

# National Wage Policy: the Experience of the Netherlands

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*The subject of national wage policy has given rise to lively discussion in a number of countries since the war, and certain aspects of wage policy have been discussed by the International Labour Conference.<sup>1</sup> The following account of experience in the Netherlands is presented as a useful contribution to international discussion of national wage policies. The author describes the conditions in which the Netherlands system of wage control was introduced, explains the principles on which it is based and presents the arguments of supporters and critics of the system. He is at pains to dispel what he considers an erroneous or over-simplified conception prevalent outside the Netherlands—that in that country wages are under a severe and rather inflexible state control.*

## INTRODUCTION

THE need for national wage policies and other related problems have been most frequently discussed in connection with the more general problem of combining full employment with economic stability. The underlying assumption usually is that there exists "a certain more or less definite level of employment at which money wages will rise".<sup>2</sup> When this level is exceeded, the

<sup>1</sup> The theme selected in 1951 for special attention in the discussion of the Director-General's Report to the Conference was "wages policy in conditions of full employment". See I.L.O.: *Report of the Director-General, Report I, International Labour Conference, Geneva, 1951, Ch. II*: "Wages, Productivity and Inflation".

<sup>2</sup> Joan ROBINSON: *Essays in the Theory of Employment* (London, Macmillan and Co., 1937), p. 7; for example, Abba P. LERNER (*Economics of Employment*, New York, McGraw-Hill, 1951, p. 195) estimates that this critical level is found in the United States when there are 6 million unemployed. For an attempt to determine this limit statistically, also for the United States, cf. Joseph W. GARBARINO: "Unionism and the General Wage Level", in *American Economic Review*, Dec. 1950, pp. 893 ff. A more sophisticated interpretation is given in Bent HANSEN: *On Some Definitions of Full Employment*, a paper prepared for the International Economic Association Round Table Conference on Wage Determination, Seelisberg, 1954 (mimeographed).

bargaining strength of organised labour is supposed to increase to an extent that enables the unions to press for higher and higher wages, whereby a wage-price spiral is engendered. Certain students of the problem have pointed out that this is the more likely to happen because—when business is flourishing—"the employers themselves throw their weight into the scale of rising wages"<sup>1</sup> in an attempt to attract labour already employed elsewhere. But the general feeling appears to be that the main responsibility lies with the unions.

Inasmuch as the problem is one of strongly organised labour pressing for and obtaining higher wages than may be judged appropriate from a national economic point of view, it may be questioned whether this difficulty is peculiar to the full-employment economy. The mere fact that the industrial labour force of a country is strongly organised may conceivably lead to undesirable rises in wages at any level of employment. In fact, it seems doubtful whether the trade union movements in some industrialised countries would need the advantage of a specially favourable situation of the labour market in order to wage a successful fight for substantial wage increases. They might in certain circumstances choose to press for such increases even when the level of employment is low, if they believed, for example, that higher wages would raise effective demand and thereby reduce unemployment. If in the past they have often not done so, this may have been due to their assuming—rightly or wrongly—that higher money wages might further worsen the employment situation rather than to any lack of power to secure increases in money wages.

The present article is not intended as a plea for or against the adoption of national wage policies; nor is the question whether such policies may be needed only in conditions of full employment investigated here. Some of the considerations discussed below may, however, be relevant in circumstances other than those of a full-employment economy.

Perhaps one aspect of trade union policies to which attention has been drawn in discussions of national wage policy is more particularly characteristic of a situation of full employment. Whereas in analyses of the "organisational economy"<sup>2</sup> the

<sup>1</sup> Joan ROBINSON, op. cit., p. 15. Cf. also H. W. SINGER: "Wage Policy in Full Employment", in *Economic Journal*, Dec. 1947, pp. 446 ff; Abba P. LERNER, op. cit., p. 194; and Swedish Confederation of Trade Unions: *Trade Unions and Full Employment* (Stockholm, 1953), pp. 89 ff.

<sup>2</sup> Calvin B. HOOVER ("Institutional and Theoretical Implications of Economic Change", in *American Economic Review*, Mar. 1954, p. 12) has coined the term "organisational economy" to describe an economic system in which powerful organisations (industrial, financial, agricultural and labour organisations as well as the State itself) are engaged in theoretically complicated forms of economic competition.

emphasis is on the labour movement acting as a more or less homogeneous power, discussions of wage policy in full employment have been based partly on the fact that in some countries the unions do not engage in concerted action but rather in "competitive sectional bargaining", each craft and trade bargaining for itself without having much regard to possible repercussions on other sectors of industry.<sup>1</sup> While in doing so each individual union may succeed in raising money and real wages for its membership in roughly the same proportion, if all unions try to act in this manner the result will be a gradual rise in the price level to an extent that wipes out a good deal of the original "real" gains, provoking fresh wage demands in order to restore the initial increase in real wages, and so on. Since "there is no inherent mechanism in our present system which can with certainty prevent competitive sectional bargaining for wages from setting up a vicious spiral of rising prices under full employment"<sup>2</sup>, Beveridge recommends a "unified wages policy"—meaning thereby, first, that the demands of the individual unions should be judged by the central organisations of workers (such as the British Trades Union Congress); secondly, that these central organisations should judge these demands "with reference to the economic situation as a whole".<sup>3</sup> In general, wages ought to be determined by "reason", bearing in mind that, "so long as freedom of collective bargaining is maintained, the primary responsibility of preventing a full employment policy from coming to grief in a vicious spiral of wages and prices will rest on those who conduct the bargaining on behalf of labour".

These suggestions have provoked a number of reactions from trade unions as well as from other quarters. One main comment has been that a national wage policy in this sense would probably be impracticable because such a policy, if necessary or effective at all, would be contrary to the very nature of the modern trade union movement. Meanwhile, something resembling a national wage policy has been developed, for example, in Sweden, and a particular variant of such policy has been consistently pursued for almost ten years in the Netherlands. The purpose of this article is

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<sup>1</sup> W. H. BEVERIDGE: *Full Employment in a Free Society* (London, Allen and Unwin, 1944), p. 199. Cf. also Eugene FORSEY: "Trade Union Policy under Full Employment", in *Canadian Journal of Economics and Political Science*, Aug. 1946, p. 345; G. D. N. WORSWICK: *The Economics of Full Employment* (Oxford, Basil Blackwell, 1944), p. 63.

<sup>2</sup> W. H. BEVERIDGE, loc. cit.; the reader may note the rather cautious wording of this phrase.

<sup>3</sup> Ibid., pp. 200 ff. Thus, not only should the unions' policies be unified in the sense that the actions of individual unions are co-ordinated, but the unified policy should be based, at least in part, on the national economic situation. For this reason, the term "national wage policy" is more appropriate.

to analyse some aspects of this Netherlands experience, particularly those that have a bearing on certain of the points made in international discussions of the subject.

### THE PROCEDURE IN THE NETHERLANDS

The system of wage control applied in the Netherlands after the war is clearly one of national wage policy inasmuch as decisions regarding the level and structure of wages are taken in respect of the economy as a whole and with explicit reference to the country's economic (and social) situation. It is a somewhat special type of national wage policy in that it involves direct control of wages by the Government. Yet the principles and methods of operation of this system raise some of the issues that have been brought up in the general discussion of national wage policy, even though—one feels almost inclined to say “of course”—in these discussions government intervention in the determination of wages is sometimes not even considered or is strongly rejected.<sup>1</sup> The legal basis of the system is a Royal Decree of 1945<sup>2</sup> which defines, *inter alia*, the responsibilities of the three main bodies in charge of the operation of the system.

The Minister of Social Affairs—who appoints the state conciliators and their chairman—issues directives for application by the Board of State Conciliators in connection with decisions affecting wages in the economy as a whole, such as the “wage rounds”, i.e. permissive or compulsory all-round wage increases by specified amounts.

The main responsibilities of the Board of State Conciliators are—

(a) to pass judgment on collective agreements negotiated between employers' and workers' organisations; all collective agreements require the Board's approval;

(b) to fix binding wages and other conditions of employment

<sup>1</sup> There is a brief description of the Netherlands system in English in P. S. PELS: “The Development of Wages Policy in the Netherlands”, in *Oxford University Institute of Statistics Bulletin*, July-Aug. 1950, p. 217 and J. G. BAVINCK: “The System of National Wages Control in Holland”, in *Personnel Management*, Sep. 1954, p. 155. See also A. VERMEULEN: *Prae-Adviezen voor de Vereniging voor Staatshuishoudkunde* (The Hague, Martinus Nijhoff, 1948); P. S. PELS: *De Ontwikkeling van de Loonvorming* (2nd edition, Alphen aan de Rijn, Samson, 1952); Sociaal-Economische Raad (the tripartite Social and Economic Council): *Advies inzake het in de naaste toekomst te volgen systeem van loonbeheersing* (The Hague, 1953), Ch. II; and Raymond VUERINGS: *De Nederlandse Loonen Prijspolitiek* (doctoral thesis, Louvain, 1954). Professor Jørgen PEDERSEN (“The Theory of Inflation”, in *Weltwirtschaftliches Archiv*, Kiel, 1954, Part 1) concludes that a system of direct wage control somewhat similar to that applied in the Netherlands may be essential in order to avoid inflation.

<sup>2</sup> Buitengewoon Besluit Arbeidsverhoudingen 1945, *Staatsblad*, No. F 214.

in cases where no approved collective agreement exists, e.g. because the parties were unable to reach agreement or because in the industry concerned no adequate organisations for collective bargaining exist ;

(c) to declare approved collective agreements generally binding in the trades concerned so as to make them applicable also to employers and workers not adhering to the agreements in question ;

(d) to decide on requests for dispensation from binding regulations ;

(e) to establish general principles by which collective agreements should be governed.<sup>1</sup>

The Foundation of Labour is to advise the Board on decisions " of more general importance ".<sup>2</sup> In actual practice the Foundation has been the heart of the system. The Government has accepted it as one of its main advisers in general questions of wage policy and related matters, and the Foundation has thus been one of the main policy-shaping institutions in this field. It had its origin in consultations between workers' and employers' representatives during the Occupation on the question of the social policy to be adopted after the end of the war.<sup>3</sup> The Foundation represents the employers' federations in industry, agriculture and commerce as well as the three main federations of trade unions.<sup>4</sup> In this body, joint consultation takes place at the highest level and often with

<sup>1</sup> Thus, the functions of the Board are not, or at least not formally, related to the settlement of industrial disputes through conciliation procedures. Under the Industrial Disputes Act of 1923 conciliation was the only function of the conciliators. When in 1940 the Nazi Occupation authorities introduced wage control in the Netherlands, the conciliators were charged with the carrying out of this new task until 1942, when they were relieved of their functions. In a sense, the duties assigned to them under the 1945 decree are a continuation of their duties during the early years of the war. The conciliators are independent individuals, not government officials ; their main occupations lie outside their work as conciliators. For an account of the work of the conciliators since 1923, see R. J. ERDBRINK : " 30 Jaren Rijksbemiddelaars ", in *Economisch-Statistische Berichten* of 14 and 28 July 1954.

<sup>2</sup> Buitengewoon Besluit, article 19.

<sup>3</sup> For an interesting and authoritative account of the early history of this unique institution, cf. D. U. STIKKER : " The Netherlands Foundation of Labour ", in *Progress, the Magazine of Unilever*, Vol. 44, No. 243, Summer 1954, p. 3. (Dr. Stikker, now Netherlands Ambassador in London, was chairman of the Foundation from 1945 to 1948.) The body was established as a " foundation " because in 1945 this was the most suitable form that this type of association could take under the existing legislation.

<sup>4</sup> Social life in the Netherlands is to a large extent organised, and at times rather sharply divided, along religious lines. Thus in most trades the employers as well as the workers are organised in separate Catholic, Protestant and, from a religious point of view, " neutral " or " modern " associations and federations. Among the federations mentioned in the text, the " neutral " organisations are the largest.

a remarkable degree of success. Its authority in questions of social policy might perhaps be characterised as that of a parliament representative of the various economic interests in the country. Its advisory functions in the field of wage policy are wide ; practically all collective agreements and proposed amendments thereof are submitted for advice to the wages committee of the Foundation before the Board of Conciliators decides on their approval. Once the committee has dealt with the matter, this approval is in most cases almost a formality. When necessary, the committee and the Board consult jointly with the parties that submitted the agreements or were unable to reach agreement.<sup>1</sup> Co-operation between the Foundation and the Board has generally been very close and has resulted in a very high degree of agreement in their views on the principles of operating the system.

The Foundation and, more recently, the Netherlands Social and Economic Council (which includes members appointed by the Government as well as representatives of employers' and labour organisations) also advise the Minister on decisions regarding changes in the general wage level. In fact, the discussions within the Foundation and the Council prior to such advice are tantamount to top level, all-embracing wage negotiations, and unanimous conclusions are not always reached. In such cases the Government decides, acting in effect as an arbitrator. This arbitration is, however, based primarily on considerations of the national interest ; it is not simply a device to effect a compromise between the conflicting interests of employers and workers as such.

Briefly, the system is one of government wage control. It is difficult to estimate what the real impact of this control has been, for example, on the general wage level. J. W. de Pous, a competent judge of the system, states that there have generally been no serious differences of opinion between the Government and the representatives of labour and management. But this does not, in his opinion, mean that in the absence of government control the employers' and labour organisations would have arrived at the same wage level as that actually prevailing, since in their choice of the wage level they recommend the parties are likely to have anticipated the Government's views on the matter.<sup>2</sup>

In any case, while collective bargaining continues to exist under the system, the freedom of action of the bargaining parties is substantially limited. On the other hand, the labour and employers' organisations exert a strong influence on the Govern-

<sup>1</sup> Thus, in practice, the committee and the Board perform conciliatory functions as well.

<sup>2</sup> J. W. de Pous : " Enkele Aspecten van de Loonpolitiek bij volledige Werkgelegenheid ", in *De Economist* (Haarlem), Apr. 1953, p. 277.

ment's policies through their representatives on the Foundation and on the Council.

### PRINCIPLES OF OPERATION

Immediately after the Liberation in 1944-45 the Government and the Foundation agreed that the national wages system, which had been completely disrupted during the Occupation, should, within the very narrow limits set by the economic emergency of the time, be reshaped according to certain principles of social justice. In particular, the lowest paid adult workers should be able to purchase all consumers' rations for a family of four persons—based however on a low standard of living—and to pay for rent and a few amenities. On this basis a minimum wage was fixed for unskilled adult workers, which was practically also the maximum for this group. It was further decided to fix wages for semi-skilled workers at 10 per cent, and those for skilled workers at about 20 per cent. above the wage of an unskilled worker. These percentages were somewhat lower than those that prevailed before the war.

In subsequent years this system was further refined, and the general level of wages was raised from time to time, usually in accordance with changes in the cost of living. Thus, a flat increase of 1 guilder a week was prescribed in November 1948 for all workers earning less than 3,700 guilders a year, to match the reduction of a number of subsidies. On 1 January 1950 a general wage increase of 5 per cent. was permitted on account of the rise in living costs following the 1949 devaluation. The next compulsory "wage round" occurred in September 1950, following fresh increases in consumers' prices as a result of the Korean war. In view of the desperate state of the country's balance of payments and the increased burdens of armament it was decided in March 1951 to reduce real wages by letting prices go up by 10 per cent. while the (compulsory) increase in wages amounted to only 5 per cent. Two months later a small once-for-all extra payment was permitted because the "sacrifice of consumption" by the workers was found to have exceeded slightly the agreed 5 per cent. On 1 January 1954 another 5 per cent. wage increase was prescribed to match a rise in rents and to restore real wages to the level prior to March 1951. The permissive wage round of October 1954 was the first one not based on an increase in the cost of living—it was designed to maintain the wage earners' percentage share in the rising national income.

The refinements of the system referred to above concerned mainly the establishment of better-founded occupational wage differentials, and the application of systems of payment by results.

As regards the first of these points, the existing crude classification of workers into three broad groups (skilled, semi-skilled and unskilled) had been found inadequate for the purpose of setting relative rates for various occupations. The application of job evaluation in collective bargaining has been strongly encouraged as a basis for the fixing of wage differentials, and a standard method of job evaluation has been introduced.<sup>1</sup> An important result of the widespread application of this technique has been that in a

<sup>1</sup> The standard method of job evaluation was developed by a committee of experts representing various opinions on the matter. It is considered to be applicable to practically all manual jobs in all industries and is being extended so as to apply to non-manual work as well. The method involves ten factors: mental development, independence, contact with others, authority exercised, self expression, manual skill, knowledge of machines and materials, deterrents (strong physical or mental exertion, disagreeable materials, conditions of work or surroundings, job hazards), special requirements (such as exceptional gifts in matters of taste or memory) and job responsibilities. The method further consists of schemes for appraising jobs in terms of the ten factors, assigning point values to various levels of the factor in question in conjunction with a subdivision of the nature of the factor. For example, "rather intensive contact" with "persons subordinate to another direct chief" is one of the 12 positions under the characteristic "contact with others"; it is assigned 4 points compared with 0 points for "rather superficial contact" with "persons under the same direct chief". (The appraisal schemes, together with comprehensive explanations of the ten factors and about 100 examples of job description and evaluation according to the method have been published by the Netherlands Commission for Normalisation (Hoofdc commissie voor de Normalisatie in Nederland): *Ontwerp Genormaliseerde Methode van Werkclassificatie, Norm V 3000 and Norm V 3001* (Delft, Sep. 1952). A list of provisional weights given to the ten factors is given in: Stichting van den Arbeid, *Werkclassificatie als Hulpmiddel bij de Loonpolitiek*, The Hague, 1952, p. 14.) The final step in job evaluation, the conversion of points into money wages, is a matter of wage policy and therefore falls within the competence of the Board of Conciliators. When judging collective agreements submitted for approval, the Board refers—where appropriate—to the standard method for purposes of ranking. Present policy is based on a so-called "wage-line" connecting the wage rate for the lowest-graded job (defined as the social minimum wage) with the wage rate for jobs of average skill in the metal trades (determined by considerations of economic and social expediency). Proper rates for job classes in various industries are fixed through inter- and extrapolation on a straight line through these two points of reference. The slope and curvature of the line are the subject of general decisions of wage policy.

Reference may be made to the introduction of job evaluation in the metal trades as a practical and typical example of method and procedures. The decision to apply job evaluation in the industry was taken by collective agreement. Parties to this agreement, co-operating in the joint council for the metal trades, drafted a list of 700 jobs, divided into six job classes, to replace the old division into three groups (unskilled, semi-skilled and skilled). This list is intended as a guide to individual firms in the industry that wish to introduce job evaluation. Such introduction must then be made in consultation with the joint council and the labour representatives in the firm concerned. The collective agreement fixes, for each of the six classes, (a) a personal minimum hourly wage, (b) an average minimum hourly wage and (c) an average maximum hourly wage. (These rates are different for firms that apply incentive wage systems and those that do not.) Thus, the collective agreement and approval by the conciliators are in terms of classes of jobs, not of individual jobs.



number of cases wages of skilled labour have been raised to more appropriate levels without upsetting the general level and structure of wages. When a firm or industry does not apply job evaluation, special allowances may be permitted by the conciliators for dirty or heavy work, etc.

In the interest of increasing productivity, hourly earnings are permitted to exceed the rates fixed by the conciliators when incentive wage systems are applied or where the general level of performance of a firm is established, to the satisfaction of the conciliators, as above average. This possibility of upward deviation from the general wage standards has been reported to constitute a most effective incentive to the workers to support and even to push for measures increasing productivity. In cases where systems of payment by results have been scientifically established to the satisfaction of the conciliators, earnings may exceed official hourly rates up to a maximum of 25-30 per cent. The main purpose of this maximum is to prevent incentive wage systems being applied in a manner harmful to the health of the workers. In cases where some workers are paid under an incentive system and others are not, the time workers may be paid special allowances (for example, under a system of merit rating), in order to avoid excessive differences in earnings within the plant.

The Netherlands system of wage control, which was introduced at a time of national emergency as part of a comprehensive system of strict controls over prices and the allocation of materials, has for some time been strongly supported by the large majority of employers' and workers' organisations. More recently, the desirability of continuing it in its present form has been seriously questioned, particularly by the employers' organisations; the reasons for this change in attitude will become apparent from the following analysis of the system.

#### THE VIEWS OF THE NETHERLANDS FEDERATION OF TRADE UNIONS

While the Christian federations of trade unions and the employers' organisations have recently evinced a rather lively interest in proposals for a shift of emphasis towards wage bargaining at the level of the industry instead of negotiation in the Foundation of Labour and for reducing the degree of government intervention, the ("neutral") Netherlands Federation of Trade Unions has always been and still is an ardent defender of the present system and has considered suggestions for its revision with considerable scepticism. This may seem surprising: it is usually assumed that trade unions in particular would find it difficult to accept any system of national wage policy, and especially one involving government control.

The following is a very brief summary of the Federation's reasoning<sup>1</sup>:

1. Full employment and high productivity are simultaneously attainable objectives and they are in the interests of the workers and of their organisations.

2. Equal pay for equal work is in the view of the trade union movement a fundamental principle of equity.

3. The principle of equal pay for equal work rules out wage differentials based on inter-industrial and inter-firm differences in profitability or capacity to pay, but demands a nation-wide and co-ordinated application of methods of job evaluation, rate setting and merit rating for the purpose of establishing an equitable wage structure.

4. Rigorous application of this principle forces less efficient firms and industries to raise their productivity or abandon business and makes it impossible for them to shift the burden of their inefficiency to the workers they employ.

5. Hence, the system of wage policy should be centralised.

6. Full employment cannot be achieved and maintained automatically but depends on specific policies, for which the Government is responsible. The general level of wages is a strategic factor determining the success of such policies.

7. Hence, a Government pursuing full employment policies should be given decisive influence over the wage level.

These principles involve two rather unorthodox conclusions. First, wage policies should be "unified" to an extent which eliminates much of the wage differentials as between individual firms, occupations and industries<sup>2</sup>; secondly, the most important decisions to be taken under this unified system—those concerning the general level of wages—are explicitly entrusted to the Government.

Wage differentials have played an important part in discussions concerning national wage policy, precisely because of the centralisation such policy involves. More particularly, they have been considered (*a*) from the point of view of their economic function of allocating the labour force among various occupations and indus-

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<sup>1</sup> The author was fortunate in having an opportunity of discussing the Federation's view with its secretary, Mr. A. VERMEULEN.

<sup>2</sup> It should be noted that the Netherlands system, while it is in conformity with several of the Federation's views, does not, for example, involve equal pay for equal work as far as wage differentials according to sex are concerned. Also, the unions have, of course, opposed "permissive wage rounds"; in practice, the effect of these has, however, not differed materially from compulsory wage increases.

tries ; (b) from the political point of view of " allocating ", under a system of national wage policy, wage increases among various claimants ; and (c) from the point of view of maximising labour's share in the national income. The stand taken by the Netherlands Federation of Trade Unions on the question of wage differentials is of considerable importance in terms of the principles of operating a system of national wage policy. In the following sections the above three questions are therefore briefly discussed.

### *Wage Differentials and the Mobility of Labour*

Wage differentials have often been considered essential to the efficient allocation of the labour force. Higher wages are thought of as the means of attracting workers by inducing them to go where they are wanted more, and lower wages as the means of persuading workers to leave the places where they are wanted less. " In a free society, the workers can be obtained only by making the conditions of work and the pay sufficiently attractive to induce them to move to the places where they are needed or by making the conditions of work and the pay sufficiently bad where they are not needed to induce the proper number of workers to leave these places and go elsewhere." <sup>1</sup>

Lerner's logical conclusion from this view is his recommendation that in the full employment economy money wages in different occupations should move in accordance with " indices of relative attractiveness ". Such indices would be calculated as the ratios between the number of people qualified and ready to work in various occupations but unable to get a job there, and the number of people actually employed in these occupations. The wage rates in relatively more attractive occupations would then be reduced compared with those for less attractive jobs according to some formula for the distribution of the share in increasing productivity going to labour, by raising the absolute rates less than those for the less attractive occupations. In order to make this mechanism work effectively every possible restriction or hindrance in the way of movement from one labour market to another should, of course, be eliminated.<sup>2</sup>

Others have not felt the need for action directed specifically to this purpose and have assumed, more or less vaguely, that for all its lack of explicit order, the usual process of collective bargaining actually gives effect to the pressures of supply and demand in the labour market, and should be left free to do so undisturbed.

It may be useful to distinguish, at this stage, between what

<sup>1</sup> Abba P. LERNER, op. cit., p. 213.

<sup>2</sup> Ibid., pp. 214 ff.

might be termed "horizontal" and "vertical" wage differentials, the former meaning discrepancies between the wages paid, in different firms and industries, for the same or similar functions of jobs, the latter being differentials based on differences in the level of skill, job deterrents, responsibilities or other characteristics of various functions and jobs. In the following pages reference will also be made to "horizontal" and "vertical" mobility of labour, the former relating to the moving of workers from one firm or industry to another without any significant change in the nature of their jobs, the latter to movements between jobs differing in the level of qualifications required, etc.

In actual wage bargaining the argument that particular industries are or will be "undermanned" has often played a part, either explicitly or tacitly. To the extent that competitive sectional bargaining prevails, such effects as horizontal wage differentials might otherwise have had on the allocation of the labour force between firms and industries can, of course, hardly be strong. Furthermore, as Flanders has pointed out<sup>1</sup>, when this argument is used in wage bargaining it is necessary to consider in which occupations the shortage exists. Frequently there is not a shortage of labour in all occupations in a particular industry, but where wage bargaining is conducted for the industry as a whole, the result will in many cases be that a flat wage increase is negotiated for all occupations, again ruling out the effects that selective wage increases might otherwise have had on the allocation of labour between different types of occupation.

A more pertinent question is whether wage differentials do in fact have any significant impact on the distribution of labour between various occupations. Statistical material showing a significant correlation between variations in relative wage rates and horizontal mobility of the labour force is rather scarce. But even where such correlation has been established it would be rash to infer a direct causal relationship. For example there is a tendency for wages to increase with productivity in the industries concerned and, since increasing productivity and expansion also tend to go together, parallelism between wage rates and employment in various industries does not necessarily mean that the wage differentials were instrumental in shifting labour from one industry to another.<sup>2</sup>

Finally, whatever their actual impact on movements of labour

<sup>1</sup> Allan FLANDERS: "Wages Policy and Full Employment in Britain", in *Oxford University Institute of Statistics Bulletin*, July-Aug. 1950, p. 240.

<sup>2</sup> Gösta REHN: *Unionism and the Wage Structure*, paper prepared for the International Economic Association Round Table Conference on Wage Determination, Seelisberg, 1954 (mimeographed), p. 23.

may be, horizontal wage differentials might be considered an instrument of dubious efficiency. They become effective only after the workers overcome their well-known inertia and change their jobs on account of substantial wage differentials, resulting from equally substantial differences in productivity. In other words, this method depends on the employment, during a period which may be rather long, of part of the labour force in occupations that are substantially below average productivity. The alternative, namely to charge all industries with uniform wages for similar types of labour and to leave the distribution of the labour force between various industries to the availability of jobs at those rates in those industries would not only seem a more effective but also a more efficient method.<sup>1</sup> To rely on the availability of jobs to direct the labour force would not, as has been argued, mean that the economy would suffer chronically from a high level of frictional unemployment, as a result of workers having to be dismissed as soon as marginal firms and industries found themselves unable to carry on production at full capacity while paying the generally prevailing wage rate. If the annual rate of labour turnover in the economy due to natural causes, including the replacement of retiring workers by young recruits, amounts to 3 or 4 per cent., far-reaching changes in the pattern of employment can be effected within a reasonably short time without any substantial involuntary frictional unemployment.<sup>2</sup> Thus, the elimination of horizontal wage differentials as advocated by the Netherlands Federation of Trade Unions can be defended on general economic grounds.

The argument of the Federation is, however, in terms of equity as well as of general economic reasoning. It is presented as the logical corollary of the principle of equal pay for equal work. It will be noted that, as used by the unions, this term does not relate to "work of equal value"—a concept which is probably unman-

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<sup>1</sup> This is in effect the method that would operate in a labour market in which pure and perfect competition prevailed. For evidence that workers are distributed much more directly and forcefully by differentials in the availability of jobs than by wage differentials, cf. Lloyd G. REYNOLDS: *The Structure of Labor Markets* (New York, Harper & Bros., 1951).

<sup>2</sup> It is assumed here that employment opportunities in industries lagging behind in productivity will decline faster if all employers using similar types of labour have to pay the same wage than if the marginal producers are subsidised through the payment of lower wages. A different view is expressed in Economic Commission for Europe: *Economic Survey of Europe since the War* (Geneva, 1953), p. 147, where the narrowing wage differentials between the engineering and textile industries are blamed for the slow movement of labour from the latter into the former. The explanation probably is that the rather unfavourable future of the European textile industries predicted in this report is assumed to have not yet become visible in a reduced capacity of the textile industry to pay relatively high wages.

ageable if "value" is given its usual economic sense—so much as "work that is equivalent by the criteria of a system of job evaluation".<sup>1</sup> The pursuit of this principle as an ethical objective, which may or may not be a logical or desirable aim of the trade union movement, has some practical aspects directly relevant to national wage policy which deserve closer examination.

### *Wage Differentials and Profits*

First, it might seem that a unified wage policy in this rigorous sense would be bound to be unattractive to the trade unions because it would involve their having to accept the making of high profits by many firms for the sake of the survival of the marginal firms, perhaps few in number, whose existence will need to be preserved in order to maintain full employment. Singer concludes on this ground that the interests of the unions would be better served by the development of *less* collective techniques of wage bargaining than by the *more* collective methods of a national wage policy.<sup>2</sup> As will be seen below, this argument has been advanced in the Netherlands also.

A most interesting, though somewhat indirect, answer to it has been formulated by the Swedish trade union movement. It is that, if a national wage policy is ever to succeed, average profits cannot be permitted to be high.<sup>3</sup> Arguing that the most serious threat to the stability of wages is not the strong bargaining position of the trade unions but the competitive bidding of employers if they are allowed to earn high profits, Rehn and the Swedish Confederation of Trade Unions advocate a government full-employment policy under which total effective demand by itself would be insufficient to ensure full employment. Full employment as defined by Beveridge ("more jobs than men") is emphatically rejected. In Rehn's vivid metaphor, the "islands of unemployment" that would rise above the relatively low surface of effective demand would then have to be eliminated by special supplementary measures. In other words, Singer's marginal firms are replaced by supplementary government policies. Should an attempt be made,

<sup>1</sup> The Swedish Confederation of Trade Unions, which adheres to essentially the same principle, cautiously calls it "some sort of equal pay for equal work principle" (*Trade Unions and Full Employment*, op. cit., p. 96).

<sup>2</sup> H. W. SINGER, loc. cit., p. 441. From conversations with trade union leaders in Western Germany the author understands that some important unions in that country are, indeed, considering the desirability of bargaining of a less collective kind—i.e., in smaller bargaining units—as a means of seizing part of the profits made in the larger and more prosperous firms.

<sup>3</sup> Gösta REHN: *Wages Policy under Full Employment* (edited by Ralph TURVEY) (London, Hodge and Co. 1952), pp. 30 ff.; *Trade Unions and Full Employment*, op. cit., pp. 89 ff.

so the argument goes on, to combat *local* unemployment through a *general* increase in effective demand, then the general level of profits would become too high to keep wages stable. A permanent policy of "restraint" in wage demands would be necessary, but it is impossible for the unions to accept such policy permanently without signing their own death warrant. Briefly, and with some exaggeration, the proposal is to make a national wage policy possible by making it partly, though perhaps not entirely, unnecessary.<sup>1</sup>

The Netherlands Federation of Trade Unions finds itself in a different situation and faces Singer's problem more straightforwardly. Having accepted a degree of government wage control, it does not have to accept any moral responsibility for the nature of the Government's full employment policies. In particular, it does not have to endorse, let alone recommend, a policy permanently involving pockets of unemployment. Should the Government's employment policies turn out to be inflationary, it can press for appropriate wage increases. Alternatively, should these policies be such as to require supplementary action to eliminate pockets of unemployment, it can leave this to the Government, too. In neither case does it need to accept a level of wages low enough to allow marginal firms to stay in business. In fact it has no intention of doing so, and, as will be seen below, it is on this point that the Netherlands employers' organisations feel seriously concerned about the present system of wage policy.

Mention should also be made here of the Federation's proposals for a system of "collective profit sharing".<sup>2</sup> Though these are only proposals and are advanced in a slightly different context (mainly in connection with investment policies), they imply a further answer to the question raised by Singer and, indeed, to problems of collective wage bargaining in general. The idea is that the unions would definitely accept a permanent policy of wage restraint; in a sense they would almost be anxious to do so. But in return they would claim their share in the profits thus made possible. A surtax on profits would be levied, the proceeds of which would be distributed among the workers either for free spending or as compulsory savings, according to the general state of the economy. Again applying the principle of equal pay for

<sup>1</sup> Rehn's view that "profit margins must be severely squeezed between the high wages which the trade unions can secure when there is full employment and a purchasing power restricted by taxation" (*Wages Policy under Full Employment*, op. cit., p. 49) is critically examined by Professor LUNDBERG (*ibid.*, pp. 55 ff.); cf. also Sir Douglas COPLAND: "The Full Employment Economy", in *Oxford Economic Papers*, Oct. 1953, pp. 230 ff.

<sup>2</sup> Cf. A. VERMEULEN: "Collective Profit Sharing", in *International Labour Review*, Vol. LXVII, No. 6, June 1953.

equal work, the profit share going to the workers would not be determined by the level of profits in the firm or industry in which they happen to be employed, but by the level of profits in industry as a whole.<sup>1</sup>

*The "Allocation" of Wage Increases and Job Evaluation*

The possibility of operating the Netherlands system as it has been applied has undoubtedly been facilitated to a large extent by the particular conditions prevailing at the time of its introduction in 1945. There was an obvious need to deal quickly and drastically with a confused emergency situation. This made it relatively easy for workers' and employers' representatives to meet in the Foundation and to agree on the most important principles of the wages system. On the one hand the general level of wages had to be kept low enough to permit speedy reconstruction of the economy. On the other hand the lowest-paid workers had to be ensured a minimum level of living at a time of disastrous shortages of all important commodities. Once the minimum and the average maximum wage had thus been determined, the fixing of general margins for skill, etc., must, in the grave circumstances of the moment, have been psychologically not too difficult a task. Briefly, the whole system of wages had to be established anew. Such wage differentials as had come into existence before the war as a result of the uneven development of unionism among different groups of workers and other incidental factors hampering the establishment of an economically and socially expedient wage structure were at one stroke eliminated. Thus, wage differentials with no more justification than that they were "traditional"—a notorious source of sectional wage claims—did not cause substantial difficulties in the initial time of emergency and, having been swamped by the general development of the system, have not become a serious problem subsequently.

These factors must have been of considerable importance with regard to the problem of "allocating" possible increases in wages among various groups of claimants under a national wage policy. As Singer points out with much justice, a central trade union body—such as the T.U.C. or a confederation of trade unions—when assuming responsibility for a national wage policy exposes itself to most awkward difficulties if it has to decide, for example, that cotton-spinners, foundry workers and farm workers are to get a 10 per cent. rise but that all other workers should postpone

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<sup>1</sup> Thus avoiding the threats to solidarity within the labour movement that trade union leaders in several countries suspect in profit sharing plans.



their wage claims for a year.<sup>1</sup> Similarly, the Swedish Confederation expressed some concern about the position in which it would find itself vis-à-vis the affiliated unions in deciding on individual claims if "practically everybody can make out that he is entitled to larger increases than anybody else".<sup>2</sup> Yet the Confederation seems to be prepared to accept responsibility for giving or withholding support to the claims of particular unions on the basis of two criteria, namely detailed and systematic job evaluation and the ability of various industries to recruit and retain manpower. It feels, however, that "it will never be possible to evolve a cut-and-dried system".<sup>3</sup>

The relatively comfortable position in which the Netherlands federations find themselves in respect of the delicate question of allocating wage increases becomes apparent when this position is compared with the arguments listed by Flanders as possible grounds for wage claims by individual unions.<sup>4</sup> These arguments are : (a) this is not a living wage ; (b) profits are high ; (c) the cost of living is rising ; (d) others have had an increase ; (e) the occupation is or will be undermanned ; (f) productivity has been raised ; (g) a wage increase will help to raise productivity. Among these, (a), (c), (d), (f) and (g), while they may be important considerations in respect of the wage level as a whole, will generally not present themselves under the Netherlands system as problems involving divergences or clashes of interest between the individual unions requiring "arbitration" by the federations. Argument (b) conceivably may, but the system provides for profit-sharing schemes (limited to 4 per cent. of wages), and the method of "collective profit sharing" proposed by the largest federation would reduce the practical significance of this argument still further. Finally, with respect to (e), the present Netherlands system simply does not provide for horizontal wage differentials, although it does involve inter-occupational differentials based on the classification and evaluation of jobs. Singer observes<sup>5</sup> that the application of a national point-rating system may simply transform the attempts to push up wages sectionally through pressure on money rates into an attempt to raise the point-rating applied to any particular section. While this may be true, and though such a system consequently does not necessarily eliminate all tensions within the trade union movement on account of wage differentials, the essentially technical nature of this problem lends itself more easily to agree-

<sup>1</sup> Op. cit., p. 439.

<sup>2</sup> *Trade Unions and Full Employment*, op. cit., p. 94.

<sup>3</sup> Ibid., pp. 97 ff.

<sup>4</sup> Op. cit., p. 238.

<sup>5</sup> Op. cit., p. 454.

ment than some of the other arguments for wage increases listed above.

It has been argued in a previous section that there are good grounds for not relying on inter-industrial wage differentials other than those based on job evaluation but, as will be seen below, opinion on this point in the Netherlands itself is divided. The Swedish Confederation of Trade Unions seems to take an intermediate view on the matter. It rejects inter-industry wage differentials based on differences in profits and advocates the application of job evaluation for the purpose of inter-occupational wage differentials; but at the same time it appears to be willing to consider the criterion of undermanned industries as an element in allocating wage increases among the affiliated unions.<sup>1</sup> It seems likely that the Confederation thereby runs the risk of involving itself in a multitude of controversial questions of fact-finding and of statistical interpretation that would not arise for its Netherlands counterpart. Indeed, it is not easy to see why there should be any great need to apply such a criterion. In most cases an industry will find itself "undermanned" either because profits in the industry concerned are high and the producers wish to expand production or because workers are not attracted by the nature of the work in the industry. The former case would in practice lead to wage differentials based on profits (which the Confederation rejects), while the latter could be solved by proper application of a system of job evaluation (which the Confederation accepts).

One or two further remarks on the application of job evaluation under a national wage policy would appear to be in order here. Phelps Brown and Roberts have objected to it on the grounds that (a) historical wage differentials cannot be left out of account; (b) the application of merit rating and piece work and bonuses affect pay packets in such a way as to disrupt the relation between total earnings and the original job evaluation; and (c) "most fundamental"—to maintain differentials on the basis of job evaluation means ignoring the supply and demand for labour, trade by trade.<sup>2</sup>

As indicated above, the first of these difficulties has not been important in the Netherlands as a result of the very special condi-

<sup>1</sup> *Trade Unions and Full Employment*, op. cit., p. 97.

<sup>2</sup> E. H. PHELPS BROWN and B. C. ROBERTS: "Wages Policy in Great Britain", in *Lloyds Bank Review*, Jan. 1952, p. 25. They go on to say that "both employers and trade unions in Holland are increasingly disappointed with the results [of job evaluation] and it says much for the self-discipline of the Dutch people that they have borne with it for the past two or three years". Insistent questioning of employers', workers' and government representatives on this point has convinced the present author that the first part of this statement is incorrect.

tions under which the system of wage policy was introduced. With regard to the second point, it appears that the worker is generally able to understand and to appreciate the difference between the part of individual earnings that is related to various jobs and functions as such and the part that is related to the application and skill with which the individual worker performs his job. Indeed, it appears that at least in the Netherlands the plea for "equitable" wage differentials based on job evaluation enjoys considerable popularity among very large sections of the labour force. In other words, when the unions advocate wage differentials based on proper methods of job evaluation as "equitable" they probably reflect, at least in some countries, on the opinion of their rank and file on the matter. The contribution to improved "human relations" often made by the application of job evaluation in individual firms points in the same direction.

As will be seen below, the third point has also been advanced in the Netherlands itself. There can be no doubt that a proper method of job evaluation, whatever its scope, should reflect basic trends in the supply of and demand for particular qualifications of labour (including attitudes towards job deterrents) and that it should be adjusted to changes that may occur in these trends by proper revision of the weights attached to job evaluation factors and of the formula according to which the job evaluation points are converted into money wages.<sup>1</sup> This is essentially a matter of careful observation of developments in the labour market, which is a principle also applied under the Netherlands system of wage policy. Thus, the "wage round" of January 1954 included a permissive extra increase in wages for skilled workers of 2 cents an hour in order to meet a demonstrated need to give labour a somewhat stronger incentive to improve skill.

Inasmuch as the argument is intended as a plea for day-to-day fluctuations of wage rates and therefore against any system of wage determination under which rates are stabilised over a reasonably long period it exaggerates, according to all available evidence, the short-term sensitivity of the ordinary worker towards relatively small differences in income.

There is another consideration to be borne in mind in this connection. As far as the allocation of the labour force is concerned, the system applied in the Netherlands seems to rely primarily on the pattern of job availabilities rather than on a changing pattern

<sup>1</sup> The committee of experts that developed the standard method modestly recommended that, in the interests of wider application, the system should now remain unchanged for a few years (*Norm V 3000*, op. cit., p. 7). It may be recalled that, since official wage control is in terms of job classes rather than of individual occupations, there is discretion to vary wage rates for particular jobs.

of wage differentials. If through appropriate fiscal policies a rough equilibrium were established between the total number of jobs and the size of the labour force, the pattern of job availabilities would presumably suffice for the purpose of allocating the labour force.<sup>1</sup> If the number of jobs available significantly exceeded the number of workers who could fill them, in other words, if there were a significant over-all excess demand for labour, employers would of course be seeking to attract workers from one occupation to another. In such a case the economy would be subject to inflationary pressures which, if anything, would be reinforced by any increase in wage differentials designed to attract labour from one sector in the inflationary market to another.

On the other hand, if there is no excess demand for labour, the wage differentials will tend to have the effect of permitting certain industries to employ labour at less than its real (opportunity) costs, the original sin against optimum allocation of resources. In other words, while on the one hand "attracting" labour to more productive occupations, the differentials tend on the other hand to make it easier for employers to retain labour in the less productive ones. It is, indeed, surprising how some economists, when discussing the allocative function of wage differentials, tend to consider the effects on the pattern of supply of labour only, neglecting the effects on the pattern of demand for labour.<sup>2</sup>

### *The Element of Government Control*

While the brief description above of the Netherlands system indicates that the element of government intervention should not be exaggerated, official control of wages has been an integral part of the policy and has been responsible for a good deal of domestic and foreign suspicion of the system. The case against systematic government intervention in wage determination is often presented in dogmatic terms: this is no longer collective bargaining!<sup>3</sup> "Whenever this matter has been brought up, the trade union movement has maintained the fundamental principle of trade

<sup>1</sup> Provided, of course, that adequate employment information and vocational guidance services exist.

<sup>2</sup> Another popular attack on job evaluation as a basis for setting the wage pattern is the charge that job evaluation is arbitrary and that there are as many evaluations as evaluators. This is a gross exaggeration, as is revealed by a comparison of different jobs evaluated by various methods. Léopold Dor ("Salaires, Aptitudes et Rendement", in *Bulletin de Recherches Economiques et Sociales*, Catholic University, Louvain, Feb. 1952), compared the evaluation of 17 jobs according to 12 different methods (including NEMA, Bedaux, Dunlop, Renault and the Netherlands standard method) and arrived at a surprising consistency between the results.

<sup>3</sup> Cf. Eugene FORSEY, op. cit., p. 352.

union freedom from state intervention.”<sup>1</sup> “Clearly”, a national wage policy cannot mean government wage fixing, and “it would be a sad day for British democracy if [the trade unions] were to become mere servants of the State”.<sup>2</sup> Power in the hands of any officers or officials to decide arbitrarily that wages should be raised or kept down “would be in basic conflict with our ideas of a free society”.<sup>3</sup> Similar arguments have been advanced in the Netherlands as “ideological grounds” (though less by trade unionists than by other groups) in terms of philosophical concepts such as self-determination and full development of the human personality.<sup>4</sup>

The question whether some of these and similar arguments have any intrinsic value (beyond their possible function of disguising personal or group interests) will not be considered here. Two brief general observations may be in order, however. First, such concepts as “the State” or “the government” are far more complicated and differentiated than popular discussions of the role of public power often recognise. To discuss the general question whether “the State” should or should not intervene in such matters as wage determination is a sterile undertaking. Any justified judgment on this question should be related specifically to the particular nature of such intervention as well as to the precise procedures envisaged and the bodies involved and the groups represented in the process of decision making. Secondly, and in connection with the previous point, the historical record seems to suggest that there are no logical or otherwise inherent limits, in a democratic society, to the *extent* of government or state activity in the social and economic field, though democracy does impose limits on the *methods* applied in the performance of functions that the people have entrusted to their elected authority.

More practical objections against government intervention are partly directed at the element of centralisation involved (“a state wage-fixing machinery cannot operate as smoothly and efficiently as collective bargaining”)<sup>5</sup>, partly at the assumed weakening of the basis for the existence of the unions: the trade unions, it is feared, would change from independent, militant organisations into “technical negotiation bodies without any right of decision or responsibility for the wages policy. The introduction of such a system would cause members’ interest in their organisations to

<sup>1</sup> *Trade Unions and Full Employment*, op. cit., p. 88.

<sup>2</sup> Allan FLANDERS, op. cit., p. 235.

<sup>3</sup> Abba P. LERNER, op. cit., p. 216.

<sup>4</sup> Sociaal-Economische Raad, op. cit., p. 11.

<sup>5</sup> *Trade Unions and Full Employment*, op. cit., p. 88.

flag. The knowledge that the organisation was no longer in a position to make the final decision would necessarily weaken the esprit de corps and feeling of moral solidarity which have been, and still are, the cohesive strength of the trade union movement.”<sup>1</sup>

The following arguments against government intervention have been advanced recently in the Netherlands, though not so much by the unions: the emergency of the immediate post-war years having been overcome, “it is difficult for the labour movement and for the workers themselves to accept and agree to the continued application to the working population alone of restrictive measures in respect of income”.<sup>2</sup> Continuation of the present system “does injustice to all those workers who are deprived thereby of their reasonable share in the increase in welfare”.<sup>3</sup> These arguments, most definitely not shared by the largest federation of trade unions, are essentially the same as Singer’s suggestion that central wage policies leave the profits of non-marginal firms an untapped source of wage increases.

As mentioned above, the Netherlands Federation of Trade Unions justifies its acceptance of government wage control on the ground that, since the Government is responsible for the maintenance of full employment, it should be given control of one of the major factors influencing employment: the level and structure of wages. This “reasonable” trade union view contains a good deal of logic. In addition, we have seen that this view relieves the unions of the somewhat embarrassing responsibility of having to recommend, as the Swedish Confederation did, a particular type of full employment policy. It may further be clear from the summary description of the Netherlands system in a previous section that under this system organised labour is in the position of a full partner in serious bargaining rather than that of a technical body without any right of decision or without any responsibility in matters of wage policy. Of course, it has no right or power of unilateral decision; but no trade union has ever had such power.

It would further seem that as a negotiating partner the Netherlands labour movement enjoys a rather formidable bargaining strength. Precisely because the system of wage policy is centralised, most issues on which the federations have to take a stand are

<sup>1</sup> *Trade Unions and Full Employment*, op. cit., p. 88.

<sup>2</sup> Professor W. F. de GAAY FORTMAN, addressing the Netherlands Federation of Protestant Employers (*In Gods Dienst om de Welvaart van ons Volk*, The Hague, May 1954), p. 37.

<sup>3</sup> Professor C. P. M. ROMME, leader of the Catholic People’s Party in the Second Chamber of Parliament, when moving that the Government consider new arrangements for wage policy, involving a lesser degree of government intervention (*Handelingen Tweede Kamer*, 20 Oct. 1953, p. 135). This was one of the most critical phases in the history of the Netherlands post-war wage policy.

questions affecting equally a very large proportion, if not all, of their membership. The labour movement is, of course, not less an exponent of group interests in the Netherlands than it is in any other country. By participating in a tripartite mechanism of such crucial importance as the country's national wage-fixing machinery it has an excellent forum for bringing its views to the attention of the general public. It further has, if it comes to the worst, the power to back its views by walking out of the organisation responsible for vital matters affecting the well-being of the whole nation. And under the present system the leaders would be more likely to have the support of the entire labour force of the country than under almost any other system of wage determination.

No individual employer or group of employers nor even a minority of unruly trade union leaders could easily upset this cohesion within the trade union movement. For, to put the matter with no more than slight exaggeration, it is the Government that prescribes that wages in all industries shall be increased by no more and no less than specific amounts, and not a small group representing the federation trying to keep harmony among a turbulent mass of unions with divergent interests.

It is, indeed, tempting to speculate further on the potentialities of this situation, for example, in terms of power and countervailing power, but the preceding remarks may suffice to indicate that government intervention in the determination of wages does not necessarily reduce the trade union movement to a secondary role—on the contrary.

The problem of keeping alive the interest of the rank and file in their organisations probably extends beyond the question of whether the government should or should not fix wages. A unified wage policy involving a shift of responsibility only from the individual unions towards their federations might also weaken the workers' allegiance to their unions. Furthermore, such a shift of responsibility, if interpreted as affecting unfavourably the social standing of the individual trade union leaders, might provoke strong resistance among these individuals.<sup>1</sup>

It is likely that the latter problem in particular was rendered somewhat less difficult in the Netherlands than it might have been by the special conditions under which the system was introduced in 1945. The individual unions did not have a choice between continuation of a system which from their own limited point of view might seem more attractive and the replacement of such a system by a more centralised one. They were more or less forced to accept an emergency solution following a five-year period in

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<sup>1</sup> Cf. H. W. SINGER, *op. cit.*, pp. 451 ff.

which no normal union activities had existed at all. But another important factor that has made the individual unions agree, if at times somewhat grudgingly, to the post-war system has been the broad educational campaign conducted by the leaders of the federations, a campaign largely consisting of speeches to and discussions with the members, night after night, involving tremendous personal efforts by the leaders of the federations and directed both at trade union officials and, as it were over their heads, at the rank and file. As a matter of record, although some important pre-war union functions have lost much of their significance (for example, as a result of the introduction of a national system of unemployment insurance) the membership of the Netherlands unions is considerably larger than before the war.<sup>1</sup>

Furthermore, the task of the individual unions has by no means disappeared. Such questions as the introduction of job evaluation in particular industries and firms, the improvement of human and industrial relations, co-determination, the establishment and operation of incentive wage systems and, more generally, measures under the post-war drive for higher productivity provide ample scope for union activity. Inasmuch as these matters are increasingly concerned with problems at the level of the individual plant, they tend to strengthen the relations between the individual worker and his union.

As regards the views on government wage fixing quoted above, these are part of the more general criticisms that have been voiced in the country, which are the subject of the following section.

#### OPINIONS IN THE NETHERLANDS

There is fairly general agreement in the Netherlands itself that the system has been most effective in helping the country to overcome the economic difficulties in which it found itself after the Liberation.<sup>2</sup> The control of wages made it possible to keep spending and prices low enough to permit a rather astonishing speed of reconstruction. In addition, the system is credited with a substantial improvement in mutual understanding between labour and management, reflected in an unrivalled low record of industrial unrest. Perhaps the most impressive achieve-

<sup>1</sup> The following figures of the Central Bureau of Statistics give the combined membership of the Catholic Labour Movement, the Netherlands Federation of Trade Unions and the Protestant Federation of Trade Unions on 1 Jan. of each year.

1940 . . .	624,136	1948 . . .	713,959	1951 . . .	883,484
1946 . . .	519,460	1949 . . .	781,764	1952 . . .	917,004
1947 . . .	644,277	1950 . . .	833,591	1953 . . .	952,690

<sup>2</sup> For further particulars, cf. J. G. BAVINCK, *op. cit.*, pp. 159 ff.



ment in this respect has been the agreement of March 1951 providing for a balanced reduction in real wages, other incomes and investment, but the intensive joint consultation in the Foundation and at lower levels has also contributed significantly to mutual agreement with respect to the implementation of programmes for increasing productivity.

The problems of the immediate post-war years have been largely solved. The need for continuing the present system has, however, been questioned more recently, and suggestions for revision have been made. As indicated in previous sections criticisms of the present arrangements have emanated from the employers' organisations and, to some extent, from the Christian labour organisations. The "neutral" Netherlands Federation of Trade Unions has, on the whole, been satisfied with the existing machinery.

The main objections have been directed at the degree of government control and particularly at the centralisation of wage-fixing decisions involved in the system.

The following have been the most important reasons advanced in support of proposals for a revision of the system<sup>1</sup>:

(1) individual industries and firms should be given proper responsibility in determining their wages, "proper" meaning here "more than they have at present"; this is one of the "ideological" grounds referred to earlier;

(2) the present system hampers the mobility of labour as between firms, industries, regions and occupations;

(3) it is desirable, from the point of view of social justice as well as on grounds of economic expediency, that workers in more profitable firms and industries should receive a higher remuneration than those employed in less profitable sectors;

(4) the downward pressure on wages under the present system constitutes an obstacle to international economic co-operation, particularly within the framework of Benelux.

At the same time most critics agree that it would be undesirable to return to the pre-war system of unco-ordinated collective bargaining and that due regard should be given, in the process of wage determination, to the general economic situation of the country and to the need to protect the interests of the lowest-paid workers. In other words, the criticisms are against the present system rather than against the idea of a national wage policy as such.

The vague and controversial "ideological" aspects of the matter will not be discussed here.

With regard to the problem of mobility, the present system

<sup>1</sup> Cf. Sociaal-Economische Raad, op. cit., Ch. III.

involves a solution to the problem of "vertical" mobility (to use the distinction introduced in a previous section) inasmuch as the "wage line"—that is, the formula according to which job evaluation points are converted into wage rates—can be adjusted to the needs of the situation. If there is a general need to increase wage differentials, for example, according to skill, the system does not at all stand in the way of such adjustments. The question of wage differentials as an incentive to "horizontal" mobility has been discussed in a previous section.

Comment on the claim that the present system is an obstacle to international economic co-operation can be brief: it is nonsense. The tripartite Social and Economic Council agrees<sup>1</sup> that the level of wages in the Netherlands has been adjusted continually with a view to achieving and maintaining equilibrium in the balance of payments. If there is one "iron law" in economics, it is the necessity of having equilibrium in the balance of payments. Had there been completely free wage bargaining, although money wages in Netherlands currency would probably have been higher than they actually have been, the country would have had to adjust its rate of exchange to a correspondingly lower level, and wages expressed in foreign currency (those that matter in terms of international competition) would not have differed materially from their past and present actual level.<sup>2</sup>

Finally, as regards the argument that "horizontal" wage differentials constitute an element of social justice, it may be recalled that considerations of equity and social justice have led the Swedish Confederation as well as the Netherlands Federation of Trade Unions to take exactly the opposite view and to object to wage differentials beyond those justified by differences in skill, job hazards and similar factors.

This apparent paradox does not, however, seem to be the result of different interpretations of what is "socially just" so much as of different views on what constitutes a proper level of wages. Those who advocate wage differentials on the ground that the workers would share in the income of the more profitable firms and industries probably have in mind Singer's suggestion that the wage level should be such as to enable marginal firms

<sup>1</sup> *Op. cit.*, pp. 18 ff.

<sup>2</sup> The present author would go further and claim that if there is one wage system conducive to international economic co-operation, it is the Netherlands one. Problems of "unfair competition" arise when in a particular country labour in an export industry is worse paid than that employed in other industries. This, as may be readily seen from the system as described above, is not possible (or hardly so) in the Netherlands, while it is possible in any system where inter-industry wage differentials are allowed to arise on grounds of capacity to pay, etc.

to continue production in order to maintain full employment. The Netherlands Federation of Trade Unions, on the other hand, seems to think of a wage level that would squeeze the marginal firms out of business and would then presumably leave it to measures outside the field of wage policy to keep employment at a high level. While, as mentioned earlier, the Federation is convinced that the level of wages is an important factor in determining the level of employment, this does not mean that it envisages a policy under which wages would be kept low enough to maintain employment in marginal firms. From this point of view wage differentials based on differences in profits are not a means of enabling groups of workers to benefit by wages above the national average but first of all a means of enabling groups of employers to pay wages below the national average. This, it would seem, is one of the most important causes of the differences of opinion that have become apparent in the discussions concerning a "policy of margins", to which reference is made below. As to the criterion of social justice, the difference appears to be partly related to different interpretations of the principle of equal pay for equal work. The Swedish and Netherlands unions take "equal work" to mean roughly work involving equal effort. The other party<sup>1</sup> interprets it as "work of equal value" with reference to such concepts as "national marginal productivity" (as distinct from "marginal productivity of labour in a particular industry or firm") and the "economic utility" of labour effort (as distinct from what is called its "technical aspects"). Practically, under this second interpretation "work of equal value" would seem to come more closely to "work involving similar requirements of skill and responsibility, performed in firms working at roughly equal rates of profit".

#### *"A Policy of Margins"*

"The smallest possible majority"<sup>2</sup> of the Netherlands Social and Economic Council recommended in 1953 "a policy of margins", meaning thereby a system under which central directives would be

<sup>1</sup> The above is based on the report of the Social and Economic Council, quoted earlier. Such reports, which are somewhat cryptic in their language in some other respects as well, do not identify the parties whose views they reflect. The divisions of opinion on the subject of wage policy are generally between the Netherlands Federation of Trade Unions on the one hand, and the employers' organisations on the other; the Christian federations of trade unions (and, to a lesser extent, of employers as well) take, in some issues, an intermediate standpoint. In addition, the members of the Council appointed by the Government take an independent view, which does not necessarily coincide with the opinions of any of the other groups.

<sup>2</sup> Cf. previous footnote.

issued, for example annually, for the determination of the wage level. On the basis of a general analysis of the economy (including a study of the national income, investment and consumption, employment, the state of the balance of payments and the international terms of trade) some agency would set a standard, such as that wages might be raised by "some 5" or from "4 to 7" per cent.<sup>1</sup>, but parties at the level of the industry or firm would be free to fix wages within specified margins below or above this level. In other words the system would revert to sectional wage bargaining, on the basis of some statement concerning "the undisputed facts in the economic and industrial situation indicating broadly what is possible and what is impossible with regard to wage changes".<sup>2</sup>

In a sense, this principle has already been applied in the Netherlands, on the occasion of permissive wage rounds. In these cases wage increases up to a specified percentage were "permitted" but it was left to the bodies negotiating at the level of the industry or firm to decide whether or not full or partial use was to be made of this permission. (In practice, most wages rose to the full extent permitted.) However, an important difference between permissive wage rounds and the principle of "margins" would be that, whereas under the former full use of the permission given was not considered dangerous and, in fact, was considered desirable, the upper margin under the new proposal would be set at a level higher than that which the economy as a whole could support: wage increases to the full extent of the upper margin should occur in some industries only. Those who advocate this idea "do not fear" but those opposing it "fear" that the upper margin would be fully reached throughout the economy.<sup>3</sup>

Some of the views on the probable results of a policy of margins are worth mentioning.<sup>4</sup> Those in favour of it trust that the level and pattern of wages would be in harmony with the national economic situation. They argue that the persons and groups concerned with wage bargaining in the individual industries and firms "know better than any central agency" the wage paying capacity of these units. They further trust that the workers' organisations, "aware of the relationship between the level of wages and employment", will show sufficient responsibility and restraint when

<sup>1</sup> Sociaal-Economische Raad, op. cit., p. 16.

<sup>2</sup> "Policy for Wages", in *The Times*, 6 Nov. 1945, quoted in H. W. SINGER, op. cit., p. 449.

<sup>3</sup> Sociaal-Economische Raad, op. cit., pp. 21 ff. H. W. SINGER (op. cit., p. 449) seems to be on the side of the fearful: "Since the total volume of wage increases will be informally 'rationed' . . . each section will try to get in first. The effect would be the opposite from the one intended, i.e. to speed up wage demands." Cf. also J. W. DE POUSS, op. cit., p. 281.

<sup>4</sup> Sociaal-Economische Raad, loc. cit.

bargaining for wage increases, so that there will be no danger of a full exhaustion of the upper margin. The policy of margins is further expected to facilitate the maintenance of full employment. Whereas the present system is qualified as "inherently deflationary", under the new system wage increases will take place wherever they are possible and only there. Thus, where a wage increase would have caused unemployment it does not occur, but still the workers' total income will rise and, since the workers go on spending their income even when the employers' propensity to invest is small, the total flow of income and thereby full employment will be maintained.

The opponents of the idea argue that all individual trade unions will be under strong pressure to ask for wage increases to the full extent of the upper margins. "Competitive sectional bargaining" is a reality, particularly if the workers have been indoctrinated with regard to the principle of equity implied in job evaluation. But even if some unions are "reasonable", the mala fide trade unions will not be so and will thereby put the others in an awkward position. Thus, in practice, the system will probably lead to a full wage round, higher than the country can really afford, and will thereby constitute a danger to full employment. But if, somehow, the margins were exhausted in some cases and not in others, it would be difficult to convince the worker that the general interest demanded that some unions should and others should not be allowed to benefit fully from the margins, the more so because the chances are that the distribution of the wage increases, granted on the basis of the general interest, will in practice depend on incidental factors, such as the relative capacity of various industries, particularly the "sheltered" industries, to shift the burden of higher wages to the consumer through price increases. In other words, whereas those in favour of the system assume that the higher wage increases in some industries will be financed from profits, in practice they are likely to be borne to a substantial extent by other industries or by consumers.

It is not necessary here to discuss these opposing views in any detail. Fundamentally, the proposal for a policy of margins represents an attack on the centralisation which the present system involves. Since the attack comes, first of all, from the employers, this centralisation appears to be interpreted as having been more favourable to the unions than to the employers. The reliance on "responsibility" and "restraint" on the part of the unions exposes the proposed policy to the rather serious criticisms that have been provoked by Beveridge's appeal to reason and responsibility. The Netherlands Federation of Trade Unions has succeeded in persuading its affiliated unions to agree to government wage

control on the basis of a specific philosophy of full employment and wage policy ; under this system the unions have shown evidence of a certain responsibility, presumably because they had been persuaded that to do so would be in their own interests. The "policy of margins " is based on an entirely different theory of employment, wages and the unions' interests ; it is doubtful whether the unions would react to it in the way presumed by the advocates of this policy.

#### CONCLUDING REMARKS

The Netherlands experience suggests that, at least in certain circumstances, it is possible to establish and operate an effective system of national wage policy. But the success of the undertaking has been due largely to the special circumstances in which the system was introduced. The Government's participation may also have been a factor facilitating the smooth operation of the system. Apart from its power to impose and enforce decisions, the Government has brought in a mediatory function as well as the possibility of supplementing measures of wage policy, where necessary, with action in the fields of taxation, subsidies, rent and monetary policy. In this way wage policy becomes a logical and understandable part of economic and social policy as a whole. This may facilitate agreement on issues of wage policy, for example by enabling an increase in wages to be supplemented by a reduction in taxation, by which the size of the wage increase, which must be granted, is reduced.

It seems probable that this policy would work even without the present formal government control. The parties have had ten years' experience with centralised bargaining, and a number of general principles have been more or less firmly established and have proved workable. In other words, it would seem possible to find a new formula for continuing the present system on a tripartite basis but without government control ; the system would become formally, as it is already in practice, what Reder has called a situation of "paucilateral monopoly"<sup>1</sup>, with the government as one of the bargainers but without its present *de jure* powers in the field of wage control.

Proposals more or less to this effect have been put forward recently by the Foundation of Labour in a report concerning its views on a number of controversial questions of wage policy.<sup>2</sup> While agreeing that some of the main principles of the present

<sup>1</sup> M. W. REDER : " The Theoretical Problems of a National Wage-Price Policy ", in *Canadian Journal of Economic and Political Science*, Feb. 1948, p. 57.

<sup>2</sup> Stichting van den Arbeid : *De Toekomstige Loonpolitiek* (The Hague, Oct. 1954).

system should be maintained, the Foundation proposed some changes in the wage-fixing machinery. In particular, the functions at present performed by the Board of Conciliators and by the wage committee of the Foundation should, it suggests, be amalgamated and transferred to a tripartite national wages council, conceived of as a permanent commission of the Social and Economic Council. General decisions in the field of wage policy, for example those regarding the general wage level, would be taken by the Council, though the Government would have the right to rescind such decisions. The Council would base its decisions on a periodical, probably annual, review and analysis of the general economic situation in consultation with the Foundation of Labour.

It is perhaps correct to say that the unions, particularly those affiliated with the Netherlands Federation of Trade Unions, have found it easier to adjust themselves to the present centralised system than the employers have. Singer's scepticism on this score has not been confirmed in the Netherlands, presumably as a result of the special conceptions of employment and wage policy implied in the system as operated at present. In particular, the principle of equal pay for equal work, in conjunction with the notion that marginal firms should be squeezed out of business rather than be allowed to pay sub-standard wages, and the establishment of "equitable" wage differentials on the basis of job evaluation appear to have been essential elements in the workers' appreciation of the system.<sup>1</sup>

A "policy of margins" would involve rather different conceptions and, in some respects, would come closer to the type of national wage policy envisaged by Singer and other critics. The individual unions would, in effect, be asked to refrain from competitive bargaining and to assume "responsibility" for the well-being of particular firms and industries to a larger degree than at present. It is somewhat peculiar that persons other than their own leaders should have to persuade them that such changes would be to their advantage.

The report of the Foundation, while not mentioning the policy of margins by name, also refers to this question, though in a somewhat enigmatic fashion. It mentions as one of the two main objections to the present system the fact that there are no "adequate possibilities for differentiating wages as between industries [and firms]".<sup>2</sup> The report further reveals a clear division of opinion

<sup>1</sup> De Pous (op. cit., pp. 268 and 277) suggests a different explanation. In his view, Singer exaggerates the unions' objective of income-maximisation for their members. In fact the unions, and especially the Christian unions, are in De Pous's opinion led to a large extent by feelings of "responsibility".

<sup>2</sup> Op. cit., p. 3. The second main objection is to the place of the Government, referred to above.

in respect of wage differentials between firms within the same industry. In respect of inter-industry differentials, however, it suggests agreement that such deviations from the general directives as were permitted in the past (called "inadequate" elsewhere in the report) should continue to be permitted and that "these deviations should be recognised as an element of wage policy".<sup>1</sup> There seems to be some inconsistency between these statements, which may conceal either a rather serious misunderstanding or an essentially unsettled conflict.

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<sup>1</sup> *Op. cit.*, p. 7.