When the government meddles with cake makers…

Editorial for Challenges / 12.05.2011

Denis Kessler

In France, the same old double debate on the sharing of added value and the distribution of salaries within companies is brought out at predicatable intervals: around election time. This year, the controversy with regard to the respective share of salaries and profits has been dredged up and it has been announced that the government will set a bonus for each private-sector employee while the opposition plans to get a maximum ratio between minimum wages and company directors’ salaries in public-sector companies.

As concerns the sharing out of added value, there is no getting away from the facts and available series analyses show that it is stable in the mid-term, despite claims to the contrary. The latest national accounts even show that since the beginning of the crisis, French corporate profit margins have dropped considerably, nearing the historic low of 1981-1982. This concerns national account data on non-financial corporations in France and does not include the consolidated figures of major global groups which aggregate the results of their foreign subsidiaries. These results are generally higher than those recorded in France alone. There is a terrible confusion between the global results of CAC 40 companies and the situation of companies with regard to their operations in France.

Wanting to modify the sharing of added value in France (which is much less favourable to companies operating in France than to those operating in other EU Member States, and a fortiori in other parts of the world) is a dangerous move. It is a sure-fire way of further eroding our competitiveness, encouraging the decrease in corporate investments and increasing unemployment and deficits… not to mention putting pressure on the creation of wealth. Continuing a shift in the distribution of wealth that is unfavourable to companies is the best way of slowing growth. As for complaining about the dividends paid, let’s not forget that all successive governments have successfully fought to prevent the creation of pension funds, used across the globe, thus preventing employees in France from sharing in corporate profits. Companies pay dividends to their employees in other countries with pension funds!

The public measures taken with regard to the distribution of salaries in companies, such as the French law on the 35-hour working week or the permanent increase of the minimum wage, are based on the assumption that there is major injustice in companies, exacerbated by the crisis. The government wishes to modify the distribution of salaries, which it deems to be unfair. Contrary to what these politicians claim, the cost of labour has increased during the crisis while companies’ economic profitability, or EBITDA, has declined. Above all, there is a principle of
justice in companies, that of “commutative justice”, which Aristotle defines as the specific justice used to settle exchanges. According to this principle, we are paid based on our contribution, known as “marginal productivity”. Using legislation to modify this distribution can only lead to pernicious effects. According to the commutative principle, pay corresponds to the highest incentive. Changing pay principles from outside the company would lead to costs in terms of efficiency that would harm competitiveness.

Another principle is currently dominant, that of “distributive justice”. Depending on the social norms in force at the time, and of the purpose of collective utility, wealth is redistributed through the arsenal of tax and social security deductions and welfare transfers. The primary distribution of wealth is modified, in the name of over-used equality or solidarity principles. Introducing more distributiveness into the sharing of company salaries while the level of redistribution outside the company is already high would lead to major confusion.

In an organised society, each person has a job to do. If the government believes that the final distribution of wealth does not correspond to the optimum situation, they should reform the tax system and social welfare spending and take responsibility for their actions. The opaqueness of public and social redistribution in France is well-known. The government should understand that ultimately, by wanting to change the wages, bonuses and working hours of cake makers, and the distribution of earnings between the employees and the owner of the cake shop, the cake to be shared out will be smaller. Less “commutative justice” in companies will lead to less “distributive justice” in society.