In Conversation and Critical Solidarity:
Bob Goudzwaard's Occasional Writings for the *ESB*

A Collection of Contributions to:

Economische-Statistische Berichten 1963-1968, 1980, 1999.

With an Introductory essay by *Bruce Wearne* *(BA, MSocSc., PhD)*,

Ballarat August 2026

Most of the articles of this collection are translations. Readers are advised that while every effort has been made to give a true sense of the original, they are not translations that have been "authorised" by Bob Goudzwaard, and are being made available for the purpose of adding to the available economic writings of Bob Goudzwaard. E J Mishan () or F Muller. When making use of this material due regard should be given to this so that subsequent commentary or discussion should remain open in the spirit of academic inquiry that characterises the editorial policy of Economische-Statistische Berichten. *In this collection, the Introductory Essay by the editor and translator can be quoted so long as proper credit is given. When quoting from the Introductory Essay the AoLR location of this composition should also be given and therefore keep discussion and critical observations open. Use of material in any form should be with accurate reference to its original publication with journal details, author and this commentator ascribed due respect.*

BOB GOUDZWAARD's Contributions to:

Economische-Statistische Berichten 1963-1968, 1980, 1999.

[1] E.J.Mishan (1917-2014) Reader in Economics, London School of Economics.
F. Muller, at the time of publication was apparently a Researcher at the Erasmus School of Economics.(1973). From late 1960s to 1980s published work developing mathematical programming models for economic activities in relation to the environment. See *Socio-Economic Planning Sciences*, 7(2), 123-138. Limited information available.

In Conversation and Critical Solidarity: Bob Goudzwaard's Occasional Writings for the *ESB*

Why should the translation of these 7 articles of Bob Goudzwaard be collected together and made available? These are articles he wrote for the *Economische-Statistische Berichten*, a notable Dutch academic journal. The first article appeared in 1963. Four are from 1967-1968. One is from 1980 and there is also another from 1999. They provide us with his published contribution to professional discussion among Dutch economists. They provide something of the intellectual context from out of which he developed his wider analysis of western culture and public policy. These articles provide examples of how his analysis was received within the academic discipline in which he had been trained. And so, these articles may be helpful to those who read his other works, particularly works that have also been translated into English.

Economische-Statistische Berichten, has been a notable Dutch journal in economics since it was launched in 1916. From that fact, Bob's 7 articles are noteworthy for those who consider his work. As noted already, the first five are from the 1960s; there are two others from later on in his career. The one from 1980 is on the trend in scientific forecasting to develop "models"[2]; the one from 1999 was part of a published symposium considering "poverty" in all of its dimensions.

The 7 published pieces have been collected together here in one collection. English-speaking scholars, researchers and economists, will have further indication of how Bob viewed his work in relation to the discussions of fellow economists. Can fresh insight may be gleaned from what these essays tell us about the context of economic discourse as Bob went about his work? He may not have published work in order to exclusively address fellow economists, but how does his work relate to the work of others in the profession in which he was trained? The 7 articles can help us draw attention to the way in which economic scholarship *per se* is embedded in social, political and cultural life. Bob Goudzwaard was not alone is seeking to respect the inter-disciplinary character of economic scholarship.

As I've indicated, five of these ***ESB*** articles were written in the 1960s. From 1959 until 1967, Bob was at work as a social policy researcher for the *Dr Abraham Kuyper Stichting (AKS)* the research institute of the *Anti-Revolutionaire Partij*. From 1965 until 1967, Bob's specific task was to assist the *ARP*'s parliamentary caucus, offering professional advice to elected members as they made their contributions to parliamentary debate and legislation. After the 1967 election, Bob would take his seat in the Dutch Parliament. He would do so until 1971. During this time he was also busy writing his doctoral dissertation ***Ongeprijsde Schaarste*** (Unpriced Scarcity) and in 1970 he was granted the doctoral degree from the *Economisch Hogeschool te Rotterdam* - sometimes referred to as the Rotterdam School of Economics. One member of the ***ESB*** editorial board was his doctoral promoter, Professor H W Lammers also of the *Economisch Hogeschool*. These early ***ESB*** articles reveal an important "intersection" in

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2 see also "Future Models and the OECD Report 'Facing the Future'" (1979)" the appendix to the 1982 edition to **Kapitalisme en Vooruitgang** pp. 301-314.

Bob's scholarly vocation. Of course there were other dimensions of his life that these articles do not touch upon directly - marriage, family, church, local community - and we do not expect that they should. But here in a leading Dutch journal of the economic discipline, we read an economist's analysis of a political party's economic policy written by an economic graduate employed at that party's research institute. In that edition of the ***ESB*** analyses of economic policy are presented from representatives of all major political parties.[3]

Let us then list the distinct roles that are evident from these articles - the first two indicate that the ***ESB*** editors were keen to publish an economist's analysis of *ARP* policy. Goudzwaard, the student of economics and *Anti-Revolutionaire Partij* member and public-policy researcher, is called upon to explain the party's economic rationale to fellow economists. What is noteworthy is that this "intersection" does do not prevent the editor from publishing these contributions. So it would seem that a political party's economic policy is also to be considered as valid data for analysis by economists. Why shouldn't a student of economics, who is also an *ARP* member, and a economic policy *'medewerker'* for that party, contribute an article to a professional journal that explains the party's economic policy?

Articles 3&4 tell us that Goudzwaard's involvement in economics occurred when a challenge was made to the prevailing economics paradigm by E.J Mishan's **The Costs of Economic Growth** (1967). These are the reflections of a *doctoral candidate*. He was also a Parliamentarian when these were published. As such, he was also contributing to the ongoing economic "discourse" among fellow students of economics, about the unsustainability of GNP-growth-centric views of a government's policies.

I have been reading Bob's work since 1972 when **A Christian Political Option** appeared. That was a translation of **Grote Taak for Kleine Mensen**, published by the *ARP* in 1969. So items 1 to 5 in this collection are also of interest for English readers of Goudzwaard because they give a glimpse of the economic discourse that was part of the context in which one of Bob's books was written. We can read books, and benefit from them, as I did in 1973, without knowing much about this "local" context in which they were composed. In fact, all 7 ***ESB*** contributions help us "contextualise" the work of Bob Goudzwaard. The 1980 and 1999 articles depict the contribution he continued to make at home in The Netherlands as he became known as a Christian "public intellectual" abroad, particularly the English-speaking world.[4]

Consider, his 1968 contribution. The article contains Goudzwaard's reflections upon the recently conducted parliamentary budget debate. It is a commentary on the

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3 Anti-Revolutionaire Partij, Christelijke Historische Unie, Katholieke Volkspartij, Pacifistische Socialistische Partij, Partij van de Arbeid, Volkspartij voor Vrijheid en Democratie. The articles are ordered alphabetically in the *ESB* edition.

4 see e.g. **Aid for the Overdeveloped West** 1973; essay with Johan van Baars "Norms for the International Economic Order" from **Justice in the International Economic Order** - proceedings of the Second International Conference of Reformed Institutions for Christian Higher Education, Calvin College, 13-19 August 1978 pp.223-253; the translated work **Idols of our Time Idols of Our Time** Mark Vander Vennen (Trans), Foreword Howard A. Snyder IVP 1984; and the work he wrote with his PvdA Christian-ecumenist friend Harry de Lange, **Beyond Poverty and Affluence: Toward an Economy of Care with a Twelve-Step Program for Economic Recovery,** Foreword Maurice F Strong Eerdmans/WCC 1994. It too was with the assistance of Mark Vander Vennen, and was published in a Canadian edition **Beyond Poverty and Affluence: Toward a Canadian Economy of Care** University of Toronto Press 1995.

views of members aligned with the various parties in the Parliament. As already noted, it was submitted and published while Bob was occupying his seat in the Parliament.

As I read through and edited the translation of *"Review of Financial Considerations"*, I was presented with a commentary by a member of the Lower House of the Dutch Parliament. It provides his interpretation of a budget debate for readers of this long-established and prestigious Dutch *economics* journal. As the *AKS* researcher, with previous journal contributions (Nos. 1-4), he had put the *ARP* interpretation of its economic policy out for *professional consideration of his fellow economists*. Here he was inviting analysis and open, public discussion of *ARP* policy from fellow economists. And he was doing so as a sitting member of Parliament. This suggests his view that it was in his party's interests for the party's political opponents to have this outlook detailed so they could debate *ARP* policies. There also involved a scholar's concern to invite critique of his own analysis. So, was the *ARP Parliamentarians* pleased that their economics policies were exposed for critical consideration of political opponents?

Let me give another example of what I might call a significant "*BG intersection"* conveyed by these ***ESB*** articles. From the first paragraph of the first 1963 item of this collection, we read that the writer intends to provide a careful analysis of his party's economic policy. Having done that, he will also provide comment on the manifesto published by the research institute of the *PvdA* (Labour Party). ***On the quality of life*****,** was the attempt of the future Prime Minister, Joop den Uyl, to reconfigure a visionary socialism for The Netherlands. This was at a time when, with a well-run welfare-state, a growth in affluence could be anticipated for all classes.

The article embodies Goudzwaard's due regard for his own university training in economics while also disseminating the fruits of his assigned work as the social-policy analyst for the *AKS*. Further, his effort to interpret this manifesto, by contrasting its modified socialist outlook with the *ARP*'s economic policy, conveys his recognition, *as a scholar,* of the importance of giving due respect to the outlooks of political opponents. This cannot be avoided if one is to probe deeply and identify one's own motivating principle in relation to the issues that are subject to competing motivating principles. We might say this a *sine qua non* of a Christian's political responsibility.

To respect and probe an opponent's outlook (in whatever sphere, also in science and politics) means we develop an expection that our own position will be similarly probed by our opponents to uncover our deepest motivation. The aim is to disclose what is directing both analysis and the resultant policy. Theoretical issues cannot be avoided, but they are not to be reduced to mere debate about which abstract concept better fits the facts.

Economic policy analysis also has to reckon with *given* stewardship responsibilities. Justice is called for in such dealings. And with this article we gain a glimpse of Goudzwaard's understanding that a Christian political option needs to properly and *justly* assess the *other* options on offer. They are not to be lightly dismissed by reducing their approach to their mistaken beliefs and outlook.[5] Christian politics calls for due care and respect for all legislative suggestions and creative policies. For a party to indulge a "zero-sum" outlook is to ignores the assistance political opponents might provide for public policy refinement.

So Bob's contributions to ***ESB not only*** give us evidence of his ongoing work in the Parliament, but more specifically how, as a Parliamentarian, he was still at work developing his intellectual outlook for the discipline of economics. As well as showing his analyses and interpretations of *ARP* policies and legislative intent - from his understanding as an economist - they also show his participation in the ongoing disciplinary discussions within economics and the challenge offered to the ruling liberal economic paradigm represented by the dissenting economics of E J Mishan.

Goudzwaard's essays for ***E-SB*** provide examples of how his economic outlook configured inter-disciplinary discussion. His significant contribution to the debate about Mishan's **The Costs of Economic Growth** (1967) does not confirm, either one way or the other, whether he was successful in his analysis of the so-called "external effects in the sphere of consumption". That, still now, requires further exploration. His contribution contains the kinds of argument that were alive in the discipline of economics as he wrote ***Ongeprijsed Schaarste,*** to be submitted for examination in 1970. Mishan's ***ESB*** article, and two from F. Muller, in disagreement with Bob's reading of Mishan, are included as an appendix. (pp. 49-57) They help us perceive the academic context of competing views in which Bob worked.

A passage in Goudzwaard's *magnum opus* has been identified as a key to understanding the basic normative idea of his work. It concerns his recognition of the implicit character of living *coram Deo. Goudzwaard* made this statement, referring to our subjection to God-given *norms*, from an insight of T. P. van der Kooy, his predecessor in economics at the *Vrije Universiteit*:

> *... economic life can unfold its own meaning and significance only when a simultaneous realization of norms takes place.*[6]

Bob Goudzwaard's work developed in a way that presupposed due respect for the various responsibilities we hold in this life, in our economic stewardship. From these 7 ***ESB*** articles, we can detect something of the *simultaneity of distinct contributions* he was making as he worked as a social-policy researcher and advisor, as a writer of journal articles, as a student of economics, as a member of Parliament and as a professional university-trained economist responsible for the health of his scientific discipline. He wrote and submitting these articles for publication because they expressed part of his Christian vocation.

Many thanks to Joost Hengstmengel for his help in tracking down the 7 ***ESB*** articles and to various helpers for perceptive editing.

BCW Tuesday, 4 August 2026

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5 BCW Note: In the 1961 edition of *AntiRevolutionaire Staatkunde* (the journal published by the *AKS*), Goudzwaard had published his analysis of the change within Dutch socialism. We might even form the hypothesis that "Socialistische idealisme en opportunisme" (*ARS* 31:115-125) anticipated the need for the PvdA to formulate a manifesto that accommodated the post- war affluence that had arrived with the welfare state.

6 Bob Goudzwaard **Capitalism and Progress: a diagnosis of Western Society** Wedge and Eerdmans 1979 p.65

1. From the Perspective of the *Anti-Revolutionary Party*: purity and impurity in the standards for the economic policy.[7]

In this contribution I would first like to make some remarks about what is typical in the Anti-Revolutionary Party (*ARP*) view of economic policy. Then - very briefly - I will dwell on a few concrete policy points. Finally, it will be necessary, in the interests of political clarity, to make a few comments about ***"On the quality of life"***, the report of the Dr. Wiardi Beckman Foundation.

The Anti-Revolutionary angle.

When any Government measure is implemented, it is almost always preceded, in one way or another, by the weighing of interests. In principle, the Government does not take up any measure before it has compared and weighed the advantages and disadvantages that will be associated with it for the various groups within its population. Only when the scales tip in favour of the advantages can the measure be considered to be "in the general interest" and to then be implemented.

What then does this scale, by which the Government weighs its interests, look like? Of course, that is a most important question. The fate of the entire nation depends, so to speak, on the scales that are used. The practical-political differences that still exist between the Dutch political parties can therefore almost all be traced back to a difference of opinion about the most desirable way to weigh interests.

When a particular political party gives its own opinion on this last point, one must in general be cautious and not too quickly judge the use of certain words.[8] For example, I can state - and it is a correct statement - that the standard the *ARP* wants to use is that of maximum justice; that is, according to the *ARP* the general interest is best served when the interests of the various population groups are always brought into harmony with each other by reference to the criterion of justice. But this statement in itself contains little that is distinctive. What political movement now wants the interests at stake to be weighed against each other in an unjust manner? It is therefore necessary to

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7 ***ES-B*** April 24, 1963 48e jrg. No. 2385 pp. 396-399. "Uit de gezichtshoek van de Anti-Revolutionaire Partij: Zuivere en onzuivere maatstaven bij het economisch beleid".

8 **<u>BCW Note:</u>** This is a recurrent matter to which Goudzwaard draws attention throughout his professional contribution as an economist and as a public-policy analyst. See for example the discussion comparing two "statements of basic principle" from representatives from the respective ends of the political spectrum - from a prominent European conservative and from the official Marxist-Leninist handbook in "The liberation of the business enterprise" **Aid for the Overdeveloped West** 1973 pp.33-50 at pp.34-35. Such a careful analysis of terminology, as it appears in political debate, economic forecasting and social-policy formulation is an ongoing characteristic of Goudzwaard's scholarship and it coincides with his ongoing affirmation that a "Christian political option" is neither capitalist and socialist. But to say that is simply to attempt to point to the starting point, the beginning of an articulated outlook. To say it is to indicate the accountability one is seeking to maintain as a standpoint is developed in response to the normative requirements for one's calling. Complaints that Goudzwaard's economics are somehow leaning toward "socialism" don't seem to offer any hypothesis of how this alleged failure has come about other than pointing to his critique of the autonomy the "free market"!

indicate - in our case - how the *ARP* understands this concept of justice, i.e. how it thereby interprets the idea of maximum justice.

If I were now to characterize this interpretation in a few words, I believe I can best do so best by referring to the reformed idea of the Christian calling. According to the reformed confession, every person works and interacts in all social relationships (family, business, etc.) and in all sectors of life (cultural, social, economic life) as an office bearer appointed by Christ and directly responsible to Him. Our vision of the totality of society is based on this confession - which I am not about to elaborate further here. It is also the root of the anti-revolutionary (AR)[9] interpretation of the idea of justice. It is directly decisive for the content of this idea in two respects.

First - passively - by ascribing the label "unjust" to those situations in which the Government sets itself up as the authority in the affairs that distinctly typify the responsibilities of its subjects![10] As if it would be the Government that calls people to their tasks in the family or the business!

Secondly - actively - because on the basis of this confession, only that Government policy can be considered "just" which creates the space for its subjects to fulfil their own callings in the various sectors of society. In our view, a just balancing of all interests only comes about when the Government continually takes into account the personal responsibility that its subjects have to carry in their various social relationships, and when it makes an effort to make all such necessary provisions that enable the fulfillment of these responsibilities.

One could argue, in relation to the above formulation,[11] that this too can be shared by most political parties. However, in my opinion, the suggested

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9 **<u>BCW Note:</u>** Throughout this Dutch of this article, and this also applies to the ones following in this collection, there is reference to the AntiRevolutionaire Partij, the ARP, and the use of anti-revolutionaire as an adjective. We will, in general, use ARP when referring specifically to the party and AR when the party's policies are being described. The difficulty evidently arose from the fact that anti-revolutionary refers to a movement that is wider than the ARP and also wider than the Netherlands itself.

10 **<u>BCW Note:</u>** Goudzwaard leads here with the ***injustice*** perpetrated by the Government. Dutch: *waarin de overheid zich als de gezaghebbende instantie in de typisch-eigen aangelegenheden van haar onderdanen opwerpt!* Google On-line trans*: in which the government presents itself as the authoritative authority in the unique affairs of its subjects!*

11 **<u>BCW Note:</u>** There is a significant tension here that Goudzwaard addresses in relation to his formulation. This is a 1963 article is written from his time as the public-policy researcher for the Dr Abraham Kuyper Stichting, and with experience as a student of economics from his undergraduate work at the University of Rotterdam. So this, as it were, is written on behalf of the ARP, to help explain the rationale of its economic policy. On the other hand, he also writes "in my opinion" (*Toch bedriegt dan m.i. de schijn*). Goudzwaard is trying to convey that a supposed unity ("Yes but all parties can affirm this!") between political parties cannot be achieved between them if, on the basis of their party's principles they are committed to interpret economic interests in terms of supervening civil rights interests, or, conversely the party is committed to interpret civil rights interests in terms of supervening economic interests. But, the formulation requires careful and slow reading.

similarity is actually deceptive.[12] To begin with, based on this position, a fundamental stand can be taken against any political movement that gives its idea of justice a one-sided emphasis, whether it is, for example, one-sided is an *economic* sense, or one-sided in *civil law* terms.

The first occurs when, in the Government's weighing of interests, one pays more particular attention to ensuring that all persons and groups involved are treated equally in *economic terms* - in fact, and might this often mean doing so by disregarding their civil rights and freedoms?

The second occurs when, in weighing interests, one pays special attention to ensuring that all those involved remain in equal possession of the enjoyment that results from their civil rights (of contract, property, choice of profession and freedom of establishment[13]) - when, in fact, such a weighing of interests will often ignore their very different economic circumstances.

In our opinion, both emphases fall short of what any person needs for the integral fulfillment of his or her own calling. This is because an integral, responsible development of life - for example, with the family or in the company - requires both a specifically economic as well as a specifically civil "scope"[14].

Both of these should be taken into account by the Government in weighing interests, and in such a way that they together serve the actual development of life of all spheres of society.

In addition, on the basis of this choice of position, a position can also be taken against all those who wish to encapsulate the development of economic life either entirely in the sovereign will of a "national community" or who wish to make it entirely dependent on the sovereign will of the individuals who make their appearance in economic life. The first view disregards the fact that all people have independent callings to fulfil in economic life; economic life may indeed develop according to its own nature! The second view disregards the fact that only then can there be a true development of economic life when the participants know how to respect each other's tasks and callings. When a Government enforces respect for the legitimate economic interests of all fellow human participants in economic life, it does not infringe on the calling and responsibility of its subjects, but is acting in full accordance with them.

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12 **BCW Note:** On the basis of what has already been said about the use of terminology, Goudzwaard is advising readers to avoid a too reader "#metoo" affirmation of what he has said about the *ARP*'s explanation of it's active and passive explanation of its view of justice and injustice. It is as if the author is saying, "Are you sure you have understood what we, as a Christian political party, understand by justice?" *Toch bedriegt dan m.i. de schijn*. I have rendered this as "However, as I see it, such similarities are superficial" having considered the context where the ARP's social-policy researcher is seeking to explain the ARP's view, aware of the party's departure from its own principle by, for example, considering "business as business". Goudzwaard's description here is not of the ARP's success in keeping to its professed standard.

13 **BCW Note:** This term, Dutch : *vrijheid van vestiging* is translated as 'freedom of establishment' which suggests a freedom and liberty to retain what has lawfully been passed on whether to an individual person or a group, through family, inheritance, trade, or other lawful possession.

14 **BCW Note:** Dutch: *armslag*

Policy points

On the basis of this principled starting point, the *ARP* envisions a policy for the coming period in which the conditions are created for:

a. a further harmonious flourishing and expansion of economic life in all its echelons;
b. the establishing of such economic and social relations so that the results of economic activity benefit the development of all social relations within our nation. This point arises from the consideration that economic life only develops well and harmoniously when the legitimate economic interests of all its participants are respected.

With respect to point a:

So, a wide range of Government measures is therefore required for this purpose, both in the area of building up a healthy general infrastructure of economic life (also in an economic sense: striving for a currency that, as much as possible, is stable in its value) and in the area of specific support for backward areas, regions, production sectors (agriculture) and production branches (housing). Because of the limited space, we will confine ourselves here to a brief indication of only three subjects: aid to underdeveloped areas, wage formation and economic development - and our focus will be the development of the *Randstad* area of Holland.[15]

Underdeveloped areas. The unequal distribution of wealth in the world causes a dire shortage of development opportunities in the underdeveloped countries. There is a fundamental disharmony in global economic life here. The ***Programme of Action*** of the *ARP* therefore speaks of the desirability of imposing separate fiscal burdens on our people, if necessary, for the development aid which should be offered here. In addition, the Government will have to make it clear to the Dutch people, through an intensive information campaign, what is at stake here - so that the responsibility for that aid can be experienced by the people as a whole. Private initiative can be stimulated in this way.[16]

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15 **BCW Note:** The Randstad area (https://en.wikipedia.org/wiki/Randstad) the concentrated population area where the largest cities of The Netherlands are located - Amsterdam, Rotterdam, Utrecht, The Hague. It encompasses the metropolitan areas of Amsterdam and Rotterdam-The Hague and their respective hinterlands.

16 **BCW Note:** This is significant for seeing how Goudzwaard's later concern with the global economy, debt forgiveness and efforts to reckon with the needs of "the south", is connected with the *ARP*'s global outlook suggesting that the Dr Abraham Kuyper Stichting's social-policy researcher respected the sense of moral responsibility within the *ARP* for "overseas aid" after the period of Dutch decolonization. That also included the significant failure to enable the independence of West Papua when with US, UN and Australian complicity, Indonesia took control the Melanesian former Dutch Territory. The views of the *ARP* and can be explored via the *ARP*'s publications. The *ARS* political journal launched was published by the Dr Kuyper Stichting where Goudzwaard worked from 1959-1967. It did run regular articles commenting on decolonisation and including West Papua. see "Bookespreking" L.W.G Scholten of J. van Baal, "Het Nieuw-Guinea vraagstuk". Kampen, 1959 *ARS* 1959, 29 pp.137-138; J. Prins, "De republiek der Zuid-Molukken een mythe?" *ARS* 1959, 29 pp. 170-182; J. Prins "Aantekeningen over Suriname's politieke leven" *ARS* 1961, 31 pp. 211-223; W.H (Vraag en Antwoord) "Nieuw-Guinea, Ontwikkeling kwestie (advies)" *ARS* 1962, 32 60-69; W.P Berghuis "Nieuw-Guinea: Een terugblik", *ARS* 1962, 32, 213-229; G. Goossens "Nieuw-Guinea: rekapitulatie en toetsing" *ARS* 1962,32 pp.347-369; and W.P Berghuis "Nieuw-Guinea, Naschrift", *ARS* 1962,32 pp. 369-276. Interesting to note how Dutch under-development is mentioned in the same breath as international under-development. In time, this same theme would be disclosed in his collection **Aid for the Overdeveloped West** (1978)

Wage formation. The basis for wage policy should be the recognition that employers and employees, by virtue of their own calling and responsibility, have their own original sphere of competence with regard to wage determination. However, the Government should ensure that their organisations do not abuse this - their own competence - and thereby jeopardise the development of other population groups (e.g. the forgotten groups). Entrepreneurs and employees will have to respect the legitimate economic interests of others. This is the legal basis for active (and, if necessary, at times repressive) Government intervention in wage formation, in order to be able to nip in the bud dangerous inflationary developments.

The Randstad. It is a very important national interest that the further expansion of economic life in the west of the country can continue in the future. However, this requires a sparing[17] use of, for example, those industrial estates that are situated on deep waters. The *ARP* is of the opinion that this economic interest is of such great significance for the development of life of our entire people that, if necessary, the civil rights interest of free establishment may be infringed upon. Therefore, in its ***Programme of Action*** it proposes that in the Randstad conurbation strips of land will be demarcated from which, as necessary, economic enterprises with no necessary bind to these zones will not be able to establish their enterprises.

With respect to point b.

Economic life must be institutionalised in such a way that a healthy primary income distribution becomes possible. The establishment of a (varying) minimum wage, the promotion of profit sharing for employees and the further expansion of educational opportunities for all levels of the population are the most important means to this end. In striving for a framework for a more equal income distribution, the Government will however have to honour the right of enterprises to their own development. The Government will not be allowed to force profit distribution and levy taxes in such a way to prevent a company from retaining profits and thereby enhance further business expansion, that would thereby make it practically impossible to contribute to and preserve future employment.

For the quality of life.

On this topic I would like to begin by stating that this publication of Dr Beckman may rightfully claim to have received positive appreciation in three respects. Firstly, what speaks in favour of the report is that it does not stop at certain slogans. Rather, it attempts to quantify what it really means with regard to the issue in question - the distribution of the increase in national income.

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17 **<u>BCW Note:</u>** From the Philosophy of the Law-Idea, Goudzwaard had learned from his mentor J P A Mekkes, that the core meaning of the economic aspect is to be found in frugality, the sparing use of resources.

Secondly, it is entitled to appreciation with regard to the chosen time horizon. Let's face it - when a political party is dominated by short-term considerations, it is not to the benefit of public policy.

Thirdly, there is also this positive point, that the report consciously makes choices from a number of alternatives - it also does not shy away from mentioning any dark sides that may be connected with the policy it has ultimately chosen.

So much for the appreciation; now for the criticism. This concerns both the general approach to the problem, as well as the practical implementation and the final choice between the various alternatives.

The approach. The report attempts to indicate the most appropriate and effective way of distributing the expected growth of national income over the various expenditure categories. The alternative possibilities are compared with each other and weighed against each other. This implies a certain scale, a certain standard. Which standard has been used in the report - and is it a fair standard? For us, this report stands or falls with the answer to this question.

According to the title, ***"On the quality of life"***, the Foundation is primarily concerned with "the quality of life" when distributing national income. The only time this term is used in the report itself is on page 14, where it functions as a synonym for "psychlogical well-being". In the context of the text, the need to make "a conscious choice" with regard to the expenditure of welfare is mentioned, because *"the growth of real national income... in itself is no guarantee... for mental prosperity"*. This gives a reason to assume that the criterion of psychological national prosperity in the report played a decisive role in the report's suggested distribution of increased prosperity. The strong emphasis that the report places on the desirability of more "common facilities" is partly explained by this criterion.

The objections to such a criterion have already been mentioned above. Such a standard is incorrect and unjust because of its one-sidedness. This one-sidedness is apparent in the report, among other things, in the fact that in the choice between the various alternatives, no place appears to have been made for the consideration of whether or not the subjects will continue to have the power of disposal over (and the possibility of spending) the income they have earned themselves. In a fair weighing of interests, such an interest should be taken into account. A Government that distributes the increase in prosperity over the various expenditures on the basis of the criterion of maximum psychological national prosperity, in our opinion, is doing injustice to the rights of its subjects and thus to their entire life development.

This brings me to a second objection at the same time. The authors of the report had a deliberate general "Verbrauchslenkung"[18] or spending order in mind. The way in which this order is defended in the report clearly shows the

[18] GERMAN: Verbrauchslenkung - consumption control

presence of the - already denounced - effort to subject economic life as such to the will of the national community. The fact that this subjection only concerns one aspect - the spending aspect - of economic life, of course does not add or detract from the principle of this subjection.

This primacy of the national community is most clearly demonstrated where the report allows private consumption to function as a residual item in the distribution of the total available spending capacity. The authors assume, as it were, that the national community is in fact entitled to the entire increase in income. The Government allows that ultimately a portion of the increase in prosperity will benefit private expenditure. This is an intention that we on principle do not at all agree with. It is an intention that betrays the same attitude as that which Mr Hofstra once cherished in his book “Tax Policy”, when he believed that the private incomes acquired by taxpayers should be regarded as that which the Government allows the individual to collect in its entirety for the time being, under the burden, however, of repaying that portion which he wrongfully received to the rightful owner, the Government, in the form of taxes.[19]

In my opinion, this is the real difference between the spending capacity calculation according to the “Zijlstra method” and the calculation of the report. Minister Zijlstra’s calculation is set up from the Government’s point of view; the weighing of interests in this method is that between the interest of higher Government expenditure on the one hand and the interest of a lower tax burden on the other. The Foundation’s capacity calculation, on the other hand, is set up from the point of view of the entire national community; the weighing of interests here primarily concerns the various national spending categories. This is of course more than a question of different techniques; this is because the first method leads to different political consequences compared with the second method due to the different “type” of weighing of interests. The difference in method is here the expression of a fundamentally different approach to the problem.[20]

The elaboration.

The following table gives a rough overview of the concrete changes that the Dr. Wiardi Beckman Foundation proposes in our national spending pattern.[21]

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19 **BG Ftn 1**. H. J. Hofstra: “Socialistische belastingpolitiek”, 1946, pp. 113ff.

20 **BG Ftn 2**. The fact that the report lacks a concrete financing plan for the Government is of course closely related to this; such a financing plan is essential in the Zijlstra method, but in the Foundation's method it is incidental or superfluous. The fact that Mr Van Esch calls the lack of such a plan a “remarkable omission”, while Mr Den Uyl, on the other hand, finds the assumption of such a plan to be evidence of a “rather narrow point of view”, can only be understood against the background of their fundamentally different starting points.

21 **BG Ftn. 3** The data are all based on the report "On the Quality of Life" or were derived directly from it by me. Where the 1963 figure was missing for certain expenditure categories, an estimate was made based on the 1962 figures published in the report.
The additional claims on the national product (international aid, etc.) proposed in the report are listed separately for 1970. Government investments for 1970, amounting to ƒ3.45 billion, include the temporary additional government investments of ƒ800 million proposed in the report.

Bestedingscategorieën	Bestedingen in f. mrd.		Bestedingen in pCt. v. h. nat. ink.		Mutaties '63-'70
	1963 (1)	1970 (2)	1963 (3)	1970 (4)	Kolom (4) — kol. (3)
Particuliere investeringen	10,25	13,45	22,0	21,7	— 0,3
Particuliere consumptie	27,15	35,20	58,3	56,6	— 1,7
Overheidsconsumptie	7,—	7,45	14,9	12,0	— 2,9
Overheidsinvesteringen	1,90	3,45	4,1	5,5	+ 1,4
Internationale hulp	—	0,90	—	1,4	+ 1,4
Woningbouw	—	0,30	—	0,5	+ 0,5
Leerplichtverlenging	—	0,60	—	1,0	+ 1,0
Betalingsbalans	0,30	0,80	0,7	1,3	+ 0,6
Bruto nationaal produkt	46,60	62,15	100,0	100,0	0,0

The last column is the most interesting. It shows how much the various expenditure categories should increase less quickly (-) or more quickly (+) than the national income, expressed as a percentage of the national product. Two things stand out here.

1. Government consumption and Government investments together clearly lag behind the growth of the national income - even if all additional housing construction expenditure were added. First, if one also adds the international aid - running through the Government treasury - a slightly higher growth percentage than that of the national income is achieved. In this setup, there is indeed no question of a significant financing deficit for the Government.

2. The large relative decline in Government consumption is the *Deus ex machina* that should make more than half of the additional spending proposed in the report possible. In this second point lies, in my opinion, the weakest place in the entire report. In my opinion, the amendment that Mr Den Uyl introduced on this point in *E-SB* of 17 April last has not been able to remove this fundamental weakness. Mr Den Uyl considers the decline in Government consumption in the report to be overestimated and wants to reduce it to the more modest amount of *f G* 1 billion (in our table this amounts to a change of -1.5 per cent instead of -2.9 per cent). He therefore maintains the relatively declining nature of Government consumption. But precisely this declining nature cannot be defended by anything in the present report. On page 22 it is clearly stated that a relatively lagging Government workforce is a clear indication of "crumbling service provision"; this is in addition to the fact that the total Government wage bill will have to increase faster than national income before we can speak of a real increase in service provision. In the spirit of the first part of this report, therefore, not a relative decrease but a relative increase in Government consumption should have been estimated.

To seek refuge in the possible lagging of defence expenditure, as Mr Den Uyl attempts, seems to me to be rather imprudent, to say the least. If the *PvdA* were to follow Mr Den Uyl in this, it would have to make the realisation of more than half of the expenditure requirements proposed in this report dependent on the chance that defence expenditure would one day relatively decrease. By choosing this excuse, one robs the report of a large part of its practical value. In this connection it is interesting to point out that on page 41 the report mentions an allowable increase in private consumption of 15-18 per cent per head. However, the table printed here shows an increase in consumption of 22 per cent per head. This difference can be fully explained by assuming that, according to the original design of the report, all proposed additional expenditures should indeed be countered by a relative restriction of private consumption (and not also by a relative lag in Government consumption). An increase in private consumption of 15 per cent per head corresponds in our table to an ultimate change in private consumption of -4.9 per cent, instead of -1.7 per cent. A change of -4.9 per cent - is just sufficient to realise the entire expenditure programme with unchanged Government consumption and private investment.

The only possible salvation of the report seems to me to lie in the open recognition that - other things being equal - the proposed additional expenditure will have to be financed entirely from the capacity freed up by the progression of taxes, i.e. by means of a considerable increase in the tax burden.

The ultimate choice.

In anticipation of the above-mentioned public acknowledgement, I believe I should remark that a spending programme that requires a considerable increase in the tax burden in the coming years seems unacceptable to the *ARP*. In that case, insufficient justice is done to the legitimate interests of taxpayers. There is also reason for such a statement, since certain Government expenditure that must indeed increase faster than the national income (e.g. education and traffic) is offset by other expenditure that may decrease relatively in the future. In particular, Government expenditure with a typical transfer character is to be considered here - with the exception of housing subsidies in the coming years (so not in the longer term). The more the income situation improves for all income earners, the less the Government will have to set aside proportionally for typical transfer expenditure - even with the same or even slightly increased benefit scales. In addition, there are the typical "administrative" expenditures. There are grounds to suspect, with the report, that administrative expenditures will (need to) increase less quickly than national income.[22] Only in the longer term, in my opinion, will the need be felt to explicitly include the desirability of a more than proportional increase in total Government expenditures in the considerations.

's-Gravenhage. B. GOUDZWAARD.

22 **BG Ftn. 4** "On the Quality of Life" p.22,

2. To set the course of socio-economic policy.[1]

At the request of the editor, this article will give attention to AR economic policy in the short term; that is, to the question of what cyclical measures are currently necessary in our country. I propose to address this question first, and only then to address the *ARP*'s longer-term socio-economic policy, as expressed in its "***Program of Action.***"

1. Short term policy

Signalman troubles.

The current situation in our national economy bears some resemblance to that in an old-fashioned signalman's house, when various signals come through at the same time, when the lights come on and the bells start ringing. In such a situation it is clear to everyone that something has to be done to ensure large-scale collisions and derailments do not ccur. But what exactly has to happen is for many, less clear. The cyclical signals that currently come through from our economy are indeed numerous and varied. Most of them are familiar to the reader, so I will let them pass by in "rapid speed" - to stay with the image used.

a. After many years of "full employment" a clear turnaround has taken place on the labour market: *cyclical unemployment* is prevalent again. It is striking that this is mainly occurring in the construction industry. The rapid pace of the growth of unemployment is particularly worrying;
b. *the interest rate*, which has been at a very high level for the past two years, is still high, but shows a slight tendency to fall; this tendency is also evident abroad (e.g in Germany);
c. *the balance of payments* showed a large deficit of 800*f* to 900*f* million in the past year. However, it now appears to be recovering. For 1966 the Central Planning Bureau initially expected a considerably lower deficit than the one mentioned here (namely 300*f* million). A surplus of 500*f* million now seems plausible for 1967 - a surplus higher than was first expected;
d. the *increase in prices* has been very large in the past year (5.5%); this is expected to amount to between 4.5 and 5% in 1967 (cf. the 9th half-yearly report of the SER[2]). *Wage development* in the last 3 years has also been considerable; the *wage cost increase* for the processing industry in our country amounted to no less than approximately ¼ of the wage cost increase of our competitors from 1962 to 1967 (SER report, table 1);
e. *many* municipalities are experiencing acute *liquidity difficulties*; furthermore, the State's balance at *De Nederlandsche Bank* has fallen to practically zero.

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1 **ES-B 52e jrg 2578 Febr. 1. 1967**, pp.139-141 "Om de koers van het sociaal-economisch beleid."
BCW Note: From 1959 until 1967 Goudzwaard worked as Kuyper Foundation esearcher; in 1967 his work wasto assist the ARP parliamentary caucus; after the election of this year he would take his seat in the House of Representatives. What is published here is but one interface of Goudzwaard's contribution, appearing in this national journal for economic discussion and analysis. A lecture with this title is noted in *Nederlandse Gedachten* 16 October 1964 p.12: *"Op vrijdag 16 oktober wordt een vergadering belegd door de Hulpcentrale IJsselmonde. De plaats van samenkomst is het bijgebouw van de Geref. Kerk te Barendrecht. Aanvang der vergadering te 19.45 uur. Drs. B. Goudzwaard te 's-Gravenhage zal spreken over „De principiële koers van de A.R.Partij".*

2 **BCW Note:** SER, the Social and Economic Council an advisory body in which entrepreneurs, employees and independent appointed experts work together to reach agreement on social and economic issues.

Coherence of signals.

Which cyclical political levers should be pulled in such a situation? This pressing question can only be answered correctly if one takes into account the mutual connection between the various warning signals. And that connection is clearly present.

First of all, there is a connection between signals a and d - that is, between *employment and wage developments*. Because half of our national production must be sold abroad, our employment is a dependent variable of our competitive position compared to other countries. And as wage costs rise faster here than elsewhere, our sales opportunities naturally become less favourable, and our employment is threatened.

This connection between unemployment and wage cost increases does not explain the entire turnaround in our labour market, and certainly not the rapid pace of that turnaround. It also remains unexplained how it is possible that unemployment is now precisely concentrated in that sector that is not foreign but in which domestic demand dominates (i.e the construction sector).

Secondly, there is a connection between signals c and b - that is, between the *balance of payments and the interest rate development.* When a deficit occurs on the balance of payments, liquidity flows abroad; at least assuming that the Central Bank does not apply a fully elastic money supply.[3] There is therefore a direct connection between the level of our interest rate, on the one hand, (as a result of the tightness on our money and capital market) and, on the other hand the size of our balance of payments deficit, given the need for a restrictive monetary policy with regard to the supply of liquidity.

Anyone who examines this last connection more closely will automatically discover a *third* connection between the signals mentioned - namely between signals a and c (*unemployment and balance of payments developments*). After all, when monetary policy "passes on" every balance of payments deficit in the form of rising interest rates and a restriction of credit, this will bring both private and public households into serious financial difficulties; enterprises can thereby be forced into bankruptcy and suspension of payments, and municipalities into the most desperate forms of restrictions on spending.

It is now clear that the cause of both the rapid pace of unemployment growth and the concentration of unemployment *in the construction sector* must be sought in this last relationship - i.e. that between a and c. As far as the rapid pace of the turnaround is concerned, Minister Zijlstra in a speech to the Lower House used the striking image of a balloon inflated by years of overspending, which now appears to have been effectively punctured by the operation of monetary policy. And so, of course, the fact that the construction industry has

[3] **BG Ftn.1.** As is well known, *De Nederlandsche Bank* allows the reduction in liquidity from foreign sources to have a full impact on our national economy, and limits the increase in liquidity from domestic sources to a level that corresponds to the growth of our real national income.

the highest unemployment rate is related to it large capital requirements, and to the fact that the municipalities are heavily involved in the financing of construction projects.

The choice of lever.

Of the cyclical signals just listed, the deterioration of employment is of course the most worrying point. In such circumstances, the temptation is very great to first pull the handle in the economic-political signal box that immediately blocks the danger of derailment through unemployment: namely the handle of a complete maintenance and/or expansion of our national spending. As is known, this tactic is also strongly advocated by the *PvdA (Partij van de Arbeid* - Labour Party) which, mainly for this reason, voted against the tax proposals of the Zijlstra Cabinet. This tactic seems all the more plausible now that the balance of payments seems to be recovering[4] and the high interest rate is tending towards a slight decrease; those "clappers" will probably stop ringing of their own accord, and no longer require immediate intervention.

With this, which at first sight seems a very plausible approach, there is however, a very weak point, which immediately degrades it to a dangerous approach. This weak point is formed by an excessively one-sided attention to the possibility of combating unemployment by expanding domestic spending, *while little or no attention is paid to the relationship between unemployment, capital market and balance of payments* (i.e. the third connection mentioned above). *The neglect of this more "monetary" side of the current unemployment phenomenon means that in the long term the tactic proposed here is more of a threat to, rather than a promotion of employment.*[5]

This statement becomes clearest when we imagine for a moment the situation in which the Zijlstra Cabinet's tax proposals would not have been implemented and therefore no additional liquidity would have been made available to the Government. If under those circumstances the existing monetary policy - which sets limits to the national increase in liquidity - had been maintained, both the national and local Governments would have suffered the full paralysing influence of the adverse monetary shortage. Due to a lack of resources and borrowing possibilities, the municipalities would have had to slow down and cancel even the most essential expenditures - with catastrophic consequences for our employment! However, if the existing monetary policy had been abandoned, and a much less strict, more elastic policy had been adopted with regard to money creation and credit provision - then there would indeed have been some temporary relief for municipalities and the labour market, but at the same time a lot of new fuel would have been

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4 **BG Ftn.2.** This is indeed partly an illusion, because:
a. if our national investments recover, the surplus will immediately decline significantly, and
b. a structural current account surplus of at least *ƒ* 800 million is necessary to maintain the relative strength of our foreign exchange reserves, as well as to finance financial aid to developing countries.

5 **BCW Note:** It is well to realise that the said "tactic" refers to what the PvdA had advocated. Goudzwaard, though writing on behalf of the ARP, and Zijlstra is an ARP Minister of Finance and PM, nevertheless explores the "tactic" and explain why the ARP does not endorse it.

provided for a renewed inflationary process, resulting in an even further increase in our wage costs compared to those abroad. Once again, and now to a greater extent, the chain reaction: balance of payments deficit>liquidity shortage>unemployment would have made its entrance; unless ... one would once again provide for a new inflationary liquidity supply. But then the medical image becomes fully applicable to describe this situation of a patient whose illness is combated with an infinite number of injections to combat the symptoms, until one day the *total* collapse eventuates.

Essence of the ARP policy.

In fact, this already indicates in which direction, in our opinion, the solution should be sought. This solution must primarily be sought, *neither* in a new inflationary creation of liquidity, which only aggravates the problems by postponing it, *nor* in allowing the liquidity shortage to fester in the area of public spending, but in a *transfer* of existing liquidity to those points in our economy where the liquidity shortage entails the greatest dangers, particularly for our future employment. Indeed, the tax proposals of the Zijlstra Cabinet have such a transfer of liquidity as their objective: this withdraws liquidity from the private sector and uses it to finance mainly municipal works. This not only has a direct employment effect - an estimated 2,000 jobs - but also has an important *indirect* employment effect, namely in comparison with the high unemployment figure, which would undoubtedly have been achieved if the existing liquidity shortage had continued to have an effect in our economy.

On that real basis of *available* liquidity, a supplementary specific employment policy is also possible for the benefit of those regions that are most affected by the change in employment. Proposals from the Cabinet on this point have already reached the House.

A Structural Aspect

A remark on the structural side of this cyclical budgetary policy will now conclude this part of the argument. In assessing the economic functioning of the Government budget, attention must be paid not only to the overall ratio of receipts to expenditures (the well-known “impulse” effect of a budget) but also - which is not yet sufficiently understood - to the divide within total receipts of tax receipts on the one hand and borrowed funds on the other.

When a society has a structural savings surplus - i.e. a structural deflationary tendency - the Government should offer a structural counterweight to this savings surplus by reducing its own savings. It can achieve this by attracting relatively more loans and relatively fewer tax resources, or, in other words, by financing not only its own investments, but also part of Government consumption from loans - i.e. saved money. The opposite situation currently prevails in the Netherlands: there is a threat of a structural savings deficit (cf. the previous *Budget Memorandum*). If a structural inflationary tendency is not to arise on this basis, the Government will have to compensate for this savings deficit by means of additional savings; this means that it must levy relatively more tax and borrow relatively less. Also assessed according to this structural criterion, the tax proposals of the Zijlstra Cabinet therefore meet the requirements set.[6]

2. Long-term policy

To provide an overview of the policy that the *ARP* envisages for the coming four years would require many more pages than are at my disposal; therefore, only a few central points can be mentioned.

1. ***Expenditure and tax policy.***

The past four years have been particularly instructive in two respects. *Firstly*, it has been an astonishing experience to have to conclude that the development of Government expenditure, especially in the short term, has been virtually entirely independent of the political attitude of the current cabinet: indeed, it is astonishing that the development of Government expenditure has even been able to develop in contrast to that political attitude. For example, during 1964-1965 (i.e. during the *KVP-VVD-ARP-CHU*, Marijnen coalition[7]) the increase in Government expenditure for both years was 18 per cent; during 1966 (for which the Cals Cabinet announced an acceleration of Government expenditure) this increase was 12 per cent, while according to the 1967 budget it will be around 7 per cent. In other words: the Marijnen Cabinet did what it did *not want* to do with expenditure and the Cals Cabinet did *not* do what it *wanted* to do with expenditure.[8]

In another respect too, the past few years have been instructive - namely, because it has become very clear that an increase in the share of Government expenditure in total national expenditure is acceptable only if a real and effective relative reduction in *private*[9] expenditure is simultaneously achieved. Whoever allows a more rapid growth of Government expenditure to go hand in hand with free formation of income and prices and tax reductions tolerates, through the inflationary process thereby generated, almost the most unjust manner of income redistribution imaginable.

There is reason to state that the Lower House faction of the *ARP* has been the only parliamentary faction of the past period that has been prepared to

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6 **BG Ftn 2:** For a further explanation of this budgetary principle, see Prof. Dr. J. Zijlstra: **Economic policy and competition problems in the EEC and its member states**, Brussels 1966, pp. 56-58.

7 **BCW Note:** The Dutch Cabinet 24 July 1963 - 14 April 1965

8 **BCW Note:** This would seem to be the situation that Goudzwaard is referring to in No.8 of his Doctoral examination "Propositions". "Arrow's voting paradox is also applicable to parliamentary voting when, paradoxically and under certain conditions, voting can lead to unfunded budget overruns that are undesired by all." Arrow's "impossibility theorem" which states that it is impossible to order society in a way that reflects individual preferences without violating one of five conditions necessary for social order. Goudzwaard extends Arrow's theorem, derived from the social choice theory of the imperfections of democratic voting initiated by Nicolas de Condorcet (1743-1794). It is not only candidates that may be undesired by a majority but from the processes of parliamentary negotation, budgetary overuns can be agreed even if all sides find them undesirable.

9 **BCW Note:** Dutch: *particuliere*

both endorse the programme for an acceleration of Government expenditure in the areas of education, housing, road construction and development aid, and to put the necessary financial resources on the table for this. This line is continued in the current ***"Program of Action"***. On the one hand, the important task of the Government with regard to providing public facilities in these areas is fully recognised, and the possibility of an accelerated growth of Government expenditure for these purposes is kept completely open; on the other hand, it is immediately added that a sound financial policy is a first requirement. The latter is specified as follows:

- as a first approximation, the size of the increase in Government expenditure should be attuned to the increase in national income, in order to have a fixed starting point between the ratio of Government expenditure and private expenditure;
- when the desirability of an accelerated growth of certain Government expenditure arises, the aforementioned criterion may only be abandoned after the possibility of a shift within Government expenditure has been considered;
- if and to the extent that this shift among themselves does not offer sufficient possibilities, there should in principle be a real cover for the excess expenditure that then arises. The *ARP* is prepared, on condition of certain social compensations, to accept an increase in the burden of indirect taxes.

2. ***Social policy.***

Social policy is closely intertwined with economic policy. In fact, one could even say that social policy should formulate the objectives for economic policy. After all, maintaining employment, combating inflation, and fair income relations are all objectives of a social nature.

For the *ARP,* these general social objectives stem directly from its guiding conviction that the Government's duty is to create the public conditions for just harmony in society - whereby this harmony consists primarily in ensuring that every subject, regardless of their sphere of life, has the opportunity to fulfill their God-given calling. For a further elaboration on this characteristic fundamental idea of *ARP* policy, I refer you to the rather extensive explanation in the *E-SB* election issue of four years ago.

In addition to these *general* objectives of social policy, there are also *specific* ones. The most striking of these in the *AR* programme are:

- a urgent realisation of more extensive assistance (also in terms of employment) for the disabled and other handicapped; it is in fact a sad matter that this should become the final element of our social policy;
- it should rather have been the starting point;[10]
- a further increase in minimum wages, as well as a study of the question whether the system of *percentage wage increases* is not gradually eligible for

[10] **<u>BCW Note:</u>** Goudzwaard suggests that the *ARP* needs an architectonic critique of its own party priorities, even if it claims that its political programme expresses a Kuyperian architectonic critique of modern life.

amendment; an allocation of certain co-decision powers to works councils in situations of company closures and threatened collective redundancies;

- a framing of our large population concentrations with recreational landscapes (park landscapes with agricultural elements), mainly to be financed from the proceeds of a drastic increase in sand extraction in the Randstad.[11]

3. *Development aid.*

To conclude this cursory selection from the election manifesto of the *ARP*, one more thing about development aid. It is worth while to bring this point forward at the end, because the uniqueness of the *AR* approach can perhaps best be illustrated there. From an *AR* point of view, we will not "get rid" of development aid by merely reserving a certain percentage of our national product for the developing countries. In fact, reflection on the problems of development aid leads to nothing less than an architectonic critique of the structure of our society.

In the background of an ever-increasing difference in prosperity between poor and rich countries, is a structural global disharmony in economic life. While on this side of the world new needs are artificially created in order to guarantee a sufficient market for our existing production apparatus, on the other side of the world even the most necessary needs cannot be met. The production apparatus in the world has therefore grown crooked: it is oriented towards providing for some less-necessary and even superfluous needs earlier than many necessary ones could ever have arisen, and naturally comes to a critical reflection on the structure of our Western society. A reprehensible, structurally determined correlation exists between, on the one hand, the degree to which our entrepreneurial production "flourishes" and, on the other hand, the degree to which people materialistically give priority to their own "quasi" needs above the real needs of others. In other words, the structure of our Western society has the built-in tendency - and now I use a Biblical term - to "nurture a lust in people", i.e., to encourage a materialistic lifestyle at the expense of others.

As an Evangelical people's party, this has led the *ARP,* in its election manifesto, to not only say that assistance to developing areas should be an aspect of total Government policy, but also that the Government should not shy away from, if necessary, imposing separate charges for this on our Dutch people. In line with the above, one could think of a kind of tax on advertising. This would at least directly address the point where the situation on both sides is structurally flawed.

Schoonhoven. Drs. B. GOUDZWAARD

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[11] **BG Ftn. 4** For these proposals and an elaboration of this financing method, see the report: **Future for Randstad's Green Space**, published by the Anti-Revolutionaire Partij Stichting, The Hague 1966.

3. External Effects in the Sphere of Consumption[1]

There is an Arabic proverb that compares marriage to a besieged fortress: in both cases, so the interpretation of the proverb goes, those who are outside want to get in, and those who are inside want to get out.

When we want to deal with problems surrounding the "external economies and diseconomies of consumption" then, at first glance, we may find ourselves in the similar paradoxical situation suggested by that Arabic proverbial evaluation of the marriage "fortress". After all, consumers appear to be people who find consumer goods particularly attractive when they do not own them; but if they come into possession of them, then the desire to obtain them, by and large, seems to go. And this can even turn into annoyance when it turns out that others have the same consumer good or even a better version of it.

With such external effects in the sphere of consumption, moreso than anywhere else, we confront the capriciousness and unpredictability of the human spirit.

However, our subject is not the relationship between external effects and the unpredictability of the human spirit, but concerns the relationship between external effects and predictable economic growth. But it will be clear, given the capriciousness of the external effects in the consumption sphere, that this is a theme not easily mastered by our analytical powers. This may best be achieved by first attempting to trace how the problem of external effects in the consumption sphere is already embedded in what is referred to by the general theme: *the costs of economic growth.*

The Weak Link Between Economic Growth and Welbeing

In Mishan's book,[2] the costs of economic growth serve as evidence for the weak link between economic growth and human well-being.[3] After all, according to Mishan, economic growth is based only on a conglomeration of

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1 "De externe effecten in de consumptiesfeer" *Economisch-Statistische Berichten* (*E-SB*) 53e jrg 2641 April 24, 1968, pp.400-403.
BCW Note: As much as this is a response to the contribution of E. J. Mishan to the discipline of economics from his 1967 volume **The Costs of Economic Growth** 1967 London, Penguin (Revd edition 1993), it is also a response to the article in that edition of *E-SB* by Mishan "Some further thoughts on the costs of economic growth" *E-SB* 53e jrg 2641 April 24, 1968 pp. 390-392. That edition of *E-SB* is especially devoted to consider Mishan's economics introduced with an Editorial: "If you vomit, you pay!" The other contributions from Prof. Heertje "De kosten van economische groei" 393-399; Drs. den Uyl leader of the PvdA "De kosten van economische groei en het Nederlandse groeibeleid" pp 404-407; F. Müller "Mishan, Heertje, Goudzwaard en de externe effecten" 408-410 and J. Hartog & ASW de Vries "Groei, leefbaar-heidsrechten en reallocatie" pp. 411-412. Goudzwaard gives a response to Müller in the June 5 edition of *E-SB* 1968. Müller's reply to Goudzwaard followed.
It is not clear in this article how Goudzwaard was replying to Mishan's "Some further thoughts." Instead he gives his summation and critical comments focused upon one aspect of Mishan's effort to come to terms with the liberal economy's affront to the liberal conscience. But then in his reply to Müller's article the initial Mishan article is discussed.
The overall effect of the exchange (published in *E-S.B* 1968 April 24 2641 and June 5 2647) is that they have been published to maintain an ongoing discussion among Dutch economists about Mishan's significant challenge that draws attention to the crisis in liberal economics. The discussion is evidently "ongoing" and constitutes important aspects of the academic context within which Goudzwaard's PhD would be submitted.

2 **BCW Note:** E J Mishan (1967) **The Costs of Economic Growth** London, Penguin (Revd edition 1993)

3 **BCW Note:** Dutch: *welzijn*

market values created by entrepreneurs, based on needs pushed by those same entrepreneurs (and provided with built-in "dissatisfactions"); these are market values that in no way include any reference to the natural environment and the quality of life thereof. That is why Mishan occasionally makes statements in his book that would not be out of place in Heidegger's **Holzwege,**[4] in which our contemporary culture as such is classified as a crisis; these are statements that cannot be lightly dismissed.

In this context, it is important for our topic here - external effects[5] in the sphere of consumption - that, two different solutions to this problem can generally be pursued when this weak link is observed between, on the one hand, economic growth in the form of goods produced for the market and, on the other, human well-being.

The first solution is found in the attempt to *limit* the scope of those motives that determine economic growth to the market and market events; that means, for example, that the natural environment, which is so important for human well-being, is spared the supremacy of profit motives. In line with this line of thought, restrictive prohibitions are necessary for everything and hence there are restrictive provisions with regard to the possibility of noise pollution, pollution discharge, natural destruction, etc.

However, one can also choose a second type of solution, which is not characterized by such a delimitation, but by an *expansion* of the market phenomenon. With this second solution, the natural environment is in principle released for profit-oriented exploitation - but in such a way that any commercial use of this environment also involves a heavy price to be paid by such users in the form of mandatory compensation. Given the fact that the natural environment - think of air, water and natural beauty - is often regarded as a free, non-economic good in the considerations of economic agents, this "expansion" of market events will anticipate a *de facto* reduction in the current damage to the natural environment. After all, one must now learn to appreciate such damage as a financial loss.

Let us briefly compare these two solutions: they come to this:

- the first solution - that of a *delimitation* of the market - attempts to block off the pursuit of economic growth, insofar as this pursuit implies negative external effects on human well-being;
- the *second* solution - that of *expanding* the market - attempts to elevate the pursuit of economic growth to a more comprehensive pursuit of human well-being,

4 **BCW Note:** This refers to a 6 article collection of Martin Heidegger (1889-1976) **Holzwege** Vittorio Klostermann GmbH, Frankfurt am Main 1950. (English trans. **Off the Beaten Track** ed. & trans. Julian Young and Kenneth Haynes, Cambridge Univ. Press 2002. https://assets.cambridge.org/97805218/01140/frontmatter/9780521801140_frontmatter.pdf The translators note the German expression 'on a Holzweg' refers to a trip made after a wrong turn leading to a dead-end. The crisis suggests the "dead-end" of the path taken by the West.

5 **BCW Note:** That is external to the market.

namely by presenting as an economic loss the negative externalities that growth can have on human well-being. [6]

Both solutions attempt, therefore, to coordinate economic growth and well-being better than they have been coordinated to date. Both solutions are in principle conceivable with regard to external effects in the production sphere and with regard to external effects in the consumption sphere.

As far as the external consumption effects are concerned, the first solution means, among other things, that one resorts to: a regulation of fashion; the restriction of advertising that stimulates needs and the regulation of, for example, nuisance to neighbours.

The second solution means that although external effects in the sphere of consumption are allowed to occur, there is still an obligation to provide financial compensation for the disadvantages caused.

If we return to Mishan's book for a moment with this distinction in mind, we see that he chooses primarily in the second direction, the direction of market expansion as the solution to the problem of the weak link between the growth of production and well-being.

However, two comments must be made at this point.

First, it is not the case that Mishan wants to apply the compensation rule in such a way that the willingness to provide monetary compensation gives absolute license to cause external disadvantages to others. In his book, for example, he gives the example of the ban on pornography and the ban on having someone else perform military service for him in return for financial compensation. These examples are therefore so interesting, because they provide a direct illustration of the fact that non-economic norms - in this case the norm of good morals and the norm of legal equality - retain their validity even when market activity expands and set limits for such expansion. I will return to that.

The second comment that must be made is that in certain cases Mishan proposes a split between those who value a delimitation of the market and those who value an expansion of the market. That is the famous solution of "separate facilities".[7] After all, separate regions are created for those who want

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6 **<u>BCW Note:</u>** A critical question arises here. How did Goudzwaard derive these two proffered solutions from his analysis of the prevailing theories of economic scholarship? Why are they both present within Mishan's analysis pinpointing the "costs of economic growth"? The problem as defined with two ways to resolve it has to do with Mekkes' explanation of the structure of scientific reflection. *"What I learned was that science, as one of the dimensions of our human reality, had, as it were, its own distinctive colour, is always in the force-field between tendencies to either open it up, on the one hand or, keeping it strictly within bounds, on the other." (*See S Griffioen and H Noordegraaf interview "Ik heb bepaald geen saai leven gehad" (By no means have I had a dull life!) in Noordegraaf and Griffioen (eds) *op cit*. p.3). Economic analysis, as with analyses in any other science, is undertaken from within this "force-field". Goudzwaard divines that Mishan's analysis is formulated in this tension providing either opening up or closing down economic life in the market, but with the assumption that the market-place is a self-defining reality. The question then becomes: how does the market-place define the impact of external effects in the sphere of consumption, which is to avoid the responsibility question. The "who" question is displaced by a concern that assumes the market will mechanically engineer some kind of resolution.

7 **<u>BCW Note:</u>** E J Mishan **The Costs of Economic Growth** Ch. 8 "External Diseconomies and Separate Facilities." "Separate facilities" are Mishan's suggestion for a possible (hypothetical) solution to variable responses to "external diseconomies."

to safeguard their rights to a quality of life against any damage, which is in contrast to those who are satisfied with a certain monetary compensation for damage to their quality of life.

This proposal can therefore best be interpreted to suggest[8] that Mishan is addressing the problem of the weak link between economic growth and well-being by considering the differences in subjective experience of this well-being, and, as this subjective well-being is more threatened by the growth of economic production, it also moves more in the direction of safeguarding the natural environment[9] from factors that determine the growth of economic production.

Is Mishan's Solution Desirable and Possible?

I would now like to make an attempt, against the background of this general sketch, to consider more specifically the external effects in the sphere of consumption. And in my opinion we are mainly confronted with these two questions:

1. To what extent are the practical solutions suggested by Mishan desirable and possible with regard to these effects? In asking this question and answering it, I naturally assume the usual interpretation of these effects.
2. To what extent is this still a fundamental theoretical problem, and what solutions can be found? In addressing this question and its answer, I obviously do *not* assume in advance the usual interpretation of this effect; this usual interpretation actually avoids the problem.

The first question is therefore that of the desirability and possibility of practical implementation of Mishan's suggestions. I refer specifically to the external effects in the sphere of consumption. In answer to this question, I would like to defend the position that it is precisely with regard to the external effects in the sphere of consumption that Mishan's suggestions either lack the possibility of implementation or - if they can be implemented - are decidedly undesirable in general application.

To demonstrate this, I would like to return, for a moment, to our economic theory textbook.[10] When do "external economies" or "diseconomies" occur on the consumption side? These occur when it appears that the utility functions of one subject[11] include economic goods or incomes of other subjects. In other words this is when the level of satisfaction of others is influenced by the goods one person has acquired and the way he uses them, as well as the income he

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8 **BCW Note:** Dutch: *Men kan dit voorstel dus wellicht het beste zo vertalen*

9 **BCW Note:** Dutch: *van een afgrenzing van het natuurlijk milieu* . The term *afgrenzing* suggests limiting, a demarcation - the argument suggests a 'sectioning off', a 'cordon sanitaire'. Which would suggest preventing erosion of natural environmental quality when it is possible to purchase such purification.

10 **BCW Note:** Goudzwaard is addressing fellow professional economists; the journal *Economic-Statistische Berichten* was evidently a source of ongoing intra-disciplinary professional debate within economics. He might as well have said, "Let us consider how we first considered these matters in Economics 101!"

11 **BCW Note:** The term "subject" here seems to have been used because it is not merely individual persons who are subject to the consequences of economic processes, although they too are subjects. But there are economic subjects that are corporate entities, such as workshops, businesses, factories, households.

earns. Now it does not take too much thought to conclude straight away that this concerns an infinite number of cases. And for that reason there can be no general application of any compensation rule. What impressions does a person experience in one hour? What about the annoyance generated by the noise the milkman makes? Could sniffing the next-door neighbour's daffodils for free count as an "external economy"? What about the complaints directed at the driver of the truck who prevents people from getting along on the road?

All these impressions belong to the external effects in the sphere of consumption. Compensation for all these incidental and often erratic and mood-dependent effects is, in my opinion. an impossible thing.

It becomes even more difficult when we include within our considerations dissatisfaction about our own income position. If Mr A has to pay compensation to others because of the displeasure his income causes them, he will lose income. Should these others then in turn compensate Mr A for the annoyance this loss of income causes him? To my mind, such questions take us into an intellectual merry-go-round that never stops.

I therefore believe I can safely draw the conclusion that effective compensation for disadvantages experienced in the sphere of consumption will only be possible in a small percentage of the total number of cases.[12]

But can't Mishan's alternative solution be applied to those remaining cases: that of "separate facilities"? This is an interesting question. However, the answer seems to me to be, in the main, also negative. Because it is the special characteristic of external effects in the consumption sphere that they have a relatively high degree of unforeseeability, they can therefore hardly be prevented by taking the route of "separate facilities". This is especially true for those effects that are built on elements of jealousy and envy. Jealousy and envy[13] cannot be cured or prevented by outside facilities; they are born from within and require an inner conversion for their elimination. Moreover, the presence of external influences back and forth[14] is so inherent to social life that a radical application of the principle would be required. In my opinion, the introduction of "separate facilities" to prevent these influences would even amount to a complete *disintegration of social life*.

This naturally brings me to the question of the *desirability* of applying Mishan's suggestions. I have already mentioned above that Mishan

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12 **<u>BCW Note:</u>** For those of us who were not part of the 1960s discussion generated by Mishan's challenge to how economics has understood the "costs of economic growth", these paragraphs seem extremely obscure. But Goudzwaard is arguing - I suspect good humouredly - about the possiblity of the *second* solution (see p.24 above) by which the market is *expanded* in order to elevate the pursuit of economic growth to a more comprehensive pursuit of human well-being, namely by presenting as an economic loss the negative externalities that growth causes, i.e. in the given case of the noise of milk delivery, the irritation of neighbours, and the large truck that causes grid-lock on the road. These are all instances in which human well-being is impacted.

13 **<u>BCW Note:</u>** Goudzwaard assumes "jealousy" and "anger", as "external effects", are part of economic life. But if, as with the second solution, the analysis of market impact is to include human emotions and desires ...

14 **<u>BCW Note:</u>** Again, it is not too clear what is meant by "back and forth" (*over en weer*). Goudzwaard goes on to suggest that such legislated compensations for negative externalities implies a non-stop merry-go-rond.

acknowledges, with regard to the suggestions he himself made that, for example, standards in the field of morals and legal equality can set limits to the practical extension of the market phenomenon and applying the compensation rule. For my part, I would also like to add, in line with what I have just noted, that social interaction between people has its demands.

Considerations of courtesy and social propriety may, for example, require that one (even without receiving compensation) suffer or indulge some nuisance oneself; it would be nothing short of a disaster if all such social norms were resolved into compensation rights or compensation obligations. In this context, one might think of the joke about the American who, in a French hotel, feels obliged to escort a lady to a table at the expense of his free time, and tries to avoid it by offering the lady one hundred dollars; and then deduces from her refusal that apparently it should have been a thousand.[15] Economists, like Americans, should know that financial considerations are *limited* considerations. I am inclined to say that compensation proposals devoid of any social awareness need not be considered desirable from any economic perspective.

Social life is *denatured* if one reduces it across the board to an economic optimization problem, just as one disrupts social life if one wants to effectively implement the compensation rule across the board - even when using lawn mowers.[16]

As far as the consistent application of the "separate" system is concerned, it should be borne in mind that the choice between full maintenance of the rights to a quality of life and to financial compensation for any violation thereof - i.e. the choice for or against the use of certain "separate facilities" - is not the same for everyone, but is also influenced by the income that one already has. If that income is low, then people may be more inclined to allow a violation of their quality of life rights for the sake of monetary compensation than if they have a high income. In my opinion, this simple fact will automatically lead to the areas with intact quality of life rights becoming gathering places for the social elite, while the regions with violated but compensated quality of life rights will effectively be reserved for the masses.

To be honest, the image of such a disintegrated society reminds me more of the desperate utopias of Orwell and Huxley than of a society in which optimal well-being is possible. Because it is clear that the people who, in return for financial compensation, accept and continue to accept any violation of their so-called rights to their quality of life, differ little from the addicted people from the proletarian areas of Orwell's 1984. And it is also clear that a

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15 **<u>BCW Note:</u>** Again, the joke's humour relies upon the ascription of a naive stereotypical monetary outlook of the American who is embarrassed not so much about having extended a courtesy for 'free', but for the rich pleasure of doing his work. It is a joke hard to understand, the key to the humour may have been lost in translation even if the meaning of it is expressed in the next sentence!

16 **<u>BCW Note:</u>** How much should I offer my neighbours for the inconvenience of the noise of my lawn-mowing?

Government that no longer sees the importance of public health as a general interest to be promoted for all, but only as a special interest for a certain population group, no longer has very much in common with a democratic constitutional state. This is all the more so when, through the compensation rule, it gives the most well-off in society more opportunity to violate the quality of life rights of others than it gives the less well-off. In my opinion, a consistent, general application of "separate facilities" (an idea that can be found in a slightly different form in Copeland's writings[17] around 1930) must therefore be radically rejected.

Economic Theory and External Effects

I now come to the second problem that I posed, i.e. what should we do in economic theory with external effects in the sphere of consumption? That there is indeed a problem here becomes clear when we take another look at the great multitude of these effects, and also take into account the great extent of their capriciousness, unpredictability and unforeseeability. Because of their essential bond with changing human moods, it is virtually impossible to base these on given subjective assessments. Even if one were to do so, any proposal based on this would be pre-empted. The difficulties increase when one considers that *indirect* effects often occur precisely in the sphere of consumption. The fact that a wife may consider her suit worthless because someone else owns the same suit can be a thorn in her husband's side, as a third party. This unease also belongs, according to the usual definitions, to the external effects in the sphere of consumption. It goes without saying that such indirect effects - which are particularly pronounced with regard to income distribution and its redistribution - almost immediately silence talk of optimizing benefits. Here, in the midst of welfare theory we are near Cape Horn.[18]

I would like to point out that it is we ourselves who are largely to blame for this unpleasant situation.[19] It largely results from the definitions and objectives we ourselves have chosen. We have come to regard the concept of "welfare"[20] in such a completely subjectivist way that we can no longer avoid calling all stirrings in someone's soul economically relevant as soon as they even remotely relate to the use of goods - either of the individual consumer or of others. Particularly with regard to the external effects in the sphere of consumption, my doubts have grown as to whether we are on the right track with the complete subjectivist turn of welfare theory.

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17 **BCW Note:** The economist referred to here is Morris A. Copeland (1895-1989), an institutional economist who, influenced by Walton Hamilton, received little recognition within the "main line" of the economics discipline.

18 **BCW Note:** i.e. we are close to experiencing "ship-wreck".

19 **BCW Note:** refer here to the observation in ftn. 6 above.

20 **BCW Note:** Dutch: *welvaart*. Contrast with the term used earlier *welzijn* (well being).

Perhaps, by way of illustration, I may approach this from the side of the question of causality - a question that, in my opinion, also retains its significance as a relevant criterion for a theory of prosperity (thinking in functional relations). Suppose you have a round drainpipe on your house and that drainpipe causes your one neighbour a mild resentment every morning: he sees it and thinks square drainpipes look much nicer. Your other neighbour, on the other hand, is in a pleasant mood when he sees your drainpipe: he thinks it has a nice grey colour.

Now I ask you sincerely: can this drainpipe of yours be regarded as an economic factor causing these various feelings of pleasure and displeasure?[21] At most, to my way of thinking, it is the *cause* of those feelings. It seems to me that the cause can rather be found in the disposition, mood and personal taste of the two neighbours. I would therefore safely call the psychological feelings of the two neighbours economically irrelevant. And in my opinion there is even more reason for that observation if it does not appear that your drain pipe leads to any economic decisions for them, or gives rise to any defensive measures that require money.

But in this view, haven't all so-called external effects in the sphere of consumption been declared economically irrelevant in one fell swoop? I don't think so; especially not when we rely on the social or non-social *purpose* or *orientation* of consumer goods to scientifically determine these effects. Some very brief comments may clarify this.

It is not uninteresting to note that there are consumer goods that, according to their *character,* already have a social function. Clear examples of this can be found, for example, in the tennis racket and the telephone. As consumer goods, they only reach their destination in social intercourse. Social intercourse in these instances consists of playing tennis with another player and calling someone on the phone. Therefore, it is best to call those goods *socially complementary* goods; as a consumer good they presuppose a complementary good to other subjects. With regard to such goods it is clear that *economically* relevant external effects can indeed occur. These items can be bought or sold - your acquaintances can also buy or sell a telephone or their own tennis racket. This buying and selling can cause an increase or a reduction of the use value of the consumer goods you own.

The opposite of these socially complementary goods is formed by the *socially discomplementary* goods. I would like to mention women's fashion as the clearest example: the introduction of new models are expressly intended to make existing models lose part of their attractiveness. The opportunity for this is given by the fact that fashion is aimed at a person's desire to distinguish oneself

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21 **BCW Note:** Goudzwaard is following the logical line of argument to its ridiculous conclusions and hence he is asking why such a contrast between neighbours views of drainpipes shouldn't be included in the overall economic analysis of "external effects". We recall the option canvassed earlier to enlarge the economic frame of reference by elevating the pursuit of economic growth to a more comprehensive pursuit of human well-being. Are the negative externalities that arise from economic growth to be viewed as an economic loss?

from others. Here too, in my opinion, with the nature of these consumer goods, there are *economically* relevant external effects.

The advantage of this approach to external effects in the sphere of consumption - which is therefore based on the character of existing consumer goods and whether or not they are adapted to social interaction - seems to me to be, among other things, that it allows the influence of economic growth on personal prosperity to be more clearly marked. After all, it is not only the case that economic growth increases technical knowledge, and can therefore continually add new social-functional goods to the consumer repertoire.

In addition, economic growth also increases discretionary purchasing power, which, partly under the influence of the advertising phenomenon, increasingly focuses on the purchase of consumer goods of a socially distinctive allure. Ultimately, this means that a fashion basis is placed on more and more consumer goods, which further increases the economically relevant "external diseconomies" in society. This therefore further exacerbates the weakness of the link between market production and well-being.

To complete the picture, it should be noted that the social discomplementarity of consumer goods can also express itself in another way. Social discomplementarity occurs when certain consumer goods, through their use or consumption, impose a burden upon the natural environment. The textbook examples of this are silence-killing transistors and air-polluting coal furnaces. I am inclined to say that, with regard to goods such as these, the economic relevance of the external effect comes into play particularly when this effect causes others to take certain defensive measures. These "others" can be both those directly affected - who, for example, purchase devices for sound insulation and ventilation - as well as the Government, which spends on the fight against air pollution in accordance with its own scale of priorities. It may also, for example, build recreational areas where silence reigns and where fresh air is still available.

The interesting thing about this group of external effects in the consumption sphere is that they owe their origin to a kind of billiard ball effect.[22] After all, they arise because the use or consumption of these goods implies a "filling"[23] of the natural environmental factors present. The more this filling approaches the edge, the stronger is the impact that the violation of the natural environment has on the economic dispositions of the Government and of the affected subjects. In such circumstances, as we know, it is sometimes

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22 **BCW Note:** Dutch: *biljartrandeffect*. The image is of a billiard table where multiple balls are impacted in multiple ways by other multiple balls and the table's edge. The discussion is one of "causality" and Goudzwaard is seeking to steer his language away from a "flattened" mechanistic view of economic causality. Goudzwaard goes on to talk about the "filling" approaching the edge i.e. the limit ...

23 **BCW Note:** The generating of these effects has a spatial dimension - as they increase so space is "filled". Dutch: *een opvulling impliceert van de aanwezige natuurlijke milieu factoren*. A filling up of the natural environment with such factors is thereby implied.

worth considering imposing an interest charge[24] in line with the principle of market expansion. After all, such interest is nothing more than the economic froth that arises when the tidal waves of the growth of population and wealth are pushed up against the edges of an economically valued natural environment.

In addition to, or instead of, such an interest charge, these natural, limiting edges can fortunately also be moved further through human activity. Consider, for example, the construction of recreational areas and water treatment plants. Such measures, which give a certain elasticity to the threatened environmental factors, can make the production of goods for the market less likely to pose a threat to other facets of human well-being.

Finally, a few comments about the external effects surrounding income distribution. It may have become clear from the foregoing that the jealousy of one income owner over another does not seem to me to be an economically relevant external effect. After all, here too it concerns a psychological experience (born more or less spontaneously from someone's heart), for which the other person's input is at most a reason, but not an actual cause. However, this does not mean that there cannot be said to be economically relevant external effects with regard to income differences. In a national economy like ours, the fact that A has more income than B will almost automatically lead to A using his greater discretionary purchasing power in a way that in consumption terms distinguishes himself from B. And consequently, on the social level, this will result in a reduction in the use and exchange value of his own consumer goods. In this more indirect way, income differences certainly also have repercussions on the prosperity optimum in a society. It is clear that this is also an important fact at a global level: because it means that if the prosperity gap between North and South remains the same, the prosperity gap can only increase.

B. Goudzwaard

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24 **BCW Note:** Dutch: *een rente-heffing*. A nominal penalty.

4. Mishan's suggestions: a rejoinder[25]

In the ***E-S.B*** issue of April 24, Mr. F. Muller provided an interesting commentary on the 1968 Economists' Conference.[26] He also added some notes to the argument I made at that time, or at least to that part of the argument that related to Mishan's suggestions and the possibility and desirability of the practical implementation of these suggestions. I would like to respond briefly to some parts of his comments. However, I consciously limit myself to those points that are of more than purely theoretical importance.

The Interpretation of Mishan's Suggestions

These points include, first and foremost, the question of what is actually the intention and scope of Mishan's suggestions, in particular his suggestion to create "separate facilities". In his commentary, Muller raises the possibility that Mishan may have meant something different with these "separate facilities" than what is meant by them in my argument. In short, the distinction between the isolated and the other habitats would not consist in the fact that in the first areas it is not possible to infringe upon the "quality of life rights" already recognized in society (my interpretation), but in the fact that in the first areas an L-legislation has been applied and in the other areas an L-legislation has been applied in the other areas, although in both cases there would be no possibility of taking compensation measures.[27]

I would like to start by noting that Muller's interpretation of Mishan's proposal cannot certainly be called incorrect. In Mishan's article in the *Oxford Economic Papers* - to which Muller also refers - we find this interpretation, at least as far as the distinction between L and L legislation is concerned, almost literally. But that is not all: because in his book - especially pages 84-86 - Mishan shows that he also has room for a broader and more general interpretation. This more general interpretation of "separate facilities" can perhaps best be described as: a de facto existence (or creation) of separate habitats in which the infliction of certain external effects is prohibited from the outset, as distinguished from other areas where this strict prohibition does not apply.

Now the fascinating thing is that - if one starts from this general and more practice-oriented interpretation - in this creation of separate habitats it only depends on the character of the existing legislation at that time, which

25 ***E-SB*** 5 June 1968 2647 Ingezonden stuk Drs. B. Goudzwaard: De suggesties van Mishan: een repliek, met een naschrift van F. Muller pp. 549-551

26 <u>**BCW Note:**</u> Translations of Muller's initial article along with his Postscript can be found below in the Appendix.

27 **BG Ftn. 1** As a reminder: under an L-law, adverse external effects may not be passed on to others without a legal obligation to pay compensation; This is not allowed under an L-law, because so-called "livability rights" have been granted to individual citizens.

interpretation will appear to be the correct one: Muller's or mine. Suppose, for example, that L-legislation prevails in the economy as a whole. If separate habitats are created in such a situation, then in practice the Muller interpretation (and that from Mishan's article) will be approached: because outside these areas, as a result of 'the J-wt', no or hardly any compensation will take place for the damage effects caused, in those areas these effects will be excluded from the outset: a situation that can be described as "L-law without compensation possibility".

If, on the other hand, an L-legislation prevails in the initial situation - i.e. a legislation in which the quality of life rights of all are recognized, so that they may only be violated against compensation - then the creation of these separate habitats means that the interpretation I follow becomes true: because while in the individual habitats the violation of the rights of quality of life is simply prohibited, in the other areas they can only be violated against compensation. In my opinion, Mishan himself has this situation in mind when he notes on page 83 of his book (**The Costs of Economic Growth**) that *"if amenity rights could be enforced by law, the ordinary working of the market would tend to establish separate facilities"*. He implicitly assumes the existence of an L-law applicable to all members of the economy, and within this he places a spontaneous process of forming "separate facilities". Given the great value that Mishan attaches in his book to the recognition of quality of life rights - and thus to the development of L-laws - I believe that the interpretation I have given is appropriate. therefore very much in line with the more mature form of Mishan's practical suggestions.[28] Which of course does not alter the fact that I might have done better to also include the other interpretation as a possibility in my argument.

The Desirability of Mishan's Suggestions[29]

To what extent is it desirable, particularly by creating rights of quality of life, to give more opportunities to actual compensation for damage caused to others in our society? And to what extent is the creation of "separate facilities" desirable? My comment that social interaction sets limits to the introduction of widely spread compensation systems was not appreciated by Muller: *"The price we pay for his high standard is formed by a non-optimal allocation."* In my opinion, this response is not entirely adequate.

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28 **BG Ftn 2** VgI. also Mishan's comment on page 85 that the value of separate areas for their potential residents can be estimated "as the minimum sum required to compose them in continuing their legal rights to amenity".

29 **BG Ftn. 3** With regard to the possibility of implementing Mishan's suggestions, I would only like to point out that my comments on this subject also assumed the existence of recognized rights of quality of life (L-legislation). In that situation, it is not up to the perpetrator Adekeus to decide whether or not to accept compensation proposals from B as the victim, but B is able to force A to either compensate or terminate the disruptive effect. The number of cases eligible for compensation seems to me to be indeed infinite, because under L-legislation B's potential profit opportunities will in almost all cases be greater than his decision costs: after all, B can, invoking his rights to liveability, force A to adopt a different pattern of action if the compensation is considered to be too small (whereby A is no longer allowed to mow lawns electrically, can no longer use iron milk crates, is no longer allowed to drive slow 1.vkht cars, etc.). At the level of income security, one L-legislation (which Mishan would certainly not want) even leads to absurdities; and to make it clear in my statement that it was not an image.

After all, it is clear from the text of my story that I was not thinking of compensation proposals as are already taking place under the currently existing legislation, but of the compensation proposals that would arise in the event of a deliberate "expansion of the market". And the way in which Mishan imagines that expansion is the explicit recognition of quality of life rights: on this basis, every injured party can demand "compensation" from the causer of an effect, on penalty of failure to have the effect. I still believe that in terms of external effects in the sphere of consumption, a general implementation of this principle would lead to an erosion and/or disintegration of social intercourse. And it seems to me that Muller will also agree with this. To put the problem "*ad absurdum*" for a moment: the right to demand compensation for otherwise using an electric lawn mower may still be practically possible. But when someone, on the basis of a "right of quality of life to silence", even wants to block the use of grass cutting shears by his neighbor (or wants money for this), then everyone feels that this goes too far. But as soon as one recognizes this, one admits that, on the basis of social norms, the possibility of recognizing quality of life rights - and compensation proposals based on them - must apparently be set a certain limit. In my opinion, an economist cannot dismiss such "limits" by claiming that he is only interested in optimal allocation. Because the question here is in which context the question of optimal allocation can only be realistically posed. are explained for the framework within which the economist poses his allocation problems.

Another point is the practical desirability of implementing "separate facilities". If these are realized while L-laws exist in the economy (this is the "original" case of Mishan in Muller's description), this can lead to a favorable result in certain circumstances. But in my opinion these circumstances are very limited, because:

the number of external effects that some people regard as positive and others as negative is much smaller than the number to which almost everyone reacts negatively, especially when the intensity of these effects (think buy, noise) increases; for separate control e.g. certain population groups is hardly a reason anymore[30]);

from the Government's point of view, there are public interests (e.g. the interests of public health), which concern every citizen, and which affect their health - such as health damage caused by dirty air, dirty water, noise pollution - therefore require a general, non-discriminatory response. Although it is a thousand times true that some people find unhealthy air "tasty", this does not alter the Government's own responsibility to take

30 **BG Ftn. 4** In my opinion, car traffic occupies a special place because as a car user one not only experiences disadvantages from others, but also causes disadvantages to others themselves. That is why separate facilities are more obvious here than in the case of unilaterally caused external effects (e.g. air and water pollution). However, in my opinion, Mishan overestimates the benefits of this separate provision, because he does not appear to take into account the losses that car owners in non-protected areas suffer when they can no longer reach people in the isolated areas with their cars.)

similar protective measures for those people from a public health point of view - despite all exclamations about paternalism.[31]

The objections that I have raised when "separate facilities" are applied under the terms of national L legislation have in fact not been resolved by combating Muller. I do not consider the car ban (cf. note 4) to be sufficiently typical of the "separate facilities" proposals in general; In almost every other example of "separate facilities", the attractiveness of areas without disruption of quality of life rights will in itself be greater than of areas with disruption of quality of life rights. Hence the idea of compensation payments in the disturbed areas, which opens up the possibility of exchanging the maintenance of quality of life rights for money. It seems to me to be open to little dispute that the less well-off will be the most susceptible (and therefore also the most vulnerable) to making use of this option and therefore, the better situated people in the isolated areas will form the majority. It is striking in this context that Mishan himself also explicitly states in his book that *"in comparing different types of residential areas .... there should be no objection to guidance by market forces"* (p. 85, note).

Alternatives

But are there alternatives? I believe so; Below is a point-by-point summary of some of our alternatives:

- a legal obligation to eliminate certain harmful external effects, namely to the extent to which they exceed generally accepted tolerance limits;
- a legal obligation to compensate for damage caused to property and health, according to general standards laid down in law;
- introducing a "nuisance tax" on manufacturing processes with harmful side effects (an alternative to 2), the proceeds of which can be used for
- stimulation of companies with positive side effects - including new industrial establishments in backward parts of the country and in developing countries;
- an improvement of the damaged environment through the construction of recreational areas, water treatment plants, expansion of the road network, and so on.

B. Goudzwaard

Postscript

In answering Mr. Goudzwaard's reply, I would like to start by appealing to the following statement by Mishan (see his book, p. 82): "*Clearly the net social gain may be greater yet if the movement to the separate-facilities solution is not from an existing constrained optimum but, as in most cases it will be, from an existing non-optimal solution."*

This clearly shows that Mishan takes the existing situation as a starting point when setting up the separate facilities, because this often offers greater advantages and in most cases the existing situation means a non-optimal

[31] **BG Ftn. 5** In this context, it should be pointed out that Mishan introduced similar restrictions in his speech at the Economists' Conference - e.g. when compensation proposals do not sufficiently take into account the fate of future generations.

situation. If Mr Goudzwaard says that Mishan assumes a situation of compensation payments (this is the "constrained optimum"), this is not correct. Goudzwaard seeks support for his interpretation in Mishan's comment: *"if amenity rights could be enforced by law the ordinary working of the market would tend to establish separate facilities".* However, we must understand this comment by Mishan in the theoretical structure of his book, which, based on the existing (non-optimal) situation, mentions the advantages of "amenity rights" over the existing situation and then of separate facilities over "amenity rights" (these benefits can indeed be estimated for the potential residents *"as the minimum sum required to compensate them in continuing their legal rights to amenity"*). Mishan's comment aims at nothing other than to herald the transition from one topic ("amenity rights") to another ("separate facilities").

Mr. Goudzwaard will do well to determine whether his objections, which are unclear to me even in his own interpretation of the concept of "separate facilities", are still valid if the existing situation is chosen as a starting point. I would like to help him with the following example. The following can be noted with regard to a possible disadvantage for less well-placed people in a separate facilities solution. Indeed, this solution only offers advantages over "amenity rights" if there are such external effects that they affect different people in different ways, with the understanding that these effects are experienced positively by some and negatively by others. However, this also means that those who (will) live in a certain area do not need to be compensated, because in that case there will be no adverse consequences for them (this is regardless of whether or not compensation is in fact possible, i.e. it does not even make a difference to this problem whether my interpretation of Mishan's separate facilities is taken or that of Mr. Goudzwaard).

Goudzwaard's quote ("in comparing different types of residential areas ... there should be no objection to guidance by market forces") is not relevant here, because these market forces are only mentioned by Mishan as a guideline for determining the size of the separate facilities. Mishan begins the footnote from which Mr. Goudzwaard took his quote with: *"There should be no great difficulty in determining the right size of and the number of any particular type of separate facility."*

Finally, a comment about social interaction. I stated that *"the price we pay for his high standard is a sub-optimal allocation".* This does not in any way mean that I deny that there may be social (or other) norms that set a limit to the economic framework. By high-minded I did mean that these standards will not be the same for everyone. Moreover, one is completely free to consider what the economic sacrifice is that we have to make in order to meet a certain supra-economic standard; perhaps it even turns out that this sacrifice hinders compliance with other supra-economic norms.

F. Muller

5. Review of the ‘financial considerations’.[1]

The annual debates on the Speech from the Throne and the Budget Memorandum are usually referred to in the Binnenhof jargon as “general political and financial considerations”. With such a phrase, a distinction is suggested between “politics” and “finances”. During last week’s debates it became convincingly clear that this distinction is outdated. It is typical of - and dates from - a time when essentially only an equality[2] of incoming and outgoing flows was required of a budget and in taxation, the sole purpose of “taxation” was to simply cover expenses. Since then, not only has it become common practice that a budget should have a cyclical stabilizing effect, and that taxation has more purposes than “taxation”, but it has also become common knowledge (even in Parliament) that the budget is an instrument for regulating structural developments, particularly with regard to the relationship between savings and investment. And as far as taxation is concerned, it has probably escaped no one’s notice that these financial “considerations” also include the full discussion of political aspects of the future tax plans of the Cabinet.

The fact that there is a close relationship between the vision of the budget as a structural development instrument and the various political beliefs is, among other things, coming to the fore in the discussion surrounding the changed income ratios. Various sources, whether Government factions or the opposition, have pointed out that the sudden increase in the savings rate has mainly arisen from a fairly strong recovery in the income from profits. Therefore, the question to what extent one expects a budget like this to contribute to combating the structural savings deficit in the Dutch economy is closely related to the political opinion one has about this change in income relations. After all, a political will to perpetuate this shift in the categorical income ratio will lead to the conclusion that the savings from this “increased” profit income can be regarded as permanent, that the structural savings deficit in our society is therefore “not too bad”, and that this budget will therefore make a fairly large demand on the capital market. After all, every increase in the Government’s recourse to the capital market means an annexation by the Government of part of the additional savings in the national economy. That is why the extensive drain that this budget places on the capital market was at the same time a political target of the first order.

The philosophy of structural budgetary space is of course closely linked to the assessment of the most responsible size of the Government’s call on the capital market. This, as Prof. Blasz explained very clearly in his inaugural speech in Leiden (ftn: “Groeizaam financial policy”, printed in *The Economist,*

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1 ***E-SB*** 53e jrg No. 2666 16-10-68 pp.957-958 Terugblik op de “financiële beschouwingen.”
BCW Note: as the byline states at the end of this article, the contributor is a member of Parliament.

2 Dutch: *gelijkheid*. **BCW Note:** It would seem to be a matter of a budgetary “reconciliation”.

January/February 1967, pp. 1-22), is the methodology for immediately linking any excess of the structural space to the requirement of additional tax coverage, a guarantee that a continuous contribution is made by the National Budget in terms of the structural level of savings and investment in society. However, there was general doubt in the House about the finding of the Budget Memorandum that this year's expenditure policy remained within the limits of this structural space.

Mr Notenboom (KVP) even came up with seven reservations - formulated as questions - on this point, which Mr Witteveen, in his opinion, was unable to refute across the board. That is why, even in the second term, many speakers continued to have doubts about the contribution of this budget to the structural economic balance. The CHU and the ARP also criticized the fact that the minister, apart from cyclical setbacks in the tax sphere, wanted to leave room *a priori* in his budget financing for possible partial monetary financing. Mr Van der Mei (CHU) made a thorough, but unfortunately somewhat unnoticed, argument that this could jeopardize the effectiveness of monetary policy in our country, especially in the coming year. The minister allayed some of this concern by stating firstly, that monetary financing should never be an argument that would make it possible for a larger budget deficit to be accepted, and secondly, that there be full financing on the capital market as the desired policy goal for this year. His statement that the effectiveness of monetary policy from the national budget should not be weakened was also certainly important in this context; although it was not enough to drive all (pseudo?-) Steversian shadows[3] out of the debate.

The actual main point of the debate was undoubtedly the Government's further tax policy and its financing. It was at this point that the opposition put up its strongest defense. Mr Berg (PvdA) - partly because of the current unemployment level - opposed any refund for the inflation component of the tax progression as of January 1, 1970, and was against a further increase in indirect taxes during this policy period. He presented the chamber and the entire Cabinet packed behind the Government table with a supplementary expenditure plan of approximately f. 700 million, for which he wanted to find cover in a generalization of the system of tenant contributions, an increase in corporate taxes and an accelerated collection of taxes.

Mr Wiebenga (PSP) even went as far as f.2,300 million, with a "corresponding" coverage. Of the Government parties, the ARP went furthest in conditioning the financing of the Government plans, namely by immediately linking any call on indirect taxes for the realization of these plans to a requirement that adequate social compensation be made available from general resources. The purpose of this conditioning was, among other things, to urge

3 **BCW Note** Dutch: *Steversiaanse schimmen*. This is a reference to the Tilburg economist Theo Stevers (1923-2013) author of academic textbooks for which he was well known. Stevers was a prominent advocate of "public choice theory" associated with James Buchanan and sought to challenge increased public spending.

the minister to adopt a stricter policy in the field of unfunded measures that exceeded the structural budget space; after all, any going beyond the limits of that space not covered by taxes implies the use of the so-called purely nominal progression heads of tax revenues for expenditure policy, and removes the possibility of using the same inflation heads for the tax reduction as of 1 January 1970. The "way out" of an increase in indirect taxes in order to realize this tax reduction must then be pursued, and it cannot have been made too easy for the minister.

Finally, these debates have once again shown how little the rate of increase in Government expenditure is susceptible to downward adjustments or "reductions." According to this budget, total Government expenditure will increase by more than 12% compared to the previous budget - which corresponds to the rate of increase under the Cals Cabinet.[4] It is therefore hardly surprising that not only the Government factions, but also the Labor Party expressly advocated greater efficiency in expenditure policy. Whether departmental working groups are the appropriate way to achieve this is increasingly being questioned. After all, it is hardly expected that civil servants will be driven by the desire to ensure that the total expenditure of their own department lags behind that of other departments.

B. Goudzwaard

(Ed: Mr. Goudzwaard is a member of the House of Representatives for the ARP.)

4 **BCW Note:** The Cals Government had fallen two years earlier in October 1966. See Goudzwaard's comment upon this in his retirement interview. Sander Griffieon and Herman Noordegraaf "Ik heb bepaald geen saai leven gehad" Interview met Bob Goudzwaard **Bewogen Realisme: economie, cultuur, oecumene** Kok, Kampen 1999 p.33 for the so-called "nacht van Schmelzer".

6. Limits to Modelling the Future[1]

The 1970s became a period of a growing wave of futures models, which began with the publication of the first report of the Club of Rome (**Limits to Growth**). Since then, we have come to know the RIO report, the Bariloche report, the Pestel and Mesarovič report, and the OECD **Interfutures Report** - to name a few of the most well-known. The following trends appear to be emerging in this wave of futures models:

a. *An increasing policy focus; making concrete policy suggestions is increasingly less avoided;*
b. *The pursuit of a more integrated approach: in addition to technical and economic factors, social and cultural factors (developments in norms and values) are increasingly being considered;*
c. *The pursuit of greater regional and national differentiation; the recent publication of the Scientific Council for Government Policy: Policy-Oriented Future Exploration (1980, part I), which is a national elaboration of one of the main variants of the aforementioned OECD study, is an example of a study with this emphasis.*

The combination of these three factors - policy orientation, integration, and regional and national specificity - has brought "scenario analysis" increasingly to the forefront. Instead of unambiguous predictions of the future based on existing factual data, "looking into the future" increasingly relies on "sets" of complementary hypotheses, which vary according to the policy assumptions made and/or the (development of) societal views. This has undoubtedly significantly increased the instrumental usefulness of these models. Policymakers and society at large are free to choose, and scientists show them the potential consequences of their current and proposed actions. They do not impose their vision, but rather confront politicians and society with the possible outcomes of their choices and with the inconsistencies that may lie hidden in their positions.

Where will this development lead? Many expect that this development will make it increasingly possible not only to give continuous scientific guidance while assessing Government policy, but also to increasingly provide it with a scientifically sound basis, to effectively "scientialise"[2] policy. The uncertain future is systematically explored through the spotlights of scientific extrapolation based on sophisticated and refined models. The subtitle of the OECD report also points in this direction: *"mastering the probable, and managing the unpredictable.*" Exploring the future can and should serve to master likely developments and also to guide them where unpredictability threatens.

As this line of thought is gaining more and more adherents, it is appropriate to make some sober observations about the limits of future models, which become particularly evident when they take their place within concrete Government policy and begin to determine the scale and tone of that policy.

1 ***E-SB*** 19-11-1980 65e jrg "Grenzen van toekomst modellen." p. 1283

2 **<u>BCW Note:</u>** "verwetenschappelijken" - public policy becoming a science led by public policy scientists.

1. Future models, however one looks at it, are based on *quantitative* models. Qualitative aspects can undoubtedly play a role. But they must then find their place within the "sets" of hypotheses (scenarios) preceding the calculations. However, can this approach adequately address the *qualitative* element that characterizes every well-thought-out Government measure? Government policy is more than, and different from, governing a system. It is not only about achieving good "outcomes" that are primarily quantitative in nature. The process itself, through which certain outcomes emerge, will also be assessed, for example, by the policy itself, for its legal quality and will be accepted or rejected for reasons of fairness. Therefore, there will always have to be a threshold between the scientific-quantitative reflection on the future and the policy advice that may be distilled from it. This same problem has been discussed in the literature for years in a somewhat broader context, but here it takes on a very specific focus. I recall, for example, a remark by Hicks in his study **Essays in World Economics** (Oxford, 1959), in which he points out that as soon as an economist, as a scientist, arrives at a policy recommendation, he must not forget that he bears joint responsibility for all aspects of that recommendation—not just the economic ones: *"he is responsible for it in the round."*[3] This only applies - and even more so - when the scientist arrives at his recommendations based on a quantitative model-based approach. Striving for an integrated approach (point b above) sounds nice, but given the rigor of the model, it simply cannot do justice to all qualitative and normative aspects of policy.
2. The factor of "time" creates a particular problem. History is more than time;[4] historical consciousness - an essential element in policymaking - is more than can ever be stored or represented in a "set" of primarily quantified baseline data. Moreover, every model freezes time, no matter how dynamic it may be. "In the past lies the present, in the now what will come" is not a scientifically sound statement. The future holds more within it than can be anticipated on the basis of any differentiated present. The scientist then flees into his "asylum ignorantiae" of error terms and continuity breaks, but this must in any case detract from the value of his advice.

I suspect that most readers of this piece will agree with the truth of these two "boundary indications." The additional remark that no future model can ever be value-free, and that it somehow reflects the scientist's own vision of life and

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3 **<u>BCW Note:</u>** The quote reads: "It is impossible to make 'economic proposals' that do not have 'noneconomic aspects', as the Welfarist would call them; when the economist makes a recommendation, he is responsible for it in the round; all aspects of that recommendation, whether he chooses to label them economic or not, are his concern".(Hicks **Essays in World Economics** 1959, pp. x–xi).

4 **<u>BCW Note:</u>** The statement might be queried by Goudzwaard's fellow adherents to the Philosophy of the Law-Idea of Herman Dooyeweerd and others (PCI) and to the "General Theory of Modal Aspects" whereby all aspects, including the "techno-formative" or "historical" aspect are presumed to be aspects of cosmic time. Goudzwaard is clearly referring to the assumption of time implicit in Newtonian theory whereby speed = distance divided by time, i.e. miles per hour.

society, will also resonate with most readers; they may even consider it stating the obvious. Yet, it is necessary to emphasize these limits and limitations now. For however modestly the scientist himself may think about his models and his advice, his views are often indeed experienced in society as a whole as authoritative, as a guiding function towards an uncertain future. We are not as far removed as we think from Plato's vision that the best leaders of the national economy would be the philosophers to whom politicians must constantly listen. Sometimes the contemporary appreciation of the - useful - profession of scientific fortune-telling reminds me of the image of the magicians at ancient royal courts, who derived their oracles about the ruler's path from the position of the entrails.[5] Scientific fortune-telling is a nice and limited tool for policy, but in no way does it have any revelatory value.

5 **BCW Note:** The entrails of sacrificed animals were examined to determine policy direction.

7. POVERTY IN SCIENTIFIC PERSPECTIVE.[1]

This ESB dossier, "Causes of Poverty", follows a classification based on three possible structural causes of poverty: technological, international, and policy-related. This is certainly not an unusual distinction, but it is based on a pre-selection that need not be conclusive. What causes might have been forgotten, neglected, or overlooked?

The search for a new explanation for modern poverty has become increasingly important in economic discussions - at least in American literature. For example, Isabel Sawhill raised the question as early as 1988: *"Poverty in the US: Why is it so persistent?"*[2] In that article, she systematically examined all possible structural causes of poverty in the United States, but found a fundamental lack of insight regarding the most persistent forms of poverty: "From a more scientific perspective, we still understand very little about the basic causes of poverty." Paul Krugman wrote a few years later that the explanation for rising income inequality in the 1980s posed considerable puzzles for American economists: *"Was it global competition, Government policy, changing technology, or some other factor?"* He also noted that while scientists were still hesitant, politicians were already on the case. The so-called 'Krugman calculation', which states that as much as 70% of the increase in average household income in the US has gone to the top 1%,[3] came under heavy fire from conservatives.

Searching for the Residual Factor

This political militancy is understandable, however. Calculations like these are quickly perceived by politicians as a direct accusation, suggesting that the policies implemented in practice have contributed to the self-enrichment of the elite in American society. Self-enrichment could therefore be such a forgotten or neglected causal factor. This simultaneously raises the question of whether the structure of society has led to such a clear convergence of enrichment and impoverishment.

This ongoing search in America for the deeper causes of skewed income relations certainly has European parallels. I'm thinking, for example, of Tony Atkinson's penetrating analysis of the rise in poverty in England and the European Community, in which he specifically addresses the role of social exclusion.[4] But what's unique about the American discussion is that the question of economic thinking runs like a thread through it. I already mentioned Isabel Sawhill. She was also the one who drew a connection with the overly narrow way of thinking of economists. In her view, these deeper causes of poverty cannot be discovered if economists remain stuck in their

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1 ***E-SB*** 84e jaargang, 30 september 1999 nr. 4222, p. D24, "Armoede vanuit maatschappelijk perspectief."

2 **<u>BG FTN 1</u>** I. Sawhill, "Poverty in the US, why is it so persistent?" *Journal of Economic Literature* 1988, 1113.

3 **<u>BG FTN 2</u>** P. R. Krugman "The rich, the right, and the facts" *The American Prospect* no.11, 1992, 22.

4 **<u>BG FTN 3</u>** A.B. Atkinson, **Poverty in Europe**, Blackwell Publishers, Oxford, 1998.

'marginal thinking'. Impoverishment must be analyzed as a social process, with its own dynamic. After all, that is how this process unfolds in modern society. Consider, for example, the emergence of ghettos and a new urban or rural 'underclass'.

This seems to be a primary task for sociologists - and indeed, they have made considerable progress in this area in recent years. But there is also a methodological problem.[5] Anyone wishing to analyze impoverishment as an ongoing and potentially deepening process cannot avoid assuming a changing "data chain" due to economic factors. For example, when someone becomes unemployed or has their benefits cut, this can lead to certain forms of social isolation for those affected. Atkinson also notes that in such circumstances, people are no longer able *"to participate in the customary consumption activities of the society in which they live",* citing examples such as poorer housing, different food consumption, and no longer having a telephone.[6] But this does change the structure of needs.

Living conditions can even change so much that they demotivate people to seek new work. It's common knowledge, for example, that the insecurity of new - and cheaper - living environments can sometimes force women with young children to stay home - the high concentration of persistent poverty in so-called "female-headed families" is also related to this. And it doesn't stop there. Due to continued dependence on sometimes very low benefits, "stocks" also begin to erode. The "stock" of productive, employable knowledge diminishes, children can develop educational disadvantages, and negative effects on the "stock" of health cannot be ruled out.[7] These exclusionary tendencies are thus further reinforced: a sign that a poverty spiral can indeed develop. But, as mentioned, these are causal chains that operate through the body of economic data: they run through changes in human needs and incentives. And hasn't Hennipman taught us that, as economists, we should refrain from studying such causal chains?[8]

Now, one might reasonably argue that it is the right of economics to decide for itself what does and does not belong within its own field. And that, moreover, such methodological disputes need have little or no impact on the real fight against poverty. But that last point, in particular - and I add, unfortunately - is incorrect. And that leads to problems.

In politics, the economist's advice is usually taken as a comprehensive recommendation, and therefore rarely, if ever, as advice that addresses only one aspect. Economists repeatedly seem to pass on the limitations of their own

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5 **BG FTN 4** I think especially of the impressive study of W.J. Wilson, **The truly Disadavantaged - the Inner City, the Underclass, and Public Poverty**, University of Chicago Press. Chicago/London 1987

6 **BG FTN 5** *op.cit* p. 88.

7 **BG FTN 6** One could speak here of first- and second-order effects. For a further elaboration, see B. Goudzwaard et.al., **Een gezonde economie? Maatschappelijke dimensies van het economisch handelen,** MCKS-studie, Kok, Kampen, 1994. (A healthy economy? Social dimensions of economic activity.)

8 **BG FTN 7** How artificial this arrangement has actually become is also evident from a recent study by Th. van der Klundert "Economic efficiency and ethics", *De Economist*, juni 1999, where he observes: "If preferences are endogenous, welfare economics has to be redefined, as the neo-classical theory loses its last foothold." (p. 148)
BCW Note: "On the concept of economic causality" Goudzwaard's Doctorandus thesis from undergraduate work at the University of Rotterdam, "De Economische Causaliteit" *Correspondentiebladen van de VvCW* 21 (1957:2) 15-25.

perspective on poverty to politicians. And this immediately leads to difficulties, as has also become apparent in the American public debate. Once the question of the causes of poverty is separated from the underlying social context, the economist has little choice but to trace those causes back to the main factors of “lack of income” or “lack of work”. And then the treatment quickly becomes obvious: it must either consist of measures to expand employment or spending (welfare), or it must move towards improving the incentives to work- if necessary, by reducing social benefits (workfare). Thus, the well-known American political dichotomy between “workfare” and “welfare” seems to have more to do with the overly narrow paradigms of consulting economics than with a thorough analysis of social reality itself.[9]

Current economic thinking denies the possible connection between impoverishment and enrichment in modern society. It’s a relationship that can easily lead to subjective value judgments, and is therefore preferably avoided by economists. It belongs to what John Hicks once called “old causality”, in which *“causes are always thought of as actions of someone.”*[10] Economics has been liberated from this by embracing the concept of "new causality" since the classical period. In this concept, the central question is no longer *“who”* but *“what”* caused the phenomenon. “Modern economics” has thus evolved into a science of calculation rather than attribution.[11]

It is a conscious - and therefore not value-free - choice that Hicks speaks of here. But precisely with regard to the poverty issue, the question arises whether permanently eliminating the *“who causes”* question is such a wise choice. This could indeed lead to the *“unexplained factor”* of poverty mentioned earlier. Moreover, Amartya Sen has convincingly demonstrated that asking the *“who question”* in economics when explaining poverty need not necessarily lead to empty talk. For example, in analyzing the causes of the famine in Bengal, he himself concluded that the main cause was the failings of Government institutions, while in Ethiopia, the displacement of the large landowners towards the poor emerged as the most important cause.[12] Thus, several undeniable connections appear to exist between growing poverty and the organization of society.

Three points of attention for the Netherlands

But do all these considerations bring us any further when it comes to combating poverty in the Netherlands? I think so, and I’d like to conclude by highlighting three aspects.

A first lesson to be learned from the foregoing is that cuts to so-called soft sectors - including social services - can easily lead to economic miscalculations.

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9 **BG FTN 8** For a further defense of that position, see: B. Goudzwaard, “Who cares? An outsiders's contribution to the American debate on poverty and welfare” in: S. Carlson-Thies and J. Skillen (eds.), **Welfare in America**, W.B. Eerdmans, Grand Rapids/Cambridge UK.

10 **BG FTN 9** J. Hicks, **Causality in Economics**, Basil Blackwell, Oxford, 1979.

11 **BG FTN 10** The distinction dates back to the Dutch legal philosopher H. Dooyeweerd.

12 **BG FTN 11** A. Sen, **Poverty and Famines, An Essay on Entitlement and Deprivation,** Clarendon Press, Oxford, 1981. See also B. de Gaay Fortman, “Beyond Income Distribution: An Entitlement Systems Approach to the Acquirement Problem”, in: Van der Linden and Manders (red.), **The Economics of Income Distribution, Belgian-Dutch Association for Post-Keynesian Studies,** Edward Elgar, Cheltenham UK, 1999.

The existence of poverty spirals implies that the long-term impact of such cuts on public funds can be enormous. Not only can mental and physical health in poorer neighborhoods decline sharply, but street safety can also diminish, and educational and training gaps can lead to billions in expenditures. It is not without reason that the World Bank, in its new accounting framework, assigns an investment character to social benefits: they are preventative measures to maintain social stocks of social and cultural capital, which, without social care, could erode and thus undermine the sustainability of the economy.[13]

The approach Sen adopted in his analysis also seems to be relevant for the Netherlands: namely, to examine who is responsible for effectively reducing the direct or indirect claims to basic goods and general economic provisions (entitlements) of the poor. This criterion highlights not only direct cuts to social benefits as a potential cause of increased poverty, but also all those activities that have forced poorer groups to incur higher costs. This can occur through the market, but also outside of it - for example, through reduced access to public services - which, for example, become more expensive when the wealthier segment of the population manages to access private education and healthcare facilities.

In market-driven securities, speculative price inflation is arguably the most well-known example. Excessive use of the power to determine one's own remuneration or compensation can significantly impact the bills paid by the poor, thus reducing their entitlements. The right to grant oneself options and to trade them profitably seems at first glance to be a form of enrichment with a neutral effect. However, it should be borne in mind that rising incomes and assets in the financial circuit do indeed have a driving effect on the prices of goods with inelastic supply, such as the prices of decent homes in the Randstad[14] - with the added bonus of a free tax deduction on mortgages. A certain degree of exclusionary effect on the less fortunate is therefore difficult to deny in this case as well.

In summary, the fact that impoverishment and enrichment often occur synchronously raises the strong suspicion of the existence of causal connections relevant to policy. Including the question of attribution in economic analysis clarifies this possible connection, but simultaneously makes the impoverishment process a less innocent phenomenon. Economic attribution analyses could therefore increase the willingness to include in policy corrections for the actions of those who contribute to poverty, in addition to measures aimed exclusively at compensating the victims.

The factual existence of more or less autonomous spirals of deepening poverty in wealthy societies raises questions. How can policy intervention be addressed, and how can - in the sense of Jan Tinbergen's concept of qualitative economic policy - the organization of society in this regard also be improved?

Whenever questions are posed this way, the usual objective approach in economics to lower income groups - as those who either need to be encouraged to work or should have more money to spend - falls short. This

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13 **<u>BG FTN 12</u>** World Bank Press Release, September 1995

14 **<u>BCW Note:</u>** Randstad: refers to a significant proportion of the Dutch country comprised of major cites from Amersterdam, The Hague, Utrecht and Rotterdam.

approach naturally leads to another, one in which the poor are primarily seen and valued as subjects or (co-)actors.

Experience in numerous countries shows that projects initiated by poorer neighborhoods or districts in the areas of education, safety promotion, and improved living conditions have the best chance of success. The US also offers striking examples of entire neighborhoods and social groups escaping the demotivational structure that began to grip them through rising unemployment, exclusion, and a lack of public services.

The actor-based approach to poverty, however, sheds light on more connections. It also allows us to view exclusion as a broader social phenomenon. For example, consumption styles can, for certain groups, set a trend of belonging or exclusion from primary school - the 'Nike' symbol of blonging to the group. This can easily lead children of disadvantaged parents to a certain degree of isolation. Ostentatious consumers and aggressively advertising producers, as actors, can unknowingly fuel the spiral of increasing poverty.

Therefore, the obvious conclusion is that a society that in principle values the reaching of limits to consumer spending as a positive thing will, in the long run, have a better chance of eliminating poverty spirals than a society that considers the stimulation of needs to be an ever-present compulsive given.

See also.
R. Janssen, Reactie: De achterzijde van de verrijking

Appendix -
Exchanges on E J Mishan The Costs of Economic Growth 1967
E-SB 24.4.1968
Some further thoughts on the costs of economic growth.[1]
E J Mishan - Reader in Economics, London School of Economics

1. The liberal justification of a good pricing system is that it enables people to choose among individual goods and at supply prices which reflect their real resource cost. If 'bads' (i.e. adverse spillover effects) are also produced, symmetrical reasoning would require a pricing system which allows people to choose which 'bads', and how much of each, to take at the going price which supply price itselfshould reflect the excess gain of the producer of incidental 'bads'. If, however, the economic system is such that a growing range of 'bads' are being forced onto people, there can be no presumption that on balance the area of choice is expanding. In particular, no growthman is entitled to talk of "the costs of progress" if by that phrase he is suggesting that the additional utility of freely chosen goods necessarily outweighs the additional disutilify of the 'bads' that are thrust on a person. Only if we all agreed to accept the 'bads' in exchange for the additional goods could the incidence of 'bads' be rationalized as "the costs of progress". But since there is no economic mechanism which offers to us this over-all choice, the implication of this phrase must be repudiated.

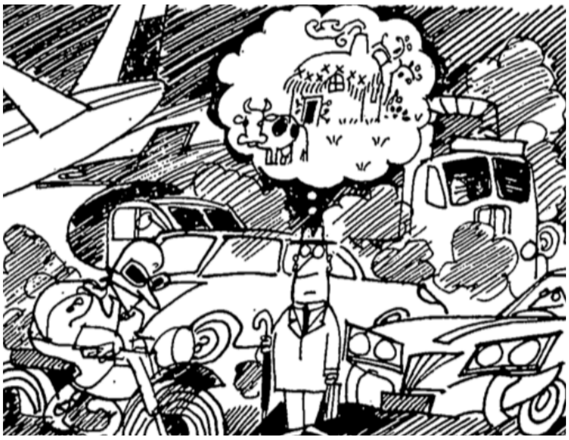
This is the least that may be said. One could say more: one could surmise that since the growth of 'bads' affects people in vital ways (in depriving tliem of fresh air, sunshine, peace, quiet, and good health), and the growth of goods affect them in trivial ways (in offering them the choice of yet larger, and smaller, television screens and some dozens of motorized gadgets and gewgaws) there can be a presumption that the citizen is worse off. But whether or not you share my contempt for much of the stuff produced by modern industry, the fact that 'bads' are not chosen, but are forced upon him, cannot be gainsaid. And this form of coercion affronts, or should affront, the liberal conscience.

The problem of dealing with these 'bads' is difficult, though not intractable, simply because most of them are, to a greater or lesser extent, collective 'bads'. Like collective goods, they cannot be retailed among individuals: necessarily they affect a group of people simultaneously. Again, like collective goods, collective 'bads' would, under amenity legislation, place each person affected in a monoply position: such a person can ask what price he wishes in order to surrender the amenity in question, and can do so without fear of some other person's consent being substituted for his. This feature creates problems the ordinary market mechanism cannot handle. So one must seek other means of helping the citizen exercise control in this vital area of choice.

This search for control - not merely optimal outputs - led me to several proposals, chief of which was the introduction of amenity legislation: that the existing legal protection against trespass on private property ought to be extended to trespass against private persons. At present, a man may claim full compensation if another invades his land or breaks his windows. If the by-products of the gainful activity of another invades his privacy and frays his nerves, he can claim nothing. And it may legitimately be contended that the protection from the noise and dirt of others, is no less important to his health and well-being than is the protection currently extended to his property.

2. I should want to be more careful that my remarks about the fondness of the business world for rising indices, or about the faith of some economists in the benefits to be derived from more competition, expanding international trade, and economic growth, are not to be construed as an attack on the market mechanism or as an attack on private enterprise, at least not in that part of thé book where I am content to develop my arguments within the conventional framework. Compared with a centralized administration of the economic system, private enterprise, regulated by the market is still a relatively cheap and efficient way of allocating resources and distributing goods. What is to be emphasized, however, is that such an enterprise system operates within a

[1] **BCW Note:** The original article was published in English, although it does not seem to have been edited grammatically.



framework of law. We all know this, but we forget it at a time when it is most important that we remember it.

To talk of "market failure" in connection with the post-war growth of spillover is ambiguous and, in any case, misleading. The cause of growing spillover must be sought in a deficiency in the working of government. Once spillovers are recognized, governments can intervene directly through a system of taxes, regulations and controls. This could be very costly, and politically onerous, inasmuch as it would entail bureaucratic expansion. The economist who has a predilection for the market would suggest an alteration of the legal framework. Obviously the enactment of amenity legislation will cause some initial upheavals. Industries that cannot devise means of ridding their productive processes, or their manufactures, of offensive spillover will contract or close down. But this is, of course, what must be expected from legislation intended to bring commercial criteria closer into line with welfare criteria.

3. Such legislation has a further implication that was not made sufficiently explicit in my writing. I argued that unless the net benefit anticipated from a potential (Pareto) improvement exceeds the decision costs it will not, and should not, be undertaken. But I also attempted to demonstrate that the magnitude of such costs, and the question of the group which bears them, is determined by the law. In particular, I conjectured that although these decision costs are heavy, they are apt to be far heavier under the existing law than they would be under the proposed legislation. What I now want to stress is the inertia imparted to the status quo, whatever the law, in consequence of this decision costs barrier.

Let us restrict ourselves to those potential optimal economic arrangements which, because of their associated decision costs (which term should be extended in what foliows to inciude all the relevant administrative cost also), would be excluded under either law, the existing or the proposed law.[2] The status resulting if the proposed amenity laws were in force would be markedly different from the status quo under the existing law. Under the existing law, a proliferation of adverse spillover effects continues to take refuge behind the barrier of decision costs. Under the proposed law, it is amenity which is sheltered behind this barrier. Using words loosely: the magnitude of decisions costs implies that under the status quo there will be "too much" spillover; under the proposed status, on the other hand, there will be "too little".

Over time, of course, changes in population, in tastes and in technology may reduce some of the decision costs and may raise the value of the potential economic improvements under either law (though the converse seems just as likely). And wherever this occurs, wherever the value of the potential economic gain of some mutual arrangement exceeds the decision costs, we shall get the "right amount" of spillover and the "right amount" of amenity - an optimal outcome in fact. But bearing in mind that spillovers are likely to grow rapidly over the future, and that many of them, such as the destruction of natural beauty and the poisoning of the earth's atmosphere, cause irrevocable damage, the interests of society, certainly of posterity, is better served by "too little" spillover rather than "too much". And since in practice we have to choose between them, our acceptance of the status quo (rather than amenity legislation) implies an acceptance of the "too much" spillover option.

4. I would want to add a small addendum to the proposed legislation requiring complete prohibition of any of several clearly defined disamenities in the absence of consent among all the affected parties. This qualification was obviously intended to leave the door open to net potential economic improvements, to agreements by which, after meeting all decision costs, everyone could be made better off. This still seems to me satisfactory for spillovers, such as noise, that amount to

2 **BCW Note:** This appears to be the phrase in Mishan's article - distinguishing existing L from proposed L laws that is subsequently developed by Muller and then taken up by Goudzwaard. In the articles below this is designated by L and ***L***, L-law and ***L***-law (L-wet) and sometimes L-legislation (L-wetgeving).

an invasion of privacy. But there are other sorts of spillover for which a consensus to waive the prohibition should not perhaps be accepted as a net economic improvement, for two reasons:

a. There may be insufficient information about the range of consequences arising from the offensive spillover: the unpleasantness a man experiences from being bathed in the exhaust fumes of others' engine may be slight compared with the ultimate damage to his health and to the health of his family.

b. The other reason is that the consequences of today's spillovers fail not only on todays citizens but also on tomorrow's. Tourist spillover can cause virtually irrevocable destruction of coastline, woodland, lake district and places of rare natural and historie beauty, thus depriving future generations. The state, in such cases, is required to act as custodian of the future. Spillovers falling into either of these two categories might, therefore, be entirely prohibited, notwithstanding potential unanimous consent to waive the prohibition.

5. There are three points I should now wish to emphasize in connection with my proposal for separate areas:

In a swiftly changing world, traditions have no time to take root. There is apt to be less agreement than hitherto on the constituents of the good life. It is altogether possible that many people today enjoy the sedentary, mechanized life offered by today's sprawling metropolis, along with the fume and din and tawdry facades. If so, it would be politically much simpler to encourage the creation of separate areas than to reach agreement about some ideal form of civilised living.

Apart from political expediency, there are humanitarian arguments which reinforce the welfare analysis developed in my book. There are many people today - call them frail, eccentric, hypersensitive or neurotic, if you wish - who find particular features of modern society increasingly unbearable. For some it is the sense of isolation, for others it is the pressure of keeping up with the machine, for yet others it is the sense of futility and despair, the incessant traffic, or the spreading wilderness of concrete and steel. Our affluent and technically competent society at present offers them no escape, no alter- natives other than, perhaps, wandering off to India in a mad moment to die slowly of drugs or disease or starvation; or feeding on tranguilizers; or repeatedly falling sick, or attempting suicide. A variety of separate and viable areas, within which seemingly persecutory features of the machine age were absent, and within which more benign features were incorporated appears to me a feasible proposition whatever the state of the law and one which an affluent society ought to offer to its members.

For all its desirability and expediency, we have yet to face problems involved in the actual planning of separate areas. Although the planning of separate areas does not depend upon amenity legislation, its enactment would very much lower the costs of establishing such areas. For in that event, the burden of paying compensation would faIl, not on those seking amenity in the proposed area, but on those resisting it. Indeed, once such legislation becomes fully effective, the prevalence of amenity will be the norm rather than the exception. And the problem would transforrn itself into the more enjoyable one of establishing pockets of "disamenity" for those anxious to have them and willing to pay for them.

6. In the day-to-day discussion of economic events, by, newspapers and by politicians, the public (at least in Britain) hears a great deal of economic needs, and very little indeed of economie choice. How often do we hear, for instance:

- that the country cannot afford to "fall behind in the race";
- that we must expand the supply of highly trained scientists if we are to maintain our standards of living; or
- that our economie survival depends on our ability to increase our exports.

Such exclamations, resonant with foreboding, are a part of the bandwaggon repertoire of our public men. They have become part of the daily incantation of commoner and (I regret to say) royalty, of government official and business magnate, even of scientists and historians- who ought to know better. All such statements serve to conceal the realities of the choices that face a country. Thus:

Ad a. The country is not compelled to enter this, that, or any other "race". It can choose to invest fewer resources into industries producing motorized-products and to invest more resources in beautifying its towns and cities, and it can do so without any risk of perishing from the face of the earth; indeed, without any risk of a fail in 'real' standards.

Ad b. The number of scientists a country should train is, ultimately, a matter of choice also. It depends on the economic goals pursued. Even if one is concerned with - crude material growth, the 'need' for more scientists (and engineers) has not yet been disclosed by any professional economic analysis. The 'need' arises, apparently, from a deep-seated superstition about the value of scientists (and engineers) to society.

Ad c. Our exports pay for our imports, as every child knows. But not enough people ask the question: if all of our imports are not crucial to our survival, how can all our exports be? And are all our imports necessary to our survival? I suggest we look down the list of imports. For Britain, at least, a lot of imports are luxuries or semi-luxuries. Many are close substitutes for the home product: they please the domestic consumer but hurt the domestic producer. But what proportion is necessary for survival? I assure you it is not 100%. There is room for choice here unless we believe we are bound hand and foot by international conventions. And the sacrifices imposed on a country in the hopes of coaxing the foreigner to buy that much more, in order to pay for some £300 million or £400 million of imports of quite expendable goods (including foreign securities), seems out of proportion to the potential benefit. But does the public have any notion of the terms of such choice? Has it any notion that, there is, indeed, a choice?

E.J.Mishan

E-SB 24-4-1968 pp.408-410

Mishan, Heertje, Goudzwaard and external effects.

The author is very grateful for the valuable comments made by Drs. W. Siddré and A. S. W. de Vries in writing this article.

> ***Editorial Note:*** *Since the opinions of Prof. Mr. J. M. Polak, Prof. Dr. L. J. Zimmerman, Ir. J. A. Beukers, Drs. S. E. Pronk, and Drs. J. M. den Uyl on the external effects, as they emerged in their introductions and the panel discussion during the Economists' Conference, have already been presented elsewhere in this issue, I will limit myself below to the introductions by Dr. E. J. Mishan, Prof. Dr. A. Heertje, and Drs. B. Goudzwaard, which are included in this issue and to which I will refer throughout. First, the theoretical perspectives will be outlined. Then, I will address the differences and similarities between them.*

The Views of Mishan, Heertje and Goudzwaard

F. Muller

Mishan argues that the liberal justification for a good price system is that it allows people to choose between individual goods, with prices offered that reflect the cost of real resources. If “bads” (as opposed to “goods”) are also produced, symmetric reasoning requires a price system that allows people to choose how much of the “bads” they will take at the prevailing price; the offering price then also includes the “extra” profit that arises because the producer does not pay compensation for the “external diseconomies” they cause. However, since the “bads” are imposed, one cannot say that the number of choices increases with an increase in production. Most “bads” are collective “bads”. Consequently, the “normal” market mechanism cannot solve these problems; to achieve a solution, Mishan introduces his "amenity rights”. He mentions taxation, regulation, and control as other ways to combat spillover effects. He says these measures are often costly and lead to bureaucracy.

Heertje aims to demonstrate the place Mishan’s expositions occupy in economic theory. To this end, he discusses the concepts of prosperity, well-being, and growth. “Prosperity in the subjective sense” is influenced by any action that involves the use of scarce resources for the purpose of satisfying needs. Heertje considers actions that do not involve a burden on scarce resources but do contribute to human happiness to be part of prosperity. Growth is generally defined as increasing per capita production. However, Heertje wants to “subjectify” this concept in the direction of the formal concept of prosperity. By using the concept of prosperity thus defined, topics such as air pollution and noise pollution can be addressed within the economy. According to Heertje, the most important point in the discussion of the costs of economic growth consists of an analysis of the decision-making process regarding the use of scarce resources; this is influenced by preferences. Heertje distinguishes between individual preferences, collective preferences [B] (e.g., pressure groups), and government preferences that influence allocation. To express these, he wants to broaden the traditional market concept to also encompass collective supply and demand. The key question here is how preferences should be expressed; on the other hand, decisions must be made about the implementation of production programs. Heertje advocates for coordinating and intensive consultation between government, business, and consumer organizations. The foundation should be an overview of both the monetary and non- monetary, but quantitative, consequences, and the qualitative consequences of economic measures.

Goudzwaard limits himself to the external effects in the consumer sphere. According to him, due to the changing moods of humans, it is “impossible to rely on given subjective evaluations”. Moreover, there are indirect effects because third parties are involved; “this almost immediately silences talk of optimizing utilities”. The above does not mean that no economically relevant effects can occur in “external (dïs)economies”. Goudzwaard starts from the nature of consumer goods and then distinguishes between goods with social complementarity and goods with social discomplementarity, where economically relevant external effects can occur. He also includes the “limited natural environment” among the goods with social discomplementarity; economic relevance arises when these effects lead others (including, for example, the government) to take certain defensive measures. According to Goudzwaard, in the case of a “limited natural environment”, there may be grounds for levying rent. The natural boundaries could also be “shifted further”.

Comparison of the Three Views

The analyses of Heertje and Goudzwaard are more comprehensive than Mishan's; after all, while Mishan primarily limits himself to the "bads", Heertje and Goudzwaard's analyses also encompass the "goods". Heertje primarily distinguishes between different preferences (individual, collective, and government preferences), while Goudzwaard's distinction is based on the goods for which relevant externalities can occur (goods with social complementarity or discomplementarity). The fact that Heertje distinguishes between both individual and collective preferences suggests that collective preferences are structured differently than the [409A] "total" of individual preferences, or that the desires resulting from these preferences have varying possibilities for realization.

In Mishan's, Heertje's, and Goudzwaard's cases, the market mechanism is unable to ensure a proper allocation; in Mishan's, it fails to distribute the "bads" in accordance with preferences; in Heertje's, it fails to express the various preferences; and in Goudzwaard's, it fails to distribute the relevant "external diseconomies" and "economies" in accordance with preferences. While there is a large degree of similarity regarding the nature of the problems, the differences lie largely in the solutions chosen. This will be discussed in the next section.

Heertje considers economics only when scarce resources are being used. Goudzwaard argues that external effects are relevant for goods with social complementarity or discomplementarity; in the case of a "limited natural environment", they are relevant only if these effects induce others to take certain defensive measures. Heertje thus provides a guideline for the economic relevance of human action; Goudzwaard does so only with respect to external effects. The examples Goudzwaard gives regarding defensive measures against the limitation of the natural environment show that Goudzwaard, too, is considering measures that burden scarce resources. External effects of goods that are socially complementary or discomplementary also have consequences for the burden of scarce resources. According to Heertje, Mishan does not demarcate "the economic facet of action" from other aspects of human behavior. The forum discussion has shown that Mishan does not intend to do so either; He doesn't want to distinguish between prosperity and well- being because activities that are "non-economic" today could be "economic" tomorrow. Mishan bases almost all of his proposals on the argument that an improvement in the Pareto welfare optimum is possible. He also bases his proposal to impose a ban in some cases without the possibility of evading it through compensation payments on the fact that there are potential economic improvements.

Solution of the Problems

Mishan solves his problem by legalizing livability rights and establishing "separate facilities". He rejects other options - as we've already seen - as too costly and bureaucratic.

Heertje's primary concern is placing the problems within a broader context. However, he doesn't specify how the various preferences should be expressed or how the decision-making process should proceed. Further research on "the logic of collective action" will be necessary (see, for example, the book of the same name by M. Olson).

Because of the "limited natural environment", Goudzwaard suggests imposing a rent tax, which corresponds to Mishan's compensation payments resulting from "amenity rights". As another solution, he sees the possibility of expanding the "natural environment", namely, by creating recreational areas or installing sewage treatment plants. This latter solution could be compared to Mishan's total ban (thus, without the possibility of compensation) or other regulation, in which industries are forced to implement measures to eliminate the "external diseconomies". Alternatively, measures to expand the environment could be taken by the government (similar to Mishan's "separate facilities" solution). Although Goudzwaard does see possibilities for Mishan's solution, he has serious objections to some aspects. These will now be discussed.

Goudzwaard's Objections to Mishan

To clarify Goudzwaard's objections and, if possible, refute them, the solutions "amenity rights" and "separate facilities" are presented first. The objections themselves are then presented under A and B. Following Mishan, Goudzwaard suggests three solutions to strengthen the weak link between economic growth and human well-being:

a. "Market demarcation" by including prohibitions for "external diseconomies";
b. "Market expansion" by requiring compensation for "amenity rights" (compulsory payments for diseconomies);
c. "Separate facilities."

According to Mishan, a complete ban in case a could represent a potential economic improvement if 1. no agreement can be reached between the parties involved; and 2. if there might be agreement, but a. there is insufficient information about the consequences of the "external diseconomies" and b. today's "spillovers" also affect future generations

Besides solutions a and b, Mishan also distinguishes between an L-law and an L- legislation. An L-law permits infringement of persons, which is not the case with the L- law. In both cases, however, there may be possibilities for compensatory payments, i.e. The L-Law provides for compensation to compensate the perpetrator of "external diseconomies" for ceasing to cause these "external diseconomies", and the L- Legislation provides for compensation to be paid by the perpetrator of the "external diseconomies". Cases a and b both relate to the L-Law. Regarding the solution to "separate facilities", there is an important difference between Goudzwaard and Mishan, because in Goudzwaard's case, "separate facilities" relate to cases a and b, while in Mishan's case, it primarily concerns the distinction between the L-Law and the L-Law, both without compensation payments. In my opinion, Goudzwaard offers a different interpretation of "separate facilities" than Mishan.

1. Goudzwaard's Objections to the Possibility of the Solutions Proposed by Mishan

According to Goudzwaard, a general practical solution b is not possible because there are "an infinite number of cases". I note here that with L-legislation (i.e with b), the [410A] required to reach an agreement are often considerably smaller than with L- legislation,[3] and that the benefits of reallocation are more likely to exceed the costs than with L-law. Mishan states in his speech: "I argued that unless the net benefit anticipated from a potential (Pareto) improvement exceeds the decision costs, it will not, and should not, be undertaken". The "infinite number of cases" is thus reduced to the number that yields net benefits.

Goudzwaard argues that we end up in an intellectual merry-go-round if we make Mr. A pay compensation for the dissatisfaction his high income causes B, because A himself must be compensated for the dissatisfaction his loss of income causes him. It should be noted that even with compensation for "external diseconomies" caused by, for example, consumption, there is always an income gain and a loss; these will be weighed by the parties involved against the disadvantages and advantages associated with the consumption of a particular good. If there are no advantages for Mr. A under an L-law, he will not enter into the transaction. A and B will not be able to reach an agreement; they will retain their original income, and no compensation will take place. Wage, income, or wealth taxes can serve as instruments to ensure compensation nevertheless. This effectively means a transition from the L-law to the L-law, in which the tax payments can be seen as a legalized compensation payment, primarily from high-income recipients (e.g., A) to the government; the government could transfer the taxes thus received to low-income recipients (e.g., B). In fact, compensation in the income sphere can therefore take place via the government.

According to Goudzwaard, the "separate facilities" solution is only possible in a few cases, because there is a high degree of unpredictability. However, in other cases, which may involve significant "external diseconomies", it should be possible to determine whether the benefits outweigh the costs.

2. Goudzwaard's View on the Desirability of the Solutions Proposed by Mishan

Goudzwaard believes that social interaction also has its demands. According to him, it would even be "a downright disaster if social norms were dissolved into a system of compensatory payments." However, it seems to me that social interaction has implications for economics. Someone who is willing to pay for a beer in a nightclub is apparently willing to pay something to participate in "social interaction." If someone is willing to withdraw from social interaction for a fee, they will only do so if they believe they will be better off doing so. If they can reach an agreement with the person or group of people they want to withdraw from, they will also be better off. Such a system of compensatory payments does not fit with Goudzwaard's worldview, the high demands on "social decency" in social interaction. The price we therefore pay for his lofty standard is the disadvantages of a non-optimal allocation.

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[3] See E. J. Mishan: "Pareto optimality and the law" *Economics Papers*, November 1967, pp. 255-287 at p. 276.

Goudzwaard points out that the choice regarding “separate facilities” is not the same for everyone, but depends on one's income. Someone with a low income would be more willing to allow a violation of their quality of life to receive compensation. Areas with intact quality of life would become gathering places for the social elite. The most affluent would have more opportunity to violate quality of life than the poor. Since this, in my opinion, is a very important objection, I would like to elaborate on it in more detail. To give an example of driving, which is associated with very significant “external diseconomies”, Goudzwaard's “separate facilities” solution would amount to creating an area where driving is completely prohibited, and another area where this prohibition can be circumvented through compensation payments. If the wealthy, as Goudzwaard suggests, want to live in an unspoiled area, they will have to refrain from driving there. According to Goudzwaard, the poor would prefer to live in the violated area for the sake of the self same compensation. However, they will only do this if, in their opinion, they are better off. For the poor in the affected area, this means that they will also receive compensation, even if they experience the same level of inconvenience. This results in an income transfer from the rich to the poor. However, the possibility remains that the poor would prefer to live in an unaffected area.

Even with the original “separate facilities” solution, as proposed by Mishan, there is no reason to speak of favoritism toward the wealthy. Mishan's solution would create an area where driving is permitted, and an area where it is not. Here too, the poor could live in the untouched area, with travel and relocation allowances if the newly created untouched area does not coincide with the existing work or residential area. Moreover, with Mishan’s “separate facilities” solution, there are no possibilities for compensation in the affected area, so this “attraction” for the poor is absent.

Conclusion

Mishan’s solutions to the problems posed go beyond those of Heertje and Goudzwaard. Heertje’s solution requires further elaboration. Goudzwaard's objections to Mishan require further explanation. Moreover, Goudzwaard does not propose any new alternatives. The solution of “separate facilities”, as proposed by Mishan, has already proven its practical applicability, as evidenced by separate smoking compartments on trains, areas with a speed limit for cars, areas where car traffic is completely excluded, university reading rooms, recreational areas, etc. Compensation payments are also already being used to a limited extent in practice; during the panel discussion, Mishan cites the example of compensation payments for land expropriation.

I therefore believe that the application of Mishan’s livability rights and “separate facilities” should be given a real chance if they improve allocation and are less costly than direct government intervention or give rise to less bureaucracy.

***E-SB* 5 June 1968 2647 pp. 549-551.**

A Postscript

F. Muller

In answering Mr. Goudzwaard's reply, I would like to start by appealing to the following statement by Mishan (see his book, (Staples edition p. 82; Pelican edn. p.116 ftn.2): "Clearly the net social gain may be greater yet if the movement to the separate- facilities solution is not from an existing constrained optimum but, as in most cases it will be, from an existing non-optimal solution."

This clearly shows that Mishan takes the existing situation as a starting point when setting up the separate facilities, because this often offers greater advantages and in most cases the existing situation means a non-optimal situation. If Mr Goudzwaard says that Mishan assumes a situation of compensation payments (this is the "constrained optimum"), this is not correct. Goudzwaard seeks support for his interpretation in Mishan's comment: "if amenity rights could be enforced by law the ordinary working of the market would tend to establish separate facilities". (p.83S; p.116Pelican) However, we must understand this comment by Mishan in the theoretical structure of his book, which, based on the existing (non-optimal) situation, mentions the advantages of "amenity rights" over the existing situation and then of separate facilities over "amenity rights" (these benefits can indeed be estimated for the potential residents "as the minimum sum required to compensate them in continuing their legal rights to amenity"). Mishan's comment aims at nothing other than to herald the transition from one topic ("amenity rights") to another ("separate facilities").

Mr. Goudzwaard will do well to determine whether his objections, which are unclear to me even in his own interpretation of the concept of "separate facilities", are still valid if the existing situation is chosen as a starting point. I would like to help him with the following example. The following can be noted with regard to a possible disadvantage for less well-placed people in a separate facilities solution. Indeed, this solution only offers advantages over "amenity rights" if there are such external effects that they affect different people in different ways, with the understanding that these effects are experienced positively by some and negatively by others. However, this also means that those who (will) live in a certain area do not need to be compensated, because in that case there will be no adverse consequences for them (this is regardless of whether or not compensation is in fact possible, i.e. it does not even make a difference to this problem whether my interpretation of Mishan's separate facilities is taken or that of Mr. Goudzwaard).

Goudzwaard's quote ("in comparing different types of residential areas ... there should be no objection to guidance by market forces" (p.85 Staples; p118 ftn5 Pelican) is not relevant here, because these market forces are only mentioned by Mishan as a guideline for determining the size of the separate facilities.[4] Mishan begins the footnote from which Mr. Goudzwaard took his quote with: "There should be no great difficulty in determining the right size of and the number of any particular type of separate facility." (see full quote p.36 above).

Finally, a comment about social interaction. I stated that "the price we pay for his high standard is a sub-optimal allocation". This does not in any way mean that I deny that there may be social (or other) norms that set a limit to the economic framework. By high-minded I did mean that these standards will not be the same for everyone. Moreover, one is completely free to consider what the economic sacrifice is that we have to make in order to meet a certain supra-economic standard; perhaps it even turns out that this sacrifice hinders compliance with other supra-economic norms.

F. Muller

4 **BCW Note**: Muller ignores Goudzwaard's evident critique of the idea that the prevailing standards will be provided by allowing the market to run free.