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## Inequality observed. A study of Attitudes towards Income Inequality.

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## CHAPTER 1: INTRODUCTION

If people in two societies with similar distributions of income, experience income inequality in very different ways, the consequences of income inequality will also be very different in these societies. Where the tolerance for inequality is low and there is a widespread feeling that the distribution of incomes is unjust, income inequality may well promote social unrest and social conflict. On the other hand, where the tolerance for inequality is high and the belief that individual effort and performance should be highly rewarded is widespread, the same income distribution might well be rejected as too egalitarian.

This study focusses on the way in which income inequalities are experienced in the Netherlands at the end of the seventies. It attempts to determine how individuals perceive and evaluate various aspects of inequality and how these perceptions and evaluations affect their attitudes towards work, effort, policy, social conflict and society in general. The study is based on a large scale survey held among a representative sample of the adult full-time working population in the Netherlands in October and November 1980.

For more than one reason the Netherlands is an interesting society in which to study attitudes towards inequality. The Netherlands presents one of the most extreme examples of rapid income equalization in the post-war period. Along with Sweden, it belongs to the countries in which the welfare state has expanded most and has gained the widest acceptance. It is also a country with exceptionally harmonious industrial relationships. It is against this background that it is interesting to analyse attitudes towards inequality and the relationships between such attitudes and attitudes towards social conflict.

The central issues around which the survey was designed, were strongly influenced by the political agenda and by discussions of socio-economic policy at the end of the seventies. An important question in the discussion was whether the government should actively promote further equalization, and if so, by what means? Opponents of equalization pointed to the disincentive effects of equalization. Further equalization would have negative effects on work motivation, effort, labour market mobility and economic growth. In the

survey several questions were asked about how people felt about income equalization and about redistributive policies. Also included in the questionnaire were several questions about possible disincentive effects of equalization.

A second prominent topic was the relationship between inequality and social conflict. Apart from their ideological preference for equalization, the advocates of equalization claimed that without income redistribution Dutch society would be faced with major social conflicts as economic growth declined. Not only in the Netherlands but also in various other countries, it was argued that there was a need for a social contract, in which wage restraint and social harmony would be 'bought' by a redistributive incomes policy. This study attempts to explore the subjective side of these questions. It examines the relationships between attitudes towards income inequality on the one hand and attitudes towards industrial and social conflict on the other.

Finally, it was widely argued that wage and income restraint were necessary requirements for economic recovery and employment creation. The discussion centred on the question whether a statutory wage and incomes policy was the most effective way to realize such wage and income restraint. Also the question was raised whether a redistributive incomes policy would make income restraint more acceptable for the mass of the working population or not? To contribute to these discussions, various questions were posed with regard to wage and income restraint and the desirability of incomes policies.

It is no more than fair to state my own ideological point of departure for the study of inequality relationships. I have always felt that large differences in financial rewards between individuals are grossly unfair. No differences between human individuals can really justify the differences in life chances which follow from large differences in income. A just society would for me involve a radical redistribution of income. However, in the course of studying these problems and thinking about them in different contexts over a long period, I have become more and more conscious of the incentive effects of unequal rewards. I have also become more conscious of the fact that forced attempts at redistribution, lacking in the authentic support of wide layers of the population, including members of those groups

which are expected to make income sacrifices, will neither necessarily make for more humane societies, nor for more efficient ones. Therefore the empirical question of how people in various social groups feel about income inequality and income redistribution, comes to be of crucial importance. In this book no argument will be made in favour of or opposed to income redistribution. Its aim is rather to study and interpret attitudes towards inequality in a disciplined and distanced fashion.

This study builds on a substantial tradition of empirical research and theoretical analysis of attitudes towards income inequality, developed both in the Netherlands and abroad.<sup>1)</sup> Most, though not all of the Dutch empirical studies are rather descriptive in nature. American studies tend to be more theoretical, either in that they explicitly attempt to develop their own theoretical framework or in that they use empirical data to test theoretically derived hypotheses. Both in terms of hypotheses and in terms of operationalizations, wordings of questions and measurement techniques, the present study has made a generous use of the earlier studies. In the latter respect, two of the Dutch studies have been especially important. The income ruler technique, to be discussed and applied in chapters 4 and 5, has been derived from the study *Inkomens op Tafel* by Bunjes et. al..<sup>2)</sup> Many of the direct questions have been taken over from a survey study conducted in 1976 by Hermkens and Van Wijngaarden.<sup>3)</sup>

One of the main findings of the present study is that members of the active labour force in the Netherlands were characterized by a strong preference for income equalization, at the end of the seventies. This preference could not only be found among the lowest income recipients, but in all other sections of the labour force as well. It was so strong and so widespread, that one may speak of an 'ethic of equalization'. However, one should beware of taking such survey results at face value. In various parts of this book, the question is raised why people give the responses they do and how these responses should be interpreted. I have attempted to show how inconsistent people often are in their thinking about inequality and how their feelings about inequality are often very ambivalent.

With regard to the question of income restraint, it must be stressed how much socio-economic conditions have changed since 1980. Up until 1980 real disposable incomes were still increasing. Economic growth was only just

starting to falter after a long period of exceptionally rapid growth. Many people, myself included, thought that a slower rate of growth would not be such a bad thing, for ecological, cultural and distributive reasons. Interest focussed on questions such as: under which conditions will people accept slower or even zero economic growth? Can income restraint lead to lower levels of unemployment?

Among economists, policymakers and mainstream politicians there was a general consensus that moderation of the growth of wages and incomes was a necessary condition for employment creation and economic recovery. Various arguments were advanced for wage and income restraint.<sup>4)</sup> Some authors argued that the high cost of labour was leading to a continuous substitution of capital for labour, thus decreasing employment.<sup>5)</sup> Others argued that the level of investment was too low, as a result of the declining share of profits in national income. A third group pointed to the need to break through the inflationary wage-price cycle, by controlling both wages and prices. Finally, those in favour of shortening working hours and redistributing work, argued that a shorter working week could only be realized if people were willing to accept lower incomes.

In an influential article published in 1976 the economists Van den Doel, de Galan and Tinbergen called for a statutory wage and incomes policy to control the growth of real incomes.<sup>6)</sup> They argued that economic recovery required a higher level of private or public investment. This could only be realized if either disposable incomes or public non-investment expenditures and transfer payments were restrained. On the basis of survey research Van den Doel claimed that most people were willing to accept wage and income restraint for the sake of employment creation. They were also in favour of maintaining the existing system of social security and collective services.<sup>7)</sup> Therefore, income restraint was the most acceptable method to create room for more investment.

Nevertheless, collective bargaining between unions and employers' organizations on a voluntary basis would not result in the desired outcome: income restraint. According to Van den Doel, industrial relations in the Netherlands could be analysed in terms of a Prisoners' Dilemma.<sup>8)</sup> In the Prisoners' Dilemma model individuals are supposed to have such a structure of preferences and perceptions, that the rational pursuit of their private interests will lead to a collective result which is disadvantageous for all

of them. A solution to the Prisoners' Dilemma lies in centralized decisions binding all members of a social unit. Applying this model to Dutch industrial relations, Van den Doel and his co-authors claimed that the only way to achieve income restraint was through a statutory incomes policy. One of the specific aims of the present study was to find out to what extent members of the Dutch labour force were in favour of income restraint and whether the assumptions made in the model of the Prisoners' Dilemma Game about individual preference orderings and perceptions could be validated empirically.

Among others, the survey results show that in 1980 there was indeed a widespread acceptance of the idea of income restraint for the sake of employment creation. But in the meanwhile such questions have become somewhat academic. We have experienced the disastrous effects of economic stagnation. From 1980 to 1985 we have experienced an involuntary decline in real income in the Netherlands of some 14% on average, while unemployment has quadrupled to an awesome 820,000 by 1984 (more than 14% of the economically active population).<sup>9)</sup> Whatever faith people may have had in the effects of income restraint on the level of employment, must have shaken by 1985.

Also it has become more clear that wage and income restraint can have negative effects on purchasing power and, via shrinking effective demand on economic performance. Further, the political climate in the Netherlands has rapidly shifted from support for to opposition to centralized wage and incomes policies. The present emphasis in the political discussion is on decentralization and on making the labour market more flexible and responsive to changes in the demand for various types of labour. Finally and most importantly, in a period of economic stagnation, it is not so interesting whether or not people are willing to make voluntary income sacrifices. From 1980 to 1984 the bargaining power of labour has been so weak, that workers have had little choice but to accept wage cuts.<sup>10)</sup>

The changing economic situation has not only affected the discussions about income restraint, but also those about income redistribution. At present, all attention is focussed on economic growth and the question of how to deal with unemployment. Distributive considerations have

relevance of the research results seems less, than would have been the case some five years ago.

Those results which were of direct policy relevance, have been already published in 1981 and 1982.<sup>11)</sup> In this book the emphasis is laid on the theoretical analysis and interpretation of the data. In the case of game theoretical approaches to income restraint, the discussion concentrates on the assumptions made about individual preference orderings and on the problems involved in operationalizing them. In the case of income inequality, the discussion concentrates on empirical and theoretical analysis of variations in attitudes towards inequality. In the discussion of income satisfaction, the focus is on theories of utility, equity and relative deprivation. Finally, with regard to social conflict, the discussion centres on theories of social and industrial conflict and the extent to which they can be operationalized in survey analysis.

## 1.2 The approach

At this stage some remarks on my 'approach' to empirical and theoretical analysis are in order. I would like to start by stressing the importance of theory for survey research. One of the problems of survey research is that much of it is so heavily descriptive in nature. If hypotheses are formulated, they are often of an ad hoc short range type. This is one of the reasons why the cumulation of knowledge in sociology proceeds so slowly. In this book I have tried to bridge this gap between theoretical and empirical analysis. The survey data are explicitly discussed in the light of various theoretical traditions - economic, sociological and social psychological - dealing with income and income inequality and in the light of general theoretical traditions in sociology. Much attention is paid to the question of how theoretical concepts can be operationalized or - starting from the data - how certain questions or combinations of questions can be seen as operationalizations of theoretical concepts. The process of operationalization in its turn clarifies the interrelations, similarities and contrasts between theoretical concepts referring to the same phenomena but developed within different theoretical traditions.

The main tool applied in the data analysis is multiple regression analysis. In general the analysis is approached from two sides. On the one hand specific theories are operationalized in terms of the variables of this study and specific hypotheses derived from these theories are 'tested'. On the other hand stepwise regression analyses are performed in which the dependent variables are regressed on large numbers of independent variables. The aim of these stepwise regressions is to find out which variables retain their significant coefficients, when operationalizations derived from various theories are entered into the analysis simultaneously. Also these stepwise procedures draw our attention to empirical relationships which need to be interpreted theoretically.

Many of the variables included in the regression analysis do not meet the requirement that they be measured at least at an interval level. But otherwise than for instance in economics, the application of regression analysis to ordinal level variables is not unusual in sociology. Indeed, much analysis would be impossible if the measurement requirements were not relaxed.<sup>12)</sup> This may have to do with the different function that regression analysis has in sociology. In economics the aim of regression analysis is to predict the values of the dependent variable in a precise way. Prediction is less important in sociology. Here, regression analysis is used as a type of multivariate analysis, in which the aim is to find out which relationships are significant and which are not, which variables are relevant in explaining a dependent variable and which are not.

In a study such as this, containing more than six hundred variables, the danger of 'data dredging' or 'capitalizing on chance' in a purely inductive approach is considerable. This is one of the reasons I have devoted so much attention to the discussion of existing theories and hypotheses. They serve to organise and discipline the empirical analysis. They draw our attention to the relevant variables and tell us what types of relationships to look for. But the 'testing' of existing theories or hypotheses is not the primary aim, as would be the case in a deductive approach. In a purely deductive approach hypotheses would be deduced from a single theory. The tests of the hypotheses would serve as tests of the theory. Here, I start with a set of substantive questions and a large number of theoretically relevant variables. Using these variables, I attempt to explain the maximum amount of variation of the dependent variables. The



theories discussed, serve as initial guidelines for the analysis and help me to interpret the relationships between variables both theoretically and in the light of my substantive interests. Thus, the research strategy stands somewhere between the poles of a purely deductive approach on the one hand and a purely inductive exploratory approach on the other.

As remarked, the aim of the analysis is not really the 'testing' of theories. Testing theories would imply that I am searching for a-historical regularities or laws of behaviour, which obtain irrespective of time and place. I do not believe that such regularities obtain in sociology. The topics we are studying - perceptions of inequality, degrees of relative deprivation, the ways in which people experience their place in income and prestige hierarchies, income inequality itself - and the relationships between them, are continuously changing over time. This, in turn, has consequences for the way in which one interprets survey results. Following Runciman, I see a survey as a method to gather systematic information about present day social history.<sup>13)</sup> It should be interpreted as an observation at one particular moment of a longer term process of historical development. It is this process of development - in this study the development of reactions to changing patterns of inequality - which I would like to understand, interpret and analyse theoretically. Therefore the survey results should be interpreted against the background of long-run changes in attitudes towards inequality and changes in the structure of inequality itself.

But survey research has its own dynamics and the very nature of my data led to an analysis in terms of various theories of relative deprivation, equity, exchange, cognitive dissonance and bargaining theory. A common denominator of these theories is that they try to explain how individuals experience social situations and how they will act or re-act in exchange and interaction relationships. And most of these theories are formulated in just the a-historical abstract manner, I have criticized in the previous paragraph. As these strands of theory emerged in the course of writing this book, I was therefore forced to re-examine the relationships between these more or less formalized micro-theoretical approaches and more historical macro-sociological approaches to the study of societies. This resulted in a separate chapter entitled 'Social Stratification and Social Co-ordination'.

Briefly, I would like to touch on the question why a survey approach was chosen. At the beginning of this project I was confronted with a

multitude of possible approaches to the study of how people experience and react to income inequality. Among the approaches considered were: case studies of specific conflicts about the income distribution<sup>14)</sup>, cross-country analyses of social indicators<sup>15)</sup>, historical studies of changes in income inequality, redistributive policies and social conflicts<sup>16)</sup>, meso-level studies within organizations of the influence of salary structures on productivity, morale, absenteeism, strike activity etc.<sup>17)</sup> None of these approaches is essentially superior to the others. Given my substantive interests, the main reasons for choosing for a survey approach were: 1. Representativeness. Among the disadvantages of case studies and meso-level approaches is that one never knows how representative they are for the population as a whole. A national survey offers systematic and representative information about how the various groups in society feel about the structure of income inequality; 2. Control. One of the problems with cross-country analyses of social indicators is that one cannot control for potentially relevant factors. For instance, many factors influence social conflict, while only a few can be measured in any satisfactory way. When one can write one's own questionnaire, one has the possibility of including all the relevant factors.

It was this idea of control that determined my choice in favour of a survey approach. On the other hand, I am all too conscious of its shortcomings. While designing a survey gives one the illusion of control, one is never quite sure what one really is measuring. As far as was possible, I have tried not to take my survey results for granted, but have tried to interpret their meaning and to give a theoretically informed analysis of them. In how far I have succeeded the reader himself must judge.

### 1.3 The survey

The survey was held in September and October 1980 amongst a representative sample of adult members of the active labour force in the Netherlands. All in all 952 interviews were conducted, varying in length from about an hour to one and a half hours. The interviews were conducted by professional interviewers of the NV van het Nederlandse Stichting voor Statistiek. Preceding the interviews six meetings were organized, at which

all the interviewers were personally instructed by myself. The interview schedule contained both closed and open questions. The open questions were coded under my supervision by professional coders of the NSS, on the basis of a code book written by myself.<sup>18)</sup> The data were analysed on the CYBER 170/760 computer of the Computer Centre of the State University of Groningen. For technical details about the sampling procedures and the representativeness of the sample, the reader is referred to Annex A and Annex B. The questionnaire is reproduced in Annex F.<sup>19)</sup>

### **Income concept**

In this study income distribution refers to the distribution of incomes over individual income recipients (the personal income distribution). The focus is on attitudes towards the distribution of income irrespective of their source: labour, profit, interest, pensions, social security etc.

### **The population**

The population of this study consists of members of the economically active population, working at least 25 hours a week and older than 22 and younger than 65 years of age. It would have been interesting to interview a representative sample of the whole Dutch population including housewives, young people, old people, students, unemployed people, disabled people, etc. But with such a heterogeneous population, one would need a very large sample to get enough respondents per subcategory. The costs of such samples were prohibitive.

In delimiting the population, the following considerations have played a role:

- In spite of the increase in unemployment, the actively working population is still the group with the greatest weight in our political system. The modern economy is extremely vulnerable to industrial action. Members of the active labour force are far more effective as pressure groups, than other groups in Dutch society. Therefore, it is especially interesting to find out to what extent people in the active labour force are satisfied or dissatisfied with the distribution of incomes.
- The discussion of distributive policy also refers to its consequences for the working of the labour market and of the economic system as a whole. In

this respect the attitudes of members of the actively working population are again of particular interest.

- Younger people are usually less involved in their work and in their professional careers, than adults. They tend to have different interests, life styles and deviating ideas about incomes and financial requirements. The same holds for people over 65 compared with people under pension age.
- The choice for the criterion of full-time employment - defined as working more than 24 hours a week - is determined by similar considerations. People working part-time are usually less involved in the world of work than people working full-time. Often part-timers are members of households in which there is more than one income recipient. They will tend to have deviating attitudes towards income and its distribution.

#### **Earlier phases of this project**

In the summer of 1977 this project started with a series of preliminary interviews with officials of the most important labour unions and employers organizations in the Netherlands.<sup>20)</sup> Early 1979 students of the economics department of the State University of Groningen conducted 18 unstructured interviews with members of various occupations and professions in the city of Groningen. In the spring of 1979 a rough first version of the interview schedule was tested in 22 interviews by these same students, as part of their obligations in a course on sociological methods. A second version of the interview schedule was tested out in September and October 1979 in 167 interviews held amongst a representative sample of the adult working population in Groningen.<sup>21)</sup> To get the feel of the problems involved, I conducted 10 of these interviews myself. A final version of the interview schedule was drawn up in the course of 1980. Some questions had to be rephrased in the light of the swiftly deteriorating economic situation. The field work was completed by november 1980.

#### **1.4 An outline of the book**

As a framework for the study of attitudes towards inequality, chapter 2 gives a brief review of literature on long-run changes in economic and social inequality in industrialized countries. Special attention is paid to

the decline in income inequality in the Netherlands from 1938 to 1980. The chapter also offers a short sketch of Dutch incomes policy in the post-war period.

In chapter 3 an attempt is made to situate the empirical study of attitudes towards income inequality within the context of general theoretical debates in sociology. Social stratification and social co-ordination are identified as basic dimensions of sociological analysis. Theories of social order are discussed in terms of these two dimensions.

Chapters 4 and 5 are devoted to description and empirical analysis of the data on attitudes towards income inequality. An important conclusion drawn in these chapters is, that members of the active labour force in the Netherlands are characterized by a strong preference for a more egalitarian distribution of incomes. But, this conclusion is qualified because of inconsistencies which can be identified in individuals' attitudes towards income inequality.

Chapter 6 attempts to give an interpretation of what is denoted as the 'ethic of equalization' against the background of long-run changes in the industrialized countries. Using the framework developed in chapter three, the rise of the ethic of equalization is related to long term processes of social differentiation.

In chapter 7 the focus shifts from attitudes towards income inequality to the satisfaction people derive from their own income. The relationship between people's positions in the income hierarchy and their income satisfaction is one of the important topics treated. Income satisfaction is analysed in the light of equity theory, theories of income utility and theories of relative deprivation.

Chapter 8 deals with attitudes towards income restraint and incomes policy. In this chapter an attempt is made to operationalize game theoretical models such as the Prisoners' Dilemma Game and the Other Regarding Game in terms of survey questions. Also the relationships between attitudes towards income restraint and attitudes towards income inequality are explored.

In chapter 9 attitudes towards social class and social conflict are described. The emphasis in this chapter is on the relationships between attitudes towards conflict and various aspects of the attitude towards

income inequality. These relationships are discussed in the light of theories of strikes and theories of revolutions.

Technical details which are of less interest to the reader are treated in a series of annexes. Thus Annex A and Annex B deal with sampling procedures and the representativeness of the sample. An extensive treatment of the construction of the scales applied in the main body of the study is given in Annex D.