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I N C O M E

D I F F E R E N T I A L S

A D R I F T

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Introduction

During the spring of 1971, Dr. Bob Goudzwaard held this speech at a two-day Study Conference of the Dutch Christian National Labour movement (C.N.V.)

The speech first appeared in print in the July/August 1971 issue of "Evangelie en Maatschappij," a monthly publication of the C.N.V. I was impressed by Goudzwaard's treatment of the subject. After consultation with and encouraged by Dr. Bernard Zylstra of the Toronto Institute of Christian Studies, I decided to translate the speech in English. The manuscript was checked by Dr. Goudzwaard who made some corrections in the original text and assisted in translating a few technical terms.

The speech presents a penetrating Christian critique of the difficult problem of a just income distribution. Although it is geared to the Dutch situation, it can be of much help to Canadians and Americans seeking to articulate a Christian approach to the staggering problems that confront us on this continent. When he returned the manuscript, Goudzwaard wrote:

"In a specifically Canadian/American article my critique.... would be much more vehement, particularly on the artificial exploitation - situations in the economy, and on the lack of balance between private incomes and public expenditures, not to mention the racial discrimination."

Hopefully, Goudzwaard will write such an article in the near future. Meanwhile, I hope, this translation will help us in detecting and testing the spirits of our age.

Edward Vanderkloet
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Why should a busdriver earn less than a physician? After all, are not both responsible for human lives? And why must a corporation director have a higher income than a skilled labourer who is much more intensely involved in the firm? Why, in general, should the one person make more than the other?

There are "why's", which remind me of a story by Arthur van Schendel, "The drudge and the questions". Wrote van Schendel; "There was once a drudge who could not get used to her new broom. Having toiled for fifty years, she gave up, exclaiming that she wanted to know what had been the purpose of it all, if, like everyone else, she had to die anyway. With this question she goes to the sexton. He puts her off with the reply that it is written in the Book that man shall gain his bread by the sweat of his brow. Unsatisfied she turns to the schoolmaster. He replies that she is so hard pressed because she has had less education than others. In desperation she asks the oracle. The oracle gives her no other answer than: 'Each moment gives wages according to merit.' And Arthur van Schendel concludes his story: "The drudge came home, took broom, pail, mop, pots and pans from the corner, put on her apron and began scrubbing as if there were no questions at all. And the new broom got used to her."

Must we fear a similar end for our two day conference? In spite of the weight of our problem, I am inclined to answer this question in the negative. For the "why's" with which we started off are not meaningless. Each of them centers on the question what is just. And we know that the question of justice falls squarely within the range of the Gospel, and, consequently, within the range of its redeeming power. Naturally, this does not mean that all problems fade away the moment we mention the Gospel. But I do maintain that the fog will lift and more clarity will result if we have the courage to approach this problematic as Christ-believers.

The Correct Questions

This starts with scrutinizing our own "why's". Too often we cannot find answers because we failed to put the right questions. Particularly in subjects such as these, I believe this to be a real danger. We are dealing with a typical subject which too easily invites a one-sided, abstract, isolated posing of the problems.

For example, the thesis: "All people are equal; they have in principle the same needs and, consequently, ought to have the same income, and every society which cannot realize this is therefore rotten to the core," shows, in my opinion, a too isolated "social-ethical" approach. The same applies to the following: "Incomes must reflect the social value of a certain achievement; that of a social worker is higher than the one of a popcorn peddler, hence the social worker must earn more." Both approaches contain elements of truth, but those elements have been too isolated, too absolutized. As a result they contradict each other in their conclusions.

The one-sidedness of these reasonings shows itself particularly in the fact that both arguments have been completely severed from economic realities. Economic realities which, in turn, are absolutized by other "observers" of the problem of income differentials. Certain economists, for example, present the following story: "Incomes and wages are essentially nothing but prices. They are determined by the supply of and demand for different kinds of labour and capital. Any deviation from these supply and demand relationships on the market will, consequently, punish itself. Granting someone wages that are higher than the existing market, will cause an overstrained labour market for that kind of labour; paying wages that are lower than the current market, will result in deflation or unemployment." You will notice that this approach is equally one-sided, but this time from the opposite side. In the latter case it is not the social-ethical aspect, but the market-economic aspect which has been absolutized and which one-sidedly dominates this approach.

To find the correct approach, we must reject the isolated "sexton" - "schoolmaster" --or "oracle" story. On the one hand, we must ask ourselves what is socially just, and to what income are people with regard to each other entitled; though not isolated from the question what is economically possible, that is, apart from actual existing scarcity situations. On the other hand, we must be careful not to degrade the problem of income differentials to a question of "iron economic laws". True, incomes are economic units. But at the same time the distribution of incomes is and remains wholly a matter of human responsibility whereby the criterion of social justice must be used.

The Sermon on the Mount and Incomes Distribution

When we speak about our human responsibility and the duty to practice social justice, then Christ's Sermon on the Mount is of lasting actuality. The beatitudes give us a deep insight into the marks of the Kingdom of God. Marks which are in sharp contrast to the characteristics of this world's structures. Those who want to get ahead in our world must not be meek but hard; it is not the poor, but the rich and the brash who possess the world. Those who want to climb the ladder of success better not belong to the persecuted for righteousness' sake. Instead of being peacemakers, they must be ready to use their elbows. Being merciful to others must not be your maxim; after all, when will you see your money back?

It is this selfish lifestyle which still characterizes man while he gives form and shape to his society. Man forms a society after his own image. Small wonder that within our societal order we time and again meet and recognize our own hard and selfish traits.

For the sake of the Gospel we may not acquiesce. For the basic task of Christian political, as well as Christian social action is precisely to take issue with and to combat these anti-Kingdom of God characteristics. That task is to make a place in this our society for the persecuted, the displaced, the gentle spirits, the peacemakers, the poor and the merciful. When we in word and deed deny them a real place to live, then the message of the Kingdom has become for us an empty, hollow - pious slogan, irrelevant to life.

What does all this have to do with the problem of income differentials? In my opinion not a little. Above all, it means that we must view the whole question of income distribution within a certain perspective, particularly the perspective of service. Income differentials must be attuned to what people need in order to reach their life destiny and among them particularly the weak, the poor and the displaced. Viewed against this background, I regard the "need-criterion" the most important, when considering the problem of income differentials, providing, however, this "need-criterion" is used in a normative way. This means that it does not "accept" human needs as they are "dished up" by certain people, but recognizes and evaluates such needs according to what individuals and families actually need for the development of their lives. In line with the Sermon on the Mount, this normative character is an indispensable part of such a criterion.

Does this mean that the yardstick of achievement, i.e. granting incomes according to performance, must be discarded as a useless instrument? No, it does not! A certain parallelism between performance (especially the efforts displayed) and income, would seem quite defensible, also from an ethical point of view. This certainly applies in negative respect: he who is able to work but refuses to do so does not "deserve" an income. ("If a man will not work, he shall not eat" is a word from the Bible.) Which is a different way of saying that a person "deserves" more income in the measure he is willing to use his talents, insight and energy more intensively. However, this "performance yardstick" carries an enormous social mortgage. Namely in this sense that incomes obtained through achievement may be used for one's own spending only after a debt to others has been paid. These others are those people who are unable or less able to reach economic achievements.

We can also state the same thing differently. The economic process, including economic achievements, is not an end in itself. It must serve-- or must be made to serve--human life destiny. Man's life destiny is not exhausted in work or work performances. Fortunately, that life destiny is much wider. Also those who are unable to work have a life destiny whether they belong to the youth or to the aged, whether they suffer from temporary illness or permanent invalidity, whether they are unemployed within our own borders or cannot find work in an under-developed country. Therefore, economic life-- including all work achievements--must be subservient to their well-being and happiness. This also constitutes the justification for a progressive tax system and a system of social security.

Complication

The foregoing arguments were necessary, because we cannot evaluate actual situations and developments regarding income differentials unless we use certain definite standards and yardsticks. The question we must now ask ourselves is how, using our above stated approach, we can formulate a number of concrete criteria or standards of judgment.

Immediately we are then confronted with an important difficulty. A difficulty which is fundamentally rooted in the existence of human guilt and sin in the world. Why has the so-called "achievement-criterion" almost always received more attention than the so-called "need-criterion" with respect to actual income distributions? The most important reason is that obtaining an income for oneself is usually more attractive and stimulating than obtaining an income

for others. To put it differently: in the measure that a society emphasizes an income distribution according to existing needs and de-emphasizes "income according to achievement", one must more seriously count on a decrease in the willingness to achieve. This tendency will be all the stronger in the measure that people's motivation to work lies in the obtained income (either in profits or wages). Here we encounter one of the most important vicious circles of especially our Western-capitalistic society structure, as well as the mentality by which it is supported. In most criticisms of our Western society structure this mentality is quietly ignored; nevertheless it occupies a key position. This Western mentality is that the meaning and horizon of human life is identified with obtaining an ever increasing income and ability to consume. Undoubtedly, this mentality is fostered by our society structure itself (think, for instance, of the growing influence of advertising) but, at the same time, it is a mentality which many would not easily abandon. It is this mentality which not only makes an economic study of our Western economics more and more difficult (economic life constantly hovers over the brink of inflation, over-spending and unemployment), but which also often and easily blocks any real improvement in income differentials.

You can trace this for yourself: When people only work ("achieve") in order to obtain their own consumption-income and when the well-being of others as a work motivation disappears, then indeed a strong emphasis of the "need-criterion" in the national income distribution can easily result in greater dissatisfaction and a certain loss of work willingness on the part of both employers and employees. This, in turn, can result in a smaller "fund" from which incomes must come. In this way, a striving to grant absolute priority to income distribution according to needs can become self-destructive.

It is generally known that from this situation many draw the conclusion that we must, after all, give priority to the "achievement-principle" in our Western economics with respect to income distribution. Although we will pursue this subject later on, we wish to make it clear that we do not share this conclusion.

It is undoubtedly true, that in principle no incomes can be distributed and enjoyed wherever there is no economic achievement. In other words, incomes distribution must have an "economic foundation". But in no way does this warrant the conclusion that every change in income differentials which would retard the growth of economic achievements, must therefore be rejected. For the sake of a more just income distribution, one must at times put up with a lower economic growth rate. Especially a Christian labour movement cannot escape the duty to accompany its criticism of existing incomes differentials with an equally critical attitude toward the existing incomes mentality, within as well as outside its own membership. After all, it is this mentality which sometimes constitutes a real barrier to the change of existing income differentials.

A criticism of the society structures which spares the mentality that feeds and supports these structures, becomes automatically hollow and empty.

One final remark within this chapter. While speaking about incomes according to achievement we may never forget that income is something which is expressed in money---and that money is a deficient, blind measuring device. In other words: one cannot expect money to express completely the ultimate worth of someone's work, let alone the worth of that person himself, or his actual service to society. Money only measures economic scarcity situations, and it often does

this very poorly. Money measures achievements only from an economic viewpoint, and not from a social or religious viewpoint. This fact, in my opinion, strengthens the thesis that the "achievement principle" may never be the primary, deciding principle with respect to income differentials. Money can only evaluate human achievements one-sidedly. (A society in which people "measure" each other according to their monetary income is therefore a society which becomes fundamentally distorted. There people live under the dictatorship of what Christ once called "the unjust Mammon".)

Four Criteria

As an extension of the foregoing, we now wish to mention four criteria which the labour movement could use while evaluating an existing or developing income distribution. These criteria attempt to express that which, along Biblical norms, we could regard as "just", (which, naturally, does not guarantee them to be intrinsically Biblical criteria).

1. A first important criterion is whether the final income differentials are sufficiently attuned to what people need for their life destiny. When speaking about people's life destiny, I am particularly thinking of a normal functioning of families, societies, associations and churches, as well as an adequate provision in the needs of those who are unable to participate actively in the work process. We are dealing here with the redeeming of the "social mortgage" mentioned earlier, which justifies the introduction and maintenance of a social security system attuned to bearing power. This type of awarding "income according to need", may not be restricted to the so-called secondary income distribution, i.e. an income distribution which takes place after taxation and the implementation of social security provisions. With the so-called primary income distribution this principle could lead to a reduction of wage differentials, for example, by increasingly applying forms of non-percentage-wise wage increases. Minimum wage laws too, are an example of the application of a "need criterion" within the primary income distribution. Furthermore, in order to come to a sharper accentuation of the tie between income and calling, it might be recommendable to introduce in every enterprise the idea of a "basic income" which is the same for each employee (from the managing-director to the unskilled labourer). Only above this basic income level the different merit structures would apply. Not only would such a system offer practical advantages (an easier application of the non-percentage-wise wage increases), but it would also clearly emphasize the idea that every employee, apart from personal achievement, is entitled to an income on the basis of his calling as a member of the work community. After all, that work community is for each employee an essential part of his life development.

2. A second criterion (with respect to existing income differentials) is related to the fact that differences in rewards are often unjust, also when measured with the economic achievement principle. Many incomes in our society are large, not because they are based on real scarcity differentials, but on scarcity situations which are artificially kept alive. Think, for example, of typical speculation incomes, or incomes which exist purely due to exploitation of market situations, and other phoney scarcity achievements. Think also of incomes of monopolistic or oligopolistic industries. Also directors' bonuses sometimes contain such an artificial scarcity element. If a director's seat is an elite function, unattainable for someone else, we are dealing with a protected income based on an artificial scarcity situation.

3. In the third place, there is room for criticism when people's actual achievements are forced to be disproportionate to their abilities to achieve. An economic order sometimes forces people to choose jobs requiring much less responsibility than they can bear.

In other words, the achievement-yardstick must be handled normatively. We must attempt to realize an economic order in which people grow toward the responsibility they can bear, and, consequently, also grow toward the schooling for which they are ready as well as the commensurate income.

Too many talents are simply wasted because not everyone has equal access to education, independent of income. As long as this situation continues to exist, there will be a gap between actual and potential economic achievements and, as a result, we will have ample room and reason for criticizing the existing income distribution.

4. We will now deal with the fourth criterion for income differentials: it is related to the fact that income has only a limited significance within the framework of human well-being. Too often available income is regarded as the basis of someone's happiness.

As soon as we dare view the problems of incomes and their distribution within the perspective of human life destiny (i.e. normatively), we must concede that this life destiny is certainly not solely determined by one's available income. Of equal importance for this life destiny (in the economic sense) is the existence of sufficient social security, the availability of a healthy environment at home and on the job (fresh air, clean water for example), adequate roads, education and public utilities, etc. etc.

To put it differently: When viewed against the background of human life destiny, one can also encounter a lop-sided income distribution in this sense, that a society over-emphasizes private consumption and free spending on consumption goods, and does not pay sufficient attention to provisions in the public and social sphere.

The fourth criterion is therefore a proper balance between, on the one hand, personal well-being and, on the other hand, public provisions and social security. Both must be seen against the background of man's calling in family and society.

Actual Developments of Income Distribution

In the preceding chapter we mentioned four criteria to be used in evaluating income differentials. They are: 1) Adequate income for the fulfilment of one's calling; 2) No artificially enlarged - or restricted - incomes; 3) No discriminatory gap between potential and actual achievements, and; 4) No unbalance of private and public provisions.

When, by means of these criteria, we attempt to analyze the actual developments of income distribution, we immediately run the risk of becoming extremely boring. A discussion of this kind of problematics can easily degenerate in a dull display of figures, quotas and quintiles.

The best way to escape this peril is to use pictures. And the most appropriate picture to use would be quicksand. For the struggle for better income differentials is fought on the most dangerously deceptive soil.

It is a struggle on a soil with strong subterranean suction currents. It is an area subject to significant and spontaneous changes. It can happen, for example, that in spite of our efforts to establish better income differentials, we suddenly discover that we have drifted away considerably, and that we must, as it were, start all over again at the point we were five years ago. At other times these underground currents work to our advantage. They greatly helped us along although we did not expect it.

Which are the most important changes of our national income differentials during the past decades? Let me mention four.

a) The first important shift in income differentials is the one of persons receiving so-called original or primary incomes and those receiving transferred incomes. I mention this change first, because it is the most purposeful and deliberate one of the four.

Original incomes are earned directly without an intermediary.

Transferred incomes involve an intermediary, for example the government taking care of Old Age Pensions, Workmen's Compensations, etc., or a social fund. In our society there is a clear shift from original toward transferred incomes. This shift is evident in Table I.

Table I (From: Albeda en De Galan, "Inkomens en hun verdeling")

Influence of government transfers on the income distributions of households, 1962

10% group	gross income in %	income after gov't benefits in %	income after total tax deduc. in %	income after payment of benefits for special groups in %
1	0.9	1.5	1.8	2.2
2	2.5	3.0	3.5	3.9
3	4.5	4.9	5.3	5.4
4	6.2	6.2	6.7	7.0
5	7.4	7.4	8.1	8.4
6	8.7	8.7	9.1	9.5
7	10.0	9.8	10.3	10.5
8	11.9	11.6	12.3	12.1
9	15.3	15.1	15.6	15.0
10	32.6	31.8	27.3	26.0
Total	100 %	100 %	100 %	100 %

The table shows that the 10% income group with the smallest income received 0.9% of all direct incomes in the country. The fourth column, however, shows that these people's share rose to 2.2% after the various government benefits and social insurance benefits were added.

The reverse picture is shown for the highest 10% income group. Their gross income is 32.6%, but this figure is decreased to 26% because of tax deductions and premium payments. In other words, there is a continuous transfer of incomes from the higher groups to the lower ones via social security support, benefits, etc. Perhaps the following figures present an even clearer illustration: In 1951 the relationship between social benefits and total earnings in Holland was 1 : 11. Today in 1970, this relationship is 1 : 3½ or 1 : 4. These figures indicate an enormous increase in social benefits; formerly these benefits constituted less than 10% of the total wages, today they are well above the 25% mark.

b) The second shift presents us with greater difficulties, since its cause is much less deliberate. I am having in mind the shift between those who draw capital incomes and those who receive labour incomes. The deliberate element still dominates, yet there is an undercurrent which has accelerated the development above expectations. (see table II)

Table II

Elements of other incomes* in % of the national income.

	<u>1930</u>	<u>1938</u>	<u>1948</u>	<u>1958</u>	<u>1968</u>
Dividends	13.5	10.5	1.0	2.5	1.0
Interest incomes	1.5	1.0	1.5	1.5	1.5
Net rents	6.5	8.0	1.5	2.0	2.0
Leases	4.0	3.0	1.0	0.5	0.5
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Total "passive" incomes	25.5	22.5	5.0	6.5	5.0
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Primary incomes of incorporated enterprises and government-owned firms	5.0	9.0	9.5	10.0	9.0
Other profit incomes	2.5	1.5	3.0	8.5	7.0
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Total other income	33.0	33.0	17.5	25.0	21.0

(*"Other incomes" are those incomes not derived from labour performance)

Source: The 1970 Dutch Government Report on Income Distribution.

The bottom row of this table shows that the total of "other incomes" in 1930 constituted 33% of the total national income. In 1968 this figure had shrunk to 21%. The decrease is a gradual one. The decline is much stronger, however, when one considers that part of capital income which is not available for direct re-investment, the so-called passive incomes of dividends, interests and leases. The decrease here is enormous. In 1930 13½% of our national income consisted of dividends, today this is 1%. In 1930 leases earned 4%, now only 0.5%. Incomes derived from leases were reduced to 1/8 during this period.

c) The third important change concerns the relationship between incomes of small businessmen (shop-keepers, small farmers, etc.) and the incomes of the so-called dependent wage earners. Here the quicksand phenomenon becomes clearly visible. It is apparent, for example, in the almost total absence of figures. There are, however, clear indications of a spontaneous deterioration in the income differentials between these two groups. Twenty years ago the average income of the small businessman was above the income of the unskilled labourer. This situation has, as it were, reversed itself. One-third of today's small businessman has an income below the minimum wage in our country. To some extent the causes are of a historical nature. Two causes especially are outstanding. First, there is the problem that, with an increasing welfare, people do not demand a proportionate increase of products from the farmers, the bakers, etc. Total sales of these businessmen do not keep up with the total increase in demand. The demand for bread and butter does not increase at the same rate as the demand for refrigerators and T.V.'s. This means that these small independents together must be "satisfied" with a proportionately smaller share of the national income. Naturally, this is reflected in their individual incomes. Secondly, there is the factor of inflation. Inflation is probably the most significant subterranean current in the quicksand of income differentials. Inflation is the un-social income re-distributor par excellence. When the economic tempest rages, causing ever higher price waves, there are many groups who quickly know where to find shelter, groups who manage to safeguard their actual incomes. But precisely for the small businessmen this is impossible. Their incomes depend on the difference between sales and costs. Their costs increase rapidly due to inflation, but their sales, which are directly connected with prices, depend largely on the market. Unlike larger corporations, they cannot manipulate the market. Farmers have their prices often determined by the world market; retailers depend on the wholesalers. This means that their prices are largely frozen, whereas their costs increase, resulting in a severe economic squeeze for such small independents. Inflation hits them harder than anyone else.

In general I would like to state: On the quicksand of severe inflation one can hardly struggle for more just income differentials. With respect to the small independents the word "hardly" is out of place. There the battle is hopeless.

d) Finally, the fourth and last change; it concerns the shift in incomes of wealthy and impoverished countries. Here the suction currents against which we must struggle are probably the strongest. We have a decade behind us (the sixties) which was meant to increase the aid to the developing countries. In reality, however, we saw an ever-widening gap between the per capita income in the rich and the poor countries. Table III provides us with some insight in this matter.

Table III

Showing per capita incomes for various areas of the world in dollars (1952/1954 purchasing power) for the years 1860, 1913 and 1960, and the annual growth percentage between 1860 and 1960.

AREA	1860	1913	1960	Annual Growth % 1860 - 1960
North America	420	1000	1900	1.54
Oceania	440	580	1020	0.84
North West Europe	230	460	860	1.33
Soviet Union	95	160	890	2.26
South East Europe	110	200	420	1.35
Latin America	100	160	330	1.20
Japan	40	90	300	2.03
Far East	50	90	120	0.89
South East Asia	48	65	70	0.38
China	44	47	110	0.92

(From: J. Tinbergen, "Een Leefbare Aarde," 1970)

The table shows that incomes in North West Europe doubled each 50 years. In South East Asia, however, incomes increased by 50% during the past 100 years. Or to put it in a gloomier perspective: South East Asia presently has a per capita income of \$70.00, which is about one-sixth of what the average American earned in 1860. Our only conclusion can be that, seen as whole, we all belong to the very rich.

Nevertheless pessimism?

Perhaps you remember my initial statement that pessimism would not be my starting point. But after observing these last two shifts it could well be that your mood has become increasingly pessimistic. The quicksand seems to have thwarted all our efforts of improvement. It appears as if the undesirable spontaneous changes, which force us to float toward worse income differentials, are stronger than the deliberate attempts to improve the situation along the lines of the four criteria mentioned earlier.

Moreover, I have not yet mentioned all shifts and changes. I should have included our regional policy. For decades the income level in the northern part of our country has been 10 to 15% below the level of the western part. All our development policies have not changed the fact that incomes in the northern areas are still well below par.

To make matters worse, I have two additional arguments for the pessemists among us. First of all, we should take a look at the final result of all our own efforts to arrive at a re-distribution of incomes, as well as all spontaneous currents and counter-currents which influenced the process. This final result can be seen in Table IV, since it pertains to the shifts in the total income distribution in The Netherlands between 1950 and 1964. You will notice that the changes for the better have been minimal when considering what the various 20%-groups of the population have received of our national income. In 1950 the lowest 20%-group received 4.3% of the national income and in 1964 this figure was still 4.3%.

Table IV

Incomes Distribution in The Netherlands*
(From: Albeda en De Galan "Inkomens en hun Verdeling")

Quintiles (i.e. 20%-groups)	Gross Incomes				Net Incomes		
	Distribution in Percentages			Average per Taxpayer	Distribution in Percentages		Average per Taxpayer
	1950	1962	1964	1964	1950	1964	1964
first 20%	4.3	4.0	4.3	1780	4.8	5.0	1745
second 20%	9.5	10.0	10.2	4185	10.7	11.1	3855
third 20%	15.5	16.0	15.8	6500	16.8	17.1	5960
fourth 20%	21.3	21.6	21.9	8980	22.8	23.2	8110
fifth 20%	49.4	48.4	47.8	19680	44.9	43.6	15215
Total:	100.0	100.0	100.0	8226	100.0	100.0	6975
Top 5%	24.8	23.6	23.1	37995	17.8	16.3	22740

*Sources: Inkomensverdeling Rapport WBS. pg. 14, 15 and Incomes in Post-War Europe U.N. ch. 6

There are certain shifts but they concern only fractions of a percent. Very little has changed, the inequality has largely remained.

There is an additional reason for gloom. It is the fact that we are gradually approaching what seem to be inexorable boundaries in the growth of the share of labour incomes in the National Product, i.e. that part of the total National Product which is paid as a reward for performed labour. This share does therefore not only include the wage of wage-earners but also the wage-income of independents who contribute their own work performance.

This labour-income-share has steadily increased during the past ten years. In 1961 it was approximately 72% of the national income; in 1963 this figure was 75%; in 1966 it reached the 77% mark and presently we are close to 80%. The predictions of the Dutch Planning Bureau are that we will reach 81% in 1971. By and large, this indicates an increasing share of our national income by the production factor "labour".

Which problem do we face here? The problem lies in the development of the remaining part of our total national income, namely that part received by the production factor "capital". After all, we will probably agree that the furnishing of capital must meet a certain minimal reward. If not, the willingness to save and invest would decrease too sharply. The question is whether we are not approaching the limits here.

The average capital return is a sort of mirror-like reflection of the labour-income-share. Now the statistics show us that during the past 10 years the capital return has steadily dropped; ten years ago it still stood at 5% (after tax deductions); at present it is close to 3%. It is obvious that a continuous rising of the labour-income-share may well push us into a dangerzone.

When capital no longer yields a certain minimum return, this will not only cause a loss of economic growth, but it will also result in less willingness to invest, thus causing a persistent structural unemployment.

At this point I will for a moment summarize the various reasons for pessimism. First of all, there is the "quicksand" phenomenon, which runs counter to all our efforts to bring about desirable changes in income differentials, and which is extremely difficult to parry.

Secondly, I mentioned the total end result which barely shows any improvement.

Finally, I discussed the labour-income-share, which cannot continue to rise indefinitely.

This presents us again, and all the more urgently, with the question: "Are we, after all, not forced to adopt the philosophy of the drudge who picked up broom, pail, and mop and began scrubbing again?"

The Role of Savings

At this point we must mention one important element which, thus far, has been concealed; it is the role which savings play in our society. Our discussion of this factor will lead us to the conclusion of my arguments, namely the policy of the trade unions and the government.

Conservative economists have always been keenly aware of the significant role played by savings with respect to the problematics of income differentials. Savings occupy a key position in the economic development. Please, allow me for a moment to use the arguments of a conservative economist: "The size of savings determines how much can be set aside for the future, or how much can be invested; the size of investments determines the rate of economic growth; the rate of economic growth in turn determines how much there is to be distributed, that is, how much there is to be distributed according to need." Here the argument has come full circle and turns into a paradox; anyone who wishes to improve income differentials must leave them alone! For only leaving them as they are will result in sufficient profits and savings; and only these, in turn, will cause sufficient economic growth to enable distribution according to need. And that is all there is to it.

Where lies the error in this argument? The error does not lie in the assertion that savings play a key role in our Western society. This becomes evident if we retrace our steps for a moment to consider the four important shifts in incomes mentioned earlier. First of all, if there are sufficient savings, this indicates a moderation of the urge to spend and, consequently, a curtailment of inflation. As we saw already, small independents suffer most severely because of inflation. To prevent a worsening of their income-situation, we must see to it that there are enough national savings which will enable us to radically attack the evil of inflation. Secondly, sufficient national savings mean a national savings surplus which eventually become visible on the current account of the balance of payments. This means a larger fund for foreign aid. It constitutes a saving in society which, in the form of capital, can be directly transferred to developing countries. By means of savings we can influence worldwide income differentials.

In the third place, adequate savings enable us to replace less consumer spending with more government spending. It will mean more possibilities for social care, for a rapid increase of old age pensions and for enacting legislation that will guarantee adequate incomes for the handicapped and the disabled. Some necessary collective provisions could also become free of charge.

In other words (and for me this is a weighty conclusion), if we are genuinely determined to bring about real improvements in income differentials, improvements which do not disappear in quicksand, then we must express ourselves on the subject of savings and we must discover how in our society such savings can be realized. The fallacy of the conservative-economic argument is not that savings play a key role. Two different objections must be raised against that argument. Our first objection goes against the thesis that the issue of income differentials can only be raised when complete economic growth is a reality. The belief that economic growth is the mother of all blessings is nothing but a conservative miscalculation. We must have the courage to state at times that, for the sake of better income differentials, we are willing to accept a lower rate of economic growth. Our second objection concerns the thesis that savings can only be made by non-employees. And here I reach one of the key conclusions of my argument. An improvement of employee-incomes in future years is definitely possible. But we must reject the philosophy that the only possibility to enlarge incomes can and must be in the form of higher wages. On the contrary, we must blaze trails toward a more direct employees' participation in and sharing of business capital. Employees must begin to draw more from that part of our national income which belongs to the production factor "capital".

This can be achieved in two ways. It can be done directly via wage savings plans and capital gains sharing. It can also be done indirectly by means of extended pension provisions for employees.

Conclusion: 2 X 4 points of action

I wish to conclude by recommending a number of action points for both the labour movement and the government. I will mention four such points for the government, four for the labour movement and one for both.

- 1) The government must be ready to remove all obstacles which prevent equal access for all groups to various forms of education. This is directly connected with what I called earlier, the need to utilize undeveloped capacities. Free-of-charge education is in the long run one of the most essential contributions toward a reduction of existing income differences.
- 2) A second important action point for the government is to take combative measures against artificial scarcity situations. In this connection we think of the introduction of a tax on speculation profits and/or capital profits. In addition, we will have to consider direct measures against the forming of such incomes by means of a land development policy and a competition policy. Opposing artificial profitmaking in industry constitutes an important factor within the framework of our pricepolicy.
- 3) A third government action point is the further expansion of certain social and public provisions. In line with the philosophy sketched above would be the introduction of an income plan for the handicapped and the disabled and the raising of the old age pension to the minimum wage level. Urgent, too, is a harmonizing of social premiums pressure and tax pressure for incomes between f. 10,000.= and f. 20,000.=

- 4) A fourth action point is a government promotion of wagesavingsplans and capital gains sharing in industries. In my opinion, negotiations between employers and employees about wage savingsplans and capital gains sharing should remain free from legislative compulsion. With respect to wage increases within the purely nominal sphere, however, I take a different viewpoint. Although the government should not intervere in a detailed way, there must nevertheless be maintained a certain long term link between wages and increased production.

I would recommend the following four action points for the labour movement:

- 1) Striving toward an increased responsibility of employees, coupled to which is a larger income possibility. Especially the training and schooling of working youth is extremely important.
- 2) A second point of action is the establishing of more justice in wages for various employee groups. This concerns, for example, the element of rewarding employees according to group performance. It also includes further experiments in our attempts to narrow the wage gap between groups of employees. With respect to the question of percentage-wise or non percentage-wise wage increases, it is often too easily assumed that the latter will lead to all kinds of undesirable economic situations.
3. A third point is the struggle for employees' participation in company capital. I have in mind provisions in collective agreements of wage savings plans and capital gains sharing, as well as the institution of a pension system which includes savings for the future.
- 4) A fourth point is institutionalizing of foreign aid in our social income distribution. I am thinking particularly of the suggestion of Mr. De Bruin, former president of the N.K.V. (Dutch Catholic Labour movement), who, with respect to profit sharing, proposed to introduce a profit share directly destined for aid to developing countries. Both employers and employees should attempt to realize this. I believe this to be a desirable goal since foreign aid would no longer be a governmental hand-out, but would become part of the process of social income distribution.

Finally a point which concerns a common task of government and labour movement: it is the struggle against severe inflation. Only when the inflation danger has been pushed back, can we continue to make permanent progress on the road toward a better income distribution. It is my hope that I have sufficiently convinced you of the possibility of such progress.

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