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Distribution Output Prices and Expenditure

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DISCUSSION PAPERS

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I

In a Robinson Crusoe economy the only source of satisfying needs is one's own productive effort. In any collectivity, however, it may be possible for any given individual - or a group - to satisfy needs by drawing upon the fruit of productive effort other than his - or their - own. Furthermore, in cases of joint productive effort - which constitute the rule in a situation of extensive division of labour - the determination of the contribution of every one of the participating factors to the total output is an inherently difficult matter, which lends itself to dispute. The determination of what rightfully constitutes the fruit of a person's effort or resources, i.e. the distribution of output and the terms and conditions upon which an individual - or group - may be entitled to draw upon the fruit of the productive effort of others to satisfy his - or their - needs, i.e. the redistribution of income constitute critical issues, are matters which every society tries to settle in its own way. Any arrangement concerning these live issues, however, cannot be permanent or final. Such arrangements tend to evolve and occasionally to change abruptly, under pressures emanating from a variety of factors and forces: sheer self-interest, perceptions regarding justice and fairness, dogmatic and ideological considerations, economic necessities and expediencies, etc. Pressures upon distributive and redistributive arrangements in any society may fluctuate in intensity over time according to circumstances and there may be periods when contentions and disputes over them subside; but they hardly ever cease altogether.

In cases where the basic distributive criterion is not privilege, authority, power or any other economically external consideration but is productive contribution, and where the corresponding distributive regime enjoys a wide degree of acceptance in the collectivity concerned, it becomes clear to the individual - or indeed the group - that, if not the only way, at least by far the most effective way of improving one's economic lot is the increase in his - or their - productive contribution, as the latter is reckoned under the regime in question. Under such circumstances, the incentives to productive effort tend to be strengthened as most people concentrate their attention upon increasing their productive contribution in order to reap the consequent rewards. Distributional friction ebbs and the energies absorbed by it diminish.

Such economically happy circumstances, however, combining distributive peace with satisfactory economic incentives, which can produce steady economic improvement, cannot be expected to last for ever. A situation of distributive peace may be subject to erosion for two categories of reasons, the one internal and the other external.

Consider a situation which yields what seems to be a widely acceptable distribution of income flows without weakening the linkage between productive contribution and economic reward to such an extent as to undermine the necessary economic incentives. Such a situation will tend gradually to build up to a less and less acceptable distribution of the stocks of wealth. Differences in earnings necessary to safeguard the requisite minimum of economic incentives and the inevitable differences in propensities to save, stemming from differences in time preferences and other related attitudes, will lead to different rates of wealth accumulation among different individuals and consequently to an increasing inequality of wealth. Apart from the fact that the latter constitutes per se a very important distributive bone of contention,it is also highly likely gradually to render the distribution of income flows more unequal, thus undermining their initial acceptability. It is quite clear that wealth, depending upon the form it assumes, may have a direct economic yield, thus increasing the income flows of its owners, or, in the least favourable cases, an indirect yield in the form of enhanced earning power, security, utility and satisfaction.

Strictly speaking, the process would eventually be the same even if one started from a complete equality of wealth and complete equality of official income flows. Differences in the propensity to save and differences in the level of production for self-consumption and unofficial production would tend to lead to increasing inequalities, albeit at a much slower rate, at least in the early stages. Only the prohibition of ownership could put an effective upper limit to such a process, for it would deprive saving of its main object.

The only way to neutralise the process completely would be to start from a complete equality of wealth and incomes and either effectively to prohibit saving or impose the same propensity to consume upon all. The artificiality and the questionable operability of any such scheme serves to underline the significance of the trend toward increasing inequality under conditions of differentiated economic rewards, to account for differences in productive contribution and preserve a satisfactory level of economic incentives.

It should be pointed out that a satisfactory level of economic incentives presupposes not only a degree of correlation between productive contribution and reward but also the free disposal of at least a sizeable fraction of the fruit of one's productive effort, including the option of increasing the stock of one's wealth in some way. It can easily be seen that to allow some degree of inequality in rewards in accordance with productive contribution but disallow the option of accumulating capital in some way or other (physical or human) would reduce the efficacy of the corresponding productive incentive drastically. Among the things for the sake of acquiring which an individual would consider it worth his while to increase his productive effort, only some are objects of immediate consumption. Many have some considerable element of durability, which renders them objects of value and elements of wealth. Increased rewards for increased productive effort on condition that they are immediately consumed would reduce their attractiveness a great deal.

It is clear that with differences in earnings in accordance with productive contribution and the option of saving, even an initially acceptable distribution of flows is likely to lead to increasing differences in the distribution of wealth and income.

Thus it seems impossible to devise a distributive arrangement which would generate the minimum of necessary incentives for the effficient operation of the economy without the likelihood of consequent changes in the distribution of the stock of wealth that would cause distributive tension. It is also clear that such changes in the distribution of wealth will eventually affect the distribution of income, for wealth can hardly be neutralised of yield, direct or indirect.

Various forms of progressive income or wealth tax may weaken or arrest such trends but they could only offset them completely at the cost of a crippling damage to incentives. Progressive taxation can reduce after tax inequalities in earnings far enough to render the distribution of after tax income flows less unequal,thus commanding a wide measure of social acceptability. Whether this could be combined with a satisfactory level of economic incentives would depend upon circumstances regarding distributive attitudes and mentalities. Even under conditions where this proves or is rendered possible through the appropriate conditioning of public opinion, however, this could not prevent different rates of accumulation among individuals and consequently increasing inequalities of wealth. For if things were so arranged that it became clear to those concerned that, as a result of the gradation of taxes in question or equivalent policies, their efforts to increase their wealth for themselves and their offspring would be to no avail, their incentives would already have been critically undermined. Any progressive income and wealth tax regime can only leave room for adequate incentives when the chances of amassing wealth under it are worth taking or at least when the hope of such a development is still alive. And hopes cannot be sustained indefinitely in the face of contrary developments.

It may be desirable from many points of view to strive to condition human responses in such a way as to reduce the price demanded by the more enterprising and productive members of society in exchange for their contribution to the functioning and development of the economy; however, it just does not seem realistic to assume that a reduction of the price in question to insignificance is a visible possibility, at least in the great majority of cases. No matter how far one may proceed in sublimating incentives, a sizeable material adjunct will continue to be required in most cases.

Apart from the political intervention through taxation or other equivalent policies with the purpose of rendering a distributive regime viable and acceptable to those not favoured by it and reducing distributive tensions, there are inherent forces which may serve to prolong the life of a regime which reconciles distributive peace with adequate productive incentives.

Distributive peace in a situation where productive contribution is the basic distributive criterion strengthens productive incentives which can lead to sustained and substantial economic growth, especially when objective factors are favourable. The consequent general improvement in living standards and the visibility of further improvenents may act to tranquilize distributive passions and prolong distributive peace. The substantial increments in real output, a good deal of which becomes government revenue, provide the means for relieving distress and improving rewards and encourage soothing expectations. The strength of such stabilising factors, however, will in most cases tend to erode with time. Increasing standards of living tend to raise the level of expectations about yet more to come at a cheaper and cheaper price in terms of extra effort, while, with the passage of time, the probability of disappointment will increase, if for no other reason because of the increasing probability of the occurrence of external shocks or physical limits to further real improvements.

Another inherent factor which may prolong distributive peace is the quasi-biological phenomenon of the running down of fortunes by profligate or inept descendants. This, however, is a random phenomenon. Consequently, with the passage of time, more and more fortunes will be able to escape its wasting influence,especially with the facilities offered by modern management methods for insulating fortunes from the managerial inabilities of descendants and other related vagaries.

It should be pointed out clearly at this point that what is envisaged here is not a linearly increasing inequality without any upper limit. What is enough for the present argument is a tendency of inequality to increase from any generally acceptable level, to such an extent as to start causing distributive tension.

In this sense it is clear that even when one starts from what may be an acceptable distributive configuration, giving rise to limited friction and dispute while providing the minimum of productive incentives necessary for the efficient operation of the economy, one may end up later with a distribution of stocks of wealth and flows of income which give rise to increasing distributive tensions.

Suppose, however, for the sake of the argument that it would be possible to devise a distributive regime, essentially based on productive contribution, which could command initial acceptability and which could be indefinitely safeguarded from inherent degeneration, thus guaranteeing uninterrupted distributive peace. Even in such a case the situation may prove much less long lived than one would have expected, for an altogether different category of reasons, i.e. because of the actions of people who may not truly dispute its fairness or fruitfulness but who simply want to change it to their advantage, using whatever high-sounding pretexts they can come up with; or through the actions of people who fancy new arrangements without any clear conception of their meaning and implications; or through the mere shifting of the attitudes which render a regime acceptable.

The first reaction is selfish but not necessarily irrational, judging from the fact that distributive arrangements have historically been subject to a lot of manipulation. The second reaction may, strictly speaking, be irrational, but is nevertheless an answer to deeper yearnings embedded in the human constitution. Ideologues and unashamed or devious manipulators may constitute fringes of limited importance in periods of distributive peace but tensions never lie far below the surface and it would be a mistake to underestimate the strength of the respective temptations and the role they may come to play in the course of developments. Whereas the scope of isolated individuals to corrupt what may otherwise be an economically healthy distributive regime may admittedly be limited, the scope of associated action and reaction - especially when inequalities tend to widen for any of the reasons given above, thus giving grounds for genuine tension - is certainly a good deal wider. Finally, whether a distributive arrangement is acceptable or not depends upon whether people are prepared to accept it, and in this respect there can be no guarantee that the related attitudes will remain unchanged.

The time horizon over which a regime which is initially both distributively acceptable and economically efficient may be kept in a rough balance through its internal stabilising processes and through political action depends on circumstance. And one may hold the view that the previous considerations, although qualitatively sensible, refer to processes that are so slow to unfold as to be of little practical importance in most cases.

In authoritarian societies, where the legitimate means for questioning the regime and the associated distributive arrangements are limited and where the price exacted for any actions that might be construed as subversive is frightening, the distributive component of the societal order may last for a long time and be very difficult to challenge. The explosion, if and when it comes, may be massive and the consequent upheaval all-embracing but its advent may be a matter of lifetimes. In open societies, however, where the weight of authority in favour of any prevailing distributive arrangement is relatively reduced and the buttress of absolute power absent, distributive pressures, which may be due either to the inherent instabilities of the conditions of distributive peace combined with productive efficiency or to changes in human dispositions toward them or both, can find outlets comparatively easily and the related manifestations may be milder but more frequent. Periods when economically happy circumstances or comparatively recent bitter experiences lead the great majority of people to act on the assumption that the best way to secure gains is to abide by the prevailing distributive arrangements and increase their productive effort, in accordance with what the distributive regime considers as such, may gradually cede their place to episodes where more and more people, sometimes in good faith, sometimes not, begin to question the distributive and redistributive arrangements. A relatively long period of prosperity, the fading memories of past painful experiences and the ever-present temptation to improve one's economic lot the easy way may channel action away from productive endeavour and toward disputes about sharing its fruit, which undermine economic incentives and impoverish economic performance, temporarily or for longer periods. I should hasten to add that one is not here suggesting any definite periodicity or inevitability in the successive stages from distributive peace to distributive tension. All that is indicated here is that there may be, in the course of developments, such a thing as a widely different degree of distributive tension and that - as will be argued below - this may have profound implications for the functioning of the economy and for economic policies.

Be that as it may, when the pressures for change in distribution and the related regime increase to such an extent as to constitute a serious threat to it, the accompanying uncertainty over future arrangements tends to weaken the productive incentives associated with it. When the prospect of considerable changes in the rules of the game becomes visible and the risk of having the fruits of one's productive effort, in accordance with the current distributive regime, removed from one's possession becomes considerable, the strength of the productive incentive which is based upon these rules is seriously undermined. This, in its turn, tends to reduce the productive result of the operation of the economy. Such a reduction may be temporary when the distributive pressures are conducive to the emergence of a new distributive regime which correlates rewards with productive effort more closely. In such a case, after a temporary upheaval or an interlude of unsettled circumstances, one may end up with a strengthening of productive incentives and increased production and productivity. When, however, the pressures in question are powerful enough to create a crippling degree of uncertainty about the future but not sufficiently powerful or coherent to lead to the emergence of a new regime in a persuasive manner, or when they tend to loosen critically the connection between productive contribution and reward, the corresponding weakening of incentives may entail lasting unfavourable effects upon economic development and prospects. A protracted or interminable dispute regarding distributive arrangements, which assumes unsettling proportions, almost inevitably leads to economic decline, as more and more energies are distracted from production and consumed in distributive friction and as productive incentives are progressively weakened and undermined.

II

Distributive and redistributive goals may be pursued through the use of non-economic as well as economic instruments. The wielding of political power is probably the most important instrument for the achievement of such goals, whereas the role of economic variables as a primary instrument toward redistribution may sometimes be less important. Independently of their instrumentation, however, distributive and redistributive goals are to a very large extent expressed in terms of economic quantities. Attention is here focused on some key economic variables, such as prices and public expenditure as vehicles for the achievement of distributive and redistributive goals and the impact of practices of this sort on macroeconomic mechanisms.

In the context of a perfectly competitive model, prices are the outcome of a mechanism upon which individual economic units can have no considerable influence. The latter are price takers and their scope of distributive manipulation of specific prices to secure advantage is negligible. In the real world and under circumstances where the forces of competition are strong, it could still be true that the amenability of specific prices to distributive manipulation is limited. It would clearly be unrealistic, however, to take the view that the distributive manipulation of price can safely be considered as a marginal or negligible phenomenon under all circumstances. By way of example, the concentration of bargaining strength which can challenge the market (e.g. monopolies, oligopolies, cartels, trade unions, lobbies, pressure groups, etc.), the administration of a considerable range of prices in a modern mixed economy and other related policies with a price interventionist element and protective tariffs or other equivalent policies, which may provide insulation against market pressure, may enable price manipulation, many important instances of which can be revealed even by a cursory observation of economic events. Naturally, the extent to which price manipulation is feasible and can be made to stick depends upon circumstances and varies extensively. In a strongly competitive market the extent in question may become negligible.

In the context of a system of government the sole decision making criterion of the actions of which is the public good, public expenditure decisions at all levels would be impervious to partisan or pressure group influence and the temptations of political expediency. The level of public expenditure would be determined by macroeconomic and microeconomic considerations alone, in the best light that disinterested analysis could provide, and its composition would depend on a comparison of the anticipated benefits to the economy as a whole from every one of the alternatives open.

The application of the criterion of the public good in practice is not an easy or clear-cut matter, presupposing as it does the reckoning of trade-offs which are not always quantifiable. Thus, there may be a relatively wide band of borderline cases where legitimate dispute may arise as to whether they comply with the criterion of the public good. It is nevertheless possible to distinguish between such borderline cases and those regarding which the public good, on any reasonable interpretation, has quite clearly been sacrificed to various pressure group interests or to political expediency. More specifically, one can easily identify public expenditure decisions which have been largely motivated not by any notion of public good but in response to individuals or pressure groups seeking some sort of distributive advantage or in the expectation that the offer of such an advantage to members of the electorate would promise a political return. It is again stressed that the extent to which public expenditure manipulation takes place may vary greatly according to circumstances.

What is maintained here, in other words, is that, depending upon the intensity of distributive and redistributive pressures prevailing in a society at a certain period, one may encounter a greater or a smaller frequency of cases where prices and expenditure are manipulated away from the levels which would prevail in the absence of such pressures, in order to furnish those attempting or instigating the manipulation with some distributive advantage or other.

III

Between decisions aiming at the distributive manipulation of price and those aiming at the distributive manipulation of expenditure there may be a fundamental difference. Here we are not referring to long strings of such decisions of the one kind or the other, which, when they exceed certain limits, may have devastating economic consequences but to such decisions in the small and taken separately or in any case to such decisions within limits.

Other things being equal, the successful manipulation of a price changes the terms of exchange. It increases the nominal and the real returns to effort for those benefiting from it and it decreases to a commensurate extent the nominal and the real returns to effort of those who bear its burden. The change in relative price may have a certain influence on other economic quantities and on the real level of demand and output, connected for example with differences in the marginal propensity to consume of the beneficiaries of the distributive manipulation as compared to those bearing its burden, but any such changes will in most cases be minor in relation to the primary redistributive effect. Thus the level of prices and output, following a specific change in a given price engineered for distributive purposes, will remain almost the same, which is to say that the distributive manipulation of price is in most cases a zero sum game. And this will be the more true the smaller are the economic dimensions of such distributive manipulation of price in comparison to economic aggregates.

In the case of a distributive manipulation of expenditure however, one may have a substantial net increment in the real level of expenditure and output. The increase in demand on behalf of those in whose favour the expenditure manipulation takes place encourages producers to increase their output and generates favourable expectations which may induce investment, thus further increasing demand, productive capacity and production. Such a chain of events would be likely, provided that no simultaneous increase in price occurs which would be big enough to preempt any real impact of a nominal increment in demand, and as long as a sufficient idle productive capacity is initially available to render the increase in real output feasible. Failing either of these two provisos and to the extent that this may be the case, it is obvious that the nominal increment in demand resulting from the distributive manipulation of expenditure will manifest itself in price increases without any considerable real increment in output.

The critical question which arises in this context is whether such increments in real output, when the circumstances are such that they materialise, would depend on the illusions prompted by the demand increments in the minds of those who will actually incur the productive effort needed for the increments of output which accrue to the beneficiaries of the initial distributive manipulation of expenditure, or on whether the process in question can, at least under certain circumstances, provide all participants with sufficient real benefits. If the former were the case, then, eventually, the game would be revealed for what it is, i.e. a zero sum game where one or more groups bear the burden of the benefits accruing to those initially favoured by the distributive manipulation of expenditure. If the latter were the case, however, distributive manipulation through expenditure could, under the appropriate circumstances and to the appropriate extent, be an altogether different process from that of the distributive manipulation of price. The difference would be more manifest the smaller the dimensions of the manipulation in question in comparison to the overall dimensions of an economy.

It would seem that the answer to the question just posed would very much depend upon the speed and strength of the countervailing reactions released by an act of distributive manipulation of expenditure, which in their turn would depend upon circumstances.

For what concerns us here, any act of distributive manipulation of expenditure, under circumstances where it is not fully preempted by price increases, as mentioned above, sets in motion two countervailing processes. The one is an increase in real output as just described. The other is a probable increase in prices, through the encouragement that is provided for decisions aiming at the manipulation of price for distributive purposes. Given the related dispositions in a certain situation, the increase in the pressure of demand resulting from the distributive manipulation of expenditure srengthens the position of the seller and renders the distributive manipulation of price more nearly feasible. If the supply reaction is strong and timely and the price manipulative reaction is weaker and delayed or - still better - negligible, the outcome may provide the real means for sufficiently rewarding all participants. The initial increment in demand endows some people with purchasing power via which a certain quantity of goods and services are transferred to the beneficiaries without any productive contribution or, in any case, without a commensurate one. The increment in real demand constitutes an incentive for firms to increase their output and generate corresponding incomes for those engaged in creating the increment in output. When these latter people come to use their purchasing power increment, the only sources of satisfaction are the economy's stocks, work in progress and any increments in output called forth by the favourable expectations generated by the real increments get what they were aiming at they are not likely to refuse to repeat the experiment, at least under conditions of considerable underemployment. In other words, there is not only one unique distribution which is consistent with a satisfactory level of economic incentives in a given economic situation but a range of such distributive arrangements and any initial redistribution associated with the distributive manipulation of expenditure may be absorbable within it, without necessarily creating an impasse. The longer an increase in output is sustained, the more likely it becomes that the increment in output will be enough to provide satisfaction to those creating it and leave room for the initial transfer. Things may be further eased as the distributive manipulation of expenditure may favour a different group or groups each time. Objective circumstances, such as for example the existence and the degree of increasing returns and attitudinal factors as they may be expressed in the strength of the pressures for redistribution, will determine the room for manoeuvre and the range within which distributive manipulation of expenditure may enable a virtuous circle to be sustained.

It is quite clear from the above that it is equally possible instead of the virtuous circle to have a vicious circle of inflation if the supply reaction is weak and delayed and the price manipulative one prompt and strong. In such a situation the gap created by the initial transfer may be further widened by accompanying price manipulations, while the increment in output, if any, may be delayed and small. The widening gap saps the credibility of the productive incentive released by expenditure manipulation, prices are further pushed up in the absence of increases in supply and the real impact is further weakened until it dies out or is even reversed.

in demand. Their own output has been absorbed to provide the transfer to the initial beneficiaries of the distributive manipulation. The supply reaction in such processes may be one or a few steps behind demand but as long as, in the interim until more output becomes available, those earning income increments find out that they can command the extra quantities of goods and services they choose on essentially unchanged terms from the sources just mentioned, the productive incentive generated from a distributive manipulation of expenditure is genuine and viable.

The question arises, however, of how one ultimately covers the gap created by the initial transfer to those favoured by the distributive manipulation of expenditure. How are those who finance the distributive manipulation through their productive effort rewarded? It should be clear that if every economic agent laid it down that the only terms on which he would accede to produce would be the appropriation of all the output generated by his productive effort, the initial transfer could perhaps be shifted around for a while but it would eventually lead to an impasse. At some stage one would face a refusal to produce unless the initial transfer were reversed in order to reward fully the producers. But in a growing economy where output is increasing, the reward required by those who actually produce is not necessarily equal to the full amount of their productive contribution, which, in any case, can only be ascertained after the event. A firm undertaking a productive initiative on the expectations generated by the initial increment in demand looks forward to a level of profit which will be satistactory. So long as it can have that, it will not regret the initiative if some of the surplus generated by it is taken up to finance the initial transfer and it would be prepared to repeat it. The same may be true of the labour which is occupied in producing the increment. They agree about their terms and as long as they

The possible difference in the chain of events following a price as distinguished from an expenditure manipulation has to do with human motivation. We live in a world where many needs go unsatisfied while at the same time productive factors are underutilised or idle. The reason lies in a disagreement between potential producers and consumers as to the terms of exchange. The disagreement may be fundamental, in the sense that the consumer is not in a position to offer the producer enough to render his marginal utility from productive effort higher than the related marginal disutility. In such a situation only political intervention or charitable instincts could make any difference. But in the real world it is often the case that there is nothing so fundamental and final about this disagreement. It may lie to a considerable extent in perceptions and expectations and estimates of future quantities which can only be rough and approximative. A price manipulation, if anything, exacerbates disagreements and negative feeling, for it further reduces the marginal utility of those who could offer, thus widening the gap between what they would require in order to produce and what they are offered. Those who initially lose from it are confirmed in their objections and their refusal to offer, rather than weakened. Expenditure manipulation, however, may be made to work positively upon expectations, not in the sense of cultivating unfounded illusions - for such a thing could not really help, at least ultimately - but in the sense that it could trigger productive decisions the results of which are after the event found satisfactory by those taking them. Expectations for genuine gain may be created for the individual entrepreneur and the producer in general which can motivate productive decisions, even though the initial distributive manipulation of expenditure constitutes a burden for those producing the real means which are transferred to the beneficiaries of the manipulation.

IV

At this stage of the argument is is necessary to introduce some definitions which may serve to crystallise the previous argument and could be helpful for that which follows.

A distributive-pressure-free equilibrium is defined as one which may be achieved under circumstances where the rules of the distributive game are clear, uncontested and strictly adhered to. The complexion of such an equilibrium may differ widely in accordance with what the basic distributive criterion may be and the character and strength of the productive incentives associated with it. The outcome may differ fundamentally, depending upon whether the basic distributive criterion is productive contribution, privilege, authority, position, power, etc., as well as depending upon the extent to which the distributive and redistributive arrangements leave room for effective productive incentives. A perfectly competitive equilibrium would be one kind of distributive-pressure-free equilibrium, in the sense that circumstances reduce everybody to a price taker so that there is no room for the distributive manipulation of price. Although the distributive manipulation of expenditure would theoretically be possible, its scope would be very limited in a regime where so much is made to depend on market forces and where the incentive to form pressure groups is limited.

For the present purposes, we shall consider as a distributive-pressure-free equilibrium that which is achieved in a situation where the basic distributive criterion is productive contribution, where redistributive arrangements leave sufficient room for effective productive incentives, where competition is strong though not necessarily perfect, and where economic agents individually and/or in groups cannot or will not manipulate price and expenditure to any considerable extent in order to achieve distributive advantage. In such a situation, economic agents may enjoy whatever benefits the redistributive regime confers upon them but otherwise they are price and public expenditure takers and everyone conducts his utilitarian calculus on the assumption that the only legitimate and effective way to improve one's economic position and achieve economic goals is through productive contribution in accordance with what is considered as such under the circumstances.

In a modern fully monetised economy is approximately true that in a given period expenditure equals the product of the quantities of goods and services produced times their prices, i.e. E = P.T, where E is the expenditure vector, P the price vector and T the vector of quantities of goods and services produced. In a distributive-pressure-free equilibrium as this has been defined for the present purposes, the elements of T are free to assume the level consistent with objective conditions and economic needs and incentives. The elements of P, starting from any historical level, are fully flexible so as to clear markets and the elements of E are an incidental result. No independent decisions about any element of P or any amount of E take place. Prices are market determined and not agent determined and public expenditure is fundamentally subject to the same utility calculus as private expenditure.

A distributively constrained equilibrium is defined as one where, other things being equal, T will assume a level inferior to that which it would have assumed in the absence of distributive pressure expressed through the manipulation of P and/or E. Since ex post P T = E, any constraints upon P or E emanating from their distributive manipulation may hinder T from assuming the levels it could have assumed in the absence of such constraints. In terms of motivation, T will be inferior to its distributive-pressure-free level because productive incentives may be undermined and weakened by the efforts to achieve distributive advantage by manipulating price and expenditure. Such manipulations may favour their beneficiaries by transfers of output from those producing it, something which, as a rule, is very likely to weaken the productive incentives of the latter.

The previous analysis has, however, shown that distributive manipulation of expenditure may, under the appropriate circumstances, strengthen rather that weaken incentives. In such a case one would have a distributively enhanced rather that constrained equilibrium, in the sense that T might assume levels superior to the levels it would have assumed in a distributive-pressure-free situation.

V

In a situation where distributive manipulation of price and expenditure is very limited and where productive incentives are strong enough, there would seem to be little scope for either macroeconomic analysis or policy with respect to distributive pressure. The distributively unconstrained equilibrium might be subject to disturbances but they would tend to be shortlived, as the combination of flexible prices and strong productive incentives would keep the economy free of major and protracted macroeconomic problems.

The scope for macroeconomic analysis widens and the extent of macroeconomic problems increases in situations of distributively constrained equilibria, and their character and nature would depend on the sort of distributive pressures prevailing in the economy. It would seem that much of the dispute and a good deal of the confusion in macroeconomics stems from the failure to recognise that macroeconomic mechanics very much depend upon the character and the strength of the distributive friction and the distributive manipulation of economic quantities. More specifically, the relationships between output, prices and expenditure, to consider the major macroeconomic aggregates, may vary in accordance with the strength and the character of distributive pressure as this may be manifested in efforts to manipulate price and expenditure. In what follows, we shall analyse briefly a small number of characteristic situations in the field of distributively constrained equilibria, attempting at the same time to indicate how the more important and seemingly conflicting strands of current macroeconomics could be embedded in a common matrix.

Case I. Here the manipulation of price in order to achieve distributive advantage becomes substantial, not so much in the more aggressive form of pushing price above or below the market clearing level, as the case may be, but rather in the form of resisting relative price reductions warranted by the market which would have a negative distributive effect upon those receiving them. Such a resistance prevents elements of the P vector from readily assuming the markert clearing levels required for the realisation of an unconstrained T equilibrium and the necessary expost identity E = P.T will inevitably be achieved by corresponding changes in T or E or both. It is well known that the Keynesian underemployment equilibrium is possible because of the downward inflexibility of price. And the Keynesian formula of increasing E in such circumstances aims at accommodating the requirements of a downward inflexible P so that T may resume the levels it would assume in the absence of the constraint upon its value, due to what is essentially a distributive manipulation of price. Motivationally, the increase in expenditure comes to restore the weakening of productive incentives brought about by the distributive manipulation of price. The inflexibility of price downward and its persistence to assume values above the equilibrium level reduces the profits of the firms having to pay it and thus weakens productive incentives. The increase in demand induced by increases in expenditure may compensate for the downwards inflexibility of price, thus improving profitability and restoring the damage to productive incentives.

In a situation where price is downwards inflexible, where no other substantial manipulative forces are at work and productive capacity is extensively underutilised, supply elasticities for increases in output may be generally very high so that increases in expenditure, as long as they stay well within the limits of potential supply, very largely spend themselves in calling forth increaseed output with small or negligible increases in the price level. Thus, under the circumstances, changes in nominal expenditure bear a very close and pretty reliable relationship to changes in real output and consequently they seem to be the more appropriate tool of analysis and policy instrument. More specifically, the analysis of macroeconomic mechanics in terms of changes in the level of expenditure and the multiplier in the short run and in terms of the growth impact of increased investment expenditure in the medium term and the long term seem to constitute a fruitful approach. Since T is likely to increase substantially when demand is increased, it is only reasonable to recognise that the marginal propensity to save will be positive in real terms and significant. Not perhaps always in any final way, but quite certainly in what concerns the tempo of the circular flow of income. It seems eminently reasonable to suggest that when a person's real income increases, a fraction of that extra income may not hit the market with the regularity and immediacy of an income which has remained nearly stagnant for some time. The consumer may pause to consider what to do with at least a fraction of the real increment. In such circumstances withdrawals from the circular flow of income may take place, which even in the best of cases are likely to have an impact on flows per unit of time. And the impact in question will depend upon the size and the pattern of these withdrawals. It is also clear that, to the extent that the initial increase in expenditure under such circumstances is made up of investment or to the extent that it induces investment, the medium-term effect is an increase in productive capacity and an increased potential for economic growth.

The necessary increases in the quantity of money under such circumstances will essentially depend upon the real rate of increases in output, which, in its turn, will depend upon the degree of capacity underutilisation and further upon the rate of growth in factor quantities and their productivity. Increases in the quantity of money in accordance with such requirements will not significantly affect P. Inadequate increases in the quantity of money under such circumstances will create problems, especially if prices are not sufficiently flexible, in that there will be purely financial difficulties in accommodating the increasing volume of transactions. In such a case, the accommodative capacity of the money and credit creating facilities of the financial system will be stretched to the full and there may be an increasing of narrow money substitution by old and probably also by new transaction instruments. On the other hand, if money supply is ample the short-term rate of interest may fall and this may lead to a certain increase in overall money withholding and liquidity. As a result, the relationship between the quantity of money, especially if it is defined in a narrow way, and the level of output may tend to shift and vary.

If, on the other hand, the increase in the quantity of narrow money is clearly beyond the technical requirements of expanding output and ample liquidity, inflation will result. For either such increments in the quantity of money are forthcoming to enable spending beyond the capacity of supply, which on all accounts will be inflationary, or they are fed into the system in the context of cheap money policy, which, if it actually leads to the absorption of quantities of money beyond those required by the concurrent increments in supply, will be because of increased investment or consumption expenditure beyond the capabilities of supply.

A critically important question is how far it may be likely to contain distributive manipulation to the mere downwards inflexibility of price under conditions of buoyant demand. From the previous analysis it should be clear that the answer would depend upon the circumstances, as these would determine the relative speed of the supply and demand responses to the demand stimulus as well as on the strength of the demand pressure. Experience suggests that it would not be appropriate to generalise either in the direction of predicting a rapid inflationary spiral or in the direction of predicting a virtuous circle sustainable indefinitely.

Finally, it should be pointed out that demand stimulation may have an important role to play in circumstances where distributive friction is limited or nonexistent but productive incentives rather weak. This matter, however, lies outside the scope of the present analysis.

Case II. Here price manipulation gains strength in comparison to the previous case and the pressures related to it not only seek to prevent price reductions as a defence on behalf of those prejudiced by such reductions but also positively tend to seek the change - mostly the increase - in some prices in order to secure distributive advantage. One may also have an increase in the incidents whereby public expenditure is increased in response to partisan pressure on behalf of groups that try to use this instrument in order to secure distributive advantage.

The accommodation of such pressures through increases in expenditure is partly spent on the nominal increases in price implied by such an aggressive manipulative behaviour. Only a part of the increment in E can serve the purpose of giving a combination of P and E which can allow T to reach its distributively unconstrained level.

In a situation of deep depression, with extensive unutilised capacity and distributive pressures being limited to a resistance or delay in necessary price reductions, P may be recalcitrant to a general reduction but it is also true that no significant forces are at work to push it up. So any accommodative increase in E finds its full or nearly full counterpart in T, as long as T has the necessary real room for expansion. Increments in E, which, incidentally, are not due to distributive pressures and so may be modulated more comfortably, will spill over into P only when T has approached its distributively unconstrained level. In a situation, however, where price manipulation activity assumes the more aggressive form of pushing specific prices up in order to secure immediate distributive advantage, starting from any given time and considering a period ahead, the very satisfaction of such price manipulation pressures would require a certain increase in E in order for T to remain unaffected. If less than that increment in E is forthcoming it is likely that unemployment will increase and output diminish. Motivationally this will be due to the fact that the distributive manipulation of price and expenditure under such circumstances will reduce productive incentives. With a less than fully accommodative increase in E, the distributive pressures driving up P and E reduce returns for those producing in order to finance the benefits to those engaging in distributive manipulation and lead to a weakening in incentives which is the reason for the reduction in output. Output and employment will only remain unaffected when E increases enough to accommodate fully the increments in P generated by the distributive manipulation of price and expenditure.

It seems reasonable to suggest that under the circumstances a full accommodation of the manipulative increases in price and expenditure will tend further to strengthen and encourage distributive pressures, since it becomes clear to all that such a behaviour pays, at least in the short run. Resistance, however, by the authorities to accommodate such distributive demands fully and the concomitant increase in unemployment and output reduction would tend to weaken the strength of the distributive manipulation of price by increasing its probable cost to those engaging in it. It is clear that under such circumstances a trade-off between inflation and unemployment may be possible. Cost-push inflation, which, when it takes the form of a sustained phenomenon, is largely a result of the distributive manipulation of price and/or expenditure, can be weakened by increased unemployment, which increases the probable cost of aggressive manipulative behaviour and it is likely to be encouraged by a more accommodative expenditure policy which reduces the costs and increases the immediate rewards of such behaviour. The extent of such phenomena and consequently the position and the elasticity of the Phillips curve would depend upon the sensitivity of the propensity to manipulate price and expenditure to the level of unemployment of productive factors, which is related to individual and collective economic behaviour, mentalities and motivation.

A situation where a meaningful trade-off between inflation and unemployment exists would tend to be rather volatile and unstable. Since the chances of propagating a virtuous circle of growth through expenditure stimulation which may exist in situations where distributive pressures are weak and mainly assume the form of a resistance to income losses, are very small under conditions where distributive manipulation is more aggressive, the likelihood of a progressive strengthening of distributive pressures is considerable. In a situation where the resistance to a distributive loss warranted by the market gradually transmutes itself into aggressive price manipulation, those social groups which through circumstance or mentality pioneer aggressive price and expenditure manipulation will find more and more imitators, if for no other reason because the distributive gains of the more aggressive groups or individuals are the losses of the rest, who are thus pushed, first to resist and gradually to pass on to the offensive. Unless one is particularly lucky, once the aggressive form of price manipulation begins to spread, the period of meaningful trade-off between inflation and unemployment may be short-lived. One will soon either have to try to curb aggressive price and expenditure manipulation through the punishment of high unemployment or risk a progressive increase in the elasticity of the curve as well as shifts in its position which render the trade-off policy of little effect, if any.

Regarding the macroeconomic mechanics of the present case, it may be pointed out that two different sorts of processes are at work.

The first is the one described in the previous case. The second is fundamentally different and is related to that part of the nominal changes in income which have no real counterpart, reflecting increases in prices resulting from the distributive manipulation.

The key factor which renders expenditure an analytically important quantity in macroeconomics is its ability, under the appropriate circumstances, to influence real quantities through the production incentive which it may generate, as has been indicated above. When, however, expenditure increments merely serve to accommodate the increases in price engineered by distributive manipulation, they have no real counterpart. Thus, in this case, as regards the effects of expenditure change, T in the quantity equation is virtually constant and macroeconomic mechanics can better be approached through the quantity equation rather than through the multiplier-accelerator-growth theory approach. The multiplier process will of course still be nominally at work, but it is highly likely that any nominal increases in incomes without any real counterpart will not increase real saving except probably over a short period, due to money illusion. Without any real change in saving and consumption there will not be any appreciable consequent change in output or any considerable accelerator or growth effects. This would render the Keynesian approach of little practical use in the present case. The question of how an increase in M in the quantity equation will split between P and T, which renders that equation a poor tool of analysis as long as increases in expenditure bring about substantial increases in output and more particularly when the changes in P and T are of the same or of a similar order of magnitude, is no longer applicable and the quantity equation comes into its own. When inflation is no longer an episode required for restoring the necessary equivalence between the quantity of money, which may have increased autonomously for some reason, and its value, and it assumes the character of a process of a systematic and substantial increase in prices as a result of distributive manipulation, then the quantities involved and the extent of the changes in the relevant magnitudes engulf any occasional shift in the relation between the quantity of some narrow definition of money and output, which may be the result of any divergent movements in the quantity of money and the volume of transactions, and one is left with a pretty clear connection between M and P in the quantity equation.

Case III. The distinguishing characteristic of the first case was that expenditure stimulation could be expected to spend itself almost wholly in calling forth output as long as productive factors were unemployed. The distinguishing characteristic of the second case was that, although the accommodation of increments in P caused by price and public expenditure manipulation would require a considerable increase in E, nevertheless a total increase in E may be possible such as to call forth substantial increases in real output or at least serve to sustain it at a satisfactory level in a manner which could be economicaly meaningful. The distinguishing characteristic of the third case is that increases in expenditure within the limits necessary in order to avoid clearly explosive developments, would fail to call forth any substantial and sustained increment in output and could even fail to keep it at a satisfactory level, because of the increased strength of the manipulative pressures upon prices and expenditure. When distributive manipulation gains strength and becomes generalised, it is likely that, after a certain point, any increments in expenditure which , as has just been mentioned, will not be so big as to be clearly explosive will be preempted by increases in price, thus leaving no room for an increase in T or even for its sustention at current levels. Under such circumstances if one wants to avoid a situation of uncontrollable inflation one will have to restrict expenditure below the level required to accommodate fully the requirements of the distributive manipulation of price and expenditure, with the consequence that T in the ex post accounting identity $E = P.T$ will become a residual between the battling forces of distributive manipulation shaping up P and the effort of the government to stem the tide of galloping inflation and all that it entails, manifested in E.

In comparison to a situation of a distributively unconstrained equilibrium mentioned above, where P and E are mere instruments for the more efficient conduct of the activities of production and consumption, in the present case roles are in a sense reversed with price and expenditure manipulation gaining the upper hand and the real activities of production and consumption heavily constrained by them. Motivationally, the fall in output is the result of the extensive damage to productive incentives as a result of the proliferation of distributive manipulation of prices and public expenditure and the consequent general weakening of the connection between productive effort and reward.

A strong resistance to accommodate fully P by keeping E well below the requisite level would usher in a severe recession. The subsequent developments would depend upon the strength and the persistence of the price and expenditure manipulation. One cannot hope for a resumption of a viable phase of prosperity unless such manipulative tactics are sufficiently weakened, by a recognition of their harmful role, through the punishment of a prolongation of the depression and a worsening of the economic situation, or both.

Incomes policies have essentially constituted an effort to put a brake upon distributive pressures and thus check inflation. They constituted an open call to all agents to see the wrong in their ways and to exercise restraint in their pay and earnings claims, and occasionally forceful measures were taken to buttress exhortation. They have generally been a failure. The reason probably was that hortatory or even mandatory pressure does not have much of a chance of success when it tries to work against an unabated incentive to personal or group gain which distributive manipulation promises under conditions when the level of demand and the quantity of money favour or make possible such practices instead of discouraging and punishing them.

From this experience one might be tempted to conclude that the latent tendency to manipulate prices and expenditure is more or less a constant in human behaviour and that, practically, what matters is whether economic policy and management affords opportunities for such activities.

Undoubtedly, to argue that economic agents should adopt a certain behaviour while at the same time rewarding the opposite behaviour through the macro and micro economic policies adopted can only lead to failure. However, it would be rash to conclude from this that a macro policy which is designed to punish distributive manipulation is all that is necessary to deal with the problem. A policy which increases the cost of distributive manipulation to those attempting to engage in it is a necessary but not always a sufficient condition. Although an enabling macroeconomic policy will tend to encourage distributive manipulation, a punishing macroeconomic policy alone may not be enough to deal with genuine distributive grievances or with attitudes and behaviour which are essentially incompatible with a healthy economic performance. If the root causes on the level of distributive grievances or behaviour are not addressed properly, the punishing macroeconomic policy may deal with the symptoms but leave behind it a weak or depressed economy.

The macroeconomic mechanics of the present case cannot be satisfactorily approached by any of the established analytical schemata. In spite of the well-known differences among them, what they have in common is that the quantity or quantities which in every case are thought to be of critical importance for macroeconomic management are regarded as instruments and not as decision variables on the level of the economic agent. Prices are determined in the market and not directly by economic agents individually or in groups and public expenditure is decided by the government in the context of macroeconomic policy and not as a result of pressure group action or for reasons of political expediency. In the present case, however, prices and expenditure are not convenient instruments for the accommmodation of economic activity but domains of decision - making proper on behalf of economic agents which assume a primary role to the detriment of decision - making for production and consumption. Economic agents extensively attempt to manipulate prices and public expenditure to secure distributive advantage.

More specifically, the quantity equation loses its efficacy because of the residual character of T and the likelihood that it may severely fall when E is not fully accommodative and because of the likelihood of heavy shifts in V when inflation exceeds a certain level. The Keynesian approach is clearly totally inappropriate since the increase in E not only fails to call forth more output in spite of the existence of substantial unutilised capacity, but goes along with its reduction. Even the cost push approach, which envisages autonomous increases in P in situations where neither E nor M may give cause, is of limited usefulness because it fails to allow adequately for the negative impact of increases in P upon T. The mechanics of the present case can be better approached through the transactions identity, from which one could deduce a relationship of the sort of $\Delta T = f(E,P)$, where, starting from any given point, ΔT is a change in output and E and P are largely determined by manipulative forces constraining T.

VI

The main points which I have tried to make in the above are the following:

a. The consensus around a distributive and redistributive regime may be subject to erosion either because of changes in the resultant distribution brought about by the internal dynamics of the regime in question or because of changes in the attitudes and mentalities which may support the consensus in question, or both.

b. In such a situation distributive pressures and disputes may gain strength, with individuals or groups trying to secure distributive advantage in ways which essentially contravene the regime.

c. The distributive manipulation of price and public expenditure, i.e. the conscious effort to manipulate price or public expenditure in order to secure distributive advantage to those engaging in it, constitutes practices of particular importance for macroeconomic theory and policy.

d. The distributive manipulation of price essentially seems to be a zero sum game, if not actually a negative sum one, and as such it may be highly damaging to economic performance. It clearly reduces the productive incentives of those prejudiced by it, since it takes away from them a part of the reward for their productive contribution and, if it does not reduce, it certainly does not increase the productive incentives of those benefiting from it who see themselves securing benefits without a commensurate productive contribution. With weakening productive incentives it is hard to see how such manipulations could have a positive sum result.

e. The distributive manipulation of expenditure may, under certain circumstances, strengthen productive incentives as the stimulus from the demand increment improves business prospects and may lead to increases in investment and production. In such an event it may be possible for the productive increment to absorb the initial loss of the producers from the distributive manipulation of expenditure, which transfers output to its beneficiaries without a commensurate productive contribution on their behalf and to provide sufficient rewards for those engaged in increasing production. This may be so since there is more than one distribution which can secure effective productive incentives in a given situation.

f. When distributive pressure assumes the milder form of a resistance to income losses on behalf of those who would otherwise be prejudiced by the inevitable relative price changes in a developing situation under conditions of flexible prices in a competitive market, there may be considerable scope for making up for the weakening of productive incentives which such behaviour engenders through compensating increases in expenditure. It may be possible to set in motion a virtuous circle whereby the stream of supply increments is timely and powerful enough to keep the stream of demand increments from giving rise to price increases which would jeopardise the whole process.

g. Unless extreme care is taken not to overcompensate and unless objective conditions are favourable, it is likely that such an accommodative expenditure policy may render price and expenditure manipulation more frequent and extensive, because it reduces the cost of such practices for those engaging in them as well as the resistance of those initially losing from them.

h. When price and expenditure manipulation goes beyond the purely defensive downward inflexibility of price with a considerable incidence of aggressive efforts to secure distributive advantage, which however are still limited enough not to give rise to a cost push inflation which exceeds a few percentage points per year, macroeconomic management in the form of the inflation unemployment trade-off may have some scope of operation. However, it is likely that such scope may be rather short-lived, since the accommodation of distributive manipulation is likely to strengthen it and lead fairly rapidly to a situation where the inflation unemployment trade-off is no longer a meaningful option.

i. If the distributive manipulation snowball is not resisted one may end up in uncontrollable inflation and a dramatic worsening of economic performance. The later the effort to stem the tide is undertaken, the more painful and protracted the period of adjustment will be. The rehabilitation of efficient economic performance would probably require not only the introduction of macro and micro policies increasing the cost of manipulative behaviour, but also an effort to deal with any deeper causes of distributive pressure on the level of distributive grievances and distributive behaviour.

VII

Among the basic assumptions of modern economics concerning the attributes and behaviour of economic man there is none concerning distribution. The absence of the distributive dimension in the make-up of economic man could be justified if he were indifferent to the distributive regime and the distributive outcome, for in such a case his conduct would not be affected by things distributive. The absence in question could otherwise be justified if the distributive regime were completely beyond his control so that he could have no choice or influence on the matter, for in such a case any position he might adopt would be of no practical consequence.

As was pointed out above, one could mention many examples of societies which have gone through relatively long periods where the distributive and redistributive regime enjoyed wide acceptance and provided sufficient productive incentives to generate sustainable prosperity. Such a relatively happy state of affairs may be the result of a confluence of factors, important among which are that the regime in question is able to address the major sources of genuine distributive grievance, thus commanding the support, the acquiescence or the tolerance of wide strata of the population, that the sanctions against attempts to secure advantage in contravention of the distributive and redistributive rules are powerful and effective, and that the broader socioeconomic ethic is supportive of economic behaviour in accordance with the rules and strongly critical of efforts to subvert them. Under such conditions economic agents may very largely be distribution takers in the sense just mentioned, abiding by the distributive regime and the distributive outcome.

One guesses that an implicit assumption in much of modern economics is that economic agents abide by the rules of the distributive regime and are indifferent to the distributive outcome, in the sense that this is already fully determined by other traits of economic man. To take an example, the individual compares the marginal utility from the income increment accruing from extra effort with its marginal disutility and decides upon his quantity of productive effort. Income is determined incidentally as a by-product of the utility calculus and market forces and as such, as well as in its relation to other people's incomes, it does not constitute an important quantity for the economic decision-making process of the individual.

It is clear, however, that one could also mention many examples of societies where the rules of the prevailing distributive and redistributive regime are less and less effectively implemented and where there is a great deal of distributive and redistributive pressure emanating from a varying mixture of genuine distributive grievances, a reduced effectiveness of the sanctions against transgressions, changes in the broader socioeconomic ethic and greed, as has been explained in more detail above. Under such conditions, the assumption of the distributive indifference of the economic agent is clearly unrealistic.

In the general case it would make a lot of practical sense to add to the basic assumptions about the attributes and behaviour of economic man the assumption that he is liable to push and pull the distributive regime and the distributive outcome in his personal favour. In designing the distributive regime and the economic system in general, one can certainly try to frame things in such a way that it becomes abundantly clear to everyone that any such efforts will be counterproductive or futile, in which case this proclivity will be held largely in abeyance. But it would seem short of impossible to lock up the genie completely.

The assumption that economic man is liable to push and pull the distributive regime and the distributive outcome in his favour opens up a very wide range of possibilities and renders the determination of the economic outcome a great deal more complicated and uncertain. If, for example, the owner of one's own labour, in deciding upon his conditions of supply, were to consider, apart from the related utilities and disutilities, the possibilities of joint or individual action that would affect the wage level and the conditions of work and the likelihood of the success or failure of such action, the working of the labour market would become very complicated and the outcome would depend, among other things, on psychological imponderables.

Such difficulties and the prospect of ruining much of the neatness, clarity, definitiveness and determinacy of a great deal of standard economic analysis may seem to explain the neglect of the distributive dimension in much of modern economics.

Economic analysis has moved in the direction of greater and greater rigour in accordance with the norms of hard science, seeking to formulate theoretically and test empirically the laws governing the operation of the economy. For such a purpose it was necessary to make extensive use of the artifact of economic man and to assume standardised behavioural functions for him in his different capacities as a producer, a consumer, etc. No hard science can be developed unless its subject matter behaves predictably and in accordance with immutable laws. The beauty of the perfectly competitive model lay precisely in putting economic agents in such a situation as to neutralize all the potentially subversive manifestations of self-interest and harness it to an almost perfectly predictable and socially benevolent behaviour. Economic agents are thus reduced to efficient automata which in their behaviour assume the simplicity and predictability of inanimate matter. The side of the economic agent which is whimsical, scheming, devious, prone to dangerous experimentation, constantly on the look out for manoeuvres from which to secure gain and ready to reconsider attitudes and behaviour in order to work the system and gain from corrupting it is left out.

Apart, however, from the analytical reasons there may have been an inevitable ideological inhibition. Marx had raised the class struggle about distribution not only to the position of a dominant force in the economy but to that of the dominant force in history. To try to analyse problems in market economies in terms of the implications of the distributive friction and struggle that may be taking place during certain periods would seem to play into the hands of the opponent school of thought. Thus the general tenor of western economics was to consider distribution as a by-product of the operation of the price mechanism. An analytically soft policy adjunct was added relating to the redistributive role of the state but it was never made very clear whether this role and policy was more of an answer to the humanitarian preferences and instincts of modern societies, which may choose to consider the market-determined distribution as more unequal than what was deemed fair, or whether it was more in the nature of a prerequisite for the feasibility of the market solution in the long-run: a prerequisite in the sense that without it distributive pressures would greatly reduce the effectiveness of the operation of the economy or even jeopardise the whole market system.

The neglect of the important role of distributive friction and pressures in shaping up the economic outcome, under certain circumstances, and the inevitable tendency to explain phenomena essentially emanating from such pressures with reference to other causes has led to a considerable amount of confusion. To take only one example, let us briefly consider inflation.

It is doubtful whether there have been many other issues which have been the subject of so much dispute and intensive academic debate. What is the student taught and what sort of answers do those in authority get when they seek advice on what are the causes of inflation and how to deal with it? According to one school of thought, inflation is the result of excess demand. Although it is not clearly spelt out, the impression is conveyed that such an excess demand may be the result of macroeconomic policy miscalculation, very buoyant investment or some other similar macroeconomic phenomenon. According to another school of thought, inflation is the result of too much money, the culprit probably being the monetary authorities or the government, acting erroneously and failing to appreciate the role of the quantity of money as a determinant of inflation. There are also those who claim as one cause of inflation the autonomous increase in costs, independently of the level of demand or the quantity of money, because of trade union pressure, international economic developments, etc. Finally, there are those who see some truth in all these views as a matter of practical wisdom.

It can be argued that most of the important inflationary episodes have been the result of the distributive manipulation of expenditure and/or price and more generally of distributive pressure. For, to go back a good deal, what was the debasement of the currency? Basically it constituted an effort by the sovereign to extract from his subjects more than they were willing to give him and more than what he was entitled to. The sovereign wanted to spend more, to appropriate a larger share of the national output, and, being unable to change the distributive regime openly so that his subjects would spend as much less as he would spend more, he resorted to the debasement of the currency as a method of distributive manipulation. And in our days why do we get too much demand or too much money when we get them? Abstractly, because of errors or macroeconomic misalignments or some other esoteric reasons in which there is no conscious hand on the level of the individual economic agent? It would strain common sense to maintain such a position. Essentially such phenomena are manifestations of distributive pressure. Aggregate expenditure or the quantity of money cannot keep systematically increasing at rates causing considerable inflation unless some people or groups in the economy are exercising strong political or economic pressure to be endowed with spending power which will enable them to acquire extra goods and services and improve their distributive lot in ways to which those who will be prejudiced strongly object. And prices cannot increase systematically without commensurate demand pressure unless those who receive them and benefit from them are trying to manipulate them in order to secure distributive advantage while those who suffer these increases strongly object and seek to retaliate. Demand, the quantity of money and prices are a matter of instrumentation in seeking to secure economic advantage the easy way and choice depends upon circumstances.

It might be pointed out that, much as it may be true that, inflation is a manifestation of distributive pressure, it would not help to dwell on it. This would amount to opening up a Pandora's box of social and political recrimination from which nothing but harm would result. A better choice would be to concentrate on disabling instrumentation and avoid contentious issues. It seems to me that even if this position is accepted, much would be gained if it were explicitly recognised that the debate is not one of finding out what is the cause of inflation, in the positive sense of that term, but rather to find out what would be practically a more convenient and effective way to thwart the forces of distributive pressure from giving rise to inflationary spirals. If the matter were put in such terms, then much of the disputatious character of the debate would have no place and it would be difficult to maintain that there is only one instrumentation or cause under all circumstances.

It seems to me that, with much of the political inhibition disappearing after the political and ideological developments in eastern Europe and the Soviet Union, it would be a better choice to study with greater care and attention the role of distributive and redistributive pressure in shaping up the economic situation, not as the pervasive factor but as one important factor among others. It is necessary to study the various forms that such pressures can take, their causes and the unfavourable as well as the favourable impact of each of them upon economic performance. As a by-product, a good deal of light might be shed upon the behavioural requirements of adequate economic performance as regards distribution.

Not every distributive stance is compatible with healthy economic performance. One should carefully spell out the kinds of distributive behaviour which may be consistent with a healthy economic performance so that people may make their decisions in these matters with better knowledge of what is at stake. Undoubtedly there is a great deal in such matters which seems to be deeply ingrained in human nature and cannot change. Yet even a cursory view of the important differences in behaviour which we observe around the world indicates that there should be a very considerable scope for educating and affecting behaviour by spelling out the consequences of different practices in the distributive field upon economic performance.

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