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‘It’s the value that we bring’: performance pay and top income earners’ perceptions of inequality

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Abstract

Though the literature on perceptions of inequality and studies of ‘elites’ have identified the importance of meritocratic beliefs in legitimating inequality, little is known about the role of pay setting processes in sustaining ideals of meritocracy. Drawing on 30 in-depth interviews with UK-based top income earners working mainly in finance, I analyse how top income earners perceive economic inequality. My study highlights the crucial role of performance pay for perceptions that top incomes are meritocratically deserved. Participants expressed the view that performance pay, an increasingly prevalent pay-setting practice, ensures that top incomes reflect a share of economic ‘value created’ for shareholders, clients or investors. Focusing on narrow, economic criteria of evaluation perceived as objective, the majority of respondents (‘performance pay meritocrats’) justified any income difference as deserved if it reflects economic contribution. Meanwhile, a minority of respondents (‘social reflexivists’) applied broader evaluative criteria including distributive justice and social contributions.

Key words: financial services, elites, income distribution, inequality, meritocracy, perceptions

JEL classification: Z13 social and economic stratification, D31 personal income, wealth, and their distributions, D63 equity, justice, inequality, and other normative criteria and measurement

1. Introduction

Top incomes have increased. An impressive body of literature has demonstrated that the share of national income claimed by the top 1%, has increased since the 1980s, both globally and within most regions of the world (Piketty, 2014; Alvaredo *et al*., 2018).[1] Although top incomes declined following the 2008 financial crisis, they remain high (Alvaredo *et al*., 2018). The income share of the top 1% of the population has been used by academics, international organizations and social movements to measure, study and mobilize against rising inequality (Atkinson *et al*., 2011; Piketty, 2014; Oxfam, 2014; OECD, 2015). At the same time, however, studies have also highlighted that many citizens legitimate income differences as meritocratically deserved (Sachweh, 2012; Mijs, 2021) and that 'elites' use the argument of meritocracy to justify their advantage, claiming that it is based on their hard work and talent (Khan, 2011, 2012*a*; Sherman, 2017*a*, 2018; Kantola and Kuusela, 2018; Schimpfössl, 2018; Kuusela, 2020). Nevertheless, we need to advance our understanding of the cultural processes (Lamont *et al*., 2014; McCall *et al*., 2014) that sustain beliefs in meritocracy.

Little is known about how the top 1% of income earners come to believe their earnings are based on merit. In this article, I address the research question: how do top income earners perceive economic inequality? As the 1% are a hard-to-access population (Page *et al*., 2013), there are few empirical studies that address this issue. Drawing on in-depth interviews with top income earners in the UK, I argue that performance pay is important for perceptions of inequality, because pay based on performance is seen as meritocratically deserved. Performance pay, the practice of evaluating individuals' performance (i.e. their economic contribution) and paying them based on this performance evaluation, is a cultural process (Lamont, 2012). It is also an increasingly prevalent business practice (Kristal *et al*., 2020; Williams *et al*., 2020). Because performance pay is understood to ensure that incomes are based on merit, this 'meritocratic' practice reinforces beliefs in meritocracy.

In performance pay jobs, compensation includes not just a fixed component, but also a variable, performance-based component, like bonuses, commissions or piece-rate pay (Lemieux *et al*., 2009). These jobs are particularly common in finance (Roth, 2006), where performance pay is a major component of incomes, according to my interviewees. Performance pay attempts to assess individuals' economic contribution so that pay is aligned with productivity (Gittleman and Pierce, 2015). Accordingly, many participants view top incomes as reflecting 'contribution' or a share of the 'value created' for shareholders, clients or investors.

Therefore, my interviewees perceived performance pay, especially market-based performance pay, to be meritocratic, based on the idea that market competition ensures that reward reflects contribution. Unlike rankings or rating systems used to evaluate employees (see Lamont, 2012; Lamont *et al*., 2014), there is no inherently fixed upper bound in market-based performance pay. For instance, hedge fund managers typically receive performance pay calculated as 2% of all assets under management and 20% of the profits. The higher the performance, the more they are paid. The criteria used to evaluate market performance are solely economic (Hall and Lamont, 2013). Therefore, many participants viewed *any* income difference as deserved—no matter how extreme—as long as incomes reflect economic 'contribution'.

For about two-thirds of my participants, whom I term *performance pay meritocrats*, economic contribution justified any income difference as meritocratically deserved. They were not concerned about rising top incomes, arguing that the market should determine top income shares and tended to not agree that it should be the government's responsibility to reduce income differences between the rich and the poor. A minority of participants, whom I

1 In the UK, the top 1% income share more than doubled from less than 6% in 1979 to nearly 14% in the mid-2010s (Alvaredo et al., 2018).

term *social reflexivists*, questioned the deservingness of top incomes. They applied broader, social evaluative criteria to consider the magnitude of top incomes, matters of distributive justice and whether pay reflects a contribution to society. Only these participants expressed concerns about inequality, arguing that top income shares should be lower, and that the government should reduce income differences.

My findings suggest that performance pay is a cultural process that allows the 1% to legitimate top incomes as merit based. Many studies of elites (e.g. Khan, 2011, 2012*a*; Sherman, 2017*a*; Kantola and Kuusela, 2018; Gaztambide-Fernández, 2009; Schimpfössl, 2018) and perceptions of inequality (e.g. Mijs, 2021; Sachweh, 2012), including of top earners themselves (e.g. Kuusela, 2020; Suhay *et al.*, 2021), have discussed the importance of meritocratic beliefs for the legitimation of inequality. My study emphasizes that pay-setting processes in 'elite' firms, particularly performance pay, are important for top income earners' beliefs in meritocracy.

2. Pay processes at 'elite' firms: performance pay and marginal productivity

Performance pay is an important component of pay for the top 1% (Roth, 2006; Bell and Van Reenen, 2014; Godechot, 2016), that has become increasingly prevalent (Lemieux *et al.*, 2009). Advocates of the 'shareholder value' model, which prioritizes financial returns for shareholders, have been vocal proponents of performance pay, pointing towards links between the practice and productivity (DiPrete *et al.*, 2010). They suggest that performance pay aligns the interests of shareholders and management. Accordingly, performance pay as a practice has increased since the 1980s in the UK and the USA (Lemieux *et al.*, 2009; Kristal *et al.*, 2020; Lin and Neely, 2020; Williams *et al.*, 2020). In the UK, the percentage of employees who received some form of performance pay increased from 30% in 1992 to approximately 40% by 2012 (Williams *et al.*, 2020). Performance pay is most prevalent among those with high pay (Kristal *et al.*, 2020), in advantaged occupational class positions (Williams *et al.*, 2020), in management, business and financial occupations (Gittleman and Pierce, 2015) and in the finance industry (Bell and Van Reenen, 2014).

The idea of 'pay-for-performance' is that bonus payments, paid on top of a fixed salary, are tied to revenue production (Roth, 2006). Though common across the wage distribution, bonuses make up only a small part of annual pay for the average worker, but they are an important part of pay of those at the top: in 2008 '83% of workers in the top percentile received a bonus and 35% of total pay for these workers came in the form of bonuses' (Bell and Van Reenen, 2014, p. 10). Further, bonuses were particularly important in the financial sector, where they made up 44% of top income earners' total pay (Bell and Van Reenen, 2014, p. 10).

While there is much research on 'formal wage-setting institutions such as minimum wage legislation and unions' (McCall *et al.*, 2014, p. 618), there is less empirical analysis of pay-setting processes at the top of the wage distribution.[2] How pay is set at the top matters for inequality. Indeed, the rise of performance pay has been shown to be associated with increases in wage inequality (Lemieux *et al.*, 2009; Bell and Van Reenen, 2014; Gittleman and Pierce, 2015). Lemieux *et al.* (2009) found that between the late 1970s and the early

2 Although there is a vast literature on executive pay; not addressed here due to space constraints.

1990s in the USA, performance pay accounted for 21% of the increase in wage inequality among men and for most of the increase in wage inequality above the 80th percentile. Further, sociologists have argued that vast increases in senior executive pay are largely accounted for by sharp rises in performance pay (DiPrete *et al.*, 2010; Kim *et al.*, 2015).

Though performance pay appears to be linked to inequality, the sociological literature has just begun to explore how performance pay is related to merit. Studies have challenged the assumption that performance-based pay reflects economic contribution. Specifically, Roth's (2006) study of pay allocation on Wall Street found that despite performance pay's apparently objective measures, women were underpaid compared to men given their performance. Godechot's (2016) study of banking in France and London showed that performance pay depends on interpersonal relationships and bargaining power rather than objective performance. These studies have shown how discrimination, networks and power affects performance pay. I further elucidate the role of performance pay in inequality by exploring how performance pay influences how elites perceive and justify income inequality.

Performance pay is a cultural process of evaluation. Evaluation, 'the negotiation, definition and stabilization of value in social life' (Lamont, 2012, p. 216), is '*the* cultural process that is fundamental to pay-setting' (McCall *et al.*, 2014). Performance pay is supposed to distribute pay 'rationally on the basis of individual merit' (Roth, 2006, p. 36). At the turn of the twentieth century, Weber ([1905] 2003) analysed the rise of capitalism as based on the emergence of rational principles meant to 'maximize efficiency', and according to Lamont *et al.* (2014), these were 'generally perceived as "neutral" and "fair" (based on merit)' (p. 19). Around the same time, neoclassical scholar John Bates Clark (1899) developed his marginal productivity theory of income distribution. Challenging Marx's theory of surplus value, Clark (1899, cited in McGoey, 2017, p. 263) claimed that 'free competition tends to give to labor what labor creates, to capital what capital creates'. This theory suggested that the income of both labourers and owners of capital equals their marginal utility, i.e. that incomes accurately reflect individuals' contribution (Stiglitz, 2015; McGoey, 2017). This idea 'has become entrenched in neoclassical theories of distribution', though it remains a theory, rather than an empirically demonstrated finding (McGoey, 2017, p. 263). For instance, contemporary economist Mankiw (2013, p. 29f) views the marginal productivity theory of income distribution as the 'economist's standard framework', stating that '[i]n the standard competitive labour market, a person's earnings equal the value of his or her marginal productivity'. Scholars like Mankiw (see also Alesina and Angeletos, 2005) view the high rewards of the top 1% as reflecting their talent and contribution, a sentiment that includes an implicit moral claim about deservingness. Evaluating an individual's marginal productivity is presented, by these scholars, as fundamentally 'rational'.

However, others challenge this view. Some argue that it is impossible to measure the marginal productivity of top earners given a lack of perfect information (Piketty, 2014; McGoey, 2017). Still others note that top incomes result from gendered, racialized and classed hiring and reward practices (Roth, 2006; Rivera, 2015; Neely, 2018*a*, *b*), negotiating power (Godechot, 2012), leap-frogging (DiPrete *et al.*, 2010) or rent-seeking (Weeden and Grusky, 2014). Instead of being neutral and unbiased, tools of evaluation can reinforce inequality (Lamont *et al.*, 2014). The type of evaluation system used affects evaluation outcomes, thereby bringing the 'rationality' of these systems into question. For example, Rivera and Tilcsik (2019) found that faculty teaching evaluations that used 6-point instead of 10-point rating scales eliminated the gender gap in performance scores in particularly maledominated fields. Also based on a large-scale experiment, Accominotti and Tadmon (2020, p. 3) found that participants divided a year-end bonus among a set of employees more unequally when performance was 'reified', i.e. when a numerical rating was added to narrative performance reviews, compared to when it was not. Even though the fictitious employees' levels of performance did not vary across experimental conditions, reifying merit through ratings increased inequality in performance pay. All of this research suggests that pay reflects complex social processes, not just the value produced by a worker. Still, whether performance pay reflects merit or not, the practice may shape how people perceive income inequality and the deservingness of top incomes.

3. Views of inequality: 'meritocracy' and 'elite' perceptions

While top incomes in the UK have increased substantially, returning towards their heights of the early twentieth century (Piketty, 2014, p. 315), the ownership of wealth is now more equally distributed (Piketty, 2014; Atkinson, 2015). Hence, the economic 'elite', those with 'vastly disproportionate control over or access to [economic] resource[s]' (Khan, 2012b, p. 361), have changed over the last century. As top earners' incomes have matched or surpassed that of those living off of capital income (Atkinson, 2015), there has been a shift away from inherited entitlement towards a 'meritocratic elite' who legitimize their advantage in market terms (Khan, 2012*a*).

The belief that incomes reflect merit has a long history. Meritocracy is the normative ideal 'that whatever our social position at birth, society ought to offer enough opportunity and mobility for "talent" to combine with "effort" in order to "rise to the top"' (Littler, 2013, p. 52). Meritocracy is often traced to the 1950s socialist critique by Alan Fox and the dystopian vision of Michael Young (who coined the formula 'Intelligence + Effort = Merit'). However, the idea that rewards reflect contribution has earlier roots dating to the birth of neoclassical economics in the early 1870s (McGoey, 2017). Neoclassical economists shifted their focus towards the behaviour of individual agents, in contrast to earlier classical scholars who analysed structural differences in society (Slater and Tonkiss, 2001 ; Sandmo, 2015; McGoey, 2017). The view that income reflects merit has been ingrained in the practice of performance pay.

Given the rise of the top 1%, there is now a vibrant field of 'elite' studies which highlights the importance of meritocracy for elites' explanations and justifications of advantage (Gaztambide-Fernández, 2009; Khan, 2011, 2015; Khan and Jerolmack, 2013; Sherman, 2017*a*; Kantola and Kuusela, 2018; Schimpfössl, 2018). Pupils in elite boarding schools in the USA are expected to be smart and work hard (Gaztambide-Fernández, 2009) and they learn to explain their privilege as a result of their hard work and talent (Khan, 2011). Furthermore, wealthy New Yorkers, including 'stay-at-home mothers' and inheritors, legitimate their privilege by stressing their work ethic in addition to their reasonable consumption choices (Sherman, 2017b, 2018). Russian art collectors talk about the hard work they have put into their passion (Schimpfössl, 2018), Finnish top earners view their rewards as meritocratically deserved (Kuusela, 2020) and Finnish entrepreneurs see themselves as hard-working risk takers even though their lifestyles are leisurely and may include lengthy sabbaticals (Kantola and Kuusela, 2018). Given these contradictions, meritocratic narratives are often analysed as 'shallow justifications' (Sherman, 2017*b*, p. 11) and hence have not been sufficiently connected to wider cultural processes of evaluation in the economy. In this article, I highlight the role of performance pay for top income earners' perceptions that top incomes are based on merit.

4. Methods

My findings are based on the analysis of 30 in-depth interviews with top income earners in the UK, the majority of who work in the finance industry in London. Interviews are suitable for researching lived experiences and understanding the micro-level practices that make up cultural processes (Lamont and Swidler, 2014; Lamont *et al.*, 2014; Sherman, 2018). The interview data are particularly valuable for studying how top income earners understand inequality and their own incomes because, as Pugh (2013, p. 50) has argued, interviews elicit cultural information including what counts as 'honorable' in participants' social setting. Thus, the unique data I collected is well-suited for understanding cultural processes of legitimation.

Interviewees were sampled based on having incomes within the top 1% of the income distribution in the UK[3] (Majima and Warde, 2008; Dorling, 2014). This is a somewhat arbitrary definition and there are arguments that the 'elite' encompasses a much wider group (Savage *et al.*, 2013; Reeves, 2017). However, I focused on the top 1% because of the growing interest in this group's role in rising inequality (Piketty, 2014). A majority of participants also owned wealth that placed them within the top 1% of the wealth distribution,[4] i.e. members of 'the double one percent' (Cowell *et al.*, 2016; Keister and Lee, 2017, p. 1). Further, seven participants owned wealth of at least £50 million, of whom five had fortunes greater than £100 million, and three indicated that they were featured on the Sunday Times Rich List (Table 1).

It is notoriously challenging to access 'elites' for research purposes (Reis and Moore, 2005; Page *et al.*, 2013; Sherman, 2016). I cold called participants to invite them to be in the study based on their position in the City of London ($n = 11$), recruited them through personal contacts, referrals or introductions ($n = 10$) or identified them by snowballing ($n = 9$). The list of potential participants to cold call was derived from public profiles and the financial media; the response rate was approximately 40% which is 'remarkably high' given difficulties of access (Page *et al.*, 2013, p. 53). I informed participants that I was interested in talking to 'economically successful individuals about top incomes and wealth'. The personal assistants of interviewees were extremely helpful in their role as gatekeepers and managers of participants' schedules. The use of personal links for recommendations and snowball sampling is not only justified (Reis and Moore, 2005; Chin, 2014; Sherman, 2016; Neely,

3 According to the World Inequality Database, the threshold for the 1% of income earners was £118,419 before tax in 2012, the most recently available year of data when I started my fieldwork. All participants have individual incomes of at least £140k before tax, apart from one participant whose income in the previous years was well within the 1% and one participant who indicated their income before bonuses was just under the threshold. However, it is assumed that accounting for capital income, which I did not ask for specifically in the interviews, both participants have incomes, which place them within the top 1% (their net worth was between £2.5m and £10m).

4 Two-thirds had wealth higher than £1.4m placing them within the top 1% of households (Hills and Bastagli, 2013).

Table 1 Distribution of income and wealth among participants

Income	%	*n*	Wealth	%	*n*
£140–400k	53	16	<£1.4m	31	9
£401k to <1m	17	5	£1.4 to <5m	24	7
£1 to <5 m	10	3	£5 to <10m	7	2
£5 to <10 m	10	3	£10 to <25m	14	4
£10 to <25 m	3	1	£25 to <50m	0	0
£25 to <50 m	7	2	£50 to <100m	7	2
			£100 to <200m	10	3
			£200m+	7	2
	100	30		100	29

Note: m = million. For income (mean = £4.16 m; median = £346k), 2 cases were estimated to be within the £140–400k category. For wealth (mean = £37.1 m; median = £2.9 m), 1 case with missing values was omitted.

2018*b*), but also highly effective for gaining access because it builds on relationships of trust (Lofland *et al*., 2006).

Interviewees predominantly lived in London, the most unequal city in the UK (Cunningham and Savage, 2015). They are all in higher professional and managerial employment, and the vast majority have degree-level education. Many have postgraduate degrees. A majority of participants were educated at Oxbridge colleges or well-known London-based universities. All are either financial entrepreneurs ($n = 10$), employees in higher managerial or professional occupations in finance ($n = 15$) or self-employed individuals in law[5] ($n = 5$). The vast majority are white (27/30), with a minority of Asian participants. I interviewed 22 men and 8 women (Table 2). Men dominate the top of the income distribution: 82% of the top 1% and 91% of the top 0.1% of income earners in the UK are male (Atkinson *et al.* 2018; figures are similar in the USA, Piketty *et al*., 2018). Research in the USA has also shown that white men are especially overrepresented among the 1% (Keister, 2014). All except one female participant live with a partner. In my sample, parental status differs by gender: 19/22 (86%) of male participants have children, compared to 3/8 (38%) of female participants (Roth, 2006 found that 34% of her female Wall Street participants had children). My focus on top income earners excludes other economic 'elites' such as partners of top income earners, who are mostly female (Yavorsky *et al*., 2019 for the USA), and those who derive incomes exclusively from rent or inheritances. Nevertheless, my sample captures that the disproportional economic advantage of the top 1% is neither gender nor racially neutral (Yavorsky *et al*., 2019).

To understand how participants perceive top incomes, I asked why they think there are differences in incomes, why some people have higher incomes than others and what a 'rich family' and a 'high income' mean to them. Further, I asked about top income and wealth shares, how high they think these are and how high they should be (following Chin, 2014). The semi-structured interviews were conducted between May 2015 and March 2016 in participants' organizations (15), in cafés or restaurants near their workplaces (7), by way of a phone conversation (5) or in university meeting rooms (3). The interviews were followed by

5 Many provide legal services for financial companies.

Table 2 Summary of sample demographics ($n = 30$)

Category Gender	% of total	*N*
Female	27	8
Male	73	22
Age group		
20s	10	3
30s	33	10
40s	20	6
50s	20	6
60s	17	5
Work status		
Financial entrepreneurs	33	10
Self-employed barristers	17	5
Financial professionals	50	15
Ethnicity		
White	90	27
Non-White	10	3

a short questionnaire, where I obtained demographic information, including income, wealth and attitudes towards government policies. Interestingly, participants were less uncomfortable talking about income and wealth than Sherman's (2017*b*) interviewees. I analysed the transcribed interview data using thematic analysis (Boyatzis, 1998). Thematic codes were derived deductively from my research questions and theoretical framework, as well as inductively (Shildrick and MacDonald, 2013). Throughout the following sections, I will provide pseudonyms and descriptions of participants (Katz, 1997).

5. Research findings

5.1 Top incomes were discussed as performance-based

Participants told me that top incomes are based on performance in the market. They explained that pay-for-performance is 'standard' in the top income-generating organizations where they work, including fund managers, investment banks, hedge funds and barristers' chambers. In this section, I provide interviewees' perspectives on performance pay as reflecting 'value created' or economic 'contribution'. I also discuss participants' descriptions of the ways in which performance pay can be calculated. The top income earners in my study discussed both *quantitative and qualitative* performance evaluations used to determine performance pay. Performance pay, they noted, can be calculated based on quantitative metrics in the form of hedge fund compensation structures and 'formulas' for investment bankers and traders. However, they also discussed qualitative or 'subjective' performance evaluations. Narratives about performance pay were widespread throughout the sample.

An example of market-based performance pay is hedge fund compensation structures. Hedge funds derive income based on a standard financial evaluation of their firm's investment performance, using a widely accepted formula ('2 and 20'). Jonathan, a hedge fund manager who was very interested in my research topic after reading about Lauren Rivera's work and was keen to describe 'the way it works' in his industry, elaborated:

> We get a management fee of 2% a year on the money we manage, but we also get 20% of all of the investment gains, and most of that goes to me personally, because I own this company and I take all the investment decisions, and my clients pay for me... I make this money, and it's divided by [number of] partners, and I'm the principal partner.

Therefore, Jonathan explains that his annual income, '£15 million—something like that', is based on the market performance of his fund. Specifically, it depends on how much money investors have invested in his fund (yielding a 2% 'management fee') and the returns on this money that his fund achieves for its clients (the fund receives 20% of these 'investment gains'). Hence, the '2 and 20' formula quantitatively measures his performance. This formula highlights that if someone 'runs' a hedge fund of £1 billion, they 'generate' at least £20 million in revenue annually plus 20% of any increased value of the £1 billion. After deducting overheads, staff and other costs, the remaining profits are divided among the partners of the firm. Jonathan asserts 'I make this money', which I interpret as meaning that his annual income reflects his individual contribution. His explanation 'my clients pay for me' led me to probe whether he sees his income as a share of the value he generates for his clients. He confirmed: 'Absolutely, and that's why it's so lucrative'.

Further, Jonathan discussed that hedge funds can reap negative consequences for bad performance. He explained how he thinks about the consequences of bad performance in the market by comparing himself to a famous English footballer:

> If you're someone like Wayne Rooney, you can go to Man United and say, 'Pay me £200,000 a week or I'm gonna go to somewhere else.'. And Man United just say, 'Yeah, fine', because he's got unique pricing power. And if you are a successful hedge fund manager, if you make money for your clients, you also have unique pricing power... If my performance is bad, I'd be out of business inside 2 years... it's because just like with football if you... perform badly, if you lose 5 games on the trot, you get sacked.

Hence, while footballers compete on the field, hedge fund managers compete in the market. Footballers win matches, whereas top hedge fund managers outperform their competitors financially. Therefore, Jonathan argued, they can demand high fees without reducing demand for their services.

Comparisons to famous white male sportspeople, most notably footballers, were most common among male participants with exceptionally high earnings (in the order of millions of pounds). This orientation to masculine sports is widespread in hedge funds (Neely, 2018*a*) and private equity (Turco, 2010). Choosing extremely elite, high performing athletes as a comparison group is telling. These narratives imply rare skill and high levels of competitiveness. The sports narratives in my sample were also gendered, in line with studies which have found that women are evaluated as less competitive than men (Roth, 2006; Accominotti and Tadmon, 2020) and are less likely to be described as having 'excellent' performance (Rivera and Tilcsik, 2019). My data show that for participants, economic contribution is competitively defined.

While hedge funds using the '2 and 20' formula reap the benefits on the upside, since they invest other peoples' money, they do not meaningfully share in the consequences when their fund's performance goes down. In other words, these high earners reap the rewards without directly bearing the risks,[6] which challenges the view of performance pay as a rational measure of economic contribution.

Over a cup of tea served in china cups at a bright café near his workplace, senior investment banker Stephen explained that high incomes resulting from performance pay are related to 'the value that they are bringing'. His annual income including bonus was close to £1 million and he evaluated himself as 'probably in the top 5 of those 40 people' 'within Europe' 'who do what I do'. He explained that his own income is a share of the economic value that he has generated:

> Companies will pay for me to help them because I help improve shareholder returns by saving companies quite a lot of money [on] their financing cost... So, every year I have a sheet of how much revenue I brought to the bank... I generate, I am associated with $150-200 million of revenue per year but I get a small proportion of that. The amount of money I save companies; it's probably 20 times that $200 million. So, it's probably $4 billion a year.

Hence, Stephen's pay is performance based as it depends on the revenue he brought to the bank, assessed on the revenue 'sheet'. According to his calculation, the economic value he creates for his clients is '$4 billion a year', which generates '$200 million' of revenue for his investment bank, of which he receives a share. He acknowledges that revenue production is a team effort stating 'it's always very difficult to attribute to who brought what because we all work in big teams' casting doubt on neoclassical assertions that it is possible to assess individuals' marginal productivity. However, he still sees himself as responsible for $150–200 million of revenue per year and as receiving 'a small proportion' of the economic value he created for his clients and firm.

Walter, an executive of a large financial firm explained that the majority of his staff's pay is performance pay. A salary might be £100 000, but a bonus could be £300 000. He explained that bonuses are 'about the contribution'. Walter noted that performance evaluations in his firm are a 'multi-level' process:

> The firm has an overall profitability. The remuneration committee will decide how much is allocated towards bonuses... So, people... can earn a lot of money but that's based on the profitability of the firm, the contribution of the part of the firm that they work in, the contribution of the team that they work in and the contribution of their role within that team.

According to Walter, bonuses reflect an individuals' share of the economic value created. In years where the firm's overall profitability increases, staff earn more. Therefore, even though this type of performance pay is based on a company-internal process of performance evaluations by the 'remuneration committee', Walter perceived performance pay as reflecting individuals' contributions to firms' profits.

Overall, interviewees described top incomes earned by (hedge) fund managers, investment bankers and other financial professionals as reflecting 'value created' or economic 'contribution', identified through market competition and evaluated via performance pay. The criteria for evaluating performance are economic. Performance pay, in the form of market-based quantitative metrics, was discussed as measuring individuals' economic

6 Thanks to Reviewer 2 for this conceptualisation.

contribution based on their achieved increases in the value of capital. Subjective performance evaluations were similarly discussed as assessing individuals' 'contribution'.

5.2 Performance pay legitimates top incomes as meritocratically deserved

Performance pay is seen as reflecting merit. Indeed, participants frequently and spontaneously talked about top incomes as meritocratic. The vast majority stressed 'hard work' as important for top incomes, in line with previous research on 'elites' and perceptions of economic inequality (e.g. Khan, 2011; Kantola and Kuusela, 2018; Suhay *et al*., 2021). Ambition, 'drive' and 'hunger' to achieve were also frequently mentioned. Participants also spoke of 'talent', which is related to 'intelligence', the second component of Michael Young's formula of merit (complementing the first component 'effort'). In other words, interviewees highlighted that top incomes are a reflection of merit.

How do top income earners think merit is assessed? Participants saw 'the market' as able to determine the value of individuals' economic contribution. They routinely referred to 'market competition' or 'the market forces of supply and demand' to explain differences in incomes. For instance, asked about why some people have higher incomes than others, a hedge fund manager explained, 'it's just the market'. So, top incomes were seen as the result of market competition. These beliefs are in line with neoclassical economic theory, which suggests that market competition ensures that incomes reflect contribution (Kaplan and Rauh, 2013; Mankiw, 2013). These beliefs about the mark*et al*so align with those found in previous studies of elites (Khan, 2015).

The fresh insight from my findings is that the prevalence of performance pay in participants' lives is important for their view that top incomes are meritocratic. Top income earners did not just describe the market as determining pay—they also described performance pay as measuring how well an individual is competing in the market. Performance pay was delineated as the mechanism that assesses an individual's economic contribution, and hence performance pay was seen as a measure of merit. As performance pay draws individuals' attention to narrow economic criteria of merit, a majority legitimated top incomes as meritocratically deserved (*performance pay meritocrats*). A minority of participants however, applied broader, social criteria of evaluation and questioned whether top incomes were deserved (*social reflexivists*).

Performance pay meritocrats

Alistair, a senior executive of a large financial corporation, who had previously been a partner at an investment bank, described his current income of about half a million pounds as 'low' because 'there must be a lot of people earning more than me in the City of London'. Looking back at his early career he expressed that he 'loved this notion of meritocracy… this idea that the only thing that mattered was whether you were good at what you did and the fact that people were constantly going to be evaluating you… I loved that!'. He explained that while he is concerned that 'the world has got so stretched now', he cannot help but feel like extreme incomes are deserved when they are based on economic performance:

> I used to pay a lot of people at [prestigious investment bank], and I know how ruthless that was based upon performance and I know that they were actually generating a lot more money for the partnership than we were paying them, so I didn't feel bad about that at all.

Hence, as Alistair's staff were ruthlessly evaluated 'based upon performance', they 'earned' their extreme pay. The criterion for measuring performance is a narrow, economic one: money generated for the investment bank. Further, to Alistair, being paid based on market performance makes people 'feel like' they 'earned that':

> If you are a partner in a firm like the one I was a partner of… if you go to a full partners meeting… having paid all the staff and having settled all the bills… you know that if the net figure is this, you divide it by [the number of partners] and that's what you've had. Did you feel like you had earned that? Yes, you did.

Therefore, when pay is based on performance, Alistair views top incomes to be 'earned'. This view was shared by a majority of participants, who focused on the narrow economic criteria of evaluation inherent in performance pay. These 'performance pay meritocrats' saw top incomes as meritocratically deserved.

Walter, the senior executive who explained that most pay in his firm is based on performance, could not relate to public outrage about excessive bonuses. To him, bonuses are misunderstood 'like it's just sort of free money that's been given away' when in fact, he sees bonuses as based on 'contribution' and 'nobody gets paid a [fixed] salary of millions of pounds a year…'. In a lamenting tone, he exclaimed that there had been 'a big focus on compensation' at the time of the interview. He asserted that people should not focus on 'the number', meaning high bonuses in the financial sector. Instead, we should focus on 'the process that drives the number', i.e. the evaluative practices that determine top incomes:

> Now, there is a lot of talk about bonuses in the City… to me, if you have a process that is aligned to success, I think it is entirely right that [people who] make a valuable contribution… should feel that they can [have] the ability to earn more money.

In this view, if high pay is based on receiving a share of 'value created' for clients and shareholders, then the process is fair and 'the number' should not matter. Therefore, for Walter and many other participants who focus on economic criteria, performance pay justifies any income differences as deserved if they are based on individuals' economic contribution. Accordingly, for performance pay meritocrats, concern is only warranted if the process of evaluation is incorrect—for instance if an individual receives a high reward even though they did a 'bad job'. For them, the main issue is not that performance pay leads to excessive pay, but that performance pay might not measure contribution accurately. For instance, about a third of participants explained that top incomes can be 'arbitrary' or the result of a 'game' at the top between 'ruthless, unethical, unpleasant' and 'cheating' individuals. Some linked the financial industry to criminality (see also Neely, 2018*b*). However, such instances of unmeritocratic top incomes were discussed as uncommon and unlike how things should be. For instance, Warren, a fund manager explained:

> There is, especially in finance… this is not a majority but… they had management meetings where they would say 'how are we going to rip off our customers' and 'how are we gonna rip off our own shareholders'… I couldn't believe it… So, some of the banks were paying over 60% of the gross revenue in bonuses, so from a shareholder proposition, that is a disaster.

Warren objected to people getting rewarded beyond their contribution at the expense of clients and shareholders. However, he added that if pay reflects economic contribution,[7] then he takes no issue 'with almost unlimited wealth':

> [Name of hedge fund manager], he's a brilliant, brilliant man... he's built a business from scratch... and now according to the Sunday Times Rich List, he's got gazillions whatever it is and I think that's right... it's just hard work and intellectual capital... monetised and good for him, fantastic. If the source of wealth is wealth creation, I have no problem with almost unlimited wealth. If the source of wealth is scamming things then I've got a big problem with that.

Performance pay meritocrats see top incomes as a reflection of merit, and therefore as meritocratically deserved.

Social reflexivists

Although performance pay meritocrats focused on narrow economic criteria of evaluation, a minority of participants drew upon broader, social criteria of evaluation. I term these 'social reflexivists'. These participants did not consider top incomes as deserved because of the extreme magnitude of top incomes relative to other incomes in society and the greater 'social contribution' of other professions. Some also questioned whether top incomes based on performance pay are meritocratic.

Jonathan, the sociology reading hedge fund manager, explained that he can 'earn a stupid amount of money and no one complains because my clients are very happy as well because I'm making them lots of money'. However, he noted that his own £15 million income 'isn't real life at all' and rejected the idea that it is 'fair':

> I mean, no one could describe what I earn, or what people in my company earn, as being fair. I mean, it's just the market—it's literally just a pure Malthusian outcome in terms of what the market can bear... what I'm earning is an extreme example of market pricing power... Is it fair? No, it's not fair and so therefore it should be taxed, and so I should pay much higher levels of tax... But I think I'm a minority of one, amongst hedge fund managers (laughs). Because I am sure they would say they all deserve it but how can you say you deserve it, it's ridiculous!

While Jonathan understands top incomes as economically justified, he criticized extreme outcomes as socially unfair. Jonathan had discussed his income as performance based ('2 and 20'), explaining that 'in my experience the most high-grade financial jobs are very meritocratic'. However, the explanation of his multimillion pound income as a 'Malthusian outcome' of the market suggests that he views its disproportionate magnitude as unjust and undeserved. While Malthus argued that population growth is exponential and leads to excess that should be addressed (Sandmo, 2015), Jonathan explained that performance pay metrics can deliver exponential returns and argued for the checks and balances of taxation.[8] He stated, 'I very strongly believe in free markets... capitalism works... so you have to have incentives, but I think you're very incentivized even if you had half of what you had currently, if you're in the top 1%'. To illustrate this point he explained:

7 In particular, the top incomes of entrepreneurs were not criticised as resulting from subjective evaluation or unjust manipulation, because their incomes were described as most closely linked to market performance (Kantola and Kuusela, 2018).

8 Thanks to Reviewer 2 for this insight.

> What I earn is of no interest to me really. Because once you get past a certain... amount all additional money you earn is irrelevant, because you can't spend it anyway... it's called the marginal utility of money. And that's one of the reasons why I advocate higher taxation of course because... the money that I earn each year, what do I do with it? I give it away because, there's nothing to do with it... I mean, what can I do? Buy some pictures? Yeah, but I already have pictures all over my house, so what should I do?... It's just silly.

Hence, although he views performance pay as meritocratic, his pay is not 'deserved' due to its extreme nature. In fact, he stated his own income is so 'extreme' that it would be 'ridiculous' to suggest it is deserved.

Other social reflexivists raised similar concerns about the social justice of top incomes, questioning their magnitude. Simon, a fund manager who also derived a multimillion pound income, explained that 'certain jobs are paid way more than others, and it's (laughing) entirely inappropriate... friends of mine who are doctors do far more important jobs than I do and they get paid a fraction, that's not right'. Social reflexivists questioned whether top incomes reflect social contribution, often using comparisons with others working in more 'socially valuable' occupations, most notably doctors, nurses and teachers. Margaret, a young finance professional, aware of her 'prestigious education', including a degree from one of the world's most renowned universities, deliberated:

> Something I find very hard to reconcile is how much more I get paid from a fireman, or a nurse or a doctor. They clearly do something that's much more important, in my perspective, my value order. [My income] could pay for seven teachers... Why do these people get paid so little and people like me get paid so much? Is it right? And therefore, does the government have a role in equalising that? I certainly don't think I'm worth 140 grand, that's the truth.

Margaret juxtaposed her own top 1% income with others who she views as having more socially valuable occupations (her income being 'seven' times higher).

While some social reflexivists saw top incomes as reflecting economic contribution but took issue with 'excessive' outcomes, others questioned whether pay really reflected contribution or criticized evaluative practices based on money as a metric of worth in the first place. Nicki, a financial lawyer, stated, in response to whether 'people's income is a fair reflection of their contribution':

> I don't think so. It can be... It's indicative but it's definitely not conclusive... you can have people who are very good at perception and are not actually contributing that much but are perceived to be. So, I would say that meritocracy, being paid according to your worth and your contribution, is still a struggling concept probably.

Therefore, Nicki questioned whether top incomes reflect economic contribution. Talking about performance pay, Margaret explained that in her view 'we're measuring the wrong thing... I think P&L [profit and loss, a key performance indicator] is a very short-termist, narrow metric in determining success'.

In sum, social reflexivists stated that top incomes are based on performance pay and hence 'can be' meritocratic (reflecting economic contribution), but they are not necessarily deserved. These participants applied broader, social criteria of evaluation in addition to economic criteria, considering the extreme magnitude of top incomes relative to other incomes and the 'social contribution' of other professions. In doing so, these participants questioned the extreme outcomes and/or the process of performance pay.

Differences between performance pay meritocrats and social reflexivists An analysis of characteristics found that participants' gender,[9] parental status,[10] sources of income[11] (whether income was derived from entrepreneurship, self-employment or labour) or whether they self-identified as having been socially mobile[12] did not make them more likely to be either a performance pay meritocrat or a social reflexivist. However, it is necessary to acknowledge the small size and unrepresentative nature of my sample. Nevertheless, participants with higher incomes and wealth were more likely to be performance pay meritocrats.[13] This is in line with research that found that individuals positioned higher in society are more accepting of income differences (Larsen, 2016) and that those with higher social class are more likely to believe in meritocracy (Mijs, 2021). As participants with the highest income and wealth tended to be older, age differences were also analysed. Participants in their 50s and 60s are most likely, and those in their 40s are least likely, to be performance pay meritocrats, while those in their 20s and 30s are in between.[14] Hence, those at the height of their careers are most likely to be performance pay meritocrats (possibly indicating survival bias as social reflexivists may drop out of the industry). Further, performance pay meritocrats were more likely to draw on upward social comparisons (Sherman, 2017*b*), because they saw comparisons with richer others as an inspiration to do better economically. Counter to what might be expected, participants with business or economics degrees are less likely than those with degrees in law or science or those with no degrees to solely draw on economic criteria[15] when evaluating the deservingness of top incomes.

Further, private schooling and political views matter. A striking finding was that participants who mentioned unprompted that they had been to private school (also, confusingly, called 'public school' in the UK) or whose public profiles revealed their private education, were distinctive; seven of eight were performance pay meritocrats. This may not be surprising given that private schools 'give you that sort of confidence' according to Harry, a financial entrepreneur, and given previous research that has shown that private schools teach their pupils to explain their advantage as meritocratically deserved (Khan, 2011). Further, those who referred favourably to the Conservative party were all performance pay meritocrats who suggested that market outcomes were fair, compared to Labour party supporters

9 5/8 female participants and 15/22 male participants were performance pay meritocrats.

10 15/22 participants who have children compared to 5/8 participants who do not are performance pay meritocrats.

11 10/15 deriving income from labour, 3/5 in self-employment, and 7/10 entrepreneurs are performance pay meritocrats.

12 13/20 of those indicating they have been socially mobile and 7/10 of those that have not, were performance pay meritocrats.

13 9/16 of those with incomes in the bottom 90% of the top 1% (between £140k and £400k) and 11/14 with incomes in the top 0.1% of the income distribution (>£400k) were performance pay meritocrats. Further, 9/16 of participants with wealth below £5m and 11/14 with wealth between >£5–250m were performance pay meritocrats.

14 9/10 versus 2/7 versus 9/13, respectively.

15 13/28 of degree holders hold business or economics degrees. These are less likely to be performance pay meritocrats (8/13) than those with law (4/6), science (5/6), or no degree (2/2). Humanities graduates in the sample were least likely to be performance pay meritocrats (1/3).

who generally drew on broader, social criteria for evaluating top incomes and criticized 'extreme' incomes. These findings align with studies showing that views on the fairness of the economic system are politically polarized, particularly in the UK and the USA (Alesina *et al.*, 2018).[16] In sum, participants with the highest incomes and wealth, who are at the height of their careers, who received private education and who expressed a preference for the Conservative party, are more likely to be performance pay meritocrats.

Overall, I have argued that as performance pay draws attention to narrow economic criteria, performance pay meritocrats (the majority) legitimated top incomes as meritocratically deserved. For them, the economic criteria of performance pay are sufficient for the deservingness of top incomes. A minority of social reflexivists, however, drew on broader, social criteria. For the latter, economic contribution or financial value added is not a sufficient criterion for deservingness of top incomes. Indeed, social reflexivists were concerned about the extreme magnitude of top incomes relative to others and talked about the 'social value' contributions of other professions.

5.3 The social construction of performance pay

Although many participants described the market as a neutral and abstract mechanism that ensures economic reward reflects contribution, people—predominantly white men (Keister, 2014; Anand and Segal, 2017; Neely, 2018*b*)—choose the evaluative metrics through which pay is set (Skeggs, 2004). Many of the top income earners that I studied not only earned top incomes, but also set the top incomes of others and influenced their own pay based on beliefs about their economic contribution.

For instance, former investment bank CEO John's explanation of paying traders using a performance-based formula highlights the social construction of high pay:

> [T]he bank will calculate your cost, which is square meters you use: the desk, the chair, the system, being Bloomberg, Reuters, whatever you have, your phone, your newspaper, plus a few costs that will be linked to some of the services you need, like research or other things. That costs equivalent, let's say, to $1 million. For anything above $1 million you have a formula, you make money. And you could make 20% or 30% of that amount. So, the first million is for nothing, and then 1 million to 10 [million] you may make 20%, if you make over 10 million you make another 30%. So, you could have people that actually could generate 50, 60, 70 million of bonus calculated on a formula. If you don't put a floor or a cap.

John's comments describing the economic evaluation of a trader's contribution highlight that the labour of other people that provide traders with the opportunity to trade is not acknowledged (though, he does refer to 'research' as a necessary service). People decide *who* is generating the profits. Further, the narrative shows that it is a social decision to put an upper cap into the formula or not. In response to the financial crisis, he explained 'some banks have put a cap, some haven't' (doing so was viewed as destroying incentives). This highlights that performance pay is not a neutral evaluative process but a deliberate one that facilitates, and simultaneously legitimates vast differences in pay between traders, and between traders and other staff.

16 Participants who referred favourably to the Conservative party (or whose online profile reveals they support the party financially) are all performance pay meritocrats (9/9); while those who were in favour of the Labour party are almost all social reflexivists (5/6).

John also explained that he disliked 'October, November and December', 'the worst months of my life... because it is bonus calculation'. He explained that during these months, his 'PA [personal assistant] was the most popular person' because 'everybody wanted to come and say how is John? Is he in a good mood, is he in a bad mood?... Oh, he's in a good mood, that means we've got a bigger bonus (laughs)'. Therefore, his assistant 'learned to be like a poker face'. However, bonus decision time was also a difficult time for John because bonus payments were the result of him spending

... hours in front of an Excel page trying to justify why Sophia should have this, Andrew should have that, how much is the department. You try to do some amazing formula to calculate all of that and at the end of the day, the pool is always too small and then whatever you do, people are not always gonna be happy.

John's story highlights that he was the person behind the curtain fixing performance-based pay[17], keen to justify his decisions afterwards (cf. 'reversed accounting', Bessière, 2019). Further, his narrative implies that evaluations are based on social relationships and networks (Roth, 2006; Neely, 2018*a*) was acknowledged in many interviews. Compensation is therefore determined 'based on employees' *perceived* contribution to the firm's profits' (Neely, 2018a, p. 12, emphasis added). John's attempt to create 'some amazing formula' to keep people 'happy' casts doubt that pay is allocated according to contribution.

For instance, Walter, the senior executive who explained that the multi-level process of bonus allocation in his company ensures that people are paid based on contribution, told me that he often walks through the halls of his office building late in the evenings to see which members of staff are still working. This way he is aware of who is most 'dedicated' to their jobs. Practices of evaluation such as these were criticized by a few interviewees because they discriminate against those, primarily women, who take up caring responsibilities. These participants argued that evaluations lead to differences in pay based on gender rather than performance (as found in previous research by Roth, 2006). For instance, Catherine a senior financial manager explained that women miss out in the bonus allocation process:

> There are some places where it's very formulaic, so you sell this much, you will receive X percentage of it. That's not the environment I work in, which is very much discretionary. So, your manager decides how much you're gonna get based on, some key numeric metric, but there is some subjectivity involved and that's when I think women miss out.

Catherine viewed discretionary bonuses as not working, apart from 'people who come forward and are able to advocate strongly for themselves', which is easier for men. Roth (2006) has shown that women on Wall Street have to balance contradictory expectations of ideal workers as competitive and ideal women as kind and caring. Catherine's narrative shows that while participants explained that top incomes reflect economic contribution (one's performance), some top income earners, including some performance pay meritocrats like Catherine, believe

that this ideal is not always fully achieved in practice because much of 'performance pay' is not directly based on market performance, but rather is based on subjective evaluations within firms, and therefore is prone to discrimination. Nevertheless, participants subscribed

17 Thanks to Reviewer 2 for the suggestion.

to an 'ideal type' of market-based performance pay unbiased by 'subjectivity': 'you sell this much, you will receive X percentage of it'. Performance pay based on such market-based evaluative metrics was viewed as the most meritocratic.

5.4 Performance pay and perceptions of inequality

So far, I have discussed how participants reflected on their own top income or that of others in their firm or industry. In this section, I discuss their perceptions of inequality. Specifically, I studied how top income earners perceive inequality as measured by the share of national income claimed by the highest-earning 1% of the distribution, which includes themselves. Distribution of income, at a given point in time, is a zero sum. If the income share of the top 1% rises, the share of the remaining 99% decreases. In the UK, the income share of the top 1% almost doubled from 6.9% of total income in 1978 to 13.0% in 2016 (WID.world, 2021). In order to assess their normative preferences for levels of inequality, participants were asked what share of national income they thought the top 1% of earners received and how high that percentage ought to be.

For performance pay meritocrats, inequality was not a concern because differences in incomes are seen as indicative of differences in economic contribution. Therefore, for them, any amount of inequality, no matter how extreme, is justified if it is consistent with economic contribution. As in the neoclassical school, performance pay meritocrats' focus was on individuals' contributions rather than social structure. In contrast, social reflexivists applied broader, social evaluative criteria to include distributive justice and social contribution. This minority was concerned about inequality.

Performance pay meritocrats Most participants proclaimed that performance pay ensured that top incomes are meritocratically deserved. Hence, they were not concerned about rising top income shares. Harry, an entrepreneur who attended an exclusive private boarding school, explained that his education has been 'good for my career even though I did very badly at school'. He credited himself for 'taking risk' with his firm and for his economic success. Responding to my question on how high top income shares should be, Harry asserts that top income shares are not 'a relevant discussion' to be had:

> It's completely irrelevant what the 1% get. They're the guys that basically drive the economy and drive the country and who cares what they get paid.

In other words, he expressed that economic contribution justifies top incomes. He added that he did not support caps on executive pay, either. Ted, a hedge fund manager with income that 'can range from £5 million to £50 million', told me 'I can't answer that question' about how high top income shares should be. Like many performance pay meritocrats he thought 'the market' should determine these shares. Further, he did not perceive inequality as relevant:

> If a very, very small proportion of people get very wealthy, then everyone else just gets wealthier over time. I mean what's wrong with that? That's like me complaining, and I use the football analogy again, that's like me complaining because Ronaldo is a better footballer than me, and he keeps getting better than me or Chris Froome is just a much better cyclist than I am because he is in the 0.001% of cyclists who can cycle up eternally at 30 kilometres an hour, and I can't do that. Inequality in cycling is just going up because Chris Froome is getting better and better. It's

> just not a very sensible way to think about the world. Look, I don't care about inequality, what I care about is that everyone is getting wealthy at some rate.

With reference to the achievements of sportspeople, Ted suggested that the 0.001% pulling away from others is a result of them 'getting better and better'. I interpret his narrative as conveying that widening rungs in the social ladder are not an issue because people's pay reflects their performance (economic contribution) assessed by competing in the market, akin to competing in sporting competitions. In this view, top incomes are meritocratic. Any top income—no matter the magnitude—is justified, and rising top income shares are not a reason for concern.

When I asked Tom, a financial entrepreneur and socially mobile high achiever, 'Thinking about the share of the top 1% of income earners in total income in the UK, how high do you think this share should be?', he responded:

> I wouldn't begin to make choice on that. I just think that the market will find a level.

Thus, to Tom, who owns more than £10 million of wealth, the market solves issues of distribution ensuring that reward reflects contribution, therefore we do not need to concern ourselves with the actual distribution of resources (cf. 'the deserving rich', McCall, 2013). Elizabeth, a financial professional, told me:

> I don't think it's a zero-sum game... everybody should be able to be in a comfortable position, even if some people are earning ridiculous amounts.

These narratives suggest that performance pay meritocrats do not consider issues of distribution as relevant. Similarly, Kuusela (2020, p. 18) found that Finnish top earners tend 'to ignore the effects of high incomes and wealth accumulation on economic inequalities'. Ted, having 'read Capital in the 21st Century', stated that 'there is some deep disconnect here... which is surrounding the concept... [of top income shares] (clears throat) me being rich doesn't make other people poor'. A few participants suggested that only communist regimes occupy themselves with interfering in market-determined inequality. Performance pay meritocrats, like the entrepreneurs, hedge fund manager and financial professional cited above, focused on economic criteria and talked about market outcomes as deserved. Hence, they were not concerned about inequality.

Social reflexivists While most participants were performance pay meritocrats who were not concerned about top income shares, social reflexivists were concerned about inequality and argued that top income shares should be lower. Although social reflexivists also referred to the free market and economic contribution, they additionally considered broader evaluative criteria including distribution as an issue of social justice. They did not see market outcomes as necessarily just. Around the time of interview, the most recently available data showed that the top 1% income share in the UK was approximately 14–15%. When I asked Jonathan how high top income shares should be, he answered that he would prefer lower levels inequality:

> Jonathan:... those numbers should be chopped in half.

> Interviewer:I see, so you would prefer levels which would be like they were in the late 1970s, early 1980s?
> Jonathan:Correct, absolutely correct, yeah. Yes, yes.

Similarly, discussing current levels of inequality, Margaret explained:

> I feel pretty bad actually, so I would prefer a society that was much more equitable.

Considering wider societal concerns, and the distribution of income, participants like Margaret and Jonathan drew on social criteria of evaluation explaining that rising top income shares are 'a bad thing' (Simon) and 'likely to cause growing resentment… and… much more serious problems in the future' (Jeff). Charlotte, a successful fund manager, directly linked performance pay to rising inequality and stated that 'it's wrong' and 'unfair':

> There's been a massive change… Some of this arose because of the share options and the incentive bonus culture that came in through the nineties and 2000s, and I personally think that it should revert back… we've been through a period of egos and greed and excessive risk-taking from some people that is unjustified and a lack of investment in the real long-term tools of the business… which, for a lot of these companies, is people.

Hence, in terms of perceptions of inequality, unlike performance pay meritocrats, social reflexivists are concerned about top income shares and would prefer them to be lower. The former focus on individual contribution and the procedural justice of top incomes, while the latter consider social structure and distributive justice. These distinctions align with neoclassical versus classical economic thought. Therefore, performance pay meritocrats focus on procedural over distributive justice.

Policy preferences

Differences between the types of evaluative criteria which participants drew on are relevant for policy preferences. Performance pay meritocrats stated that top income shares should be market determined and they were not concerned about levels of inequality. Therefore, they were less likely than social reflexivists, who expressed concern about inequality, to agree that the government should reduce income differences and redistribute income. A minority of performance pay meritocrats, but a vast majority of social reflexivists (6/19[18] versus 8/10), responded in the brief post-interview survey that it should or probably should be the government's responsibility to reduce income differences between the rich and the poor. Similarly, a minority of performance pay meritocrats agreed or strongly agreed that the government should redistribute income compared to a vast majority of social reflexivists (7/19 versus 9/10). Participants' policy preferences are important because these are powerful individuals. At least four have donated significant amounts to political parties, ranging from tens of thousands to hundreds of thousands of pounds (average of approximately £300k).

18 Survey data for one performance pay meritocrat is unavailable.

6. Conclusion

So, how do top income earners in the UK perceive economic inequality as measured by top income shares? Participants explained that top incomes are largely the result of performance pay and therefore are meritocratic. Consequently, performance pay is crucial for the justification of meritocracy, and hence the legitimation of inequality. Extending previous studies of elites which have suggested that belief in meritocracy is only about narratives of 'hard work', I highlight that performance pay is not only a legitimating narrative, but also a cultural process of evaluation that is part of top income earners' lives. Evaluative tools at the top of the distribution matter, indicating that we need to focus our attention not only on meritocratic views of 'elite' individuals but also the 'meritocratic' evaluation systems in their organizations (see Godechot, 2016). Such a focus, which I have taken here, connects the study of elites to wider processes of evaluation in the economy.

Market-based performance pay, commonly used in the City of London and on Wall Street, narrows focus to economic criteria of evaluation unless individuals actively work to incorporate broader social criteria. Adding to the literature on evaluation, which has established that tools of evaluation matter for inequality (Lamont, 2012; Rivera and Tilcsik, 2019; Accominotti and Tadmon, 2020), my study highlights that pay based on market performance does not have a fixed upper bound (in contrast to ratings and rankings) and is used to justify income differences and the magnitude of top incomes. Performance pay meritocrats, a majority of the sample, viewed top incomes as reflecting economic 'value created' assessed using performance-based pay and justified even vast income differences as the result of market competition and therefore as meritocratically deserved. To them, rising top income shares were therefore not concerning.

While performance pay meritocrats focused on deservingness based on procedural justice (does performance pay reflect economic contribution?), social reflexivists also considered distributive justice (does performance pay lead to fair distributional outcomes?) (Sherman, 2016). Performance pay meritocrats were not concerned about 'the *amount* of inequality in pay between those at the top and bottom' and considered top incomes as legitimate when they reflect economic contribution (cf. McCall's, 2013, p. 11 concept of the 'deserving rich'). These findings may be specific to my sample of predominantly male top income earners working in the City of London (cf. Sherman, 2018). Nonetheless, the findings are important because participants are powerful; rising top income shares may allow top income earners to shape policy in their interests, which further increases concentration at the top (Gilens and Page, 2014; Hager, 2020; Huber *et al.*, 2019). Further, my findings may have implications for executive pay (e.g. stock options) and for industries where pay is based on performance, such as technology (e.g. pay-per-click) or creative industries (e.g. music royalties).

These findings are of interest for research on perceptions of economic inequality, particularly for the 'paradox of inequality' (Mijs, 2021): inequality is on the rise, but people in more unequal countries are not more concerned about inequality because they view it as meritocratically deserved. My qualitative study suggests that performance pay, a tool of evaluation common in liberal market economies (Hall and Soskice, 2001; Aguilera and Jackson, 2003), may increase top income shares while justifying this inequality as meritocratic. Indeed, performance pay not only matters for micro-level perceptions of inequality, as I have shown here, but has contributed to the rise of wage inequality in particular 'at the top end of the distribution' (Lemieux *et al.*, 2009, p. 46; see also DiPrete *et al.*, 2010; Angeles *et al.*, 2016).

My findings hence offer broader implications for macro-level research that seeks to explain variation in top income shares between countries (Piketty, 2014; Alvaredo *et al.*, 2018; Hager, 2020; Huber *et al.*, 2019). So far, this literature has paid limited attention to performance pay as a cultural process of evaluation for pay setting at the top. In advanced economies, top income shares have increased strongly in Anglo-Saxon countries, particularly the USA, while increases have been modest in parts of continental Europe and Scandinavia, where top income shares remain low (Alvaredo *et al.*, 2018; Hager, 2020). Given cross-national variation, rising top incomes cannot simply be reduced to market forces common to rich countries, such as the effect of technological change and globalization on the supply and demand for skills (Alvaredo *et al.*, 2013; Piketty, 2014; Hager, 2020). Politics, institutions and power matter: government policy plays an important role, including top tax rates, taxes on capital and social policies, as does the strength of left parties and trade unions (Volscho and Kelly, 2012; Alvaredo *et al.*, 2013; Nolan *et al.*, 2014; Piketty, 2014; Hager, 2020; Huber *et al.*, 2019). Adding to these explanations, an empirically verifiable hypothesis following from my work is that the prevalence of performance pay predicts cross-national variation of top income shares. In other words, the cultural process of performance pay may be a missing explanation (Lamont *et al.*, 2014) for rising top income shares.

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