

EQUALITY IN THE DISTRIBUTION OF NATIONAL INCOME ?

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One of the two important problems facing economic policy is the securing of equality in the distribution of national income. As a matter of fact this equality is considered indispensable for moral, political and economic reasons which are exposed in thousands of books and articles all over the world. It is not the purpose of this essay neither to repeat, nor to stress, nor to criticize the wellknown arguments in favour of the equality in the distribution of the national income. On the contrary its aim is to examine the possibility of imposing and even more of upholding same without unfavorable repercussions which will defeat the aims of those supporting its realisation. There is no doubt about unanimity prevailing that in certain stages of economic development inequality is indispensable provided those who are favored either invest a substantial part of their income in a way contributing to economic development¹ or lend same to the government provided the latter is disposed and able to proceed to those investments which will contribute to economic development that means according to orthodox theory in infrastructure facilitating private investments and according to progressive opinion also in production facilities or even pay supplementary taxes whose proceeds will not be consumed by the authorities but will be affected to productive purposes. As a matter of fact if the proceeds of supplementary taxation are not invested but are consumed by the government the result will be the same as if the taxpayers were not compelled to pay higher taxes nor to invest.

The effort of securing equality in the distribution of national income is based on an appropriate combination of fiscal and social policy with the purpose of reducing the income after tax of those submitted to income and to capital taxes and of improving the lot of those receiving subsidies in cash or in services or in both from the Treasury². The tendency prevails in all countries where income tax is imposed³ to apply a progressive scale. It follows that the higher the income the

higher the tax rate. This is particularly disagreeable for those concerned with inflation because then nominal but not real incomes move upwards ⁴.

The problem to be solved in this essay is if by fixing for every inhabitant of the country involved equal amounts of income after paying income tax and when considering the subsidies cash or in natura he is entitled to, it is possible to assert that the national income distribution in equal parts is secured. Even if this should be the case it has to be considered that the definite settlement will occur most probably only in the next year which may create substantial differences, if in the meantime the purchasing power and the foreign exchange value of the monetary unit show important fluctuations. It is the intention of the author to examine :

first the possibility of securing in reality by the appropriate combination of fiscal and social policy the equality of the share in the national income of every inhabitant of the country concerned,

second the factors to be considered in that case which will eventually overthrow the equality achieved as above,

third the possibility not only in the long run of imposing the same reward independently of the knowledge and the skill required, the responsibility involved in order to carry out the duties assigned except if they are assumed for non economic motives ⁵.

I

It has already been mentioned in the Introduction that as a rule the tax to be paid and the subsidies to be received are not settled at once. There are very often differences of interpretation of the law involved and of the decisions taken in virtue of this law by those responsible for its application. They have to be cleared between the authorities and those concerned and if there is no agreement the courts have to decide. It makes a great difference if in the meantime the amounts involved are paid or will be paid only after the decision of the court has been taken and any appeal is excluded. It has further to be stressed that whilst certain incomes are wellknown, fixed and cannot be disputed, others are subject to doubts even if no fraud is involved. In view of those unavoidable delays and of the differences arising between those concerned it cannot be considered to fix the burden of taxes and the benefits of subsidies in a way permitting the securing of equal parts particularly with the variety of social grants, with the formalities required and with the time gaps involved. Things become even more complicated when groups of incomes are not subject to taxation or are exempted under certain conditions whose examination takes time and leads to new problems that cannot be settled without recourse to court. In this connection the reasons of exemption or of the latter's withdrawal are without importance but as shown by the laws of every country are unavoidable.

Independently of the practical impossibility of securing real income equality

after taxes and after subsidies as proved just before, the unavoidable inequality is reinforced by differences a) in the way incomes secured in every case are spent, b) in the time which passes between the inflow and the outflow of the amounts involved, c) in the lapse between admitted or agreed payment date and the virtual payment date, last but not least d) in the expenses involved in order to secure the payment and in the regularity with which the income is received.

It cannot be said that incomes are spent in the same way in every individual case. Differences are unavoidable as far as the application of the fundamental economic principle is involved, as far as those paying are able to secure reductions when settling the whole amount of their debt at once and not only instalments, as far as they are willing provided it is not forbidden by law to pay abroad and of course if in this way they have to pay less. This may be the case if when those receiving the amounts due to them abroad avoid the payment of taxes or have not to pay bank commissions whenever these amounts have to be disposed off abroad. There is no doubt that many people try to get the best out of their income whilst others are not able to do so or are not able to understand what they have to do in order to secure the greatest advantage or even do not consider it worth while.

These differences in the disposal of incomes of equal amounts may create great differences between the lot of those concerned particularly in times of inflation and in general of monetary fluctuations, when politics are in trouble, in case the solvability or at least the liquidity of the banks is doubted, in case of frequent but not foreseeable changes in the legislation, in case of radical changes in the policy of the country concerned particularly as far as the application is involved.

Whenever income comparisons are done those who receive their own regularly and without undue delay have the tendency to underestimate or at least to take as granted this advantage whilst it is not general. As a matter of fact public and bank employees in particular, all employees and workers in general, provided their employers do not get bankrupt, have the advantage of regularity in receiving their wages and salaries. On the other hand businessmen and those active in the liberal professions for their own account do not get their incomes with the same regularity at least as a rule⁶ except if they do not work on their own. This irregularity obliges those concerned to contract loans at least on a strand by basis which of course involves expenses or to hold rather important cash balances with a small interest rate or even without interest in order to be able to comply to their commitments whenever they become payable. As far as regularity of payment and the time necessary between the decision to pay and the payment itself are concerned it has to be stressed that the latter are very important except with the payment of salaries, wages and pensions, particularly in the public sector and in all cases where the non payment does not lead to immediate consequences. This

happens when courts are slow to issue their decisions and when appeals suspending the execution of the decisions of the lower courts are possible.

The regularity of the inflowing receipts has further to be examined in function of the time available before the payments due have to be carried out and of the importance of the unfavourable repercussions of delays in same. When the latter are noteworthy the advantages derived from the regularity of the receipts' inflow are even more important.

It may be concluded that in view of the intricacy of both the financial and of the social policy and of the importance of the factors just analysed, even more in view of monetary developments and price changes it is not possible to expect a satisfactory equalisation of the income available to every inhabitant of the country concerned. This would perhaps be possible if legal texts were simplified and if their application could become more automatic and less subject to court decisions.

II

Independently of this negative conclusion and in expectation of the eventual realisation of the conditions mentioned at the end of I it is necessary to analyse briefly other factors that will once more render income equality impossible. They are the following :

- 1) the possibility of assuming secondary jobs which as a rule is not forbidden even in countries run by communists,
- 2) the possibility of securing incomes from lotteries, horse races, football matches etc.,
- 3) the results of burglary as long as those involved may escape,
- 4) gifts from the country people particularly in times of starvation,
- 5) gifts from abroad specially when the lot of those living in the country involved are considered to be badly off,
- 6) public grants in natura or in cash, or in both in addition to those foreseen by social policy,
- 7) grants connected with the job or with its performance,
- 8) the special benefits secured by the social insurance system, when added in particular cases to those foreseen for every body,
- 9) the number of the family members connected or not with grants, expenses, privileges, the latter particularly in times of starvation,
- 10) the possibility of contracting loans, even more when the repayment is very slow, when the currency gets debased in the meantime, or when the debt may be cancelled,
- 11) the possibility of avoiding the reimbursement of loans and the payment of taxes,

- 12) the annihilation of rents, taxes and debts,
- 13) inheritance ⁷,
- 14) stocks and wealth accumulated in the past ⁸ by those concerned, by their parents and by their relatives provided it may be disposed off and it is not absorbed by taxation or it may be sold,
- 15) the parcimony of those concerned,
- 16) the skill of those acting,
- 17) the tidiness of those responsible,
- 18) the careful maintenance by both owners and users.

1. The equality of the distribution of national income is prevented by the possibility which always exists to assume a secondary job. This presupposes of course that those concerned will not be prevented by law from doing so, that they will not consider as a diminution the acceptance of this job, that the latter will not reduce the ability of those concerned to perform as well as in the past their primary job, that the chances of promotion there will not be affected unfavourably by assuming their second job, that their health will not suffer reducing so the quality and the quantity or both of their output. It has to be mentioned that the same possibility is available to other members of the family and it is not to be excluded that if the head of the family is prevented e.g. by law from assuming a secondary job it may be taken formally by another member of the family whilst the work will be in reality be done by the person who was prevented. In referring to a secondary job it has not to be forgotten that the performance of some jobs is connected with formalities or the signing of receipts etc. but increase the income of the person concerned and of course overthrow the income equality. This applies i.a. to the baby sitters who are in strong demand whenever the standard of life improves and the possibilities of securing assistance in house work diminishes under the influence of both economic and social considerations. The latter's importance leads to even greater rewards paid by those willing to take over.
2. Whenever lotteries, horse races, football matches, cards etc. are not forbidden or at least the relative law is not thoroughly enforced new sources of income develop for those who are favored by luck. Of course in this way the equality of income is overthrow from both sides, I mean of the winner and of the loser. As far as the latter is concerned it may be said that his income is not affected unfavourably but that he spends a part of same in a way not securing any advantage except the pleasure to risk in view of the chance of securing a windfall profit and eventually with the diminution of the possibility to satisfy his other needs.
3. It is wellknown that even under normal circumstances and in countries whose administration, police and justice operate under satisfactory conditions many

burglaries take place and rather often it proves impossible to find those guilty. It follows that the income of those burglars who avoid arrest and condemnation or who when arrested have already spent what they have stolen or have been able to hide same without being discovered secure an increase of their income affecting unfavourably the equal distribution of national income if the latter had been secured.

4. Another factor undermining income equalization particularly when most needed are gifts, mainly of foodstuffs from country people for their relatives and for their friends in the towns. Those gifts particularly in underdeveloped countries are quite common but they become important in upsetting income equality in times of starvation. It is wellknown that ambitious programs of foodstuff distribution in times of starvation are usually upset by the refusal of the country people to comply with their delivery obligations, inasmuch as they are paid much less than the market prices. The farmers prefer to keep the foodstuffs for themselves, for their relatives and for their friends in the cities and in these two cases expect in a barter deal gifts or commodities which owing to starvation they cannot buy on the market. The repercussions on the satisfaction of vital needs of the townpeople and on the equality of the national income distribution are very disagreeable⁹. The supply of the country people with furniture, clothing and other articles cannot be set as a diminution of the income but of the wealth of the town people supplying same.
5. Gifts from abroad when the inhabitants of the receiving country are considered to starve constitute another infraction to the equality of the distribution of national income and for the same reasons as exposed under No 4 with the gifts of the country people. Of course the gifts from abroad may always be stolen or if they arrive on a big scale the local government may oblige the shippers or the postoffice to deliver them to a governmental agency which will try to distribute them according to criteria they fix themselves without excluding of course abuses with the result that others and not those chosen by the donors abroad will receive the parcels. This procedure amounts to confiscation and cannot be justified by any argument whatever. To my knowledge such a confiscation was not undertaken even in those countries where private property has been abolished. The influence of the fear that if confiscation is carried out the dispatch will stop aggravating so even more the nutrition problems faced by the government of the country concerned and not contributing to the reestablishment of income equality except if the latter is to be secured at the level of general starvation may have contributed in this connection.
6. For various reasons either justified or demagogic the governments all over the world feel obliged to grant independently of those subsidies foreseen in

the frame of social policy cash, services or commodities to groups of people a) who have suffered from calamities either natural or connected with war and with politics, b) who have helped the government in an emergency in a particularly effective way, c) whose support may secure the government advantages of a national or of a party character, d) whose living conditions are particularly bad even if due to laziness or to the ignorance of those affected, e) whose helplessness may cause epidemics or other disagreeable developments for the whole country.

7. In certain cases connected with the difficulty of securing adequate people disposed to undertake a job which is dangerous or has to be carried out in areas where life is not safe or simply disagreeable owing to the climate, distances, lack of appropriate amenities, security, comfort, transportation, hospitals and schools it proves indispensable to pay supplementary grants to those accepting to serve there. This constitutes a violation of the equality of incomes even if it is justified by the necessity to neutralize the particular disadvantages mentioned before. The payment of these grants is simply considered a minor evil in order to secure the operation of the public services in the areas concerned and in order to avoid as far as possible the depopulation which may be otherwise unavoidable and even connected with the danger of enemy invasion in an area abandoned on a great scale by its inhabitants.
8. The same applies with the same reserves and with the same justifications to an expansion and to an improvement of the benefits connected with the social insurance system in those areas presenting the same disadvantages mentioned under 7. These improvements may be applied in various ways and of course an effort should be undertaken to make the application as simple as quick and as cheap as possible.
9. The equality of the distribution of national income presents itself in a different way if one refers to families or to individuals. It seems that in the first case we are concerned with those who live as a unit under the same roof and who face together either all the expenses of the household or all except some of them as for instance clothing or expenses connected with the life outside of the house either for work or for leisure or for both. In these cases the smaller the number of children or of other dependants the better is the lot of the family and the greater the income per head of its members. This changes however when the family is entitled to subsidies in cash or in natura for every child and for every dependant, particularly if these subsidies exceed the expense involved for each of them. It is wellknown that certain items of expense are not related to the number of the family's members whilst others are. It has further to be stressed that in times of starvation the children may be entitled to some foodstuffs and to some other commodities as drugs, transportation, hospitalization which may also eventually, at least indirectly, help the other members of the family. It follows that both as a family and as an

individual the special care given to children may upset the equality of the income division. It cannot be considered as an evil.

10. The equality of the income distribution is further upset by the possibility for the members of some groups based on profession, on residence, on age, on income sources, on tax burden, on the number of the family members, on disability connected with war, on religion and on any other criteria but not for the other sections of the population to secure loans. The latter increase the purchasing power of those favored either until the redemption of the loan or indefinitely if the loan has not to be repaid or has to be repaid in a very great number of instalments espaced on a long period and in a depreciating currency. It is wellknown how in inflation people get richer by contracting loans or by obliging those supplying accomodation, other services and commodities to wait for the settlement of their claims transforming them into unwilling creditors, whilst they expected immediate settlement or at least settlement within the limits fixed by law, by custom or by agreement. The disequilibrium in the distribution of the national income is secured independently of the origin of the loan which may be financed by genuine savings or by central bank credits or by the diminution of both the consumption and of the investment of those who were or are obliged to wait for the settlement of their claims. Of course between those receiving these loans are some eager to repay punctually. They cannot be blamed if in the meantime the currency has depreciated. Of course the debtors if very honest are willing to repay increased nominal amounts in order to avoid enrichment through monetary devaluation.
11. The equality of the income distribution is further endangered by the non punctual reimbursement of the loans received and by the non punctual payment of taxes when becoming due particularly with inflation. Even if the stability of the purchasing power of the monetary unit is secured the delay of the payments becoming due and it is wellknown how often this happens, constitutes a source of benefits for those delaying payment, except if the latter has to be completed by amounts whose importance is in relation to the delay of the payment¹¹.
12. Experience teaches us of the possibility of the annihilation of rents, taxes and debts either through monetary devaluation or through law or through the unability, the unwillingness and the refusal of the authorities concerned to enforce the punctual payment of the amounts due. In all these cases the equality of the national income distribution if secured before is overthrown. Of course in some cases the annihilation of these debts is justified by the desire to improve the miserable living conditions of the debtors and by the belief that in cancelling their debts the equality in the national income distribution is reestablished at least up to a certain degree. There is no doubt that general measures of this type as a rule prove unjust for many people

and their justification lies in the desire to avoid harshness for those suffering the most. The more or less of the misery of those involved is very difficult to measure in a rational and satisfactory way in view of the tendency of many people to exaggerate and to lie.

13. Inheritance is not forbidden and it follows that all those who are the beneficiaries of inheritance increase their share in the national income and in the national wealth upsetting so the equality which had eventually established before it became known about the inheritance involved. Of course inheritance is submitted with various justifications to taxation which is sometimes very heavy but even so and even with other restrictions upsets the equilibrium in the distribution in equal parts of both the national income and the natural wealth.
14. It has further to be stressed that all over the world and in all ages people have the tendency to spend not only their income but also what belongs to them either because they saved in the past¹⁰, or because they inherited as mentioned under 13, or because they received gifts. This tendency can be explained by the cost and benefit analysis in the way that those concerned prefer to sell or dispose in any way part of their total wealth in order to be able to secure the satisfaction of needs they consider important, new investments or a change in their habits. This possibility is however available only for those holding wealth because those without same can only spend more than their income if they are able to get loans in one way or the other. It has to be mentioned that loans are not granted at least as a rule to those who have no property just to increase their spending. Things are different whenever the borrower is able to persuade the eventual lender that the proceeds of the loan will be invested or at least employed to expand the firm.
15. Whilst the factors analysed 1 - 14 concern increases of the income available or reductions of the amounts due which of course all upset the national income distribution in equal parts it is possible to find other factors which do not increase the incomes available but which create substantial differences of the advantages derived by each of the beneficiaries of the same income. These factors are connected with the qualities, the knowledge, the ability, the skills, the integral application of the basic economic principles which may be found with some people but not with all. In this connection attention may be drawn to the supplementary advantages secured whenever the person involved knows how to employ his income, how and when to spend it in order to secure the greatest benefit in view of the fluctuations of prices, of the needs and of the preferences of sellers and of the producers. The market research, the systematic observation and careful analysis of the developments, last but not least the experience of the past are very useful in this connection. The skill of those acting has also a great importance particularly in view of the frequent difficulty of securing skilled workers, of the high level of their fees

and of the impossibility of finding same when needed. Another factor increasing the advantages derived from incomes is the tidiness of those concerned because those who are tidy do not waste their time trying to find what they need as it is at once available. Careful and continuous maintenance secures without income increase advantages which may be important. Substantial income fractions which would have to be spent for repair when damage has become so important that it excludes the possibility of using the furniture, the buildings, the machinery, the transportation, the clothing etc. before the repair has been carried out can be used for other purposes. The necessity of securing replacement whilst the repair is carried out creates new expenses.

This long list of factors seems to show that even if it would have been possible to secure equality in the distribution of national income by the appropriate application of fiscal and of social policy this could not be kept. As a matter of fact these factors constitute inequalities by adding new items to the income secured or by permitting its better utilisation when the beneficiaries have been given by nature or by education or by experience skills not available to every body.

III

It has been proved that the securing and even more the conservation of the equality of the distribution of national income are practically impossible if one looks thoroughly and not only to what appears on the surface. It has however to be examined if even if it would have been possible to secure the equality of the national income distribution it would have been practical to apply same in view of the differences of the contribution of each of us to its creation, to its administration and to its utilisation. If it would have been admitted that every body works in order to secure what he needs and this has to be so except if he has personal incomes not connected with his work which is a violation of the principle of equal distribution of the national income or if he is able to secure illegally supplementary incomes¹¹ nobody would have been interested to assume functions whose exercise is linked with heavy responsibilities, ardent work and no leisure. Of course it could be said that the people assuming these functions are not interested in the income secured and apply for these jobs out of a feeling of duty to their country or because they are eager to secure the prestige involved from the exercise of high functions or for other political or social reasons. History teaches that as a rule these functions are assumed even without adequate official reward only when hidden I mean illegal incomes are secured for those appointed¹². Of course every rule has its exceptions and there are known examples of people who assume or assumed high responsibilities, work or worked very hard and never accept nor accepted any gift despite the fact that in virtue of their decisions private people, firms and corporations were able to secure substantial profits or to avoid great losses.

These lessons due to the experience of the past induce the governments all over the world at least to try to secure satisfactory payments to all their employees in order to reduce the probability of abuses. It cannot be said that these effects have been and are always successful inasmuch as many people believe that their incomes have reached a satisfactory level. It may be said that as a rule banks all over the world have been more successful. It has further to be stressed that all over the world the incomes of the members of those groups whose faithfulness is indispensable for the safety of their country, for the survival of the government running same and for the satisfactory settlement of all the outstanding problems which are considered to be important, receive supplementary incomes which of course cannot be considered as in agreement with the equality of the distribution of the national income. These supplements are made available through different channels, may take various forms, can be officially acknowledged or secret but are always paid to those eligible for one of the reasons mentioned before. They have not to be necessarily paid in cash. This form is also not the most applied particularly when certain services and certain commodities are missing. The payment is then carried out in natura with the purpose of securing the best quality¹³. Larger homes when not available for every body willing and able to pay, commodities which have disappeared from the market, the use of cars with drivers when cars are missing or when their price is excessive or when gasoline is not available or when charged a very high price, free tickets or with a substantial rabate, even if the securing of tickets paid for their full value is not easy, preferential admission to hospitals and privileged treatment there, facilities to secure vacations out of town are some examples of this preferential treatment which of course does not agree with the equal distribution of national income.

Conclusion: The equal distribution of the national income cannot be secured by orthodox measures nor by measures condemned as inadequate by economists. Even if momentarily effected it cannot be conserved and this is not the aim of any government independently of its official statement.

NOTES

1. Cf. M. Negrepointi Delivanis, *L'influence du progrès économique sur la distribution du revenue national*, Paris 1960, pp. 18 - 34.

2. It follows that in certain countries as in the United Kingdom and in the Scandinavian countries those involved receive after the submission of their income tax assessment a settlement of what they owe on this account to the Treasury and of what they are entitled to receive from the latter as subsidies etc. A cheque is annexed if the balance is positive for the taxpayer involved. In the opposite case he is reminded of the amounts he has to pay and of the dates on which payments are due.

3. In the Eastern European countries income tax has been abolished and the Treasuries concerned rely on the turnover tax.

4. Cf. D. J. Delivanis, *L'influence de l'inflation sévissant depuis 1939*, Paris 1970, pp. 172 - 182.

5. Prestige, pleasure in decision making, in receiving requests, in making favours, preparation or strengthening of a political career.

6. This irregularity explains why lawyers and doctors are often willing to conclude agreements for a year or even longer providing for the supply of their services whenever required on a rather modest salary but fixed independently of the frequency with which their services are asked.

7. Its importance has not diminished in recent years as some believe. Cf. A. B. Atkinson, *The economics of inequality*, Oxford 1975, p. 155.

8. High earnings and exceptional thrift may be the source of wealth. Cf. A. B. Atkinson, *op. cit.* p. 155.

9. The experience in a number of countries in world war II has shown this with certitude.

10. May be as they expect a reduction of the scope of private property which would affect them unfavourably. Cf. A. B. Atkinson, *op. cit.* p. 159.

11. As it happened in France before the 1789 Revolution with the so called «pains d'épices» of the judges who had to secure so first what they needed to live, second to recover what they had paid to the King for the purchase of their «charge».

12. Pay is as a rule an indicator of status in society at large. Cf. A. B. Atkinson, *op. cit.* p. 107.

13. For the latter's importance cf. A. B. Atkinson, *op. cit.* p. 191.