing for a ceiling on wages, I bet you didn't know that the government has already built a similar structural floor for our earnings.. We all accept it. Whether you're serving up burgers at your local McDonald's or ripping up ticket stubs at the premiere of

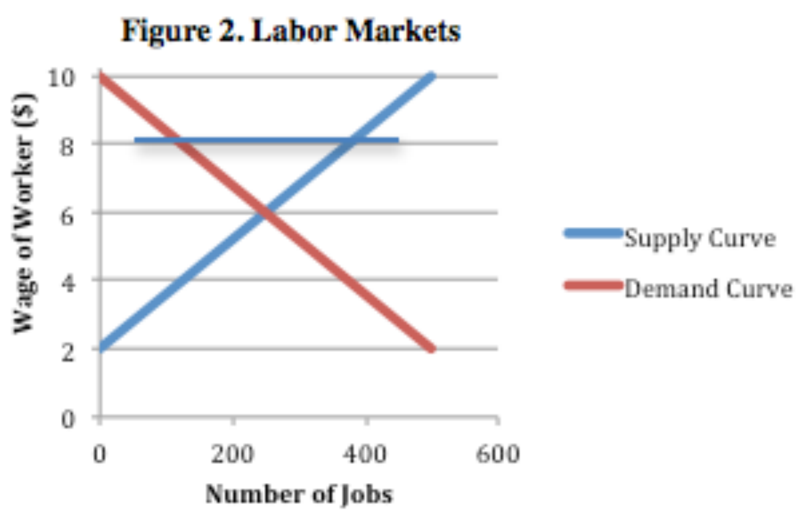
Tarantino's next violent thriller, the government has already stepped in and said that there's a minimum amount employers are allowed to pay you for that job. While we generally accept this regulation, there are formidable consequences to the economy at large. These consequences make up the floor of which I previously spoke. To see these consequences, we first need to see how wages are decided.

British economist Alfred Marshall was the first person to depict a complete picture for the determinant of price—what the market decides as a fair amount for a good or service—in his formulation of the laws of Supply and Demand (Frank and Bernanke 65). Put simply, there is a market for *anything*. On one side, there's a group of producers that creates a product (the supply) and wants to get as much money as possible for it. On the other, there's a group of consumers that wants a product for as low of a price as possible (the demand). These motives are opposing; where the forces meet is the point at which a price is determined. Take a look at Figure 1 for a fictional example of how much our friend Bill gets for his tacos sold at his stand. The red line denotes the demand. At eight dollars, Bill would like to sell 400 tacos, but his customers are only willing to buy 100 at that price. If he refused to sell below that price, there would be an excess supply of 300 tacos—the difference between the points of intersection of the horizontal line between the Supply and Demand curves. In a free market, this process goes back and forth until the lines intersect, at what is called an equilibrium price, where Bill's



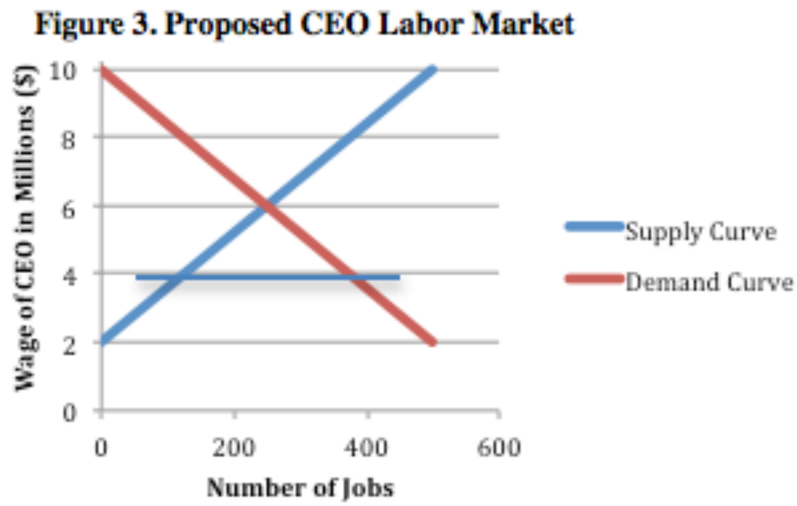
production of tacos meets his demand.

These same principles carry over to labor markets. The only things that really change are the labels on the axes. What was once the price of a good or service is now the wage of a worker. What was once quantity now becomes employment: the number of jobs available. Again, there is a supply side and a demand side. In this case, employers are the supply while people looking for work make up the demand. A true free market economy would use this model to determine wage, and an equilibrium price (wage in this example) would be reached—that's how much a worker would be paid. However, this does not reflect reality; the government in an effort to help the lower class has instituted a minimum wage. Reflected in Figure 2, a serious problem emerges. Though the government's motives may be altruistic, the minimum wage intrinsically increases unemployment. Companies can't afford to pay workers more than the equilibrium price a free market economy would set for wages, so what they do is simply hire fewer workers—this time, an excess supply of jobs (and, thus, more unemployment) ensues.



When unemployment ticks up, a minimum wage economy operates inefficiently; this economy is not utilizing its resource of labor to its full potential, since people that could otherwise be working are not (Frank and Bernanke 177). Yet, it still seems necessary for workers to have some sort of minimum wage so that we don't have Americans bringing home just a couple of dollars a day, no matter how menial the labor. It becomes a necessary evil. America is not the only country that faces this dilemma. In Australia, there has been heated debate on this same issue. Ian Harper, previous chairman of the Australian Fair Pay Commission, posits that it is equally as inefficient to pursue the abolishment of a minimum wage as it is to keep it, for it would evaporate the “safety net” on wage that these laws create (4). In his opinion, all that is necessary is the maintenance of some sort of minimum, anywhere below the equilibirum levels. I would challenge Mr. Harper to think outside the box; the solution that we both seek—one “economically efficient” as well as socially acceptable for wage redistributions—may lie in the additional adoption of a maximum wage, the exact opposite policy.

The target market for the implementation of this kind of law is American CEOs. They make the most. If the wealth distribution in America got you a little frustrated, go ahead and grab yourself a couple aspirins to calm down that heart of yours before we continue; the magnitude of CEO salaries might just put you on a stretcher. Venkat Venkatasubramanian, in a longitudinal analysis of wage distributions for Purdue University, reports the following statistic in his research: while in the 60s, CEOs made about 50 times as much as minimum wage workers, as of 2007 they make on average 866 (that’s right, *eight-hundred-and-sixty-six*) times as much (766). To put that into perspective, for every eight dollars a person makes in an hour, a CEO makes close to $7,000. If you’re working an eight-hour day, a minimum-wage earner brings home about $64, while a CEO working that same amount of time brings home $56,000—more than the worker would make in two years working full time. These are just averages. Many CEOs make much more than that. Do CEOs really work 866 times harder than their lowest employees? Emphatically, I answer “of course not!” Sure they have highly stressful jobs, but a free market approach to their salaries creates a double standard (767). Why do we set wage laws for the lower classes that have proved to increase unemployment while ignoring the opposite side of the spectrum? Let's turn the minimum wage graph on its head and show what a wage ceiling will do for our economy; look to Figure 3 on the next page. As we can see, a benefit occurs in the divergence away from equilibrium; there now is shortage of CEO jobs available, in effect, forcing those CEOs to accept lower wages.



In an interview with James Madison University Economics professor Dr. Vipul Bhatt, I went over the theoretical framework behind the maximum wage idea. Though he lauded the model in theory, he coerced me away from what I now see as naiveté and explained what happens in reality. "There will be a shortage of CEOs in your model," he said. Even if the government did put a cap on CEO wages, "they will always find a way to get money outside of their salary in the form of bonuses and stock options." On top of this, if they are not getting paid in full, their performance will decrease and more poor decisions will be made, and government "does not want to interfere with performance." If a maximum wage isn't realistic, then what is?

As we can see, a chasm exists between economic theory and its practice. As Dr. Maureen Ramsay of the University of Leeds expressed in her "A Modest Proposal: The Case for a Maximum Wage," "it seems implausible that it is necessary to make some individuals hundreds of times richer than others in order to retain incentives" (207). But we somehow continue to operate under that principle. If a flat-out ceiling won't work, what else is there? I kept my nose to the grindstone, and the answer hit me in the face while reading Venkatasubramanian's work: the greater the fairness of a company, the greater the entropy (capability for work) in the company (777). While Venkatasubramanian focuses on pay scales, I question why we would not simply tie the salary of the CEO to a set ratio of that earned by the lowest paid worker for the company, fusing the ideals behind a maximum wage with real world practicality (776). Two enormously successful companies have been built upon this principle. Praised in *Time* magazine, Ben & Jerry's ice cream and Whole Foods supermarkets, from their inceptions, tied the earnings of the top of management to those of the bottom tier of workers (Fonda 63). Though Ben & Jerry's had to abandon the practice in the mid 90s to hire a new CEO, Whole Foods still operates on a maximum of a 14:1 ratio (63). Their CEO is only taking home 14 times more than the person that's bagging the groceries they sell (sounds much better than 866 times, right?). With this idea in practice, the bosses are still rewarded handsomely for their efforts, but the bottom tier workers do not feel alienated from their executives—growth in salary is still possible. You can have your cake and eat it too. This practice inherently would boost productivity across the spectrum once implemented. Anyone who works in the company, no matter what their rank, has the extra incentive to do their best at all times—any increase in the profitability of both the company and the worker. The *incentive* to do well serves as a catalyst for both the growth of the company and of personal salary.

Increased incentives for workers, no matter how low or high their salaries, lead to economic growth (Bhatt). While the flat salary caps remain regrettably implausible, the adoption of ratio-driven salaries for corporate America has unlimited potential. I'll set a bar, middle of the road, in comparison to today's standards. If we required CEOs to be paid no more than 100 times what their lowest workers are earning, that's still a difference of 766 times what it is today. Think how much more wealth could be shared! The biggest problem the implementation of a ratio-wage policy faces is founded in the culture of American greed—the unfortunate brother of the free market. If our nation is the wealthiest on this planet, why should only a select few enjoy it? Possibily, there may be a need for a call for change—a change in the distribution of wealth in our society. The wealth of our nation should be our greatest benefit as Americans, holistically. That wealth cannot and should not be contained all within the grasp of the top wage earners. I'm not here to spark a Marxist revolution in America, but I do want to level the playing field—and expand social justice. At the end of the day, if both you and your boss can stand to benefit, what is there to lose?

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