The Day Income Gaps Were Finally Capped

Jean GADREY

As we enter the twenty-second century, the need for capping income gaps to guarantee social cohesion and preserve the environment is no longer challenged. Yet only a century ago, this idea seemed utopian. Only as a result of the great crisis of 2008-2015 and the unprecedented inequalities triggered and perpetuated by it was this outcome finally achieved.

Excess wealth, from Antiquity to the present, has only been denounced or dealt with in relative terms, linking wealth and poverty, caps and safety nets. Three reasons explain the priority given to relative rather than absolute gaps. The first is ethical in nature, the second economic, while the third falls within the realm of political ecology. Considering them in turn will help us understand why the idea of capping these gaps gained traction at the beginning of the twenty-first century.

The first, moral reason used the language of decency and indecency (of wealth as well as poverty) and of "acceptable" or "tolerable" inequalities, determined from the perspective of existing norms of justice. Sociological studies made it possible to evaluate these inequalities. They suggested that not only did 80% of French people find inequality to be excessive, but that they did not hesitate to offer their views on the desirable income and minimum social allowance levels.[1]

In the second explanation of the growing concern with relative gaps, two economic arguments overlap. The first contends that by reducing excess wealth, one can end monetary poverty[2] or, in any case, significantly decrease it. This proved accurate: simple evaluations demonstrated that by redistributing a modest amount of wealthiest people's income, one could, without noticeably affecting their wellbeing or harming the economy, scale back monetary poverty to the point of eradicating it.[3]

---

[1] See "L'éventail acceptable des revenus : Platon, Georges Marchais, etc." http://alternatives-economiques.fr/blogs/gadrey/2008/11/17/l%E2%80%99eventail-acceptable-des-revenus-platon-georges-marchais-etc/

[2] According to the National Observatory of Poverty and Social Exclusion, "indicators of economic poverty identify individuals whose living standard is inferior to a given amount, known as the poverty threshold." http://www.onpes.gouv.fr/Pauvrete-monetaire.html

[3] Jean Gadrey, "Si on prenait un peu aux riches, ça ferait combien pour les pauvres ?", http://alternativeseconomiques.fr/blogs/gadrey/2010/01/11/si-on-prenait-un-peu-aux-riches-ca-ferait-combien-pour-lespauvres/

The second argument appeared in the midst of the 2008 subprime crisis. It rested on the following argument. It was both the excessive wealth of rich people seeking higher returns on their available savings and the poor living conditions of millions of households that facilitated the development of highly risky financial products (risks that were ultimately borne by modest households and taxpayers), through mechanisms that allowed rich people from across the world to lend at usurious rates via the financial institutions they controlled to overly indebted households that believed the value of their homes would continuously rise. This situation called attention once again to the enormity of wealth discrepancies, in this case as a factor in the unusual scale of the financial crisis.

Finally, the third reason for emphasizing wealth gaps pertains to political ecology: in a world with limited natural resources (consciousness of this obvious fact was late in coming), in which ecological pressures from the wealthiest (i.e., their resource usage) was immeasurably greater than those exerted by people with more modest incomes, a moment was finally reached, long after every indicator suggested that durability thresholds had been exceeded, when the wealth of some prevented others from living decently, or even to survive, by depriving them of essential shared goods that are capped by nature. Reducing inequality thus became a vital imperative for civilization itself.

It was not until a little later, in the 2020s, that relative norms were associated with absolute caps on the basis of a generalization of the ecological footprint indicator (for individuals and nations), which asked us to "economize" natural resources that are on the verge of depletion, including a livable climate, water, arable land, numerous raw materials, and biodiversity, which was then in rapid decline.

Incomes Had Been Capped Before (Almost)

"Maximum acceptable income," maximum salary,[4] a progressive income in which the highest tax bracket was 100% for the highest incomes: proposals such as these gained traction in the period leading up to the 2012 election and in subsequent years. At the beginning of the century, the three registers in which excessive inequality was protested were bolstered by several alarming social and ecological wake-up calls, which began to proliferate in 2008.[5] From the "appalled economists" to environmental NGOs by way of anti-poverty associations and the growing "*indignados*" movement, the critique of inordinate wealth from the standpoint of the way most people lived became common. It even began to "contaminate" milieus and media outlets that one would have thought to be immune. In its December 1, 2012 issue, for instance, the business magazine *L'Expansion* devoted nine pages to a dossier on the injustice of the wealth distribution created by corporations listed on the CAC 40.

To assess the effects of the implementation of a wealth cap (determined in relative terms), some have recalled that during the period of the so-called *trente glorieuses* (the thirty post-World War II years of unprecedented economic growth), many countries had already taken measures of this kind. The most commonly cited example is that of the country that, in 2000,

---

[4] See the websites: http://fr.wikipedia.org/wiki/Salaire_maximum and http://www.salairemaximum.net/.
[5] Listen to Patrick Viveret on the RMA (*Revenu Maximal Acceptable,* or maximum acceptable income): http://plusconscient.net/decroissance/56-francais/125-patrick-viveret-sur-le-rma-revenu-maximalacceptable.

seemed to have become the most unequal of the wealthy countries: the United States. During the same period, however, many other countries had followed its example, including France. In 1942, Franklin D. Roosevelt declared: “no American citizen ought to have a net income, after he has paid his taxes, of more than $25,000 a year.” This was the equivalent of $400,000 in 2011 dollars. Roosevelt had created an income tax system in which the highest tax bracket was taxed at a rate of 88%, which increased to 94% in 1944-1945. From 1951 to 1964, those making more than $400,000 were taxed at 91%, then at 70-75% until 1981.[6]

What was the impact of this real American “utopia”? Though other factors were also involved, it strongly contributed to three decades of decreasing inequality. This is illustrated by the following graph, representing the share of total household income that went to the richest 10% between 1917 and 2006:

Share of the richest 10% of in the US national income (1917-2006)[7]

This historical reminder suggests that the idea of a maximum income was appealing not only on moral grounds, but also as a way for pulling the country out of a serious crisis—when excessive inequality was seen as one of its major causes. In 2008, the European economy found itself precisely in the midst of a crisis of this scale.

[6] See my blog post “Les États-Unis instaurent un revenu maximum pour sortir de la crise!”, http://alternatives-economiques.fr/blogs/gadrey/2008/11/29/les-etats-unis-instaurent-un-revenu-maximum -pour-sortir-de-la-crise/

[7] Source: data from Emmanuel Saez, http://elsa.berkeley.edu/~saez/saez-UStopincomes-2006prel.pdf

What Does a Society With Capped Incomes Look Like?

Heated debates broke out as inequality rose, undermining social cohesion. Those who favored an income gap cap thought along five lines:

1. Who had the legitimacy to define these gaps, and how? In a non-authoritarian regime, finding an answer seemed impossible without broad consent and thus a democratic system that was far more open than the one that then prevailed. The new watchword for those advocating a genuine democratization of institutions became: "Let's find justice among the people," through assemblies of citizens endowed with new powers. The conclusions reached by these assemblies proved infinitely more egalitarian than debates in parliament, hardly surprisingly given the latter's class composition and vulnerability to wealthy interest groups.

2. Income inequality was only one factor of the inequality of conditions. The capping of the former would have had little impact had it been accompanied by an increasing decline in social protection and public services. According to the Insee (the French statistics agency), these contributed twice as much as social welfare allowances to the reduction of income inequality. A society choosing to cap income gaps also needed to preserve other factors of equality.

3. Which was to be capped first: salaries or capital income (real estate income, interest from investments, dividends, added-value, etc.)? This last had become a major component for the higher income bracket, comprising around two-thirds of the incomes of the 0,1% richest people and three-fourths of the 0,01% richest. In fact, for the wealthiest individuals, even a significant share of their *salaries* was derived from financial income: they were not "real" salaries, in the sense of being appropriate compensation for one's skills, talents, and efforts, but rather "financial market" salaries. Consequently, it was the scale of all salaries that was in need of compression, at the top as well as at the bottom.

4. Could income gaps be capped through taxation alone? No—for several reasons. First, although taxation was an efficient way to limit excesses at the high end of the spectrum, they did nothing to increase minimum social standards (other than through tax credits, a method that is itself limited) or minimum wages, nor to put an end to undesired part-time work, a major cause of the income poverty that was then pervasive. Next, relying too much on taxation to reduce gaps between "primary income" (income prior to taxes on work and capital) ran the risk of allowing the latter to rise unchecked. Taxes would have to constantly catch up with ever widening inequality. It was thus necessary, working through legislation and within companies themselves, to limit salary discrepancies and to impose caps on capital income.[8]

5. What could the individual and collective benefits be were an "efficient" cap on income gaps to be achieved? Between 2020 and 2030, and even as early as 2013 (a year marked by powerful social movements), they proved considerable in all respects. It was this truth that, in the early 2010s, certain fatalists (who held that "there always have and always will be rich and poor

[8] See the Shareholder Limited Authorized Margin (SLAM) proposed by Frédéric Lordon: http://fr.wikipedia.org/wiki/Slam_%28imp%C3%B4t%29 .

people") had sought to mask. The following proposal was put forward: for a single person,[9] a minimum of 1,000 euros and a maximum of 10,000 euros. These figures, once thoroughly utopian, proved highly realistic in French people's views on desirable minimum and maximum incomes. Around nine million people saw their situation improve, noticeably for some, dramatically for the majority (remember that in 2011, the basic RSA [a form of minimum wage] was 467 euros).

Every international statistical study supported these proposals: indexes of wellbeing or human and social development (health, education, violence and insecurity, male-female equality, etc.) were clearly and positively correlated to income equality. Books were published on this topic.[10] Still, resistance was considerable. The man whom contemporary sociologists dubbed "the president of the rich" (history has forgotten his name, unlike Roosevelt's) because of his close ties with plutocrats and business circles even attempted, in October 2011, to use a report he had commissioned from his allies to maintain that poverty had declined, even though every indicator suggested that it had significantly increased. The claim was so outlandish that it ultimately turned against him: every serious statistician, every association denounced what was clearly an instance of statistical fraud.[11] He was even criticized by Eurostat, the European statistical agency, which pointedly stated that the reason why the European Union had, since 2001, issued an official statistical definition of income poverty, was precisely to prevent heads of states from defining it at their convenience.

A Way Out of the Crisis

What did this capping of income gaps contribute towards solving the ecological crisis, which at the time had taken a turn for the worse? The impact would have been nil if the measure had resulted only in some consuming more while others consumed less, of produce that remained quantitatively and qualitatively unchanged. Hervé Kempf, however, the author of several important books on the topic from around 2010, invoked a more subtle sociological argument: "What happens in a very unequal society? It generates enormous waste, as the oligarchy's material squandering—itself prone to conspicuous competition—sets an example for society as a whole. Individuals at their own level seek, to the extent that their incomes allow, to acquire the better-valued goods and status symbols. The media, advertisements, films, TV shows, and celebrity magazines propagate the dominant cultural model … Clearly, the question of inequality is crucial."[12]

Until the "Second Great Crisis" stock-holder capitalism and its political and media allies had managed to present measures that the vast majority of citizens considered reasonable and just as completely utopian and harmful,[13] to the point that they had vanished from part of the

[9] A size offered by the Ipsos polls (for "Secours Populaire") in the 2010s.
[10] See this review of a book by the British epidemiologist, "L'égalité, c'est la santé" ("Equality is health"): http://www.france.attac.org/archives/spip.php?article109287.
[11] See http://alternatives-economiques.fr/blogs/gadrey/2011/10/19/chiffres-de-la-pauvrete-la-campagne-presidentielle-commence-par-une-arnaque-grossiere/
[12] See Hervé Kempf, http://www.mouvements.info/Le-revenu-maximum-un-levier-pour.html.
[13] For a response to the argument that "globalization prohibits inequality caps," see the article "Ciel! Nos riches et nos entreprises vont partir!" ("Heavans! The Rich and Corporations Will Leave!"): http://alternatives-economiques.fr/blogs/gadrey/2010/10/04/cielnos-riches-et-nos-entreprises-vont-partir/.

left's political agenda. Yet the multifaceted crisis of 2008-2015, far from being over in 2012, awoke a sense of justice. The resulting measures would significantly favor social justice movements, namely the "socialization" and "takeover" of the private financial sphere, which had become a planetary threat and a major factor in rising inequality. In the early twenty-second century, it is amazing to think that during the "Thirty Calamitous Years" (1980-2010), political leaders entrusted large shareholders and speculators, at the time innocuously dubbed "financial markets", with the management of monetary creation, credit, and currency (since 2030, we have a global currency, as well as countless local or regional "solidarity" currencies)—domains that for years now have been considered as common goods to be democratically managed by all stakeholders. Yet historians have clearly shown that political leaders in that age of weakened democracy were often little more than the agents and "corporate attorneys" of powerful private interests.

Because the crisis led advocates of capped income gaps to seize upon the opportunity for protest and reconstruction, it gave a turn for the real to that which, for the men and women living in the 2000s, had seemed little more than a distant dream.

Further Reading:

Jean Gadrey's blog: http://www.alternatives-economiques.fr/blogs/gadrey/

Published in booksandideas.net, 15 October 2012.