

Living Wage and Optimal Inequality in a Sarkarian Framework

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Abstract Principles from the social thought of the Indian philosopher P.R. Sarkar are employed to show that there exists an optimal level of economic inequality that joins the values of economic justice and efficiency. Sarkar favored establishing a living wage as well as a maximum wage that allows for work incentives. It is argued that the primary justification for inequality is to provide incentives for individual productivity, and that the value of those incentives should not exceed the economic contributions they produce. To determine the relative importance of income incentives in motivating individual economic contributions, it is found necessary to develop a multifaceted model of human productivity. Such a model is developed using concepts from humanistic psychology. A Sarkarian individual productivity curve is introduced in diagrammatic analysis to demonstrate the existence of an optimal level of inequality, and also to explain the persistence of extreme income inequality.

Keywords: inequality, living wage, P.R. Sarkar, PROUT, productivity, Maslow

INTRODUCTION

For the past three decades, many have watched with growing unease as economic inequality in the US and the world has risen steadily. Nonetheless, economists have not agreed on how to respond. Given that it is deeply imbedded in mainstream neo-classical economic theory that there is an unavoidable trade-off between equity and efficiency, economists have been cautious in their response for fear that imposing measures to halt the growth of inequality will cause greater economic harm. Social economists have generally agreed that the so-called conflict between equity and efficiency is a false dichotomy. However, they also have not come to a consensus regarding remedies.

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In this article, I will show that an equitable distribution does coincide with efficiency, given an appropriate social and economic framework. The argument will extend ideas presented in the social-economic theory developed by the Indian social philosopher P.R. Sarkar, who called his framework the Progressive Utilization Theory or PROUT. It is an efficiency argument that employs the simple idea that the primary justification for inequality is to provide incentives, and that the value of those incentives should not exceed the economic contributions they are intended to produce. I will demonstrate that this kind of efficient limit to inequality exists. Furthermore, at this limit, a reasonably defined just distribution coincides with an efficient one, that is one that maximizes output available for distribution.

Inherent in this theory is the assumption that human productivity will respond to material incentives. While the assumption is reasonable, the importance of material incentives can be exaggerated if other motivators for human productivity are not also accounted for. Focusing only on material incentives will be seen as inadequate, particularly in the context of social economics, which will not accept that human satisfaction results only from material rewards to the exclusion of social and other values. Therefore, I develop a humanistic theory of human productivity that includes a wide variety of determinants. I am aided by a previous productivity model developed by John Tomer based on the psychological theories of Abraham Maslow.

The argument will be presented in the following sequence. First, I will present an introduction to Sarkarian social thought, since his work is still unfamiliar in many parts of the world. To provide some orientation, I compare his thought with that of other social economists, and then point out the aspects of PROUT that are most relevant to the present discussion. While the argument for optimal inequality rests primarily on the ideas of Sarkar, it is also influenced by the theories of Abraham Maslow. I therefore have also included a short summary of Maslow's ideas that are most relevant. There are close parallels between Maslovian psychology and Sarkarian thought, particularly in Maslow's emphasis on the importance of meeting basic needs to develop psychologically healthy people. Maslow's views on human motivation and productivity, which also play an important role in developing the humanistic model of productivity, are summarized. I then introduce the Sarkarian individual productivity curve, a productivity function based on the productivity model. The curve is used to diagrammatically demonstrate that a rational limit to inequality must exist. Two real-world applications of the Sarkarian productivity curve are presented in the final section.

THE SARKARIAN FRAMEWORK

The social and economic thought of the Indian philosopher P.R. Sarkar (1924–1990) holds a rich potential to contribute to economic theory, although it has not yet received the attention it deserves. Sarkar was primarily recognized as a yoga master and spiritual teacher. In addition to his social thought, he has made significant contributions to the study of Indian religions and philosophies, history, and music. As his primary interest was the development of the spiritual potentialities of human beings, the focus of his economic system is to maximize human potential in all spheres, which he defined as the physical, psychic (i.e. mental), and spiritual. Underlying all aspects of his theory is the recognition that human beings are much less likely to achieve their higher potentialities when denied access to basic material and social requirements.

Sarkar is not alone in incorporating spiritual values into economic thought. Monsignor John Ryan (1906) is but one Western example, along with economists E.F. Schumacher (1974) and Herman Daly (see Daly and Cobb 1989). Ryan concluded that a living wage would be a powerful way to achieve universal economic security. However, Sarkar goes further in PROUT to advocate a maximum wage, as is explained below. Daly (1991: 53–56) has made a similar proposal, although he advocated a maximum and minimum income rather than wage. Despite these scholars' commitments to varying traditions, they were all guided by their spiritual outlooks to conclude that the distribution of society's resources should be prioritized to ensure that all human beings are guaranteed access to the basic requirements of a decent life.

There are other parallels to Sarkarian thought in contemporary economics. Sarkar's emphasis on developing a social framework that fosters the development of human potentialities is compatible with the welfare criterion more recently advocated by Amartya Sen (1999), that individual social, political, and economic capabilities are the best determinants of human welfare. There are also close parallels to Sarkarian thought in the humanistic economics expounded by Mark Lutz and Kenneth Lux (1979). They employed the humanistic psychology of Abraham Maslow to argue that an economy should satisfy basic requirements such as physical needs as a prerequisite to allowing humans to satisfy higher needs and achieving self-actualization.

Sarkar summarized his philosophy in a short book called *Ananda Sutram*, first published in English in 1961. The outline of his social-economic system PROUT is found in the fifth chapter (reproduced in Sarkar 1992). The book,

written in the traditional Indian Sanskrit *sutra* form, consists of concise aphorisms followed by explanatory commentaries. The ninth and tenth sutras, listed and discussed below, are most relevant for our purpose of developing of a theory of optimal inequality.

The ninth sutra is: “The minimum necessities of all should be guaranteed in any particular age” (Sarkar 1987: 23). This is seen as 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 that can lift their minds to the supreme bliss of union with the “Infinite Consciousness,” which Sarkar would regard as the ultimate goal of individuals and society.

Sarkar stressed 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. He further advocated a government policy of 100 percent employment, with a minimum wage set at a level adequate to purchase necessities. The standard for minimum necessities will change with time and place, but should be continually improving.

The tenth sutra is: “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 people in an economy are able to provide the minimum necessities to all, they will have to decide how to distribute the remaining surplus. Sarkar opposes dividing the surplus equally, seeing it as a violation of the diversity of nature (1987: 22–23). Sarkar also does not endorse the communist ideal, “From each according to his abilities, to each according to his needs.” Under PROUT, incentives do matter and it is not considered unjust for the worker who is more productive to earn more, once each member of society has access to the basic necessities.

The guiding principle is that the surplus is to be used specifically as an incentive to coax greater service to society from the especially capable. This sort of incentive is known in PROUTist economics by the Sanskrit word *atiriktum*. *Atiriktum* may be 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 privileges. 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 worker may be offered more staff.

In an article published shortly before his death in 1990, “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, common people should be assured of a living standard that is appropriate for that time and place, and allows what most consider to be a reasonably dignified and stress-free life. Further, continuous efforts should be made to raise the minimum standard.

In this section, introducing the social thought of P.R. Sarkar, I have summarized his views on how the output of society should be distributed. In order to facilitate human development, meeting minimum needs should take priority, and then more amenities may be made available to the meritorious as an incentive to provide more service to society. As we use these elements of the Sarkarian framework to develop our theory of optimal inequality, it becomes necessary to understand the relationship between incentives and productivity in healthy human beings and in a healthy society. Insights from the humanistic psychology of Abraham Maslow are particularly helpful to this end.

MASLOW AND EUPSYCHIAN MANAGEMENT

It is not controversial that some disparity of income can encourage the most talented to be more productive and to accept jobs that are more challenging. We have also noted that in the Sarkarian view 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 is critically important to the present argument that there are rational limits to inequality because the more that non-income motivators contribute to productivity, the need to rely on income incentives alone is diminished. From the standpoint of society, the justification for extreme inequality is weakened. It is therefore necessary for a theory of optimal inequality to be based on a well-rounded understanding of the motivation behind human productivity. The insights from the psychologist Abraham Maslow are of considerable help.

Maslow has explored the motivation to be productive 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 the usual assumption of the disutility of work prevalent in neoclassical economics, which demand explanations for exerting effort in work. Maslow asks “Why do people *not* create or work? Rather than, why *do* they create?”

(Maslow 1965: 8). He asserts that it can be assumed that everyone has the motivation to create and work; it is the inhibitions to these motivations which must be explained.

Maslow's explanation points to 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. Eupsychian management, Maslow's term for employing strategies to foster such a positive environment, can spread benefits throughout society. A virtuous cycle develops wherein a good organization improves the people working in it, who in turn improve the industry, and eventually society as a whole. Good management, Maslow asserts, can 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 . . ." (Maslow 1965: 17).

These positive findings are dependent on psychologically healthy individuals working in a healthy environment. According to Maslow, where these are lacking, coercive management and material incentives must play a larger role (1965: 32). By Maslow's thinking, then, excessive reliance on material incentives may indicate systemic breakdown. It is not surprising that Maslow is highly critical of conventional economics, with its stress on money as a motivator. Still, Maslow (1965: 11) acknowledges a 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" (Maslow 1965: 212).

We see that in the Maslovian view human productivity and creativity are innate, and can be encouraged with a healthy, humane, and well-managed environment. Still, as he suggests in the previous paragraph, incentives and even the pressure of market competition can be beneficial. The important implication for income disparity is this: If inequality will be accepted to the extent that it increases productivity to the benefit of all, the effect of income incentives cannot be understood in isolation. Non-material incentives and both environmental and innate considerations will have to be included in a complete theory of human productivity. In the next section, a holistic model of human productivity that does account for these factors will be developed, informed by the concepts of Maslovian psychology. It will be an important step in developing the theory of optimal inequality.

ELEMENTS OF PRODUCTIVITY

Below I extend John F. Tomer's (1981) work on motivation in a business environment. To explain motivation, Tomer's model is:

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

The Tomer model was developed as a response to the X-efficiency theory developed by Harvey Leibenstein (1975), which Tomer regarded to be inadequate in its explanation of human motivation. U here stands for an individual's utility from work effort. E is the amount of directed work effort. (If graphed with U on the vertical axis, the U–E curve would at first slope upward and then downward.) P*, standing for personality, is starred to distinguish it from the similar factor offered in Leibenstein's model based on what Leibenstein called constraint concern, the willingness to comply with the requirements, norms, and responsibilities associated with a job, even if they vary from a worker's own liking.¹ With greater constraint concern, a worker will constrain his or her behavior to conform to the interests of the firm in the absence of external pressure. To this Tomer adds individual drive and maturity or psychic health. Here Tomer cites Maslow to assert 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. WE, or work environment, can be broken down into distinct, though interacting elements that can increase U. First to be considered is whether there is a match between the individual and the job or organization. A person can be more or less suited for the nature of a job (i.e. whether it involves social interaction or is solitary, uses 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. The third factor is whether both the organization and the job encompass meaningful goals. Finally, there are implicit contracts, the 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

¹ Tomer argues that his model is an improvement over Leibenstein (1975) because the older model implies that the only way to improve productivity is to increase pressure from the boss. Leibenstein (1982) disputes this point. For a detailed critique of Tomer's model and a related defense of Leibenstein's theories, see Frantz (1982).

potential will increase self-esteem, enhancing job satisfaction while providing motivation for a higher level of performance.

Tomer's model shows a trade-off from supervisory pressure for performance. 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 calls organizational capital.

I present a model that is similar, yet has important differences. To begin, I replace "U" for utility with "Pr" for productivity. Whereas Tomer's model seeks to identify those factors that affect an individual's utility to expend effort on a job, my approach looks at productivity directly. There are causal factors important to creating ultimate productivity, such as talent, that are not related to any conscious or even unconscious utility calculation. Let us then look closely at the model that will be developed through the rest of this paper:

$$\text{Pr} = f(\text{A, P, DO, Ed, Ex, WE, SC, MI})$$

"A" stands for individual ability. I assume that there are innate differences in abilities and talents that affect one's productive capacities. P, for personality, is the same as in Tomer's model, with his expansion of the personality concept to include individual drive and psychic health according to Maslovian self-actualizing criteria. Self-actualizing people are considered likely to be more productive, *ceteris paribus*. Work ethic should also be considered a personality trait, related to psychic health, yet distinct. Ed is education, and Ex is experience. Also included is Tomer's WE for work environment and DO for the demands of the organization.

A new element introduced in this model, SC, is 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 acculturated 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. This is particularly important to consider in a Sarkarian model, since Sarkar (1988: 29) asserts in his philosophy that the altruistic impulse, or the desire to serve others selflessly, is a defining human characteristic. In his terminology, it is part of the *dharma* of human life. Finally, MI is 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.

In the following section, we will be most concerned with the effect of MI in the equation above, or in mathematical terms, $\partial Pr/\partial MI$. The other factors are held constant, but are assumed to be set 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 the next step in our sequence of logic. To review, first it was seen that in the normative framework guiding Sarkarian distribution, meeting basic human needs takes economic priority, after which additional amenities are distributed according to their potential to generate greater benefit to society. In other words, material incentives are provided in order to stimulate productivity. Having accepted this operating principle, we then examined the nature of material incentives, and found them to be only one of a number of factors which contribute to productivity. Nonetheless it was acknowledged 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. In *The Economics of Welfare*, A.C. Pigou (1962) 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 amount of utility gained 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 marginalists 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 1971: 288).

Economists were left with a conflict between maximizing social well-being and maximizing the output needed by society: the impasse between efficiency and equity. Sarkar's social/economic theory PROUT provides the theoretical means to break the impasse: *atiriktum*. The doctrine of *atiriktum* solves the age-old conflict between efficiency and equity by producing exactly the amount of inequality 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 and 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 that are provided an individual beyond what would cause that person to perform at the peak of his or her ability represents a waste to society. Standard concepts and tools of economics can be used to clarify this important point.

The principle of diminishing marginal returns can certainly be applied to *atiriktum*: there must be diminishing marginal returns to incentives. This fact will allow us to determine an optimal level of inequality in society, which I will demonstrate with what can be called a Sarkarian individual productivity curve.

Figure 1 shows the Sarkarian individual productivity curve, an S-shaped function similar to those seen in all microeconomic texts, demonstrating variable 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. Material incentive here is wage or material compensation in other forms as is considered for the MI variable in the productivity model developed previously, with the other variables held constant. One characteristic of the curve that identifies it as Sarkarian is that the curve begins, or crosses the vertical axis, at a living wage. Put another way, the origin of the horizontal axis at point A is the living 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 incentives to achieve beyond the minimal level required to retain employment and to

LIVING WAGE AND OPTIMAL INEQUALITY

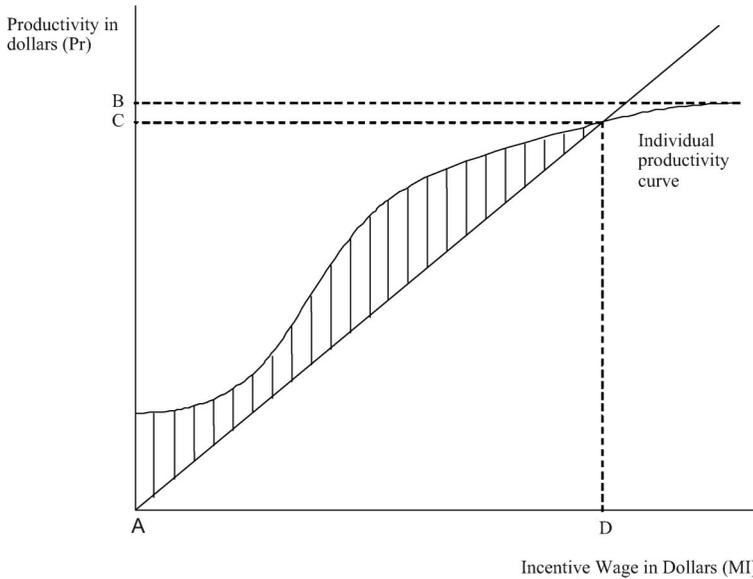


Figure 1: Productivity Resulting From Wage Incentives: The Sarkarian Individual Productivity Curve

live in a dignified manner.) Productivity increases sharply at first, as the individual takes what steps are within his or her power to meet the requirements of receiving a higher wage, such working harder or improving his or her skills. As the individual approaches the limits of his or her capacity, the curve levels off. At the peak of the curve, associated with level B, the productivity of the individual has reached its highest potential; he or she 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 or she can afford more leisure.

If the primary justification for this individual to receive a higher salary than another worker is to provide an incentive to greater productivity, there is no reason for society to provide a salary higher than that which induced the individual to reach point B. Any additional salary is nothing more than a windfall for the individual (that is, economic rent) 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 that which induced A – B, but we can use diagrammatic

analysis to precisely pinpoint the optimal level of incentive from society's point of view. In Figure 1, 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 or her increase in productivity. Any incentive paid beyond this point (shown by segment A–D) 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 A–D, 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. (That is, 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. It can be stated mathematically as:

$$\int_A^D [f(MI) - MI] dMI.$$

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 extra amenities are provided for at a level that is fair and appropriate from the standpoint of society. Moreover, the worker is fulfilled because society shows that it values and recognizes his or her unique contribution. Society benefits from the worker's productivity, which is maintained at a high level. He or she produces a surplus for society, which may be used to raise the minimum wage or to provide incentives that raise the productivity of others. Society may also tax the surplus to 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 could also be taxed to subsidize the minimum wage of those whose work is not of sufficient marginal value to equal the minimum wage due to disabilities or other reasons.

The means by which these benefits can be achieved by society depends on the institutional arrangements employed. In a pure Sarkarian or PROUT framework, most production would be done by cooperatives which would

distribute income according to the collective decision-making process chosen by the individual firm. The state may intervene by setting an economy-wide minimum wage which would be raised periodically as economic growth allows. If necessary, that is if wages in the private or public sector exceed what is needed to provide optimal incentives, the state could also impose an economy-wide maximum wage. The state may also tax firms in a PROUT economy to support work programs to provide employment at the minimum wage to disabled or other individuals who are difficult to place in the private market cooperative system.

There is no reason, however, to think that the principle of a rational maximum wage cannot also be beneficially applied in a corporate capitalist system. Rigorous application for executives could free funds within the corporation as well, allowing the funds to be used for things like research and development or to increasing shareholder dividends. These freed resources might also be taxed for public goods.

A consequent question may arise: if $A - D$ 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 Sarkarian productivity model can be used to provide basic insights. In the case of excessively high salaries, the invisible hand process fails to secure the best interests of society. To make this case, we can assume usual market dynamics. Both employers and employees want to maximize their earnings, the employer by paying less, and the employee by demanding more.

This interaction is modeled by inverting the axes in Figure 1, so that productivity is shown on the horizontal axis and incentive wages are shown on the vertical axis. This inverted Sarkarian function shown in Figure 2 becomes a supply curve for an individual's productivity. (MI shapes this supply curve; the other variables in the holistic productivity model developed earlier, such as work environment (WE), are "shifters.") Notice that the line becomes nearly vertical toward the right, indicating that there are no further gains in productivity as the material 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 be willing to buy a greater amount of productivity, as is seen in the employment choices of firms. Buying more productivity means hiring a greater quantity or quality of labor or both. These lines are comparable to a standard labor demand curve which reflects marginal revenue product: The curve is made up of points where the value of the additional productivity is equal to its cost. Where the demand and supply curves meet, the market sets the level of the wage and productivity.

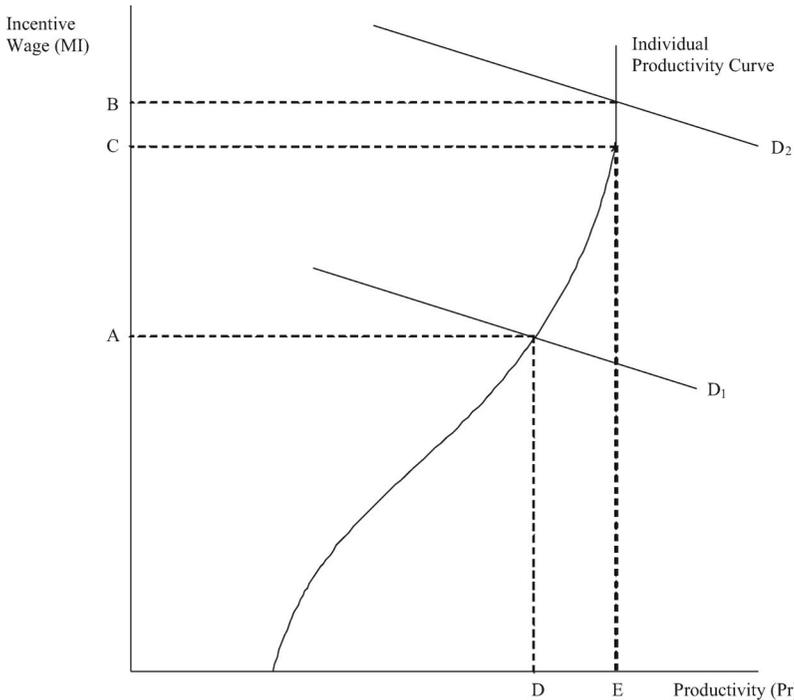


Figure 2: Productivity Supply Indicated by an Inverted Sarkarian Productivity Curve

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 B–C 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 C is well beyond what is required to meet the individual’s real needs according to the current social standard, and even allows a high amount of amenities, the individual is hurt little by being denied B–C.

THE PERSISTENCE OF UNJUSTIFIABLY HIGH WAGES

What would cause so high a demand curve as described above? An individual could have a rare skill that is in high demand, such as a professional football

player's abilities or an inventor's genius. This gives the individual the economic equivalent of a monopoly for that skill, allowing him or her 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.

Below are two examples of markets in which high productivity demand curves cause wages to be inefficiently high from the standpoint of society. While they are taken from the American economy, other examples could be found in most economies of the world. First, extremely high salaries are prominent in American major league professional baseball. Before 1976, salaries of baseball players were held down by restrictive contracts that forced players to remain on the teams they joined. However, that year players won free agency, 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 fairer, and more accurately reflected the players' revenue contributions to their teams (McConnell *et al.* 2006: 186). Today, the average salary in major league baseball is over \$2.6 million (CBS 2005). While the economists' arguments of fairness have some merit, and while many fans 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 play in baseball has improved. In other words, the higher salaries have had no incentive effect. Furthermore, it is unlikely that players would be lured to other careers if salaries fell to a tenth of their current levels or less. From society's standpoint, the higher post-free-agency salaries had little justification.

Other extremely high salaries in American society cannot be so easily explained in economic terms. Scandalously high US corporate CEO salaries are now so routine that we have become desensitized to them. After a lull in the rate of increase in their salaries, average compensation rose an astounding 30 percent in 2005 (Colvin 2005). 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. High salaries often find their way to heads of corporations with mediocre earnings or even consistent losses. Let us consider one more example. Suppose the 30 percent CEO salary increase cited above was not allowed, and that any pay increase would be outlawed for the coming year. Does anyone believe we would see mass resignations of CEOs from their jobs for which they are already paid in the many multi-millions? Would they work less than what is expected and demanded of their position? Would they start to make intentionally bad decisions? And finally, would the supply of applicants to these positions

suddenly dry up? Although it would be difficult to construct an empirical test for these questions, a reasonable person would answer them all “no.”

The academic economic and business literature that attempts to explain CEO salaries is rich but inconclusive. It is not within the purpose of this paper to review it. However, for whatever reason, top executive salaries do seem to be on a high demand curve of the type shown in Figure 2. As such, the Sarkarian productivity curve predicts that measures of executive productivity such as corporate performance will be unresponsive to marginal incentive salary. Without economy-wide salary caps to prevent salaries from being bid up, executive compensation will be in excess of what is required to fill these positions with able and willing people, an inefficient and socially costly outcome.

CONCLUSION

In the context of the Sarkarian framework presented here, it has been acknowledged that a degree of economic inequality is needed to provide the incentives that encourage the high volume and quality of human effort needed to produce a level of material abundance consistent with a high standard of human welfare. However, there is a point where the incentives cease to make economic sense, and have high opportunity costs in terms of other economic priorities, such as improving the well-being of the lowest-income workers and providing incentives where they have a greater impact on productivity. Analysis was used to demonstrate that such a point must exist. Developing methods to determine that optimal point on the Sarkarian productivity curve could provide the basis for a rich and useful research program. The Sarkarian framework can be especially fruitful in social economics, where excessive inequality has been a perennial concern but a means of defining what is excessive has not been found.

There are many who will insist that any attempts to limit incomes will cause market distortions with grave welfare consequences. Advocates of this view will need to show that these costs outweigh the opportunity costs of excessive inequality. On the other hand, the Sarkarian framework will help those concerned with excessive inequality to demonstrate the burdens imposed on society when too much of the income society produces flows to a few. For example, the opportunity cost of channeling income to wealthy people for whom it cannot provide a productivity incentive can and should be quantified. Furthermore, the Sarkarian individual productivity curve suggests that the social costs of limiting high incomes, especially at the extreme end of the spectrum, will not be large. This should also be tested empirically.

Another part of this research program would be to quantify the importance of the elements of productivity proposed in the humanistic model of productivity. Measurable proxies should be found for the elements (A, P, DO, Ed, Ex, WE, SC, and MI), and they should be tested in real work environments. For example, for the work environment variable, productivity in workplaces that rank highly in published “Best places to work” listings can be compared with workplaces that rank poorly. It will not only be useful to empirically determine the average impacts of the variables, but also to what extent the impacts vary from person to person. Research stemming from this model may make a real difference in optimizing productivity within firms as well as contribute to a more livable society. The research would also be a necessary component of attempts to determine the ideal wage gap within firms as well as for society, since monetary incentives to productivity work in conjunction with the other variables.

Sarkar suggests that there should be a set gap or ratio between the minimum wage and the highest wage allowed. Some argue that this should be arbitrarily set at a reasonable level because an ideal gap is empirically difficult to determine and also because there will otherwise be a tendency for the gap to gradually widen at the upper end, as we see occurring in the corporate CEO market. Economist Ravi Batra (1979), a close student of P.R. Sarkar, has advocated the “ten times rule:” for the sake expediency, a ratio of ten to one should be established between the lowest and highest salaries. It is simple, and should provide adequate room for incentives. Others argue that an optimal ratio can be found empirically, and that it will likely vary in different settings. Theoretical and empirical research can further this discussion.

Welfare economics has sought a social welfare function that provides guidance for redistribution. However, a significant body of literature demonstrates high efficiency costs associated with redistribution (see, for example, Ballard 1988 or Browning 1993). The Sarkarian approach advocates optimal distribution rather than corrective redistribution. Future work should demonstrate which approach best accomplishes the socially desired level of inequality with the fewest efficiency costs.

Finally, economic democracy is a concern for many social economists, and is also central to Sarkarian thought. It should be fruitful to study whether in conditions of greater workplace democracy, natural limits to inequality emerge as workers develop rules for rewarding different labor contributions to the firm in ways that best benefit all. In particular, different compensation patterns may emerge for managers. Where worker consent is required to set manager salaries, they may naturally be set at the Sarkarian optimum since

workers would only increase a manager's salary if it would also cause their own salaries to increase. This should also be tested empirically.

The Sarkarian individual productivity curve, in conjunction with a holistic theory of productivity, can provide a useful new context for studying inequality. It can also provide a normative foundation for evaluating the social desirability of different states of inequality. This article has been an initial attempt to incorporate ideas from the Sarkarian framework into economic theory so that these advances can be realized.

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