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A stylized world map in a vibrant yellow color, centered on the Atlantic Ocean. The map is set against a dark, semi-transparent background that contains faint, repeating text from the ILO's mission statement.

## The challenge of inequality

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# The challenge of inequality

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KEYWORDS economic and social development / income distribution / equal rights / history / developing countries / OECD countries

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KEYWORDS economic and social development / economic conditions / social conditions / equal rights / trade union attitude

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KEYWORDS income distribution / household income / wage differential / employment / trade union attitude / OECD countries

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KEYWORDS social policy / social indicator / public expenditure / Brazil / India / South Africa R

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and efficiency: according to the dominant view, higher taxes on top personal incomes, corporate income and wealth are detrimental to growth and employment. This article argues that even the dominating theoretical framework leaves substantial leeway for redistributive taxation. From a Keynesian macroeconomic perspective, redistribution may even be conducive to growth and employment. Therefore, besides attempts at international tax coordination and harmonization, national tax policies should actively use their room for manoeuvre for progressive taxation to correct the disparities in the income distribution and at the same time to expand the fiscal space.

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KEYWORDS tax reform / taxation / trend / OECD countries

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In the last decades, the merits of the public sector, including public infrastructures and services, have mostly been discussed with respect to their efficiency. Little attention has been paid to the redistributive effects of public services – despite the fact that equal access to essential services such as health care, education, transport and energy benefits low-income earners more than high-income earners and contributes to social equality. This has several dimensions: first, the (cash) value of public services as a proportion of income is greater for low-income households; for example, low-income earners use public transport more frequently. Second, the public sector provides comparably decent jobs for low-skilled and marginalized workers, and wage inequality tends to be lower than in the private sector. Third, the public sector guarantees of equal treatment of all citizens by providing the same service for everyone. However, privatization, marketization and, more recently, the public sector cuts imposed in response to the financial crisis have undermined the redistributive effect of public services.

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KEYWORDS public service / public expenditure /  
income distribution / privatization / trend

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widely available resulted in a noticeable decline in inequality. In Germany, government attempts to promote a greater role for financial markets in the 1990s had only a limited impact and, while inequality increased in the 2000s, this was primarily due to highly regressive labour market reforms. In India, liberalization of the highly regulated financial system in the 1990s led to a relaxation of priority programmes directed at rural areas and, as private and foreign banks shifted to providing finance to the business sector, there was a striking increase in inequality.

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KEYWORDS income distribution / financial market / economic reform / financial policy / developed countries / developing countries

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Alexander Gallas, Christoph Scherrer and Michelle Williams

In this article the authors discuss, with reference to developments both in the global North and South, (1) the most important drivers of economic inequality in the last 20 years; (2) the mechanisms whereby this rise in inequality has compromised the quality of democracy; (3) the aggravation of this development in the course of the global financial and economic crisis; (4) some of the challenges faced by political forces trying to address inequality; and (5) recent campaigns with union involvement in Germany, Namibia and South Africa that have addressed the issue of inequality and have thus made a positive contribution to revitalizing democracy. The authors contend that these campaigns resonate with experiences in other countries around the world and thus address issues whose political significance transcends national boundaries. Building on their analysis of the campaigns, they end with some reflections on strategic lessons for the labour movement, which concern ways of deepening democracy.

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KEYWORDS democracy / market economy / state intervention / equal rights / OECD countries



# Preface

**Maria Helena André**

Director, Bureau for Workers' Activities (ACTRAV), ILO

This issue of the *International Journal of Labour Research* addresses one of the central challenges of our times: that of overcoming growing inequalities in our societies. This trend, now well-recognized, is worrying not only for its economic impact, but as importantly because it threatens the very social fabric of our societies and may in time become a threat to democracy itself.

It is therefore not surprising that it was chosen as the theme for the bi-annual symposium of the Bureau for Workers' Activities last December. This event made it possible for trade unionists and scholars to take stock of the situation, share diagnoses as well as means to address the issue. It provided a much-needed opportunity to reflect on how to tackle this multi-dimensional problem and to also discuss what the ILO could do to contribute to these efforts. Quite naturally, a great deal of the focus went to ways to strengthen collective bargaining and to improve trade unions' ability to defend needed economic and social reforms.

Needless to say, inequality is a theme that has always been at the heart of trade union concerns and action. Indeed, among the achievements of the labour movement in its long history, one of the most unquestionable is certainly its contribution to reducing inequalities. Throughout the twentieth century, by organizing an increasing number of workers within the fold of collective bargaining and by mobilizing its membership for better working conditions and social protection programmes, trade unions were key architects of industrial democracy and the welfare state. Still to this day, the strength of the welfare state and the level of equality in our societies remain tightly bound with trade union bargaining coverage.

However, history took a sharp turn in the 1980s, laying out the groundwork for the slow dismantling of the institutional settings that had allowed for an impressive reduction of inequalities. The very institutions that had made life better for the vast majority of workers were suddenly regarded as nefarious because they were deemed to be obstacles to work and entrepreneurship and too costly to maintain. In other words, equality might be a nice idea, but one that was bad for economic development.

Looking back, it is indeed remarkable how the notion of a trade-off between equality and development came to be dominant and unquestioned in mainstream research and policy discussions. The establishment of a new economic world order through the liberalization of financial and trade flows, through the numerous rounds of structural adjustment programmes and through the establishment of global supply chains further led to the weakening of both organized labour's and governments' capacity to deliver on their promises of economic security and social justice. In fact, the more the world became neoliberal, the more it seemed it became difficult to step out of the policy mind frame that accepted growing inequalities.

Then came the financial breakdown of 2008 that laid bare some of the grossest dysfunctions of this ideological scaffolding. Those who were most responsible for a crisis that cost trillions of dollars and nearly threw the planet into a world depression hardly missed a paycheck while tens of millions were thrown into unemployment and precarity. The toll taken by the neoliberal policy experiment in terms of inequality and insecurity has become evident to all. In many circles, it has prompted a welcome change in discourse: it is no longer growth only that is needed, but "inclusive" growth. However, if on the surface the objective has changed, the policies, for the most part, have not. It is evident that this will not be achieved without serious pressure from trade unions and other groups in civil society.

And it so happens that in many places around the world, the "street" is making itself heard, showing its impatience at the apparent inability of governments to make a difference. Indeed, there is a growing sense that traditional political forces are incapable of transcending the neoliberal frame of reference. In this sense, the crisis of 2008 might have started a form of "political interregnum" that will require new creativity on the part of those who seek social justice but also their increased vigilance at the more morbid forms of political reaction.

This issue of the *Journal* is thus a modest attempt at inducing some reflection in trade union circles on the roots of growing inequalities and what can be done to overcome them. Some of the papers were presented at the symposium. It is worth pointing out that most of them originate from a research project of the Global Labour University (GLU), a network of research institutions, national and international trade union centres based in Brazil, Germany, India and South Africa and supported by ILO-ACTRAV. The GLU with its efforts to bring young trade unionists from around the world to reflect together and share experiences of trade union practices provides hope that new thinking, strategies and alliances will emerge within the trade union movement to lead us out of this difficult period.

The articles are meant to be provocative and we hope that they do achieve their purpose. With our sincere thanks to the contributors to this issue, we wish you fruitful reading.

# Editorial

## *The inequality crisis*

**Alexander Gallas**

University of Kassel, Germany  
Guest editor

“Zero hunger” was the message of Inácio Lula da Silva, an eminent trade unionist, when he was elected President of Brazil in 2002. At the time, people throughout Latin America were starting to vote for political leaders concerned about economic inequality. Today, the ripples of this wave seem to have reached, at last, the centre of global finance:

New York has faced fiscal collapse, a crime epidemic, terrorist attacks, and natural disasters. But now, in our time, we face a different crisis – an inequality crisis. It’s not often the stuff of banner headlines in our daily newspapers. It’s a quiet crisis, but one no less pernicious than those that have come before. Its urgency is read on the faces of our neighbours and their children, as families struggle to make it against increasingly long odds (de Blasio, 2014).

These words represent the centrepiece of the inaugural address of the new Mayor of New York, Bill de Blasio, in January 2014. A few weeks earlier, de Blasio had won the mayoral elections in a landslide, gaining 73 per cent of the vote with a campaign that focused on economic inequality, poverty and other social issues. He succeeds Michael Bloomberg, a business magnate and one of the richest people in the world, who stood for a free market approach to urban politics.

Undoubtedly, de Blasio’s campaign was about New York, not about the United States or the state of the world. But as the attention paid to his victory by international news media indicates, his observation that there is an “inequality crisis” has a significance that goes beyond the city limits of New York. In fact, income inequality has increased considerably in the last decades, in almost all OECD countries and emerging economies. According to a recent report by the NGO Oxfam, the 85 wealthiest people on the planet own as much as the poorest half of the global population (Fuentes-Nieva and Galasso, 2014). As the contributions to this issue demonstrate, this rise in

inequality is connected to the advance of free market strategies in economic policy across the globe from the 1970s onwards and, more recently, to the prevalence of modes of managing the global financial and economic crisis that protect asset owners and hit hard people on low incomes.

## The Combating Inequality Research Project

This issue of the *Journal* assembles work from the Combating Inequality Research Project of the Global Labour University (GLU). The GLU is a network of higher education and research institutions in Brazil (University of Campinas), Germany (University of Kassel and Berlin School of Economics and Law), India (Tata Institute of Social Sciences) and South Africa (University of the Witwatersrand). At these campuses, Master's degree courses are being offered for trade unionists from across the globe. The project was launched in early 2013 and is the GLU's first major undertaking in the field of research, funded by the Hans Böckler Foundation.

The inequality project starts from the premise that trade unions represent people who are negatively affected by the rise in global inequality, and that they have a strong track record of fighting inequality. In this context, the project asks how unions could respond to the "inequality crisis", that is, what could be useful political demands to be voiced by unions in this context, and what they could do to mobilize around this issue. It examines the causes of economic inequality, charts its development in the last few decades, assesses countermeasures and discusses strategies for their implementation, and identifies supportive social forces.<sup>1</sup>

This issue can be seen as a mid-term report on the inequality project. With the exception of Richard Wilkinson and Kate Pickett, all the contributors are directly involved with it and present interim research findings. These represent the six thematic areas of the project, namely, labour markets and macroeconomic governance; the financial system; redistribution policies; conceptions of sustainable development; countermeasures; and implementation strategies and campaigns.

## A multiple global crisis

The increase in economic inequality contributes to the economic, social, political and ecological crises of today. The global political and economic order is characterized by a "multiple crisis" (Bader et al., 2011, translated), and part and parcel of this global predicament is an inequality crisis: the burden of this

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1. For more information, see <http://www.global-labour-university.org/> and <http://www.global-labour-university.org/298.html>.

crisis is shared as unevenly as the fruits of the boom that led up to it – as a rule of thumb, profits were privatized, and losses socialized.

Correspondingly, the articles contained in this issue emphasize that the high level of income inequality reinforces the crisis tendencies presently at work at all levels of society. Along these lines, Hansjörg Herr, Bea Ruoff and Carlos Salas criticize the popular assumption among mainstream economists that there is an inherent trade-off between growth and income equality. Following their Keynesian line of reasoning, economic inequality is not an unavoidable by-product of successful economic policy but an obstacle to growth and employment. The reason is that people tend to consume more of their income if they are poor than if they are rich. This implies that a concentration of wealth at the top depresses demand and, subsequently, productive investment. One way of addressing this problem for governments is to create conditions that favour the extension of loans and mortgages to low-income groups, but this creates credit risks and asset bubbles. Thus, inequality is linked to economic instability and contributes to economic crises.

Moving beyond the economic sphere, Richard Wilkinson and Kate Pickett point out, picking up from their seminal study *The spirit level*, that inequality tends to be systematically linked to a whole host of social and health problems, which are graver across income groups in more unequal societies. In other words, a more unequal society is worse for everyone in that society, not just for the poor. This suggests that increasing economic inequality will undermine social cohesion and eat into the social fabric. A sign of this happening may be the riots that erupted across the United Kingdom in 2011 and in Stockholm in 2013.

Furthermore, Wilkinson and Pickett point out a connection between inequality and the ecological crisis humanity is facing. In particular, they highlight the proliferation of consumerism, that is, a resource-depleting lifestyle focused on the competitive acquisition of consumer goods. They argue that status increases in importance in more unequal societies, which is reflected in status competition.

At first sight, there appears to be a tension between Herr, Ruoff and Salas on the one hand, and Wilkinson and Pickett on the other, in terms of how they view inequality: whereas the former argue that there is a demand gap due to inequality, the latter suggest that from an environmental standpoint, inequality provides the stimulus for too much demand. But it is possible to reconcile their perspectives: Herr, Ruoff and Salas are concerned with demand as an aggregate and thus abstract from the specific content of the choices made by market participants; Wilkinson and Pickett refer to a pattern of consumption driven by status competition and thus focus on these choices. It follows that there may be ways of creating additional demand without necessarily reinforcing the consumerist pattern of consumption, for example if governments started to extend universal public services or to subsidize energy-saving consumer durables and localized forms of food production and distribution.

Finally, the increases in economic inequality translate into political inequality, thus undermining democracy, as Alexander Gallas, Christoph Scherrer and Michelle Williams observe in their contribution. They argue that extreme forms of wealth distribution make it easier for affluent groups and harder for poor groups to put pressure on political decision-makers. This results in the implementation of policies that cement and reinforce the existing power imbalances at the economic and the political level, both nationally and internationally.

All of this shows that economic inequality is a fundamental problem affecting capitalist societies. Furthermore, it is linked to the economic, social, ecological and political crisis dynamics that characterize the global political and economic order. In light of this, there are strong reasons to assume that more equal societies are also more economically stable, cohesive, sustainable and democratic societies.

### Discursive openings

De Blasio's speech is significant not just because of its content, but also because of its context. As Trevor Evans points out in his contribution, the processes of financial liberalization taking place in the United States from the 1980s onwards had dramatic effects on the distribution of wealth: "Top incomes increased dramatically, both in the financial sector and in non-financial corporations, while the income of middle- and working-class sectors remained stagnant or increased only very slowly." One could say that New York City is a microcosm of this phenomenon. In this sense what has happened in the recent New York mayoral election might be symbolic of a political shift. This is particularly clear when we compare de Blasio's stance on the inequality issue with that of his predecessor. When confronted with the high level of income inequality in New York at a press conference in September 2013, Bloomberg responded: "That is not a measure we should be ashamed of" (cited in Colvin, 2013).

In Europe, there appear to be similar developments. This is particularly noticeable in Britain, a country (much like the United States) with a high level of economic inequality and strong economic dependence on the financial sector. Peter Mandelson, the Trade and Industry Secretary in Tony Blair's first government, famously quipped in 1998 that "we are intensely relaxed about people getting filthy rich, (...) [a]s long as they pay their taxes" (cited in Rentoul, 2013). Today, leading British politicians are more prepared to acknowledge that there is an issue. Ed Miliband, the current leader of the Labour Party, echoed Wilkinson and Pickett in a statement in July 2010, shortly before his election: "the fact that we are the most unequal society in western Europe, all of the evidence is it makes for less well-being, less happiness, all of those things, and so I think those things have to be addressed

and have to change” (cited in Straw, 2010). And even David Cameron, whose government has imposed harsh austerity measures and public spending cuts on the British population while reducing the top income tax rate, explicitly endorsed *The spirit level* at one point, albeit before taking office: “Research by Richard Wilkinson and Katie Pickett has shown that among the richest countries, it’s the more unequal ones that do worse according to almost every quality of life indicator” (cited in Devichand, 2010).

In Germany, the liberalization of labour markets in the early 2000s resulted in the massive increase of the low-pay sector. After 15 years of campaigning by the trade union movement and other political forces, the new government has finally pledged to introduce a statutory minimum wage. In Switzerland, an overwhelming majority backed the initiative for a stricter regulation of executive pay (in a subsequent vote, the proposal to cap remuneration at 12 times the lowest income in a business was, however, rejected).

In the emerging economies, income inequality is in general significantly higher than in the global North. Discourses around the issue vary. The rise of left-of-centre governments across Latin America has surely made it easier to make an issue out of inequality; and in the cases of Argentina, Brazil, Uruguay and a number of other countries, inequality has indeed declined. In India and South Africa the issue of inequality has been discussed, to varying degrees, for a long time, and some major cash transfer programmes have been introduced, but there seem to be significant obstacles to reducing overall inequality.

Against this backdrop, a contradictory picture emerges, at least in the global North: the financial crisis and its aftermath have created a strange political interregnum. On the one hand, it is clear that the policies that sowed the seeds of the crisis were the very policies that led to increasing inequality. This basic truth has not been lost on most people and was at the heart of many protests, for example, Occupy Wall Street, the Indignados and the political strikes against austerity in southern and western Europe. Inequality has genuinely become an issue around which one can build a discourse and, one would hope, an alternative programme.

On the other hand, the establishment has managed to “use” the crisis for its own ends: deepening the liberalization agenda. The reasons for this are numerous but for the most part boil down to a failure of progressive forces, among them unions, to articulate a credible alternative. François Hollande’s recent capitulation without conditions to the diktat of Say’s Law is an illustration of this.

All the same, it is clear that discursive openings have emerged. It is relevant that the global institutions such as the IMF, the OECD and even some conservative politicians feel forced to acknowledge the problem. This raises a series of political questions for trade unions: how can they use the discursive openings to mobilize people against inequality? What kind of campaigns should they use? And what are useful demands, both in terms of gaining support for egalitarian agendas and actually changing the distribution of wealth?



## Combating inequality

Historically, labour movements have been at the forefront of the struggle against inequality. As Edlira Xhafa points out in her survey article, trade unions still see economic inequality as a key issue to be addressed by their work. Four in five respondents stated that their union viewed inequality as a crucial issue for all of society.

In light of this, it is unsurprising that unions around the world continue to play an important part in struggles against inequality, increasingly also in the context of wider social movements and coalitions campaigning around specific demands. As Gallas, Scherrer and Williams show in their contribution, not all these campaigns address inequality directly, but they make demands that have a positive impact. The main campaigns discussed by these authors are the Emmely Campaign in Germany, the Basic Income Grant (BIG) Campaign in Namibia, the initiative of the National Union of Metal Workers of South Africa (NUMSA) for socially owned renewable energy, and the South African Treatment Action Campaign (TAC) for access to HIV/AIDS drugs. They note that these campaigns in some ways diverge from traditional shop-floor struggle; that labour is not always leading them; and that they are based on novel, creative tactics, for example pilot projects, a global approach to issues that connects different sites of production and reaches across borders, an emphasis on symbolic politics in order to win the support of the public and, importantly, the forging of alliances with other actors, for example NGOs.

Some of the countermeasures that unions could promote in the struggle for inequality are discussed in most of the other contributions. Herr, Ruoff and Salas recommend a minimum wage and coordinated wage bargaining based on macroeconomic productivity development. They argue that if necessary, coordination can be achieved through legislation forcing employers to become members of employers' associations, as well as through statutory extension mechanisms and "negotiation fees" paid to unions by non-unionized workers in an industry in order to avoid freeriding. Moreover, they propose measures aimed at limiting and regulating outsourcing by preserving the existing conditions of work. They suggest a "stakeholder value approach" to corporate governance, which involves giving unions influence over investment decisions, introducing strict protection against unfair dismissal, and preventing regulatory arbitrage through labour legislation – for example by forcing subcontractors to pay the same wages as parent companies and by making parent companies responsible for the labour rights of subcontracted workers.

Similarly, Evans indicates that the example of Brazil shows how governments can counter the effects of financial liberalization on inequality. The Brazilian government contained the trend towards rising inequality through increasing minimum wages and pensions, introducing cash grants for poor families, providing funding for investment through state-controlled



development banks and promoting financial inclusion – that is, payroll-deducted credit schemes allowing lower-income households to buy consumer durables and homes.

Following Christoph Hermann, extending the public sector is another important instrument in the struggle against inequality. He argues that public services are more beneficial for low-income groups than for high-income groups because their value represents a larger share of income for those earning less. He adds, with reference to the health-care systems in Eastern Europe and India, that it is important to bear in mind that if access to services is limited to the poorest parts of the population, they may turn out to be of low quality.

As Evans and Hermann imply, the welfare state has an important role to play in the struggle against inequality. Bernhard Leubolt, Karin Fischer and Debdulal Saha take up this lead and discuss different approaches to social policy with reference to the global South. In their view, solely insurance-based programmes in many cases fail to achieve universal outreach and tend not to cover all people including those most in need of support, while targeted programmes lack a strong social base that can defend existing measures against attacks from the people who do not benefit from them. They argue that a combination of both is needed, that is, a “targeted universalism”, which caters to the needs of all parts of the population but focuses its attention on subaltern groups. In so doing, it also contributes to lowering inequality.

All of this raises the question how an extension of the public sector and the welfare state can be funded. With reference to the OECD countries, Sarah Godar, Christoph Paetz and Achim Truger argue that there is considerable room for manoeuvre for broadening the tax revenue of the State. They argue that in principle there is a political consensus regarding the necessity to fight tax evasion and avoidance and to introduce a financial transaction tax. In their view, this consensus can be used to promote a new international tax regime which could be based on recent plans by the European Union and the OECD. In addition, they demand a “unitary taxation approach” which would prevent tax evasion through international transfers by forcing multinational corporations to submit their global accounts to local tax authorities, and through minimum tax rates preventing tax competition. But their most important point concerns the national level. According to them, there is considerable room for manoeuvre for national governments to raise the income tax rate for top earners, as well as extending the taxation of capital and increasing capital income tax.

In conclusion, there are positive examples of how to campaign against inequality or issues linked to it, and unions are prepared to get involved. Moreover, there is a whole set of concrete demands that can underpin such campaigns. Combating inequality may not be an easy thing to do, but it is by no means a lost cause. In the context of the havoc wreaked by the global crisis, campaigns against inequality may contribute to the revitalization of labour movements across the globe.

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# The world we need

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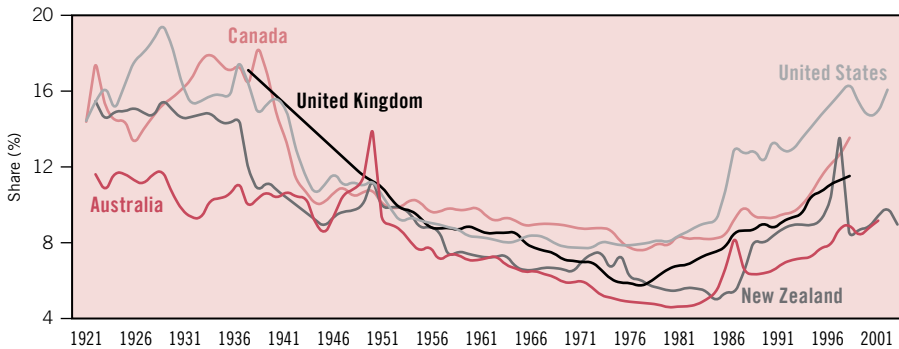
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## Changes in inequality

In recent history, the broad trend for all measures of inequality appears to follow a U-shaped pattern across most developed countries, as illustrated for Anglo-Saxon countries in figure 1. It was high until the 1930s when a long decline in inequality began. The exact timing of the start of the decline varied by five to ten years from country to country and measure to measure. Inequality continued to decrease until some time in the 1970s. Then, from around 1980 or a little later in some countries, it started to grow again until, by the early twenty-first century, some countries had returned to levels of inequality not seen since the 1920s.

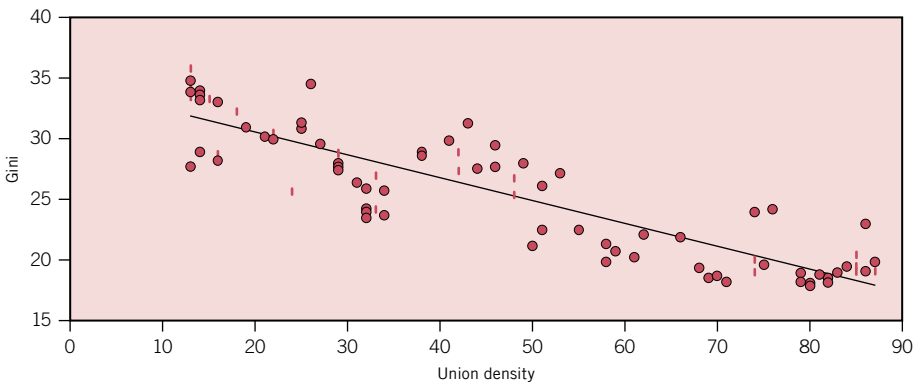
What this pattern reflects is the strengthening and then the weakening of the labour movement during the twentieth century. If you take the proportion of the labour force in trade unions as a measure of the strength of the labour movement as a countervailing voice and force in society, the

**Figure 1. Income share of richest 1 per cent in Anglo-Saxon countries, 1921–2002**



Source: Atkinson and Leigh (2004).

**Figure 2. Less inequality in countries with stronger trade unions, 16 OECD countries, 1966–94**



Source: Gustafsson and Johansson (1999).

relationship with inequality is very clear. Figure 2 shows the relation between inequality and the proportion of the labour force in trade unions in 16 OECD countries at various points between 1966 and 1994. Each point is a country at a particular date (Gustafsson and Johansson, 1999). As trade union membership declined (to the left), inequality increased. If you look at trade union membership data for single countries over time during the twentieth century, you see something like an inverted version of the trend in inequality shown in figure 1. This can be seen in the case of the United States (Eisenbrey and Gordon, 2012). The connection between trade union membership and inequality should not however be seen simply as a reflection of what trade unions manage to do for the wages of their members. Instead the relationship indicates the strengthening and then the weakening of the overall political and ideological influence of the left in society. The rise in inequality since around 1980 is of course largely attributable to the political power of the neoliberal ideology which came in with the Reagan administration in the United States and the Thatcher government in the United Kingdom. To gain substantial reductions in inequality in the future will require the recreation of a sustained political movement.

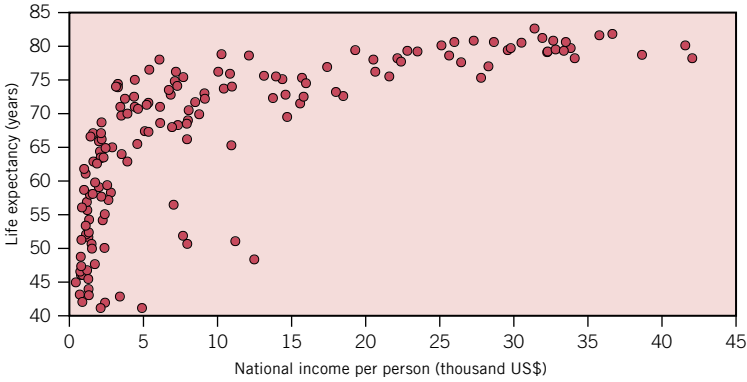
### The importance of relative income

Few people understand how damaging large inequalities can be. The most common view is that inequality only matters if it creates poverty or if it is widely regarded as unfair – that the rich and poor do not deserve what they get. But this is a naïve view. In reality, inequality has much deeper and more powerful effects on the well-being of the vast majority. As human beings, we have deep-seated psychological responses to inequality. Our tendency to equate outward wealth with a person's inner worth means that inequality colours how we see each other. It invokes the logic of animal dominance hierarchies – increasing people's feelings of dominance and subordination, superiority and inferiority.

But before describing those processes, we should point out that what we are looking at really is a matter of inequality – of income differences within a society – rather than a matter of how people are affected by their absolute material living standards. It is a social process about class and status relationships rather than a direct practical effect of our material circumstances regardless of others.

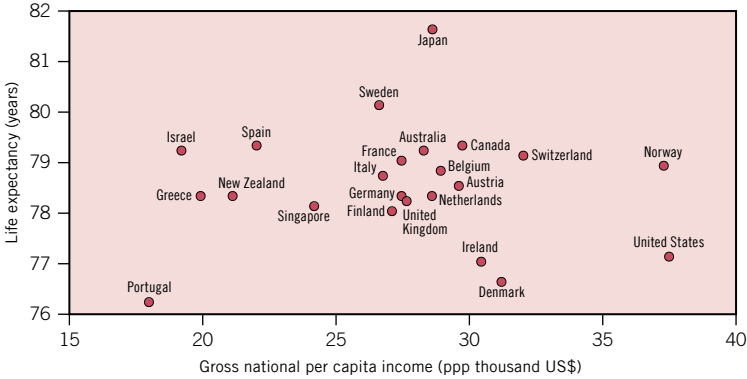
This can be seen very clearly if we look at life expectancy and income, first between societies and then within societies. Figure 3 shows how life expectancy rises in the early stages of economic development as countries get richer, and then (at the top right) levels off. Among the richest countries life expectancy ceases to have any relationship to increases in national per capita income. That is not because rich countries have reached the limits of human

**Figure 3. Income per capita and life expectancy, rich and poor countries**



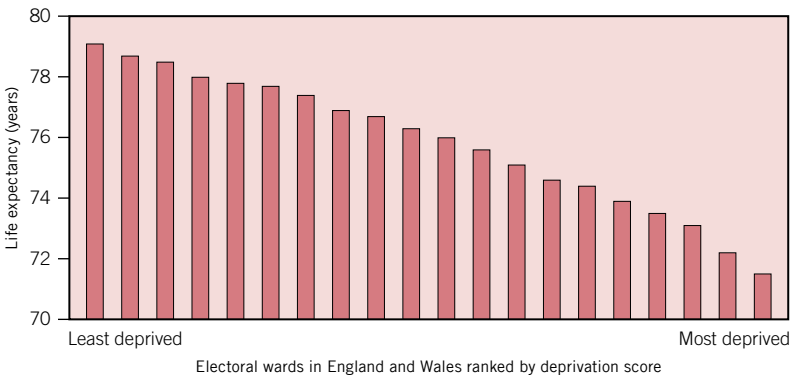
Source: Wilkinson and Pickett (2010, p. 7).

**Figure 4. Life expectancy is unrelated to differences in average income *between* rich countries**



Source: Wilkinson and Pickett (2010, p. 12).

**Figure 5. Life expectancy *within* rich societies is related to income differences**



Source: Wilkinson and Pickett (2009).

longevity. Instead, life expectancy continues to improve among these rich countries as rapidly as before, but those improvements no longer have any relation to economic growth. The curve in figure 3 shifts upwards over time so that any given level of income is related to ever higher levels of life expectancy.

Figure 4 uses the same data as figure 3 but shows only the rich countries. Its purpose is simply to emphasize the lack of relation between life expectancy and national per capita income among these countries and to draw attention to an important paradox in the contrast between figures 4 and 5.

Figure 5 shows the extraordinarily close relation between life expectancy and levels of deprivation in electoral wards in England and Wales. The poorer neighbourhoods always have lower life expectancy. Not one column in figure 5 is out of rank order. Although the scale of the health inequalities shown for England and Wales varies in different countries, in almost every country there is a consistent gradient in health related to income within a society. This is not simply a difference in health between the poor and the rest of society. It is a gradient which runs right across the society from top to bottom. Because even the people just below the richest do less well than the richest, it cannot be explained simply by deprivation and hardship.

So why is it that life expectancy is unrelated to the income differences between rich countries (figure 4) but is very closely related to the income differences between neighbourhoods within rich countries (figure 5)? The explanation of this paradox is that within societies we are looking at the health effects of relative income or social status. What matters is where you are in relation to others in your society – where you are in the pecking order. How your income compares with others within your country is key to your social status. This interpretation is now supported by a good deal of individual research which distinguishes between the effects of absolute and relative income (Wood et al., 2012; Kondo et al., 2008; Elgar et al., 2013). There are also surveys which ask people whether they would prefer to live with lower material standards but be better off than others in a poorer society, or whether they would rather be materially better off but among the less well off in a richer society. The results show people are more concerned with social position and social status than with absolute living standards (Solnick and Hemenway, 1998). It looks as if J.S. Mill (see Mill, 1907) was right when he wrote “Men do not desire to be rich, but to be richer than other men...”.

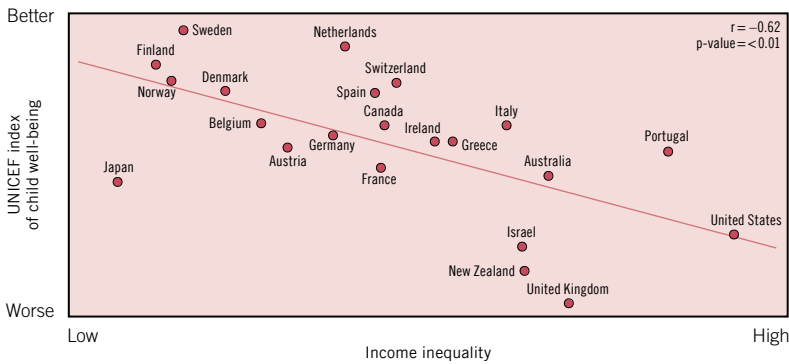
In developing countries absolute levels of income also matter, as figure 3 makes clear: life expectancy rises rapidly in the early stages of economic development. The same is true of measures of well-being and of happiness. Poorer countries do need higher material standards – it is only the rich countries, on the flat part of the curve in figure 3, which do not. However, people in both richer and poorer countries are powerfully affected by their position in the social hierarchy.

## The damage caused by inequality

Having recognized the importance of relative income and social position, we need to think what difference it would make if we increased or decreased the income inequalities between people in any society. What happens if the gap between rich and poor gets bigger? Research of our own, and of many other research workers round the world, shows that almost all the health and social problems which tend to be more common lower down the social ladder (such as ill-health and violence) also tend to be worse in societies with larger income differences between rich and poor.

For example, figure 6 shows that more unequal rich countries score lower on the UNICEF Index of Child Well-being. Figure 7 shows that more unequal countries do less well on our Index of Health and Social Problems (Wilkinson and Pickett, 2010). This index includes data for each country on life expectancy, maths and literacy tests among young people, infant mortality, homicide rates, the proportion of the population in prison, teenage

**Figure 6. Child well-being is better in more equal rich countries**



Source: Wilkinson and Pickett (2010, p. 23).

**Figure 7. Health and social problems are worse in more unequal rich countries**



Source: Wilkinson and Pickett (2010, p. 20).



birth rates, how much people feel they can trust others in society, obesity rates, mental illness (which also includes drug and alcohol addiction), and social mobility. These problems are all more common in societies with larger income differences between rich and poor. The higher the rate of each of these problems, the higher a country scores and the worse it does. But just as with life expectancy in figure 4, so for the UNICEF Index of Child Well-being or the Index of Health and Social Problems: they are completely unrelated to gross national income per head among the rich countries. The richest countries – such as the United States – do no better than countries such as Greece and Portugal which are only half as rich.

What seems to happen is that larger income differences increase the effects of social class and status differentiation. All the ways in which class imprints itself on people from earliest childhood onwards are strengthened by larger income differences between rich and poor. All the problems included in the Index of Health and Social Problems are between twice as common and ten times as common in rich countries with bigger income differences compared to the more equal ones. The reason why the differences in how well or badly countries do is so large, is because we are all affected by the damaging effects of greater inequality. Rather than affecting just the poor, inequality damages the whole social fabric. As many studies have shown, societies with bigger income gaps between rich and poor lose social cohesion: community life weakens and people feel less able to trust each other. Nor are these differences in social cohesion superficial. A study comparing 30 European countries found that people in more unequal countries are much less willing to help each other – including the elderly and disabled (European Values Study Group, 2005). And higher status apparently leads to more unethical behaviour. Psychologist Paul Piff (2013; see also Piff et al., 2012) found that drivers of more expensive cars were less likely to give way to pedestrians or to other cars. He also found that higher status people were more likely to help themselves to candies which they had been told were intended for children, and were less generous in an economic game.

Where there is more inequality, life becomes more about fending for yourself and status competition. Reciprocity declines and, as community life weakens, violence increases. Close to 50 studies have shown that homicide rates tend to be higher, sometimes much higher, in more unequal societies. The explanation is not that the poor start to attack the rich, but that violence is most commonly triggered by people feeling disrespected, suffering humiliation or a loss of face. In societies where people judge each other more by status, people are likely to become more sensitive to any sign that they are disrespected.

Higher crime rates are also part of the reason why more unequal countries imprison a much higher proportion of the population. But a much more important part of the explanation for higher imprisonment rates is that the judicial system is harsher in more unequal countries. Whether that is because

the rich fear the poor or because there is less trust or empathy up and down the social hierarchy, it is another indication of the damage that inequality does to the quality of social relations.

As social beings, we experience ourselves through each other's eyes. The more some people are valued over others, the more we all feel threatened by social judgements. We worry more about our appearance and the impression we create. As a result, some people are completely overcome by social anxieties and lack of confidence. Others experience social contact as an ordeal and only feel relaxed in the privacy of their own homes. Given such a challenging and unsupportive social environment, it is not surprising that the data show that mental illness, particularly anxiety problems, depression and schizophrenia, are more common in more unequal societies (Wilkinson and Pickett, 2010; Messias, Eaton and Grooms, 2011; Burns, Tomita and Kapadia, 2013). Drug and alcohol abuse also increase with inequality (Wilkinson and Pickett, 2010) – almost certainly because people use them to ease social anxieties and relax enough to enjoy the company of others (Robinson et al., 2009).

Another, quite different, way in which people respond to heightened worries about how we see and judge each other involves various forms of self-enhancement (Loughnan et al., 2011) – everything from cosmetic surgery to increased narcissism (Twenge and Campbell, 2008) and self-aggrandisement. Instead of being modest about their abilities and achievements, people flaunt and exaggerate them.

What makes inequality so powerful is that it strikes at the heart of social life. Rank and differential worth become more dominant features of social life. But friendship and community life have repeatedly been shown to be central both to good health and to happiness. For example, a study which combined the data from 150 studies of friendship and health found that whether or not people have friends is at least as important to survival as whether or not they smoke. It is now well established that chronic stress, primarily from social sources, has powerful effects on the immune and cardiovascular systems. Experiments have shown that wounds heal faster and we are less likely to catch infections if we are immersed in good social relationships (Kiecolt-Glaser et al., 2010; Cohen et al., 1997). Indeed, the effects of long-term stress increase our vulnerability to a wide range of diseases and look rather like more rapid ageing.

Research on the conditions for human happiness has also shown the centrality of social involvement and good social relationships. Whether it is involvement in community life, participating in voluntary work, having friends or being married rather than single, the picture is the same: human beings need social contact and friendship. Those of us who are lucky enough to have better social lives are happier and live longer (Layard, 2005; Dunn, Aknin and Norton, 2008).

As it increases social anxieties and status competition, inequality replaces the genuine community and human companionship which are

fundamental to human well-being. The evidence suggests that although absolute material standards are no longer critical in the richest societies, the social environment – our social life and circumstances – have become critical to well-being, particularly in the more unequal societies. The importance of this shift can scarcely be overestimated. What it implies is that if rich societies are going to make further real improvements in the quality of life, it is to the quality of the social environment and social relations that they must turn. In developing societies the quality of life can be improved by further economic development as well as by improving the social environment. And the most effective policy for improving social relations – and indeed the psychosocial well-being of whole populations – is to reduce material inequalities.

### Creating a more equal society

There are several quite different approaches to increasing equality. Mostly people think in terms of more progressive taxation and more generous social security systems. We must tackle tax avoidance, end tax havens and make taxation more progressive so that the rich pay a higher proportion of their income in taxes than the less well-off. However, there are two weaknesses in that approach: first, any progress on taxes and benefits can very easily be reversed by a new government; and second, there is always a tendency for people to think that taxes are a kind of legalized theft – that the government is taking their money. This is despite the fact that almost all production and the creation of wealth is a cooperative process. Everyone is dependent on the whole society and its infrastructure for their individual incomes and living standards. The wealthy would not be wealthy if it were not for an educated population, electricity supplies, road systems, accumulated technical and scientific knowledge and so on. Living standards are a product of the combined efforts of vast numbers of people.

The problem of tax avoidance is not limited to taxes on wealthy individuals. In 2008 the US Government Accountability Office reported that 83 of the largest 100 corporations in the United States had subsidiaries in tax havens. The Tax Justice Network reported that 99 of Europe's largest 100 companies also used tax havens. A substantial proportion of the largest companies manage to pay little or no tax. These problems of tax avoidance need to be tackled urgently, but because of the ease with which companies and rich individuals can escape national jurisdiction, action will often require international agreement.

A much more fundamental approach to reducing inequality is to reduce differences in people's incomes before tax. In our research we found that some of the more equal societies gain their greater equality by redistribution, but others start out with smaller differences in pre-tax incomes (Wilkinson and Pickett, 2010). The social benefits of greater equality do not seem to depend on which method is used.

The widening income differences seen in so many countries are primarily a reflection of a tendency for top incomes to grow faster than incomes throughout the rest of society. Over the last few decades large international corporations have been powerful generators of inequality. From the 1970s to the early 1980s, the CEOs of the largest 350 US companies were paid 20 or 30 times as much as the average production worker. By the first decade of the 21st century they were getting between 200 and 400 times as much (Mishel and Sabadish, 2012). Among the 100 largest UK companies (FTSE 100 companies), the average CEO received just above 300 times the minimum wage (Equality Trust, 2012). These levels of pay, which are, at best, only very weakly related to measures of performance, are an indication that there is no effective system of accountability for people at the top (Tosi et al., 2000). Although the widening is more extreme in the United States than in many other countries, differentials have increased in most countries. This widening gap seems, in the absence of strong trade unions and an effective labour movement (discussed earlier), to reflect a lack of any effective democratic constraint on top incomes. If that is so, then part of the solution is to build effective constraints by extending democracy into our economic institutions.

We need to increase employee representation on company boards and expand the share in the economy made up of mutual, cooperative and employee-owned companies. More democratic companies tend to have much smaller pay ratios among their staff. In the Mondragon group of cooperatives in Spain (which has 84,000 employees and annual sales of £13 billion) pay ratios average around 1:5. In large public-sector organizations ratios are usually between 1:10 and 1:20. Around half the countries belonging to the European Union have some kind of legal provision for employee representation on company boards.<sup>1</sup>

As well as smaller income differences, cooperatives and employee-owned companies have other advantages. Community life has weakened substantially in rich countries over the last generation but, as Oakeshott (2000) remarks, an employee buyout can turn a company from being a piece of property into a community. Perhaps a stronger sense of community at work could replace the sense of community that has declined in residential areas. It is also likely that less hierarchical structures at work could begin to change the experience of work, making it possible for more people to gain a sense of self-worth and of being valued from their work.

The scales of top pay and of tax avoidance are two indications of the mismatch between profit-seeking and the public interest. Others include corporate-funded opposition to scientific evidence of harm associated with company products such as the role of fossil fuel companies opposing climate

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1. The various provisions in Europe can be seen on the Eurofound website at: <http://www.eurofound.europa.eu/eiro/1998/09/study/tn9809201s.htm>. Some of the provisions are very weak: they need to be substantially strengthened and made universal.

science, the manipulation of regulatory bodies set up to safeguard the public interest, and the purchase of political influence on a scale which threatens the effective functioning of democratic institutions (Freudenberg, 2014; Oreskes and Conway, 2010).

But these are not the only considerations contributing to a resurgence of interest in more democratic economic institutional structures. A report called *Workers on board* from the British Trades Union Congress (TUC, 2013) points out how the traditional form of share ownership has become an increasingly inappropriate system for owning and controlling business. It points out how in the 1960s most shares were owned by individuals with a longer term interest in a small number of companies. But in many countries the vast majority of shares are now owned by financial institutions which spread their investments across hundreds or even thousands of companies; they make money through short-term share trading and have little or no knowledge of or long-term interest in the companies. The TUC report says that this has reached a point where a large listed company may have thousands or tens of thousands of shareholders and find it difficult even to get full information on who its owners are.

At the same time, modern production increasingly involves the integration of the expertise and knowledge of many different people, and the value of a company is less a matter of its buildings and capital equipment than of the value of the integrated group of employees with their skills and know-how. This means that buying and selling a company amounts to buying and selling a group of people – an appallingly anachronistic process, especially when that group of people should be running their own company democratically. Interestingly, large workplace studies of health have shown that lack of control at work is a significant health hazard (Bosma et al., 1997).

## Environmental sustainability

Particularly since the financial crash of 2008, think tanks, charities and research groups round the world have produced a spate of publications pointing to the need for a fundamental transformation in the conduct of economic and social life – a recognition that what is now utopian is the idea that we can continue with “business as usual”. Examples include the German Advisory Council on Global Change (2011), the Stockholm Environment Institute (2002) and the NGO Share the World’s Resources (2012). Many of these reports address not only the need to reduce carbon emissions, but also the problem of growing inequality, the need to tackle world poverty, and more.

The need to develop low-carbon sustainable economic systems is now desperately urgent. In May 2013, CO<sub>2</sub> levels in the atmosphere reached 400 ppm for the first time. This is 40 per cent above pre-industrial levels, higher than at any time in human existence, and substantially higher than

the 350 ppm which James Hansen (NASA) and an international team estimated is the safe limit if we are to keep the rise in global temperatures below 2 degrees Celsius (Hansen et al., 2008). As a result, climate scientists are increasingly abandoning the hope that global temperature rises can be kept below this limit. In 2009, the Geneva-based Global Humanitarian Forum, presided over by Kofi Annan, estimated that climate change was already causing 300,000 deaths a year and that there were already 26 million people displaced by climate change – a figure thought likely to triple by the 2020s. Ninety per cent of the deaths were in developing countries rather than in the rich countries which have the highest carbon emissions per head. The annual number of deaths was predicted to rise to 500,000 a year by 2030, but since then the indications are that global warming may be proceeding more rapidly than previously thought. Some of the effects already set in train by higher CO<sub>2</sub> levels take long periods of time to come through, so that even if we manage to prevent further increases in CO<sub>2</sub> emissions, sea level rises (currently increasing at a rate of around 3 mm per year) and climate change will continue into the distant future (Rahmstorf, 2012). It is estimated that to stabilize atmospheric concentrations of CO<sub>2</sub> the carbon emissions caused by global human activity would have to be reduced by 80 per cent on 1990 levels (Parry et al., 2008).

The environmental crisis is however more than climate change. As Clive Spash points out, it is also soil erosion, deforestation, water salinization, the systemic effects of insecticides and pesticides, particulates in the air, tropospheric ozone pollution and stratospheric ozone loss, toxic chemical waste, species loss, acidification of the oceans, decline of fish stocks, hormone discharges into the water supply, and so on (Spash, 2013).

Approaching sustainability is usually viewed as a matter of reducing the environmental impact of a given way of life, using a combination of more efficient technologies and modifying lifestyles only where minor changes would make them less wasteful. The problem is seen as one of preserving lifestyles as far as possible within the limitations of sustainability. However, the challenge is to identify changes in lifestyles and social structure which would increase well-being while also reducing a society's ecological footprint.

In this context, the need for new technologies and greater fuel efficiency is the obvious part. More difficult is how we address the many dysfunctional forms of social organization and expenditure – such as the US\$1,753 billion (2.5 per cent of world GDP) which the world spent on armaments in 2012 (Stockholm International Peace Research Institute, 2012), or the international inequalities which mean that the richest 20 per cent of the world's population consume 86 per cent of its goods while the poorest 20 per cent consume just 1.3 per cent, or how we can reduce the insatiable consumerism of rich societies.

The most important reason why governments have not yet responded adequately to the threat of climate change consequent on global warming,

is that environmental policies are seen as a threat to living standards and people's quality of life. Moving towards sustainability is seen as meaning living as we do now but with less of everything. People's dislike of what they imagine is the solution leads many to reject the evidence of global warming itself.

Rather than risk the incomes which underpin our social standing and pursuit of status, we prefer to risk the planet. And because status becomes even more important in more unequal societies, money as a marker of status also becomes more important. As a result, people in more unequal societies work longer hours (Bowles and Park, 2005), they get into debt more and are more likely to go bankrupt (Kumhof and Ranci re, 2010; Adkisson and Saucedo, 2012). We experience any threat to our purchasing power as a threat to our social existence – even though, for society at large, status competition is a zero-sum game: as one person's gain is a loss for others, we can't all improve our status relative to each other. But as consumerism damages the planet and is the greatest obstacle to any attempt to make major reductions in carbon emissions, it is worse than a zero-sum game.

### Sustainability and increases in well-being

Here we have to make a major shift in our thinking. The changes needed to achieve sustainability are also the changes needed to improve the real quality of our lives. We have before us the possibility of a new chapter in the process of human emancipation. Although people in developed countries live in historically unprecedented comfort and luxury, they are nevertheless immersed in social and economic problems with huge human costs. As we have seen, we are all touched by these issues, whether it is the prevalence of mental illness, depression and anxiety problems, the poverty of community life, our worries about how we are seen and judged which damage social relationships and make it harder to relax and enjoy each other's company – not to mention the closely related problems such as violence, drug abuse, and people being devalued and made to feel inferior.

Reducing inequality is not only key to improving these aspects of social life and well-being, but also the key to reducing consumerism. Consumerism is not a reflection of a basic acquisitive human nature. It stands instead as a marker of the dysfunctional power of status competition in social relations. Consumerism is actually a very alienated form of social signalling through which we try to maintain and communicate some sense of self-worth to each other.

Reductions in the pressure to consume also mean that people in richer societies may be more willing to use the benefits of increased productivity to give them more leisure rather than higher levels of material consumption. The New Economics Foundation has suggested that a 21-hour working week



should become the norm (Coote et al., 2010). As well as the evidence of a social deficit in modern life, surveys have shown that there are widespread intuitions that consumerism involves sacrificing time which would be better spent with friends, family and community (Harwood Group, 1995).

The reductions in health and social problems made by more equal societies are so large because they extend to the vast majority of society. With reductions in inequality we could not only reduce consumerism but also improve the real quality of life for the vast majority. If the main effort to reduce inequality were a focus on the expansion of economic democracy in all its forms – union and employee representation on company boards, mutuals, employee-owned companies and cooperatives – then we would also start to transform people's experience of work. Community life would be stronger and status insecurities reduced.

The weakening of the labour movement during the last quarter of the twentieth century also saw a decline of any sense of how to improve our societies. Progressive politics lost sight of any view of the direction in which we should be trying to move social and economic change which would produce a better quality of life for everyone. Rather than the economy serving people, there was an increasing sense that we had little choice but to serve the economy and that the direction of change was beyond our control. Politics lost any idealism and ability to inspire. Attempts at reform became piecemeal, lacking a sense of coherence and direction.

We need now to recreate a movement with the political and social influence which enabled the former labour movement to achieve the major reductions in inequality during the middle decades of the twentieth century. We need a new vision capable of bringing out the best in us. The task is to respond to the threat of global warming in ways which contribute to improving the real quality of life for all of us. In the last period of progressive politics, in the 1960s and 1970s, there was a failure to produce the structural changes which would ensure progress was maintained. More work is needed in discussing, developing and setting out the vision to ensure that in future we make genuine progress in maximizing sustainable human well-being.

Reducing inequality in living standards between countries is fundamental, not only because the scale of inequality between rich and poor is unacceptable or because the rich have much larger carbon footprints than the poor: the very large international differences in living standards are also a major obstacle to reaching international agreements on reducing carbon emissions. Oxfam (2013) reported that the combined incomes of the richest 100 people on the planet amounted to US\$240 billion – four times what would be needed to end extreme poverty all over the world.

An international survey of the opinions of business leaders shows that those in more equal countries tend to give a higher priority to environmental issues (Wilkinson, Pickett and De Vogli, 2010). There is also evidence that



more equal societies may be more responsive to international inequalities (Wilkinson and Pickett, 2010). The “contraction and convergence” framework for reducing carbon emissions is an attempt to tackle the links between international inequality and agreement to tackle global warming. And it is clear that if rich societies were to give a higher priority to leisure over consumption, it would leave more room for the economic growth which developing countries continue to need.

The challenge is daunting, but the problems we face are linked in such a way that solving one paves the way to solving others, and each left unsolved exacerbates the others. Addressing world poverty will make it easier to reach international agreement on measures to check global warming. A stronger framework of international law will make it easier to reduce levels of military expenditure, and that in turn will make it easier to tackle the preventable burden of diseases in poorer countries. Effective international measures to prevent the use of tax havens for avoiding national taxes would make it easier to reduce inequality, which would reduce status competition and consumerism, so improving the quality of life for all.

Progress will depend not only on government action, but on civil society more widely, and particularly on a worldwide alliance of concerned organizations. Many governments, international agencies and organizations round the world have been working to set out the path towards sustainability. The UN High Level Panel has set out Post-2015 Development Goals and, at the Rio+20 Conference on Sustainable Development, UN Member States agreed to put together a series of Sustainable Development Goals. The European Environmental Agency has provided the main European thrust. There are also many highly influential campaigning groups in the charitable sector, some, such as Oxfam and Save the Children, working on poverty and inequality while others, such as the World Wildlife Fund (WWF), Friends of the Earth and Greenpeace, are focused on environmental issues. Numerous other organizations – such as Avaaz, Occupy, The Tax Justice Network, Make Poverty History – have picked up and campaigned effectively on a wide range of related issues. Trade unions must play a central role in this progressive alliance.

Moving towards sustainability and maximizing well-being both involve changing some of the counterproductive aspects of our social and economic systems. Humanity cannot develop sustainable ways of life on the basis of huge international inequalities, unbridled consumerism, international conflict, with our economic life dominated by enormously powerful corporations which avoid any effective democratic accountability. Addressing each of these issues is not only about removing a major obstacle to sustainability; it is also about enabling important advances in well-being.

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# Trade unions and economic inequality

*Perspectives, policies and strategies*

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The ongoing global financial crisis has moved the issue of economic inequality into the spotlight of public debates. Its importance is underscored by the growing evidence of the negative impact that economic inequality has on major social, political and economic issues such as economic growth and development, corruption, crime and instability, poverty and deprivation, social immobility and discrimination in the labour market, stress and unhappiness, gender and health inequality, childhood advantage and educational failure, family breakdown and teenage pregnancy, polarization and fragmentation between communities, ethnic groups, regions and social classes (ILO, 2008 and 2013; Wilkinson and Pickett, 2009; Seguino, 2010; McKnight and Nolan, 2012). However, trends of growing inequality have been going on for much longer and indeed may have contributed to the global financial crisis. As the ILO's *World of Work Report 2008* has shown, the period between 1990 and 2005 was marked by increasing income inequality (as measured by changes in the Gini index) in approximately two-thirds of all countries examined (ILO, 2008). Similarly, the share of wages in total income has declined in 51 out of 73 countries for which data are available (*ibid.*).

But how do trade unions view economic inequality? In an attempt to better understand trade union views and policy and strategic response to economic inequality, the Global Labour University alumni network has run the global trade union survey "Trade Unions and Economic Inequality: Perspectives, Policies and Strategies". This article presents some of the main findings of the preliminary assessment of this ongoing survey.<sup>1</sup> The first part describes the perspectives of trade unions on economic inequality: its main indicators, causes and impact. The second part looks into some of the main policy proposals and strategies pursued or proposed by trade unions to tackle issues of economic inequality. The third part examines whether the policy proposals and strategies of unions are successful, establishes some of the main factors that influence the success of unions' policies and strategies, and provides an overview of the main actors with which trade unions cooperate and the forms of cooperation chosen. Finally, the last part summarizes some of the main findings and insights of the survey.

### The perspective of trade unions on economic inequality

The survey attempted to assess the way trade unions see the issue of economic inequality. This was done by asking them to identify the main indicators of economic inequality, as well as its causes and effects. Moreover, they were asked to state how important the issue is for their agenda.

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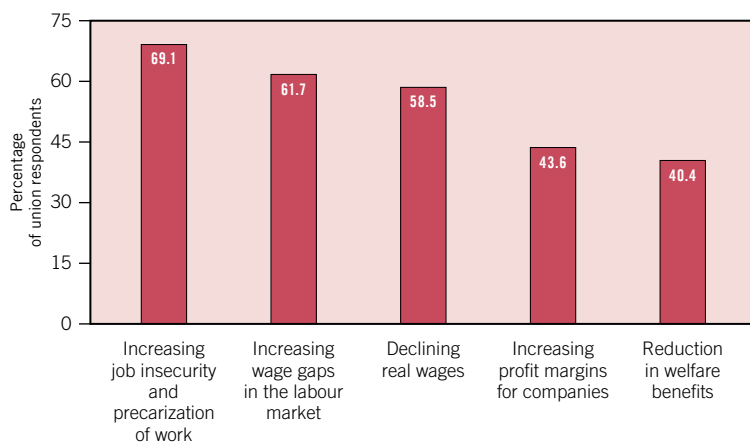
1. Further information on methodology and the profile of trade union respondents can be found in the Annex.

## Indicators of economic inequality

Trade unions were asked to point to some of the main indicators of economic inequality in their respective country. While the questionnaire provided a list of indicators, the respondents had the possibility to add other indicators specific to their own country. The survey shows that the most frequent indicators of economic inequality, cited by more than half of respondents, are: increasing job insecurity and the precarization of work, followed by declining real wages and increasing wage gaps in the labour market. Less than half of respondents cited increasing profit margins for companies and the reduction in welfare benefits (figure 1).

More than one in four respondents (26.6 per cent) pointed out other indicators, many of which are related to those shown in figure 1. These include: increased outsourcing and contract work leading to wage differences among regular and contract workers; increasing rates of informal workers and wage gaps among them and formal workers; the concentration of wealth in a few hands; increased wage gaps between men and women; the inadequacy of benefits in relation to basic needs; unequal access to social services; and narrowing down of space for workers' participation in decision-making.

Figure 1. Main indicators of economic inequality



## Causes of economic inequality

Almost all respondents (95 per cent) have elaborated on how their union views the causes of economic inequality. Two main threads of causes can be identified here: (1) causes related to broader political trends across the world; and (2) causes related to specific labour policies.

**Broader political trends.** Most trade union respondents link rising economic inequality to neoliberal globalization and neoliberal capitalism. More

specifically, respondents have identified a number of issues, such as: the increasing power of transnational corporations and the subordination of national economies to international capital; pro-capital government policies and regulations and the unequal distribution of power and wealth in society; a regressive tax system; corruption; the fact that economic policy is often detached from social policy and that there is a lack of interventions aimed at “lifting up” the poor; declining social benefits, low investment or the privatization of public services; and a lack of agrarian reforms. Obviously, unions’ views on the broader causes of rising inequality also reflect their country’s particular history and specific conditions. This is the case in Brazil, where almost all respondents pointed to the long history of inequality in the country, or in Nepal, where unions referred to the lack of political stability.

**Labour policies.** According to the respondents, the most common causes in this area include: a lack of pro-labour policies, such as laws providing social protection and employment rights for workers doing non-standard forms of work, workers in the informal economy, and workers in micro and small enterprises (MSEs); a lack of employment policies, including policies aimed at upgrading workers’ skills; the growth of the low-wage sector and non-standard, contract employment; work intensification and productivity gains whose benefits are not shared with workers; income policies which suppress wages to create a more investment-friendly environment; wage freezes in the public sector; poor labour law enforcement; and the persistence of the gender pay gap. Less cited causes are: the difficulties faced by unions when they try to organize workers (especially with the expansion of the services sector); declining unionization rates and weak and fragmented unions; and the weakening of tripartite bodies (the limited role of unions in policy-making) and collective bargaining framework.

### The impact of economic inequality

The impact of economic inequality is discussed by an overwhelming majority of respondents (91.5 per cent) in terms of (1) how it affects society in general; and (2) how it affects workers in particular.

**The impact of economic inequality on society** is seen as particularly worrying. Not only can it lead to social and political unrest and threaten democracy, it is also seen as causing poverty (even among those in employment), health problems (including mental problems), and further cuts in social and public services; and social problems (some of which affect young people in particular) such as social exclusion and injustice, crime, prostitution, increased violence in the family and against women in particular, migration and the resultant “brain drain”, increased life insecurity and suicide rates, and increased dependency within the family. Some respondents said that

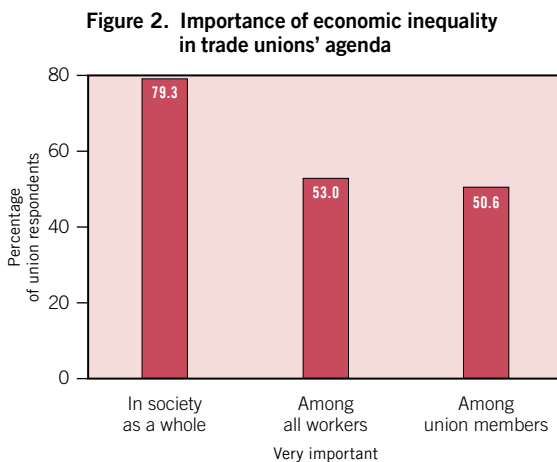


economic inequality leads also to environmental degradation, the slowing of economic growth and the worsening of people's socio-economic situation, and increased authoritarianism.

**The impact of economic inequality on workers** is also very significant. Several respondents emphasized how economic inequality retroacts on the main causes behind its increase. For example, unions see economic inequality as contributing to rising unemployment and low, insecure and unstable wages (affecting women and young people in particular); as leading to more job insecurity, precariousness and deteriorated working conditions; and as weakening trade unions. Also, economic inequality erodes workers' solidarity and collective bargaining coverage as unions find it more difficult to negotiate better working and employment conditions. The negative impact of economic inequality on workers reinforces social inequalities as, for example, children are left with poor or limited access to education.

### The importance of economic inequality for trade unions' agenda

Trade unions were then asked to assess the importance of the issue of inequality: (1) in society as a whole; (2) among all workers – both union and non-union members; and (3) among union members as regards their agenda (in terms of strategy and policy proposals). The survey shows that the share of trade unions attaching a very high level of importance to economic inequality *in society as a whole* is higher than the share of trade unions attaching the same level of importance to economic inequality for all workers or for trade union members (figure 2). Of the 93 per cent of trade union respondents answering this question, almost four in five (79.3 per cent) said



their union sees the question of economic inequality in society as a whole as very important. This share drops to 53 per cent when asked about economic inequality among all workers, and even lower when asked about economic inequality among union members (50.6 per cent).

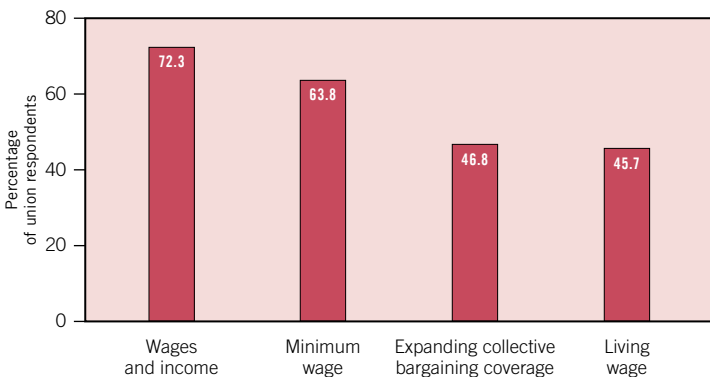
### Union policies and strategies on economic inequality

The survey shows that trade unions see economic inequality as a very serious challenge to society and workers and that the issue has a very important place in the union agenda. But what is their response to economic inequality? What kind of policies and strategies do they pursue to combat economic inequality?

#### Wage and income policies and strategies

Nearly three in four survey respondents (72.3 per cent) indicate that wage and income policies are commonly pursued or proposed by trade unions to tackle issues of economic inequality (figure 3). When it comes to the area of wage and income policy, respondents frequently refer to the principle of “equal pay for equal work”, often with a focus on the situation of women and precarious workers. They mention a number of policies and strategies such as the minimum wage, wage increases in the public sector, a universal pension plan and grants for children, the expansion of health coverage, tax policies, productivity-sharing schemes and the extension of collective bargaining. The most dominant policies and strategies, however, are minimum wages, which are cited by nearly two in three respondents (63.8 per cent), expanding collective bargaining coverage (46.8 per cent) and living wage policies and strategies (45.7 per cent).

Figure 3. Wages and incomes: Dominant union policies and strategies



**Minimum wage.** The survey reveals that the minimum wage is among the top policies or strategies pursued or proposed by trade unions to tackle issues of inequality. Minimum wage demands are framed mainly around (1) the need to establish minimum wage rates either at sectoral or national level; or (2) increasing minimum wage rates (inflation indexation, decent minimum wage rates to sustain the family costs). A number of respondents referred to policy proposals to extend and improve minimum wage provisions to informal workers, precarious workers and other groups normally excluded from coverage by the minimum wage. The need to reform the minimum wage-fixing system – that is, to move away from a decentralized or provincial to a national system of minimum wage setting – is another policy proposal cited by a number of respondents. Finally, there are also proposals to democratize the tripartite structures setting the minimum wage in some countries, either by establishing union participation or by strengthening union involvement.

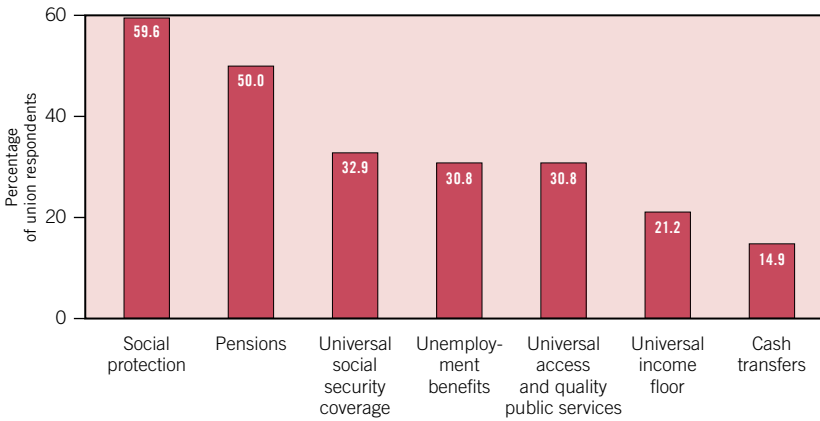
**Expanding collective bargaining coverage.** Most of the policy proposals and strategies around expanding collective bargaining coverage aim at introducing legal provisions which (1) ease union certification procedures and bring workers into one bargaining unit; (2) address issues of exclusion from collective bargaining rights for specific groups of workers (informal workers, precarious and atypical workers); and (3) lower the threshold for collective bargaining agreements (CBA).

**Living wage.** Demands for a living wage are considered as a means “to address broader inequalities in [the] society” (South African respondent). Respondents appear to use the terms “minimum wage” and “living wage” interchangeably. In South Africa, the living wage is understood as “a minimum wage sufficient to cover a specific quality and quantity of housing, food, utilities, transport, health care and recreation”. Similarly to the minimum wage, proposals around the living wage consist mainly in one or more of the following: establishing or increasing living wage rates to provide decent living conditions; establishing a living wage in the private sector; and moving beyond the minimum wage to demand living wages.

### Trade union policies and strategies on social security and protection

The survey shows that social security and protection is another important policy and strategy area for trade unions. It is mentioned by almost three in five respondents (59.6 per cent) (figure 4). Similarly to wage and income policy, the social protection policy area includes a number of other policies and strategies which aim at increasing social security and protection for workers. Aside from demands to ratify pertinent ILO Conventions, proposed

Figure 4. Social security and protection: Dominant union policies and strategies



interventions in the area of social protection policy consist mainly in establishing or adjusting the benefits of the social security scheme to the prevailing living standards, or expanding the scheme to provide more comprehensive social protection to all citizens without any conditionality. Some respondents have also proposed:

- regular, individual incomes for women and young people (to facilitate their entry into the labour market);
- universal pension plans providing decent living standards, and universal grants per child without any conditionality;
- health insurance for public employees and their children, a universal health-care system, and health coverage for workers and their families through their companies; and
- quality public services including adequate incentive schemes to retain qualified workers who can provide quality services.

As figure 4 shows, among the various policies and strategies pursued by trade unions to enhance social protection the most common are pensions (cited by half of the respondents) and universal social security coverage (cited by one in three). What follows is a summary of the main union proposals in some of the most cited policy and strategy areas.

**Pensions.** Policy proposals around pensions consist mainly in establishing or improving pension benefits and public pension schemes to provide decent living standards for old people and for all workers of pensionable age. A number of trade unions cited proposals for lowering the retirement age; defending existing pension schemes; and tax policies which support pension schemes.

**Universal social security coverage.** Universal social security is not a dominant strategy employed by trade unions to address issues of economic inequality, as only 32.9 per cent of respondents have cited this. Aside from some of the policy proposals discussed in the area of social protection, respondents have proposed universal social security coverage for workers in MSEs and those in non-standard, atypical or precarious forms of work.

**Unemployment benefits.** Almost one in three respondents (30.8 per cent) cited unemployment benefits as a policy and strategy area for combating inequality. Most commonly, proposals include demands for compliance with the ILO minimum standards for social security, and the enforcement of existing labour law provisions and schemes for increasing unemployment benefits (for example unemployment benefits equal to minimum wages for workers who have been able to work for less than a year, and linking unemployment benefits to a decent income or a living wage). There are also some policy proposals to simplify the requirements for accessing unemployment benefits and opposing cuts in benefits. Few respondents have cited proposals for union-provided unemployment insurance schemes.

**Universal access and quality public services.** Again, almost one in three respondents mentioned universal access and quality public services as a policy and strategy area in which their union is engaged to tackle issues of economic inequality. The few comments made by union respondents provide limited insight on this particular area. With a few exceptions, most respondents have only reiterated the importance of universal access and quality public services and their union's support for struggles and campaigns for such services.

## Labour market policies and strategies

Using labour market policies and strategies to tackle issues of economic inequality is mentioned less frequently compared to other policy areas. The survey shows that none of the labour market policies are cited by more than half of the respondents. The top policies are: employment policies for women, unemployment policies, employment policies for young people and job security policies (figure 5). What follows is a summary of the main union proposals in some of the most cited policy areas.

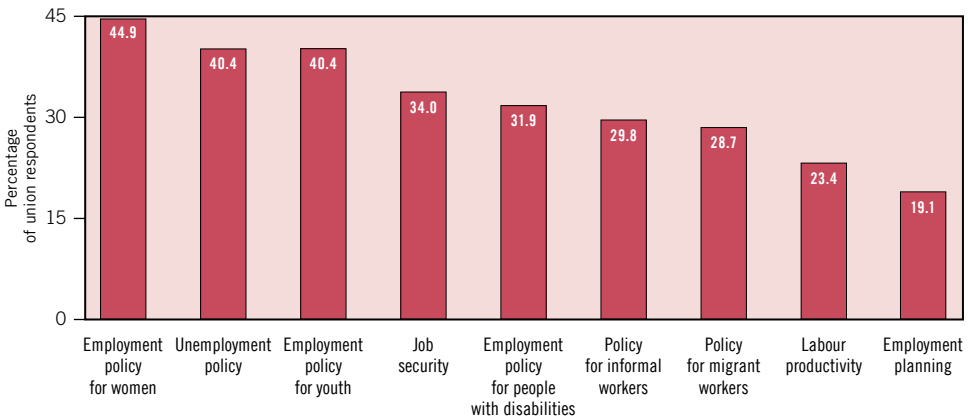
**Employment policy for women.** Although cited by less than half of the respondents (44.9 per cent), employment policies for women are the most common labour market policy employed by trade unions to tackle issues of economic inequality (figure 5). The relatively low share of respondents referring to this policy area, as compared to other areas, may reflect a general line of thinking expressed for example by Brazilian trade unions that demands a growth model improving the employment of all groups, including

women. Most policy proposals consist in demands for the full implementation of existing laws which aim at ensuring fair employment conditions, including unionization rights, and non-discrimination in terms of hiring, wages and social security benefits for all women. To this end, unions have attempted to lobby governments to introduce, or comply with commitments to, gender-responsive budgeting. Moreover, they demand gender analysis and gender-sensitive laws, policies and programmes (gender-sensitivity audit) at the national level.

**Unemployment policy.** The next most common labour market policy is on unemployment. Cited by over two in five respondents, discussions in this policy area range from simple articulations supporting the implementation of an unemployment policy (and unemployment benefits) in the country and prioritizing and supporting the employment of certain groups (women and youth), to concrete policy proposals aimed at increasing employment and job security and enhancing workers' employability. Policy proposals for increasing employment consist in demands for economic growth that creates jobs, and for income distribution schemes. A number of respondents cited proposals consisting in shortening the working time such as reducing working time (without reducing wages) and overtime and creating an extra shift (fifth shift) to increase employment (through provisions in collective bargaining agreements). Collective agreements (in public companies) which include provisions to hire more workers (for example through public procurements) and improve the quality of public services were also mentioned in this policy area.

**Employment policies for young people.** The number of respondents citing an employment policy for young people is relatively smaller than the number of those citing an employment policy for women (40.4 per cent and 44.9 per

Figure 5. Labour market: Dominant union policies and strategies



cent respectively). Similar to the employment policies for women, the relatively low number of responses may reflect the views expressed by a union respondent who argued that the union has opposed a “Youth Wage Subsidy” policy by the government on the basis that the issue of unemployment “should be addressed holistically without sectionalization”. This is not to say, however, that trade unions do not consider the issue of youth employment important; in fact, among those discussing this policy area, there is an emphasis on the urgency of tackling youth unemployment. Similar to other policy areas, most unions’ policy position consists in pushing for, or participating actively in, the formulation and implementation of a national policy for youth employment, with a strong emphasis on education and training.

**Job security.** The issue of job security has frequently come up in various areas. Over one in three respondents discussed specific policy proposals which aim at (1) strengthening the employment protection of existing workers; and (2) banning, reducing and regularizing the use of precarious work. With regard to the first set of policy proposals, respondents refer to policies and strategies which negotiate collective agreements protecting workers during company restructuring or public-sector reforms; demand job security for elder workers; and recommend government cost-cutting in exchange for maintaining employment in the public sector. On the second set of policy proposals, respondents have mentioned proposals which (1) change workers’ status from “outsourced” to “permanent” and from “informal” to “formal”, and (2) introduce labour law provisions which block the casualization of employment and the spread of contract work by regularizing the use of contract workers and ensuring that they receive the same pay and conditions as regular workers.

**Employment policy for people with disabilities.** Almost one in three respondents cited a union policy position on employment policies for people with disabilities (PWD). Most respondents articulated their unions’ support for the implementation of the existing legal provisions for the employment of PWD. Other respondents have cited proposals for the establishment or improvement of a national policy for the employment of PWD which includes a quota for their employment (5 per cent in Argentina), adjusted training programmes that address their specific needs, and the removal of barriers to access of workplaces.

**Trade union policy for informal workers.** Surprisingly, a relatively low share (29.8 per cent) of respondents indicated that their union has a policy for informal workers. While policy proposals in this area mainly refer to informal workers, in quite a few cases respondents have mentioned temporary foreign workers and non-standard, atypical and non-regular workers. The most common policy position is regularizing informal workers and non-standard workers so that they benefit from the same rights and entitlements (decent wages, social security, leave rights) as formal workers. Related to this,

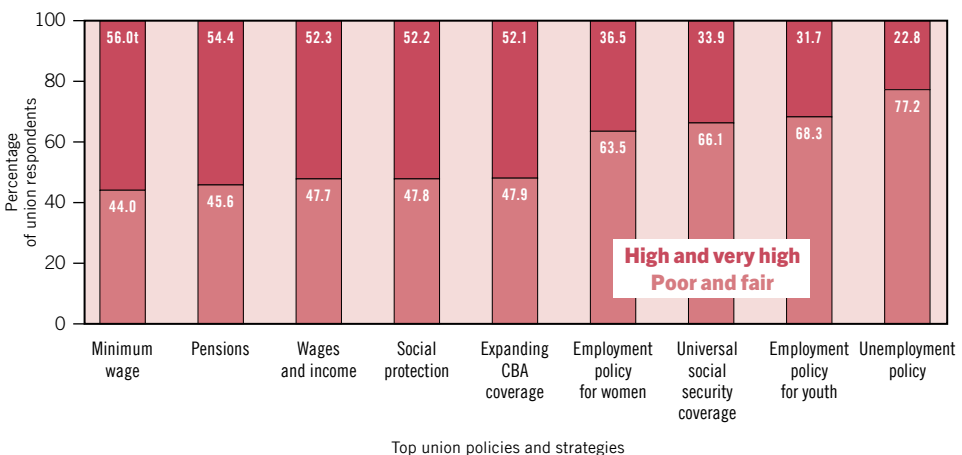
trade unions propose the introduction of legal provisions that ensure equal protection and benefits for informal or non-standard workers and strengthen the role of the national labour inspection system.

**Trade union policy for migrant workers.** Similar to the policy for informal workers, a relatively small share (28.7 per cent) of respondents has indicated that their union has a position on migrant workers. The most cited policy proposals in this area include demands for universal rights, full protection and non-discrimination (including the recognition of all working years needed for retirement no matter where people have worked, proposed by the unions in Brazil; and the right to vote in general elections after two years of residence in the country, proposed by unions in Argentina). In some cases, trade unions (especially those from migrant-sending countries) have developed a number of policy proposals concerning migrant workers from their own countries (Kyrgyzstan, Nepal and the Philippines).

### Overall assessment

Trade unions were asked to assess the success of their own policy proposals and strategies (figure 6). Out of the top three policies and strategies of each of the three main policy areas, those that were seen as either successful or highly successful include minimum wages (56 per cent); pensions (54.4 per cent); wages and income (52.3 per cent); social protection (52.2 per cent); and expanding CBA coverage (52.1 per cent).

Figure 6. Union assessment of the success of dominant policies and strategies





## Successful policy proposals and strategies

Trade unions were also asked to identify and discuss a policy proposal or strategy of their union that was particularly successful in combating economic inequality. Of the 64.9 per cent of respondents that provided detailed answers to this question, most mentioned policy proposals and strategies in the areas of wages, social dialogue and (the extension of) collective bargaining. What follows is a summary of these policy proposals and strategies and snapshots from some of the trade union responses.

**Wages and income** is the top area assessed as successful by 24.5 per cent of union respondents. Successful policies and strategies typically include establishing or increasing minimum wages; increasing wages or compressing the wage structure; and pushing for a living wage or improving the living wage calculations (examples of strategies in this area are provided in box 1). By pushing for minimum wage increases, unions are able to significantly improve the wages of the poor and, to a degree, of workers in the entire economy.

**Social dialogue and (extending) collective bargaining** is the next area of policy proposals and strategies: 12.8 per cent of respondents saw it as particularly important because its positive effect on wages and living wages, jobs, gender equality, protection for non-standard and precarious workers, and

### Box 1. Trade union campaigns for the minimum wage in Germany and Thailand

#### The minimum wage campaign in the food and beverage sector in Germany

Union demands for minimum wages and the re-regulation of the labour market have seen progress in the last ten years. There is a much higher level of approval/consent in society on the need for minimum wages and on the need to re-regulate the labour market, increase taxes and pursue policies of distributive justice. The opposition parties have taken up the demands of the trade unions, and this general approval in society could be a basis for a shift after the elections towards more regulation and a minimum wage. Also, the posting of the workers' directive has led to more sector-based minimum wages<sup>1</sup> (Ver.di, Germany).

#### The minimum wage campaign in Thailand

Trade unions in Thailand were able to raise awareness and convince the main political parties in Thailand that the lack of a minimum wage is one of the main causes of economic inequality. The election in 2011 proved the importance of this argument as all the political parties proposed the minimum wage as their main policy. After the election the union was able to monitor and pressure the Government to implement a national minimum wage policy, which stands at 300 baht. (Thai Labour Solidarity Committee)

<sup>1</sup> The general election in Germany took place in September 2013 – after the survey had been conducted. The new government, a grand coalition between Christian Democrats and Social Democrats, has signalled its intent to phase in a minimum wage from 2015 to 2017.

## Box 2. Extending and improving social protection in Argentina and Denmark

### Universal Child Grant in Argentina

Under pressure of several rallies and actions carried out by the National Front against Poverty, in 2009 the Argentine Government was forced to implement the campaign's proposal for a Universal Child Grant. The Grant, which has benefited around 3 million children, has contributed to decreasing poverty especially among the very poor (Asociación de Trabajadores del Estados, Argentina).

### Health equality in Denmark

Trade unions took up the issue health inequality due to social background and hard work. The union was able to engage 6,000 members in its political work and force the Government to give priority in its agenda to issues of health inequality (3F, Denmark).

productivity. If casual workers are included in collective bargaining negotiations, this contributes to reducing the gap in employment benefits among regular and casual workers and regularizing their employment status.

**Equal pay for work of equal value** is another area of trade union work identified as particularly successful by 7.4 per cent of respondents. Successful cases here include campaigns for the recognition of all labour rights for domestic workers, gender equality, and equal treatment of public-sector workers (teachers).

**Social protection** campaigns are identified as successful strategies by 7.4 per cent of respondents. These campaigns have aimed at universalizing the coverage by extending protection to those excluded from the scheme; improving the quality and equality of the benefits; extending protection to children and eliminating child labour (box 2 provides examples of campaigns in this area in Argentina and Denmark).

Other successful policies cited here include changes to labour law; unions providing employment and other special services; programmes aimed at building trade union capacities; stopping privatization of strategic sectors of the economy; and workers' involvement in discussing the national industrial policy.

### Alliances

Trade union respondents were also asked to identify and discuss some of the main alliances they have built or entered into in pushing for policy proposals to combat economic inequality. The survey shows that aside from inter-union cooperation, the key strategic actors with which unions cooperate

are left-wing political parties; social movements; labour groups organizing precarious, non-standard, migrant and informal workers; organizations of pensioners, the unemployed, young people and women; community organizations; rural movements such as Movimento dos Trabalhadores Sem Terra (MST), Via Campesina and environmental groups; progressive research institutes and universities; and the media. Some trade union respondents also cited international organizations such as the ILO and Global Unions; the “Quality Public Services” campaign of the Building and Wood Workers International (BWI), the International Union of Food Workers (BWI) and the Public Services International (PSI); the American Solidarity Centre; the Friedrich Ebert Stiftung; the International Labour Research and Information Group; and the Clean Clothes Campaign.

The main forms of collaboration and engagement are joint actions such as national awareness and pressure campaigns; referendums and petitions; demonstrations and mobilizations (during public hearings); advocacy (including media advocacy) and lobbying for the introduction and implementation of labour laws and other policy proposals; drafting bills, position papers and resolutions and conducting research on the topic; joint conferences and round tables, seminars, forums, meetings and lectures; and filing complaints.

### Facilitating and constraining factors

Trade unions were asked to identify the most critical factors in the success of their policy proposals and strategies.

**Facilitating factors** can be grouped into two main groups: (1) factors related to internal union structures, processes and visions; and (2) factors related to the political and economic environment.

**Factors related to trade unions.** Some of the factors discussed here are more related to union strength in general, and others to a specific policy proposal. With regard to the former, respondents have mentioned high levels of unionization and the successful extension of the union to the non-traditional sectors; the general strength and persistence of a union; effective collective bargaining, which includes new issues such as job security and issues of non-standard workers; and the active participation of unions in tripartite bodies.

Facilitating factors related to specific policy proposals include prioritizing policy proposals; mobilizing resources, raising awareness and educating the membership, workers and the wider public about the policy proposal; labour unity and coordinated action at the national or international level around the issue; knowledge about the specific policy issue and professional negotiators; the establishment of venues for discussion and cooperating with other civil society groups and political parties around the policy proposal; and the use of alternative media.

**Factors related to an enabling political and economic environment** include a legal framework, and national and regional schemes which facilitate the implementation of the specific policy (for example the fixing of a minimum wage, social security schemes and labour market policies); a government commitment to combating economic inequality and allocating the resources necessary for implementing a specific policy proposal; strong tripartite structures which enable better negotiation at all levels; the existence of successful experiences (*Bolsa Familia* in Brazil, or food support programmes such as *Bait-ul-Mall*, the Employees Old-Age Benefit Institution and Benizeer Income Support Programme in Pakistan); joint efforts of public agencies and greater coordination with the aim of developing policies focused on the labour market; funding from international partners; and the existence of favourable economic conditions.

**Constraining factors** can be divided into three main groups: (1) factors related to the political and economic environment; (2) factors related to the attitude of employers; and (3) factors related to internal union structures, processes and visions.

**Factors related to an unfavourable or hostile political and economic environment.** Some of these factors are more related to general political and economic trends, such as the global financial crisis and wage inequality; neo-liberal policies at the global and European Union level; the worsening of the economic situation in the country; a high incidence of unemployment; widespread informal and non-standard work which limits the impact of existing laws and policies among the poorest of the poor; media hostility towards unions and union campaigns; and conservative thinktanks and power groups opposing progressive policy proposals.

Other factors are more directly related to the political will of governments. They include: a lack of integrated policy-making and coordination; the lack of a legal framework or political support for the specific policy (such as the lack of an integrated national scheme promoting minimum wages); the limited capacity or unwillingness of governments to enforce existing laws and implement policies (including the limited number of labour inspectors compared to the high number of enterprises, and government orders which exempt companies from certain laws and policies such as the minimum wage); a legal framework which weakens trade unions and collective bargaining (leading, for example, to more union fragmentation by blocking centralized bargaining and the extension of collective bargaining agreements); weak tripartite structures and unwillingness to provide space and information to trade unions in the policy-making process; labour courts favouring employers; governments attaching low priority to labour-related bills and supporting the proposals of employers; countries refusing to ratify pertinent ILO Conventions; and governments shifting their responsibility for finding jobs for the unemployed to private agencies.

**Resistance of employers' organizations.** The next most cited constraint is employers' resistance to policy proposals such as the minimum wage, or to the enforcement of existing laws and regulations. Other constraints include employers' preference for working with or establishing "yellow" trade unions; their strategies of prolonging and fragmenting collective bargaining negotiations; authoritarian work environments that make it difficult to enforce even basic workers' rights; and employers preventing workers from managing their own pension schemes.

**A weak and divided trade union movement** is considered as a constraining factor by many union respondents. More specifically, the respondents have cited low union density; unions' inability to mobilize support for their policy proposals; lack of inter-union cooperation around the specific policy proposal; the limitations of union organizing among informal, non-standard, precarious workers; and the decline of union influence over the policy machine (some trade unions have developed a special relationship with political parties which have traditionally belonged to the left but have increasingly pursued neoliberal policies). Several respondents have also referred to the lack or vagueness of policies and strategies, which are often a product of a lack of knowledge and capacity concerning the area in question – for example pension schemes, the extension of collective agreements, and enhancing the quality of collective bargaining.

## Main findings and insights

Growing economic inequality is viewed by trade unions as a threat to democracy and political stability, and as leading to more social inequality and a number of social problems. Whether in the global North or South, the respondents have identified a number of indicators of economic inequality in their countries, the top three being: (1) increasing job insecurity and the precarization of work; (2) declining real wages; and (3) increasing wage gaps in the labour market. Similarly, some of the main causes of economic inequality cited by trade unions are pro-capital government policies and regulations; economic policies that are detached from social policies; low investment in, and the privatization of, public services; regressive tax systems; income policies which suppress wages; and a lack or limited level of legal regulations covering informal and non-standard workers.

Clearly, trade unions' views on economic inequality – its causes, impact and indicators – bring together the most important challenges facing the labour movement across the world. Thus, tackling economic inequality means not only challenging the root causes of the weakening of trade unions, but also some of the forces undermining democracy and social justice in our societies. In light of this, it is not surprising to see that trade unions attach higher

importance to issues of economic inequality in society as a whole over economic inequality issues affecting all workers or union members in particular.

But to what extent do the policies and strategies chosen by trade unions reflect the very high level of importance accorded to economic inequality in society as a whole?

The survey reveals that there are three main or general policy areas in which trade unions intervene: (1) wages and income policies; (2) social protection and security policies; and (3) labour market policies. Of these, statutory minimum wage and pension policies dominate, which are components of wage and income policies and social protection policies respectively (that is, they are referred to by at least half of the respondents – 63.8 and 50 per cent). Although minimum wage and pension policies play a very important role in reducing economic inequality, their impact may be relatively insufficient for a number of reasons. For one thing, if policies and strategies of increasing minimum wages are not targeted at particular sectors or groups of workers, they have limited effect in compressing the wage structure and their contribution to reducing economic inequality may be rather limited. Moreover, in countries where precarious and informal work is spreading, a significant share of workers are excluded from the application of minimum wage and pension coverage. At the same time, mechanisms for the extension of collective bargaining are often limited or absent in these countries. Indeed, fewer than half of respondents cite extending collective bargaining coverage as a union policy or strategy (figure 3) and many mention barriers hindering such an extension, for example lack of solidarity among workers.

Meanwhile, policies and strategies which may have a stronger impact on reducing economic inequality in society more broadly conceived, such as universal social security coverage (32 per cent), universal access and quality public services (30.8 per cent), a universal income floor (21.2 per cent), and cash transfers (14.9 per cent) are pursued by trade unions only to a limited extent. Moreover, while the most cited indicator of rising economic inequality is increasing job insecurity and the precarization of work, slightly over one in three trade unions have claimed that they are involved in or pursue policies that strengthen job security. The survey also shows that policies aimed at protecting some of the most vulnerable groups, such as informal and migrant workers, are mentioned only by a relatively small share of trade unions (29.8 and 28.7 per cent respectively).

A number of reasons may explain the apparent “gap” between the very high levels of importance that unions give to issues of economic inequality in society as a whole and the concrete policies pursued or proposed to address these issues. While trade unions may be well aware of the importance of tackling economic inequality in society, their concrete resources and capacities may constrain them. The choice to embark mainly on minimum wage and pension policies may have been influenced also by past experiences in the successful adoption of these policies (figure 6). In this regard, a union’s

choice and the successful adoption of a policy proposal (as a state policy for example) are influenced by a number of factors which may facilitate or constrain the adoption or implementation of the proposal. These factors may include the political and economic environment and employers' attitudes towards trade unions, labour laws and policies. While an enabling political and economic environment does play an important role, the survey reveals that trade unions' strength, capacity, unity, and ability to form alliances with other groups is just as important.

The capacity and expertise of unions to develop sound policy proposals may be of particular importance here. The survey shows that many trade unions do not take a macroeconomic approach to income and wage policy. Similarly, a number of trade union policy proposals lack clarity or are underdeveloped, for example in areas such as cash transfers, employment policies for people with disabilities, and policies for informal and migrant workers. Also, the fact that unions use the terms "universal income floor" and "minimum wage" interchangeably reflects their limited understanding of the former or the latter or both. Three out of four respondents come from a federation or a local union, while in practice policy proposals are usually dealt at the confederation level, which may partly explain the underdevelopment or lack of clarity of certain policy proposals.<sup>2</sup> This raises the need for confederations to involve their affiliates and members to a greater extent in the process of policy-making. Raising awareness and educating the membership about union policy proposals is cited in the survey as an important factor that facilitates the successful adoption of a specific proposal. However, if the lack of clarity and the underdeveloped union policies on economic inequality reflect limited trade union capacities, there is a pressing need to provide unions with the tools and capacities to craft policy proposals that enable them to engage in a more meaningful way with economic inequality.

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2. A federation is a nationwide body consisting of local trade unions organizing workers in the same sector. Most national federations are affiliated to a main confederation or national centre.

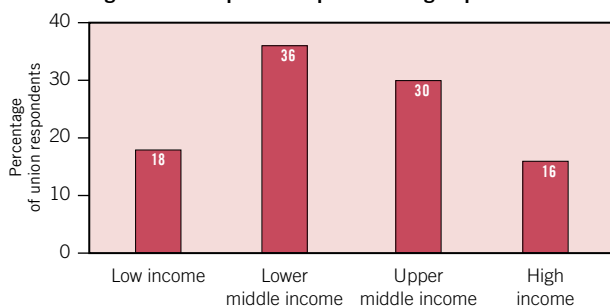
## ANNEX Methodology and profile of trade union respondents

The survey questionnaire was sent to around 270 GLU alumni in 60 countries in December 2012. The alumni were asked to field the questionnaire by interviewing trade union officers responsible for policies and strategies in their respective unions or in trade unions with which they collaborate. Up to 15 November 2013, 94 trade unionists from 37 countries had responded.<sup>1</sup> The survey results were analysed using the Statistical Package for Social Sciences (SPSS).

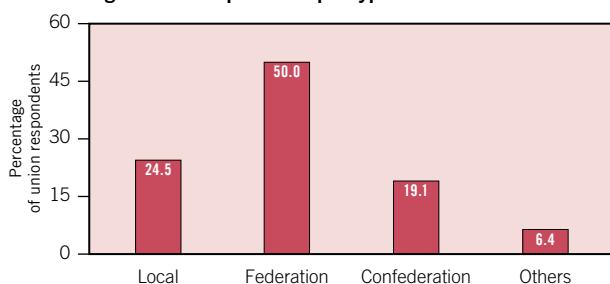
Trade union respondents in this survey cover all income groups: 18 per cent of respondents come from low-income countries; 36 per cent from lower middle-income countries; 30 per cent from upper middle-income countries; and 16 per cent from high-income countries (see figure A1).<sup>2</sup>

Half the responses were made by representatives of union federations, almost one in four (24.5 per cent) were from a local union, and nearly one in five (19.1 per cent) from a confederation (see figure A2). The remainder

**Figure A1. Respondents per income group**



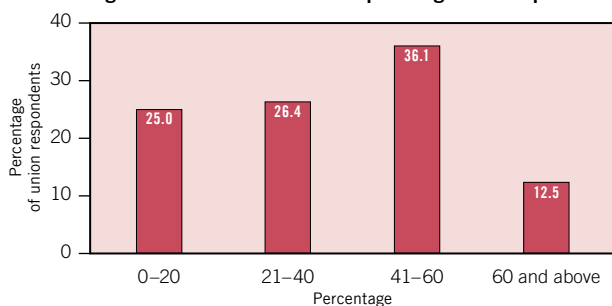
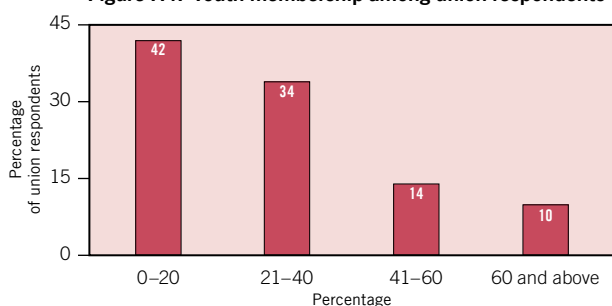
**Figure A2. Respondents per type of union**



1. Argentina, Bangladesh, Barbados, Botswana, Brazil, Cambodia, Canada, China, Cook Islands, Denmark, Germany, Ghana, India, Indonesia, Japan, Kyrgyzstan, Lesotho, Malawi, Mongolia, Namibia, Nepal, New Zealand, Nigeria, Pakistan, the Philippines, Russian Federation, South Africa, Spain, Sri Lanka, United Republic of Tanzania, Thailand, Tonga, Turkey, Ukraine, the United States, Zambia, and Zimbabwe plus the South African Development Community (SADC) region.

2. World Bank classification, available at <http://data.worldbank.org/about/country-classifications/country-and-lending-groups> (accessed 10 November 2013).



**Figure A3. Female membership among union respondents****Figure A4. Youth membership among union respondents**

(6.4 per cent) represent either an association or a regional or interregional organization or a youth council. Forty-five per cent of the unions participating in the survey have been operating from two to 20 years, nearly one in five (19.8 per cent) from 21 to 40 years, and over one in three (35.2 per cent) for 40 years and above. Of the 94 per cent of those who responded to the question concerning their affiliation to a political party, a great majority (78 per cent) stated that they were not affiliated in any way.

In terms of membership, the majority of union respondents (63 per cent) draw their membership from multiple sectors and the remainder (37 per cent) from a single-sector union. The female membership of unions participating in the survey is relatively high. Of the 77 per cent of respondents who reported on their female membership, 36 per cent represent a union with a female membership of 41 to 60 per cent; over one in four with a membership of 21 to 40 per cent and up to 20 per cent respectively, while 12.5 per cent state that their female membership is 60 per cent or over (figure A3).

The youth membership of trade unions participating in the survey is relatively lower than the female membership (figure A4), with the most common definition of “youth” covering those aged between 18 and 35. Of the unions responding to this question (53 per cent), most (42 per cent) report that their youth membership is 20 per cent or less; over one in three respondents state that it is between 21 and 40 per cent; a small share (14 per cent) indicate that it is between 41 and 60 per cent; and the rest (10 per cent) report that their youth membership is 61 per cent or above.

# Labour markets, wage dispersion and union policies

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## Introduction

The change towards a more unequal distribution of income and wealth has been one of the key features of economic development in most countries of the world during the last decades. This not only undermines justice and endangers social coherence, but has also become a limiting factor for growth and employment. Higher income inequality and wealth distribution lead to a lower propensity to consume and to insufficient demand, because the rich consume less out of their income than the poor. Furthermore, investment makes no sense when demand is insufficient. Credit-driven consumption demand or pushing for higher exports to increase export surpluses are not beneficial for the world economy and can lead to financial crises and long periods of low growth. Thus, the reduction of income inequality is central to social and economic development.

The market income distribution of households depends on the functional income distribution between wages and profits and, given this distribution, on the structure of the flow of profits and wages to households. Disposable income distribution reflects the situation after government's redistribution policies. Table 1 shows that in the OECD between the mid-1980s and the late 2000s, the Gini coefficient increased substantially for disposable and even more for market income. In many countries in the rest of the world similar developments can be found.

We see the main reasons for these changes in the “neoliberal revolution” (Harvey, 2005, p. 29) in the 1970s and 1980s, which led to structural changes in the capitalist system. As part of this political project, national and international financial markets and labour markets were deregulated. Financialization as well as rent-seeking by financial institutions and corporations in general have led to increasing profit shares. As most profits in the form of interest, dividends, and so on, flow to a relatively small number of persons, a higher profit share increases inequality. If bonus payments to management are considered as part of profits, then profit shares have increased even more (Dünhaupt, 2013). However, changes in wage dispersion also play an important role in income distribution simply because in most countries wages make up 60 to 70 per cent of total income. This means that even small changes in wage dispersion can have devastating effects on the distribution of disposable income.

**Table 1. Evolution of the Gini coefficient in OECD countries, OECD average**

	Market income		Disposable income	
	Total population	Working population (18–65)	Total population	Working population (18–65)
Mid-1980s	0.412	0.376	0.294	0.290
Late 2000s	0.463	0.419	0.314	0.315
Percentage change	0.051	0.043	0.020	0.025

Source: OECD (2012).

The OECD has calculated that between the mid-1980s and mid-2000s, over 70 per cent of changes in disposable income distribution was caused by increasing wage dispersion in member countries (OECD, 2011, p. 240).<sup>1</sup> In some countries a low-wage sector developed alongside a very high-wage one. In other countries, the lower part of the wage structure did not change much but the sector with high wages exploded. And there are also cases where wage dispersion changed hardly at all or even decreased. The OECD summarizes this as follows (*ibid.*, p. 88):

Overall, using available time-series data, wage dispersion increased in a majority (16 out of 23) of OECD countries over this period, at a 5% level of significance. Only two countries (France and Spain) registered a moderate and statistically significant decline in wage inequality, whereas no significant trend was estimated for the other five countries (Korea, Belgium, Finland, Japan and Ireland).

In most countries “the distance between the highest 10% earners and those in the middle has been growing faster than the distance between the middle and the lowest wage earners” (*ibid.*, p. 86). The divergences between countries underscore that it is difficult to attribute increases in inequality to transnational factors such as technological development or globalization.

Looking at the gender wage gap, which is illustrated here by the differential between gross hourly wages of men and women, we see that in the OECD countries the median wages of women were 17.6 per cent lower than the median wages of men in 2008. The Republic of Korea has the highest gender wage gap among OECD countries (more than 35 per cent), followed by Japan and Germany. New Zealand and Belgium, with less than 10 per cent, have the lowest wage gap. Generally, the gender pay gap for part-time jobs (widely held by women) and older workers is larger than for full-time jobs and younger workers (Eurostat, 2013). The varying paths of the gender gap demonstrate again that other factors are at work when it comes to inequality trends.

This paper will focus on market-based wage dispersion. The Keynesian paradigm is used to explain why there is a global rise in wage dispersion.<sup>2</sup> In contrast to neoclassical explanations, Keynesians stress that this is taking place because of institutional changes rather than skill-biased technological

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1. The OECD includes in its analysis Australia, Canada, Finland, Germany, Israel, Netherlands, Norway, Sweden, Switzerland, United Kingdom and United States.

2. When we speak about the Keynesian paradigm it should be clear that different Keynesian schools exist. Our argument is based on Keynes' original work (especially Keynes, 1930 and 1936), as well as the post-Keynesian model developed in this tradition. This model is fundamentally different from the Neoclassical Synthesis (the Keynesian model dominating economic thinking after the Second World War) and New-Keynesianism (which is now the dominant Keynesian school in mainstream thinking); see Heine and Herr (2013) for an overview.

change. In our view, the neoclassical approach has fundamental methodological and empirical problems when it tries to explain changes in wage dispersion. These problems are discussed in the following section. In the section after that, an analysis is provided of the development of wage dispersion over the last decades. Before summarizing the main developments, the strategies unions should follow to reduce wage dispersion are discussed.<sup>3</sup>

## Wages, wage dispersion and employment

### A theoretical explanation

The nucleus of Keynesian thinking is found in the separation of the theory of distribution from the theory of the level of output and employment. This is in sharp contrast to neoclassical thinking. In the neoclassical paradigm, the theory of distribution and the determination of output and employment are identical. Output and employment depend solely on supply-side conditions. The free play of markets leads to a structure of relative prices, including wages, which guarantees optimal allocation including full employment. In the Keynesian paradigm, the level of production and employment depends on aggregate demand, which is made up of investment demand, consumption demand, government demand and net external demand. Employment depends on the level of output and existing productivity. A percentage change in employment is the result of the percentage change in output minus the percentage change of productivity. Additional demand cannot increase output only in the exceptional case of full capacity utilization.

The wage bargaining system and its institutional embeddedness are the most important factors determining the wage structure. Keynes argued that the relative power of different fractions of the working class is of key importance for wage dispersion (Keynes, 1936). If a part of the working class organized in unions is able to push for relatively high wages while other unorganized segments cannot do so, wage dispersion can be high. Many dimensions of the wage bargaining system influence the wage structure: the level of negotiations, the degree of coordination of the wage bargaining process, extension mechanisms, statutory minimum wages, and so on.

Wage dispersion is a key factor in determining relative prices and the structure of production and consumption. For instance, if we assume that the wage structure is compressed from below, a first-round effect will be that all labour-intensive production will increase in price. It becomes more costly to employ domestic workers or to have one's hair cut. The living standard of the middle class will be affected negatively to some extent by the increase of wages in the low-wage sector, whereas the living standard of the workers

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3. For a more detailed version of this paper, see Herr and Ruoff (2014).

earning low wages will increase. Also, a reduction in the gender pay gap can be expected, as usually more women than men are working in the low-wage sector. There are also second-round effects, as the output of the low-wage sector is an input for other sectors. Different industries are affected differently and will thus differ in how they change prices. The system of relative prices is therefore thrown topsy-turvy. The changes can become even more complicated as firms, confronted with a different set of relative prices, may change to a different production technique. Indeed, relative prices and the structure of consumption and production depend not only on wage dispersion, but also on other factors such as available technologies, households' preferences, functional income distribution, the integration of a country into the world market and government policies via taxes and subsidies.

Of course, market forces can create scarcities in some segments of the labour market, and unemployment in others. This is part of structural change and economic development. But how this is reflected in relative wage developments depends on institutional factors, the relative power of the different groups in the labour market and government policies and not simply on (marginal) productivities (see for example Levy and Temin, 2010). Skilled workers usually earn more than unskilled workers, but this for the most part reflects conventions. It is impossible to decide once and for all whether a skilled worker should earn two or three times the wage of an unskilled worker. And in many cases, unskilled workers earn more than skilled workers. For example, nurses in Germany earn less than drivers of pallet transporters (Gehaltsvergleich, 2013). The gender wage gap is based on conventions and institutional factors and cannot be explained by simply referring to marginal productivity. Additionally, wage dispersion has to do with conceptions of social justice and fairness. The neoclassical model tries to explain wage dispersion by defining specific marginal productivities of workers. We think this approach is bound to fail, as marginal productivities cannot even be measured in any meaningful sense.<sup>4</sup>

### Wage dispersion and employment

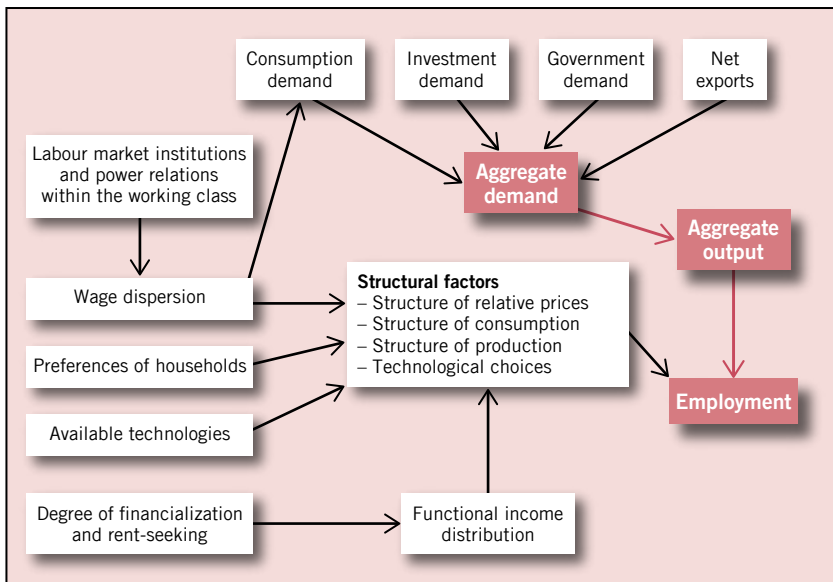
The independence of distribution, level of production, and employment allows the conclusion that there is no clear-cut relationship between wage dispersion, gross domestic product (GDP) growth and employment. There can be countries with low and high wage dispersion having high GDP growth and high employment; there can be countries with high and low

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4. The measurement of marginal productivities depends on the estimation of production functions. Aside from critiques derived from the Cambridge Controversy, econometric estimates of production functions are just a play on algebraic identities, with no real economic content (Felipe and McCombie, 2013).

wage dispersion having low GDP growth and low employment. This theoretical openness should be no surprise, as wage dispersion is only one element explaining the structure of prices and the overall economic makeup of a country, which also depends on aggregate demand. However, high wage dispersion as one of the most important factors for personal income distribution can become an obstacle to prosperous economic development. A wage dispersion that is too high will very likely lead to high personal income inequality. This in turn will reduce consumption demand, which accounts for a sizeable share of total demand. Consumption demand depends, among other factors, on income distribution. An unequal income distribution will sooner or later lead to a lack of aggregate demand as consumption demand becomes insufficient. Higher income groups no doubt consume more than lower income groups in absolute terms, but higher income groups have a lower propensity to consume out of income than lower income groups. This well-known Keynesian argument (Keynes, 1936, Book III) implies that a more equal income distribution increases aggregate demand and in this way output and employment. Figure 1 summarizes the Keynesian approach. The key argument is that aggregate demand determines output. Between output and employment there is a positive relationship, which, however, is not one to one.<sup>5</sup> It depends on technological developments, but also on the structure of production. For example, a certain value of demand

Figure 1. The structure of wages, prices, output and employment in the Keynesian paradigm



5. For example, an increase in output of 5 per cent increases employment by 2 per cent when labour productivity increases by 3 per cent.

creates more employment if more labour-intensive products are consumed and produced. As the structure of relative prices influences the structure of demand and production, it also influences the relationship between output and employment. As the wage structure influences (among many other factors) relative prices, it also influences the relation between output and employment. Whatever the structure of relative prices, sufficient demand can create full employment.

High inequality very likely prevents sustainable economic development because it creates a structural lack of demand. For unions and some politicians this should be good news, as it means that wage dispersion can be changed radically without negative employment effects. A compressed wage structure in a situation of high inequality not only leads to a more equal society, but is also a feature of an economic regime with sufficient aggregate demand and economic dynamic.

## The way to higher wage dispersion

### Uncontrolled globalization of trade and capital

World trade (exports plus imports of goods and services) as a percentage of world GDP increased from around 24 per cent at the end of the 1960s to over 50 per cent in the early 2010s (Trading Economics, 2013). New players substantially changed the pattern of the international distribution of labour. China, India and many other countries integrated quickly into the world market. The World Trade Organization (WTO), driven by a radical free market agenda, pushed for trade deregulation in an ideological paradigm that saw only the positive effects of free trade.

It is a common belief these days that the national wage level and the national wage structure are important for the competitiveness of a country.<sup>6</sup> Obviously, it is possible to speak about the competitiveness of a firm or the international competitiveness of an industry. In contrast, to follow Krugman (1994, p. 41), the international competitiveness of a country is a “meaningless concept”. In fact, all countries are “competitive” if the right exchange rate is chosen. We have known since the days of David Ricardo that without net capital flows the current account of a country must be balanced and that the structure of relative prices determines the comparative cost advantages between countries, whereas the latter determine the structure of trade. Thus a given wage dispersion leads to a certain structure of prices and a certain structure of international trade and creates certain comparative

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6. It is assumed that countries have their own currencies. For regions with a currency union, different economic processes apply. Thus, for example, the analysis cannot be applied to countries in the European Monetary Union.



advantages. And even the complete absence of a low-wage sector or the most luxurious welfare state is compatible with a balanced current account.<sup>7</sup>

The stock of global foreign investment assets increased from US\$10 trillion in 1990 to \$96 trillion in 2010. In comparison, United States nominal GDP in 2010 was around US\$14.66 trillion. Of the 96 trillion, 31 trillion were non-securitized loans, 21 trillion debt securities, 14 trillion equity securities, 21 trillion foreign direct investment and 9 trillion official international reserves (Roxburgh, Lund and Pietrowski, 2011, p. 31). International capital flows are very volatile and create huge shocks for international trade via exchange rate movements and unsustainable current account imbalances.

A sudden and profound change in the international division of labour is a problem for all economies. Such changes will come as a shock to some industries but not to others. Industries can lose international competitiveness overnight when exchange rates move quickly or world market crises happen. In such industries firms struggle for survival and push for lower wage increases or wage cuts. It is not very likely that unions in these industries will make the same wage demands as unions in the public sector or in industries that are not affected by the world market. In contrast, when an industry slowly disappears and workers and capital slowly move to other industries and the government supports the structural change via subsidies and mobility support, a completely different scenario takes place, as for example the reduction in coal production in Germany in the 1950s and 1960s. Also, world market crises can push export-dependent industries into deep crisis. The “Great Recession”, for example, led to a deep crisis for export industries through a reduction of world exports in many countries.

The offshoring of certain tasks in the value chain, or even of production as a whole, can take different forms (Feenstra and Hanson, 1996). It can

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7. Let us make an abstract example with two countries. We assume the US textile and shoe industry loses competitiveness because China enters the market and produces these goods more cheaply, measured in US dollars, than the United States. US consumers now start buying Chinese shoes. Given no capital flows, the only possibility for US consumers to get Chinese renminbi to buy shoes and textiles is for US companies to sell more US goods in China or for the United States to import fewer other goods from China. In the situation assumed, the value of the US dollar falls and the value of the renminbi increases until the Chinese start to buy US products, let us say airplanes, or US citizens buy fewer Chinese goods, let us say cheap cameras. Now more airplanes are exchanged against textiles and shoes, whereas US citizens are buying fewer Chinese cameras. Let us now assume, under the same conditions, that the United States increases minimum wages in a radical way and the low-wage sector disappears. As a result, Chinese tourists may not travel to the United States any longer as burgers, accommodation and transport have increased in prices. In this case, demand for the US dollar will decrease. The weaker dollar may again increase the Chinese demand for US airplanes and reduce the demand for Chinese cameras. In the same way, the introduction of a luxurious welfare state would change the structure of trade without pushing the United States into a current account deficit. Of course, complications can arise. For example, structural adjustment costs are possible or the depreciation of the US dollar may increase the inflation rate in the United States. This, however, does not invalidate the theoretical argument.

mean buying an input or task in the international goods market or using an independent foreign firm probably working only for the offshoring company. In the most comprehensive type of offshoring, tasks or whole production lines are shifted to a joint venture or a subsidiary abroad. In the latter case foreign direct investment plays a role, and indeed has exploded during the past 15 years. Blinder (2006) asks whether offshoring is the next industrial revolution. Offshoring gives management a very powerful tool with which to threaten trade unions. There is a fundamental asymmetry: many companies can go global, whereas unions in almost all cases are organized at a national level. There is the danger that offshoring leads to an international “race to the bottom” (Stiglitz, 2012) with increases in the incidence of low-wage sectors and the erosion of working conditions. As unions in different companies can face different degrees of competitive pressure, it becomes likely that wage dispersion increases and there is no coherent wage development in the countries affected.

### Shareholder value

A major transmission mechanism of financial power and its inherent “logic” to the corporate sector is the shareholder value approach. Corporate management frameworks based on shareholder value are supposed to provide an above-average return on shareholders’ investments. Compensation schemes in this high-wage sector were based on the ideology that money is the best motivator to bring about social returns as well (Stiglitz, 2012). In order to create an optimal incentive structure, management is rewarded partly by share options and bonus payments based on profits. The shareholder value system substituted the stakeholder corporate governance system. In the stakeholder system, management searched for a compromise between the different stakeholders in a company, especially the unions, the owners, the creditors and the local community. Management was controlled by all stakeholders and could not increase salaries beyond the normal increase of incomes. Such a system existed not only in corporatist continental European countries but also in the United States (see Galbraith, 1967). The new finance-driven corporate governance system is a declaration of war against unions, because it is based on a strategy oriented towards a short-term maximization of profits, which entails risk-taking, higher dividend payments and a lower equity base as well as a lack of long-term investment and job creation (see Hein, 2012).

On the one hand, the shareholder value system has led to obscenely high salaries for top management, middle management and financial intermediaries, and, on the other hand, management has used all strategies available to reduce wages for skilled and unskilled workers, including offshoring and pushing for precarious jobs as flexibility buffers.

## Union density, extension mechanisms and wage coordination

Between 1980 and the end of 2010 union density declined steadily, in European countries from 55 to 39.6 per cent and in OECD countries from 32.7 to 17.5 per cent. Among the countries losing more than half their union density in those 30 years were Australia, France, Republic of Korea, New Zealand, Portugal, Turkey, the United Kingdom and the United States (OECD, 2013). This took place because radical market deregulation policies created a hostile legal and ideological environment for unions. In the OECD countries, industries with traditionally high union density lost in importance relative to industries with traditionally low union density. Enterprises increasingly outsourced production to union-free companies, which led to an increase in precarious jobs.

Weaker unions lead to higher wage dispersion. The explanation for this is that unions almost always introduce an element of solidarity into wage bargaining processes and try to prevent a sector developing with very low wages and very high wages. In empirical analyses there is a general consensus that higher union density is correlated with relatively low wage dispersion (see Kierzenkowski and Koske, 2012).

A coordinated wage bargaining process is of key importance not only for a functional macroeconomic wage development but also for the prevention of unacceptable wage dispersion. Vertical coordination in an industry is key to overcoming the shortcomings of enterprise-based negotiations. Decentralized enterprise-based negotiations not only increase wage dispersion but may also create pressure for exaggerated wage increases, if in a given sector the wages in the most profitable firms are used as the benchmark for all wage increases in that sector. Soskice (1990, p. 48) speaks here of “a perversely coordinated system” leading to high wage increases. In a crisis situation, the microeconomic incentive to cut wages can lead, conversely, to general wage cuts and deflation.<sup>8</sup>

However, horizontal coordination among the different sectors is also needed. Where there is only vertical coordination, there is a tendency for sectoral productivity to be taken as one of the yardsticks for sectoral wage development. Consequently, wages rise in industries with high productivity gains but remain low in industries with no or low productivity. Or one sector with high profits, say the mining sector, pays very high wages whereas other sectors pay very low wages.

Looking at recent developments in the level and degree of coordination of wage bargaining, there is an unmistakable tendency towards bargaining at the enterprise level and less coordination (du Caju et al., 2008). In the United

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8. The deflation in Japan can be explained along those lines (Herr and Kazandziska, 2010).

States, for example, while after the Second World War pattern bargaining dominated, today there is no wage coordination left (Levy and Temin, 2010).

There is potentially a large difference between union density and the coverage of workers by wage bargaining. In some countries there are labour market institutions that extend wage bargaining outcomes to more workers than those organized in unions. In France, for example, wage bargaining outcomes are through legislation almost automatically extended to all workers in an industry. In many OECD countries, the coverage of workers by wage bargaining has not declined as severely as union density (du Caju et al., 2008). In Europe, however, the Troika (European Union Commission, European Central Bank and International Monetary Fund) is now pushing crisis countries such as Greece, Italy, Portugal and Spain towards more enterprise-based wage negotiations and a radical reduction in extension mechanisms (see Blanchard, Jaumotte and Loungani, 2013).

To sum up, we have at one extreme enterprise-based wage negotiations which take productivity developments in the enterprise concerned as a guideline for wage development and where extension mechanisms do not exist; while at the other extreme we have a vertically and horizontally coordinated wage bargaining system at sectoral or even national level taking macroeconomic productivity as a guideline for wage development in all industries. In this system, extension mechanisms are widespread. Wage dispersion should be expected to be much higher in the first scenario than in the second.

### Labour market policies and minimum wages

In many countries government policies have allowed precarious working conditions with low wages and have actively encouraged a low-wage sector (OECD, 1994). For example, in the OECD countries, policies to protect regular workers have not changed much, but protection of temporary workers has declined drastically in 11 of the 23 countries, where dual labour markets with precarious and usually badly paid jobs have been created. At the lower end of the wage scale, a key policy has been to keep minimum wages low. In Australia, Belgium, Czech Republic, Ireland, Netherlands, Poland, Spain and the United States minimum wages have declined in relation to median wages. Statutory minimum wage levels are particularly low in Canada, Japan and the United States, at around or below 40 per cent of the median wage (*ibid.*, p. 101).

As soon as a less regulated sector develops in the labour market – for example for temporary workers – there is a high incentive to outsource production or certain tasks to this unregulated sector or to substitute irregular workers for regular ones. Moreover, certain jobs originally held by employees are offered to the self-employed. It is obvious that these developments lead to higher wage dispersion and more inequality in general. Regulatory arbitrage

leads to an accelerating erosion of the regulated sector of the economy, as firms have an incentive and are driven by competition to use the deregulated sector of the economy to an ever-increasing extent.

## Development of high-wage segments

Compensation for management in general and more specifically in the financial sector has shot up spectacularly since the 1970s via wage increases and bonus payments. Superstars in sports, cinema, television and fashion also earn incomes unimaginable 30 years ago, due in many cases to the new technologies of mass communication. The income of top managers and celebrities has most likely changed the perception of what constitutes a fair wage.

## Policy recommendations

The following policy recommendations are linked to different levels of policy-making and also to their likelihood of being implemented in the foreseeable future. Even if some of them are unlikely to be implemented in the short run for political reasons, they are included here to show the severity of the problem and in the hope that they may sooner or later inspire activists and policy-makers.

## Minimum wages

A statutory minimum wage can directly compress wage dispersion from below and is an effective instrument which *can* be used by governments. The best way to fix minimum wages is through negotiation at the national level by a tripartite body. A possible model is the Low Pay Commission (LPC) in the United Kingdom, composed of worker and employer representatives together with independent experts, where each group has one-third of the members in the commission. The LPC recommends a certain increase in minimum wages; however, the Government has the last word. The number of minimum wages in a country should be as small as possible to avoid ambiguities; adjustments should be made annually to appropriately reflect changes such as macroeconomic productivity developments or strategies to realize a certain relation between minimum wages and median or average wages. Furthermore, the minimum wage should not be automatically linked to pensions and social transfers to avoid budgetary constraints; a percentage of median or average wages seems to be a better anchor for determining the level of the minimum wage than reference to a basket of goods which can never be defined in a satisfactory way (Herr and Kazandziska, 2011). However, even the best designed

institutions cannot help if unions and labour-friendly political parties do not mobilize for higher minimum wages and have no power to implement them or see that statutory minimum wages are enforced (Benassi, 2011).

In some countries minimum wage development in effect replaces macroeconomic wage coordination. The changes in statutory minimum wages give a signal for wage development in the whole economy. This can be functional in countries with very weak unions and if factors such as macroeconomic productivity developments and the inflation target serve as a guideline for the level of wage increases (see below). In some countries minimum wages are regionally differentiated even for specific occupations. As already mentioned, for countries with weak unions such a model can be useful, as it coordinates wage development with macroeconomic needs. But it does not support an egalitarian wage structure and does not give unions an important role in wage negotiations; for these reasons this model is not the best one. Statutory minimum wages should fix a wage floor for all and especially in sectors where unions are relatively weak. Wage negotiations then should bargain wages above the minimum wage.

Brazil is a positive example of a minimum wage policy. Between 2004 and 2013, the minimum wage grew by 64 per cent in real terms. Its steady growth is the result, in part, of major negotiations between the Brazilian Government and the unions (Barbosa et al., 2012). Its impact goes beyond the income of workers, as many social policies have the minimum wage as a floor, for example pensions as well as unemployment and other welfare benefits. And as the minimum wage rises, so do the incomes of low-wage workers. As a result, the whole structure of labour income is affected.

## Union density and wage bargaining systems

Increasing union density is obviously a good means of reducing wage dispersion. However, strong unions cannot be created in next to no time; they imply a certain social and political constellation in a country. Legislation can strengthen unions and especially the wage bargaining process.

Enterprise-based wage bargaining almost automatically leads to high wage dispersion within an industry and in the whole economy. This makes sectoral wage negotiations very desirable. However, if some sectors in a country are able to push for relatively higher wages than others, wage dispersion may also be high. A horizontal coordination of wage development is therefore important.<sup>9</sup> In a coordinated wage bargaining system,

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9. Theoretically, pattern bargaining can work in a system with enterprise-based wage negotiations. In such a case the wage round starts in some large companies and the outcome of the bargaining has a signalling effect for the wage development in other companies (as traditionally in Japan or in the United States after the Second World War). Strong employers' organizations can also lead to a more equal wage development (see Soskice, 1990). But such mechanisms are imperfect and can easily become eroded in a context of crisis.

macroeconomic productivity development should play the central role in wage negotiations. A guideline must be medium-term productivity development to take out short-term fluctuations of statistically measured productivity by business-cycle effects. In addition, the inflation target of the country should be taken into account (Herr and Horn, 2012). Such a wage bargaining system increases the relative price of products with low productivity gains in relation to sectors with high productivity gains.

If union density is not sufficiently high and employers' associations are not widespread enough to guarantee an equal wage development in a specific sector, government regulation and action are needed to extend bargaining outcomes. An interesting case is that of Austria, where all enterprises are required to join employers' associations. In most countries with low wage dispersion and relatively low union density the government declares the outcome of wage negotiations to be binding for all firms in a sector. France is a positive example here, as it uses extension mechanisms almost automatically and has been able to reduce wage dispersion despite low union density and contrary to international trends. The disadvantage of extension mechanisms is that workers who are not organized in unions can become "freeriders". In some countries, for example in Africa, a negotiation fee below the union membership contribution is paid by non-unionized workers to strengthen the financial power of unions.

### Offshoring, outsourcing and corporate governance

Outsourcing inside a country, and offshoring, strengthen capital and weaken workers. Offshoring is not bad in and of itself, and can – as international trade – increase the well-being of nations due to specialization and a deepening of the international division of labour. It can be beneficial even for workers in an outsourcing company if it helps to expand output in the mother company. What is needed is socially "managed" offshoring. This can be achieved by a stakeholder value approach giving unions influence on investment decisions, and by increasing the costs of offshoring through strict dismissal protection and other legal obstacles. Foreign companies taking over offshoring functions must respect decent working conditions. This could be achieved by supporting unions and labour legislation in the country where the production takes place and by control of suppliers on the part of the outsourcing company. Political mobilization for decent work together with the ILO, and international solidarity among unions, can support this.

Outsourcing within a country has to be prevented as soon as it is based on regulatory arbitrage. It can be reduced by a maximum possible coverage of workers by collective bargaining, and a horizontally coordinated bargaining process. Another possibility is to force companies taking over outsourced



tasks to pay the same wages as in the company doing the outsourcing. There are also other means of diminishing the impact of outsourcing: under Brazilian labour law, for example, companies that outsource part of their activities to other companies maintain some responsibility for the labour rights of workers in subcontracted firms. This means that even service companies – contractors – must comply with Brazilian labour legislation (Tilly et al., 2013).

The abandonment of the prevailing shareholder value corporate governance system is needed for many reasons. An important one is to reduce wage dispersion and at the same time increase the quality of corporate governance. In a stakeholder system, management's strategy to push for a low-wage segment with precarious jobs is limited as soon as strong unions have influence on management decisions. Secondly, in a stakeholder system, management is controlled also by unions, and obscenely high salaries and bonus payments for management will not be able to prevail. Reintroducing stakeholder-driven corporate governance is thus needed to pave the way to a more egalitarian system.

## Conclusion

Government policies are key to reducing wage dispersion. Several areas are important in this respect. First, governments should use statutory minimum wages to compress wages from below. Second, governments can implement extension mechanisms by declaring wage bargaining outcomes as binding for whole industries. Third, governments can regulate labour markets to fight against precarious jobs of all types. The shrinking of the deregulated sector is of key importance in reducing wage dispersion.<sup>10</sup> Cutting working time is also of importance in both developed and developing countries, giving priority to the reduction of working time for employees with standard contracts and a reduction in the number of part-time and precarious jobs. Fourth, governments can strengthen the power of unions in enterprises via codetermination rights. Fifth, governments can follow a macroeconomic policy that promotes full employment and reduces economic shocks. They can use their influence to push for a more stable global governance system. Women workers in particular will benefit from the measures discussed.

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10. In recent years, Brazil had some success in reducing the deregulated sector by giving small enterprises incentives to formalize via tax exemptions, subsidies and access to formal credit which is cheaper than credit from moneylenders. An important incentive to reduce the informal sector is to allow workers and small entrepreneurs access to the formal social security system as soon as they become part of the formal sector. Last but not least is increasing government enforcement of the rule of law in order to reduce the informal sector (Baltar et al., 2010).



Policies aimed at reducing income inequality should also increase the wage share. In this area, the regulation of national and international financial markets is of vital importance, as well as the fight against rent-seeking; this involves creating competition between companies, standardizing financial products, leaving natural monopolies in public ownership, and so on. Governments can also play an important role in redistribution using the tax and transfer system and the provision of public goods.

But when all is said and done, wage dispersion depends also to a great extent on solidarity within the working class: unions need to fight for vertical and horizontal wage coordination and low wage dispersion. Not all fractions of the working class are automatically in favour of a compression of wage dispersion. But to overcome inequality this is necessary.

The reduction of wage dispersion does not destroy jobs. On the contrary, it increases consumption demand since lower income groups consume more out of their income than higher income groups. But to reduce wage dispersion is – despite its positive demand effects – not a job machine guaranteeing automatically higher employment. Policies to reduce wage dispersion are only one element in an overall policy for an inclusive society with full employment and an acceptable level of income inequality. An active demand management that includes investment demand and government demand is needed. Also, a coordinated wage bargaining system with low wage dispersion comes under pressure as soon as single companies or single economic sectors have to deal with economic shocks, which are usually caused by deep economic crises and sudden and substantial exchange rate movements. A well-functioning incomes policy should aim at securing low wage dispersion, a stable economy and full employment. To this end, comprehensive institutional and political reforms at many different levels are needed (see Dullien, Herr and Kellermann, 2011).

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# Are targeting and universalism complementary or competing paradigms in social policy?

*Insights from Brazil, India  
and South Africa*

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Since the 1980s, targeting has been high on the social policy agenda in the global South. In the wake of structural adjustment programmes, governments tightened their fiscal policies and it is in this context that targeting was widely adopted. Proponents of targeted social policies (e.g. Seekings, 2012) have celebrated the respective reforms as being pro-poor. Cash transfers and cash-for-work schemes were prominent examples of the newly established targeted poverty reduction programmes. Governments justified the shift towards means-tested social policies not only with reference to widespread poverty: a potent criticism against the existing social safety nets in the global South was that they favoured only a very small number of people, namely, the original stakeholders of import-substituting industrialization. Industrial workers, public sector employees and the military were entitled to social security schemes, whereas the vast majority of the workforce – informal sector workers, rural workers and peasants, indigenous people and women who were not employed – remained excluded (Wehr, 2009). While “Bismarckian” social security systems in continental Europe were extended over a period of several decades to large parts of the population, this did not happen in developing countries. In the global South, labour markets were formalized to a much lesser extent.

In cases such as Brazil or India, “Bismarckian” social insurance regimes have led to regressive targeting and “stratified universalism” (Filgueira, 2005): given the large informal sector and highly segmented labour markets, it is the upper income strata that predominantly benefits from public transfers. In other words, the so-called universal approaches are incapable of meeting the test of universalism in so far as they have reflected a labour market segmented along gender and racial lines and excluded many groups. Stratified or “false universalism” (Powell, 2009) fails to account for the fact that people are situated differently in economic and social terms. While it provides social protection to part of the workforce it cannot reduce overall inequality, and in particular where coverage is very limited it reinforces existing inequalities.

However, the “targeting paradigm” has not been spared from criticism either. Frequently dubbed as a central feature of “neoliberalism with a human face” (JEP, 2003) or “inclusive liberalism” (Porter and Craig, 2004), critics have stressed problems such as information asymmetries, inclusion and exclusion errors, costly registration processes for the poor, incentives distortion or the stigmatization of recipients. Moreover, the pro-poor targeting rationale was often used to dismantle the rights of formal labour.

Thandika Mkandawire (2005) is a well-known critic of targeting. He argues that targeting undermines social rights: only the “deserving poor”, who have passed a means test, have access to benefits. Means-testing is often costly, and produces clientelistic relationships between the poor and state officials. Furthermore, while universalistic measures create class solidarity between the working and middle classes, targeting excludes the middle classes from social services.

Thus, Mkandawire (2004) argues for “developmental welfare”: instead of a narrow focus on poverty reduction strategies, welfare policies should be integrated into a wider range of social and economic policies. They should be seen as “collective interventions in the economy to influence the access to and the incidence of adequate and secure livelihoods and income” (a similar vision is presented by Seekings and Natrass, 2005). Following this holistic approach, we reassess the relationship between targeting and universalism in the global South. We analyse recent developments in three countries that have recently reformed their social policies: Brazil and South Africa have introduced cash transfers, and India has implemented food transfer schemes and an employment programme.

With reference to these countries, we examine different types of social incorporation, that is, social insurance, targeted assistance and universalism. In addition, we analyse which groups have historically been included in, or excluded from, the social welfare system. On these grounds, we address the following questions concerning recent developments: Have benefits increased, and has the number of beneficiaries increased? What is the legal status of people receiving benefits? Moreover, we analyse budgets in order to assess the relationship between social infrastructure and services, cash benefits and workfare programmes. Additionally, we also touch upon the issue of service users.

## Brazil

Brazil was among the last countries to abolish slavery, in 1888. Even after the abolition, the vast majority of former slaves continued to suffer from social exclusion. The introduction of social policies in the early twentieth century reproduced the historical pattern of exclusion: social rights and workers’ rights were only granted to a minority of workers: the (mostly industrial) workers in the formal sector. For workers in the informal sector, clientelistic and “assistentialistic” forms of poor-relief predominated, that is, help through family networks or philanthropic care provided by landowners or the Church. The system has been described as “conservative–informal” (Barrientos, 2004), as rights were granted only to designated groups (and were therefore often seen as “privileges”); everyone else depended on informal measures. This system remained in place with slight modifications until the end of the military dictatorship during the 1980s (Leubolt, 2013). During the process of democratization, social movements started to demand both a more democratic service delivery and an extension of social rights to include the hitherto excluded and marginalized groups. Their influence is visible in the Constitution of 1988, which changed Brazil’s welfare trajectory: it established minimum standards of social security (ANFIP, 2008) which can be seen as an important step towards universal social rights and welfare. For the first time, the rural population was included in the welfare system.

Nevertheless, the 1990s turned out to be a decade of neoliberal economic reforms. Beginning in 1990, they were accelerated by an inflation-targeting programme called *Plano Real* in 1994, which was implemented by the then finance minister F.H. Cardoso, who became President in 1995. While the poor initially benefited from the successful fight against hyper-inflation, economic instabilities led to crises and resulted in the deterioration of working conditions. Additionally, state funds were used to bail out banks and international investors. The resulting fiscal problems endangered the realization of social rights through social policies: central government social expenditure rose from 11.24 per cent of GDP in 1995 to only 13.82 per cent in 2005 despite the fact that the reformed pension system and new social assistance programmes demanded investments of 2.77 per cent (IPEA, 2011). An immediate consequence of the universalization of social policy under conditions of insufficient funding was that the quality of public sector services diminished. This led to an exodus of the upper and middle classes from the public system towards private schools, hospitals and insurance systems. In 1990, 86.9 per cent of the children from the richest 10 per cent of the population went to public schools. The number fell to only 18.49 per cent in 1998. The participation of the richest 10 per cent in public health care sank from 15.95 to 3.46 per cent during the same period (Ramos, 2000). Under President Cardoso, the Brazilian Government promoted a form of “inclusive liberalism”: only the “deserving poor” were to receive public support; in contrast, “undeserving” parts of the population were supposed to pay for services.

Changing spending priorities (Leubolt, 2013) reflect this paradigm shift: while spending on the social infrastructure (e.g. sanitation or housing) and services (e.g. education and health care) diminished, spending on targeted social assistance rose – from 1.6 per cent of GDP in 1980 to 4.8 per cent in 2005. In 2001, the Cardoso government introduced the first nation-wide conditional cash transfer programmes (*Bolsa Escola* and *Bolsa Alimentação*). On condition of school and medical attendance, poor families were granted a small amount of money per child. Furthermore, state subsidies for gas were replaced by modest cash transfers to the needy poor (*Auxílio Gás*) in 2002. By 2002, these programmes reached 5.1 million families (*Bolsa Escola*), 900,000 families (*Bolsa Alimentação*) and 8.5 million families (*Auxílio Gás*) (IPEA, 2007).

As a consequence of the targeting, extreme poverty declined and corresponding indicators such as illiteracy rates improved. On the other hand, working conditions deteriorated – the informal sector grew from 53.6 per cent in 1992 to 55.5 per cent in 2002 and unemployment increased in the same period from 6.4 to 9.2 per cent (ILO, 2009). The functional income distribution changed to the disadvantage of wage earners – the share of wages and salaries in total income decreased from 45.4 per cent in 1990 to 36.1 per cent in 2002 (Vernengo, 2007). The Gini index stagnated at a high level (between 0.602 in 1996 and 0.589 in 2002; see [www.ipeadata.gov.br](http://www.ipeadata.gov.br)).



Luiz Inácio Lula da Silva won the presidential elections and governed between 2003 and 2010. His successor, Dilma Rousseff, continues roughly on the track laid out by Lula. Concerning economic strategy, there were only modest changes until 2006, as orthodox liberal monetary policies continued. Since Lula's re-election in 2006, the role model for economic policies has been increasingly the "developmental state", that is, state-driven capitalist development pursued mainly through investments in infrastructure, which rose from 0.31 per cent of GDP (1.42 per cent when state-owned enterprises are included) in 2003 to 1.25 per cent (3.27 per cent) in 2010 (Novy, 2012).

When Lula took office in 2003, he stated that his government would focus on eradicating hunger. Initially, the programme *Fome Zero* (Zero Hunger) took centre stage, based mainly on cooperation with private actors. Soon the focus shifted to the expansion and better coordination of the "inherited" conditional cash transfer programmes by launching a programme called *Bolsa Família*, which became the cornerstone of Lula's first term (Singer, 2012). The programme provides a form of income substitution or supplementation for poor families. The sums paid vary according to the number of children in a family and their income situation. Compared with earlier cash transfer programmes, the Government raised expenditure<sup>1</sup> and managed to extend coverage to over 13 million families in 2012 (MDS, 2012). *Bolsa Família* has effectively improved living conditions for more than 50 million poor Brazilians, around a quarter of the population. With this programme the logic of targeting changed fundamentally: coverage was expanded beyond the poorest segments of society to a much larger group of formerly marginalized people. This can be seen as a vital step towards the universalization of targeting.

Budgetary analysis (Leubolt, 2013) indicates that investment rates in social services declined between 1995 and 2005: spending on education decreased from 0.95 per cent of GDP in 1995 to 0.77 per cent in 2005, while spending on health care declined from 1.79 to 1.59 per cent of GDP during the same period. From 2006 onwards this trend has been reversed, and additional investments have begun to flow into these sectors. Spending on education rose to 1.03 per cent of GDP in 2009, while health-care spending increased to 1.85 per cent (IPEA, 2011). Public investments in infrastructure (sewage and housing) have also grown considerably since 2005. These rising investment rates are mostly a result of the programme for economic growth

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1. According to the Brazilian Ministry of Social Development and Combat against Hunger (MDS, 2012), extremely poor families were able to receive up to 308 Brazilian *reais* (BRL) per month in 2012 and poor families up to BRL 236. Eligible families (earning less than BRL 140 per capita) receive BRL 32 per child (up to a maximum of BRL 160), BRL 38 per adolescent between 16 and 17 years old (for a maximum of two adolescents), and families earning less than BRL 70 per capita receive an additional monthly payment of BRL 70.



(PAC) coordinated by Dilma Rousseff from the beginning of 2007 onwards. Contrary to other comparable programmes geared towards the promotion of a “developmental state”, PAC focuses heavily on social infrastructure in deprived neighbourhoods – especially on housing and sewage. Furthermore, the State has increased investments in employment policies dramatically – from 0.59 of GDP in 2005 to 0.91 per cent in 2009. These investments are justified by a Keynesian discourse of “economic growth through redistribution”, which plays a key role in Brazilian politics and was reinforced after the election of President Rousseff in 2010 (Leubolt, 2013). In contrast to the approach used in the 1990s, targeted poverty reduction programmes have not replaced social service provision by the State, but instead complemented new investments into services and infrastructure. Therefore, this can be seen as a general trend towards universalization.

In the 2000s inequalities diminished. The main factors were the remarkable expansion of cash transfers and the rise of the minimum wage, which nearly tripled between 2003 and 2013 (a 195 per cent rise between January 2003 and January 2013.<sup>2</sup> The rising minimum wage had positive impacts not only on employment conditions but also on the social benefits of the poor, because important benefits were tied to the minimum wage in the 1988 Constitution. In the Brazilian case, the expansion of cash transfers was accompanied by slightly diminishing investments into social services and infrastructure until 2005. This trend corresponds to neoliberal conceptions of social policy and can be characterized as a process of “monetarization” (Fischer and Leubolt, 2012). From 2006 onwards, the trend towards monetarization has been reversed as investments in social services and infrastructure have increased considerably. The overall strategy has shifted from “inclusive liberalism” to “developmental welfare”, where the reduction of inequalities with the help of state intervention is viewed as an important factor in raising consumption and boosting economic growth (Leubolt, 2013). An important aspect of the new strategy has been the strengthening of universalist social policies.

## India

In India, economic growth was at the core of the political agenda after independence, and it was the means by which greater welfare was to be achieved (Palriwala and Neetha, 2009). Despite far-reaching promises to improve welfare in the Directive Principles of the Constitution, little state intervention for welfare programmes took place. An objective that seemed to remain within reach was the commitment to provide drinking water and sanitation, health services and primary education to all, irrespective of their position in the social and economic hierarchy. It can therefore be said that in the early

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2. See [www.ipeadata.gov.br](http://www.ipeadata.gov.br)

planning period the universalizing rationale dominated the public discourse and logic: the emphasis was on public provision under the community development programme.

Land redistribution was not a priority, and it was only successfully achieved in a few states. Regarding the rural population, emphasis was given to prioritizing stability for farmers' products and affordable food. Social security – defined as pensions, health and maternity care, and compensation for work-related accidents – was and still is available only for workers in the formal/organized sector. Today 8 per cent of the workforce benefit from this kind of “stratified universalism” (NCEUS, 2007). In the absence of comprehensive welfare policies, the provision of welfare and social security largely remained – and still remains – in the hands of the traditional institutions of family, village and caste, as well as other religious communities.

By the end of the 1960s, it had become clear that economic growth was not sufficient to generate the quantum of employment required to absorb the rapidly growing labour force. When the crisis in agriculture aggravated the situation, the idea of “growth with redistribution” was introduced (Shankar and Shah, 2010, p. 118). Primary social services became part of the “minimum needs programme”. The focus was of course on the basic requirements for a decent life – health, nutrition and literacy – and the goods and services needed to realize it, such as housing, sanitation, food, public health, water supply and primary education. Another social security measure in India with a long history is the public distribution system (PDS) for the supply of food and food grains. Although a programme with universal access, the PDS has been generally viewed as an instrument to ensure access to food at subsidized prices for the poor. While the central Government provided the broad policy directives, implementation and in some cases also funding remained primarily in the domain of state governments. Since this time, great regional disparities have been a basic feature of the Indian welfare regime (Kohli, 2010).

Alongside the minimum needs programme, targeted employment and anti-poverty programmes were put in place. These included self-employment and modest wage employment programmes with payment partly in the form of food, as well as programmes for asset creation and subsidized credit. From the 1980s, the “universalization of basic needs” was supplemented by private sector involvement. The National Health Policy of 1983, for example, was firmly based on universal principles when it recommended universal, comprehensive primary health-care services for all. At the same time, it called for an expansion of the private health-care sector. Expensive services for the upper strata of society were to be provided by the private sector (see Shankar and Shah, 2010).

The trend towards targeting that started in the mid-1980s became even more pronounced during the period of economic reform. Following the general move toward neoliberal approaches to public policies, the anti-poverty programmes were cut, and the policy of universal coverage of public distribution of food grains as a means of food security was replaced with targeted

programmes. In other words, the formerly universal PDS and other social programmes were narrowed to target those with an income below the poverty line.<sup>3</sup>

The rise of social sector expenditure in real terms, especially after the formation of a centre-left coalition in 2004, “reflected the imperative to universalize”, but the outcome was “a thinner spreading of resources across larger areas”, as Shankar and Shah (2010, p. 121) note. Nevertheless, there is a long-term upward trend in expenditure on water and sanitation (from 0.15 per cent in 1990–91 to 2.08 per cent in 2012–13), health and family welfare (from 0.22 per cent in 1990–91 to 2.06 per cent in 2012–13) and education (from 0.30 per cent in 1990–91 to 4.52 per cent in 2012–13) in the government budgets. The data show that the government has been spending more on education in the recent past (Government of India, 2013a; Mooij and Dev, 2004).

If we exclude non-income dimensions of poverty (i.e. the availability of health care and education for poor households), it is safe to say that the incidence of poverty had been reduced over the last decades, and at a faster rate in urban areas. Inequality (as measured by the average per capita expenditures of households), however, increased significantly in the post-reform years. The increase was substantial in the rural areas but far more pronounced in the urban sector (OECD, 2010).

In order to identify different types of social inclusion, two important schemes of India’s social policy and the education system are considered. Universalization of elementary education with its central aims – an increase in school enrolment and combating illiteracy – was enshrined in the Constitution. An amendment of 2002 decreed free and compulsory education for all children between the ages of six and 14. Due to a rise in spending, school enrolment, especially of girls, went up significantly although not sufficiently compared to the increase in the number of children requiring schooling. The dropout rate was high, and thus mass illiteracy remained a persistent feature of Indian society. An education commission urgently requested an enhancement in the quality of education and recommended in its final report, launched in 1966, that the share of GNP allocated to education be raised. This was adopted by policy-makers, and both the number of primary schools and enrolment ratios improved but the drop-out rate remained very high. The New Education Policy, announced in 1986, paid particular attention to women, scheduled castes and tribes, other backward classes (OBC) and religious minorities. Beside the focus on marginalized or deprived groups, it called for improved quality in teaching and school infrastructure. But neither the figures on dropouts nor the illiteracy rate improved. Against this background, the Government launched a decentralization programme in 1994: local communities would be more actively involved in the ownership

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3. In India, as almost everywhere, the Below Poverty Line method used by the Planning Commission standard is highly disputed (see for example Deaton and Kozel, 2005).

and running of schools. Sponsored by the central State but still severely underfinanced, the decentralization could be named a “state withdrawal model” (Shankar and Shah, 2010, p. 134). It even worsened the already existing low-cost model at the primary level. In order to achieve universalization, state governments and local bodies engaged low-paid, untrained teachers (so-called para teachers). The result was a severe loss of quality, in other words a “universalization without quality” (ibid., p. 120). Therefore, not only the upper classes but also the middle classes turned to private facilities.

The public distribution system (PDS) has been a core component of the country’s food security arrangements. Under the new targeted public distribution system (TPDS) implemented in 1997, the “identified poor” receive a specific quantum of cereals at highly subsidized prices. The transformation of the PDS from a universal to a targeted programme has been vehemently criticized by commentators on account of issues such as inefficiency in targeting, increased per unit cost of transfer of benefits, leakages, unequal and skewed distribution of benefits to higher income segments (among the poor), regional disparities in performances and so on. Some critics even argue that this policy shift has adversely affected the poor (see, for example, Kannan and Pillai, 2007; Sen and Rajasekhar, 2010; de Haan, 2011). Notwithstanding all these comments, there is evidence to suggest that the TPDS has improved coverage of poor households in rural areas of poor states (Kundu and Srivastava, 2004). At the same time, it is widely acknowledged that the overall improvement in nutritional status of the population due to the TPDS and other targeted food transfer schemes is rather low (OECD, 2010).

Another important feature of India’s public social policies, the National Rural Employment Guarantee Scheme (NREGS, now the (Mahatma Gandhi) MGNREGS, was introduced in 2006. This is one of the flagship programmes of the Government. According to this programme, the State assures every rural household a legal guarantee of up to 100 days paid work per annum. If it fails to provide the full 100 days on demand, the recipient is entitled to pay without the work requirement. The NREG Act follows a rights-based approach: access to the programme is universal, with self-targeting through setting wages at the minimum rate.<sup>4</sup> Hence this scheme is universalism de jure, but targeting de facto, in other words it is an example for targeted universalism (Powell, 2009). The number of households employed, person days of employment and average days of employment for women are impressive. Although the figures generally have been declining since 2011, the MGNREGS has created a significant number of jobs in 636 districts of

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4. Self-targeting programmes are open to all, but their design encourages only the poorest to take advantage of the transfer. Low wages, a requirement to queue, and inferior quality of in-kind transfers are elements that will discourage the non-poor from participating. Self-targeting is typically less expensive and less likely to lead to leakage than is the identification of the poor through administrative means, most likely through income criteria (Slater and Farrington, 2009, p. 66).

India as at 2013, benefiting about 128 million households (Government of India, 2013b). However, the data reveal that there are some grounds for concern. According to the Ministry of Rural Development (Srivastava, 2013), the performance of the scheme reached its height during 2009–10, but since then there has been a decline in households accessing employment through it (from 53 million in 2009–10 to 48.1 million in 2012–13), person days of employment (from 2,836 million in 2009–10 to 1,874 million in 2012–13), and average days of employment per household (from 54 days in 2009–10 to 39 days in 2012–13). On the other hand, the programme seems proactively encouraging for women. For instance, the average number of days of employment for women has increased from 48 in 2009–10 to 52 in 2012–13.

Administrative difficulties and a very uneven state-wise distribution of the project have been strongly criticized. Nevertheless, besides being a cash transfer scheme, MGNREGS has tended to improve rural infrastructure such as roads, water conservation and irrigation, and flood control structures. In this way, agricultural production and trade should be enhanced. This is certainly an important aspect with regard to sustainable development. India's current NREG Act even has a climate change adaptation dimension through its focus on public works for water and soil conservation (Arnold, Conway and Greenslade, 2011).

### South Africa

During most of the twentieth century, South Africa was governed by a racialist alliance between the British and the Dutch, which also left imprints on the social welfare regime (Van der Merwe, 1997). Social policies were shaped by four different ideologies: (1) racialism; (2) the Central European (Bismarckian) belief that government intervention is necessary, which contradicted both (3) British *laissez-faire* liberalism and (4) the “British Poor Law tradition which viewed unemployment mainly as a moral problem” (*ibid.*, p. 101). The racialist alliance shaped social policy. It introduced public works programmes and a (comparably) large-scale social pension for poor “whites” in the early twentieth century (Pelham, 2007). The associated pension scheme was non-contributory but strictly targeted the poor, who had to prove themselves through a means test as “deserving”. They had to show that they and their families were unable to care for themselves. Only “whites” and “coloureds” were eligible. This racist regulation was officially legitimized with reference to the agricultural background of Africans who were treated as “non-deserving” and able to reproduce themselves with the help of their extended families. Seekings and Natrass come to the conclusion that “the state promoted the model of a household headed by a male breadwinner among white citizens and the model of a familial, peasant-based household among its African subjects” (Seekings and Natrass, 2005, p. 83).

The governments of the apartheid era (1948–94) radicalized the racial laws. By the 1970s, apartheid reforms had improved the situation of the Dutch, whose “skills premium” enabled them to compete in the market. They no longer needed state support to out-compete their “black” competitors. The Government reined in state interventionism and adopted a more liberal political strategy. Privatizations began in the core industries, but also took place in the field of social policies. A particularly important area was public pensions: they were privatized in the 1980s (Hendricks, 2009). Another affected area was health, where state investments fell from 50–60 per cent throughout the 1970s and the beginning of the 1980s to 30 per cent in 1992–93 (Seekings and Natrass, 2005, pp. 155 et seq.).

Democratization in South Africa was focused on the political realm, while socio-economic transformations were much less institutionalized, despite being prominent in the political discourse (Webster and Adler, 1999). Crucially, social policy was reformed and institutional racism completely abandoned. In this process, one of the four ideological pillars of South African social policies collapsed: institutional racism was linked to the Bismarckian state interventionist approach, which had lost importance from the 1970s onwards anyway. Thanks to their racial privileges, the “whites” had been able to secure rather generous benefits. The universalization of benefits in the course of “de-racialization” was not accompanied by rising state expenditure or revenues: expenditure dropped from 31.32 per cent of GDP in 1994 to 25.81 per cent in 2002. In 2007, the Government raised it substantially for the first time – to 28.05 per cent. It reached a peak at 33.03 per cent in 2009 after which it dropped again to 32.09 per cent in 2011 (IMF, 2013).

The results of stagnating investments during the transition period were a serious “fiscal constraint” (Lund, 2001) and the strengthening of liberal social policy – especially regarding the perceived necessity of targeting. As many people associated apartheid social policies with the unjust privileges based on racism, the abolition of these privileges did not generate a large wave of protests. Thus, even though universalization was a central concern, it was usually pursued by liberal rather than social democratic politicians. Correspondingly, the liberals were concerned with ensuring that social policies were “pro-poor” and not universalizing former privileges.

The Government succeeded in this respect (Seekings and Natrass, 2005). Nevertheless, it did not increase social spending substantially, which reflects the negative effects of the tight fiscal policies in place since the introduction of the Growth, Employment and Redistribution (GEAR) strategy (Marais, 2011). Concerning the different fields of social policies, it is surprising that investment in education dropped from 7 per cent of GDP in 1995 to 5.8 per cent in 2007. “Bantu education” under apartheid (Giliomee, 2009) explicitly aimed at providing basic literacy to “black” children as a preparation for semi-skilled jobs. It is also one of the main reasons for the



current skills shortage in the labour market. Public investments in health care also stagnated between 3.1 and to 3.2 per cent of GDP between 1995 and 2007 (Van der Berg and Siebrits, 2010, p. 11).

Considering South Africa's social problems, the stagnation of social expenditure is remarkable. As a result of the HIV/AIDS and tuberculosis (TB) pandemics (Marais, 2011), South Africa's Human Development Index stagnated during the 1990s and 2000s (UNDP, 2013). The post-apartheid transformation was marked by the consolidation of basic health care, while reduced resources for the remaining health services resulted in a growing importance of the private sector, which is government-sponsored in so far as expenses are tax-deductible (Fonn, Schneider and Barron, 2007). Meanwhile, there are reports indicating that the public sector has been the victim of serious skills shortages and problems concerning personnel (Holdt and Murphy, 2007). These have been further aggravated by the impact of HIV/AIDS. The universalization of social services is comparably difficult to achieve in the short run because it would require a considerable expansion of state spending on education.

In contrast to the developments described above, cash transfers and government grants have been the most dynamic area of social policy: they rose from 20 per cent of social spending in 2000 to 30 per cent in 2006 (Van der Berg and Siebrits, 2010). Grants are means-tested to distinguish the "deserving poor" from "non-deserving citizens"; thus they fit into the liberal tradition of social policies. The most important grants are the Old Age Grant, a non-contributory social pension for the poor in place since 1928 (EPRI, 2004); the Disability Grant (*ibid.*) and the Child Support Grant, a non-conditional cash transfer for poor mothers (Lund, 2008). The South African grant system has been recognized as "the single most effective anti-poverty tool deployed after 1994" (Marais, 2011, p. 3, with reference to EPRI, 2004). Statistics for 2008–09 show that government grants generate on average 47.5 per cent of the income of the poor, while the proportion for the non-poor is only 13.6 per cent (SSA, 2012, p. 46). For the poorest decile of South Africans, the average proportion of cash transfers in their total earnings was 73 per cent in 2008, a dramatic increase since 1993 when this proportion was only 15 per cent (Leibbrandt et al., 2010, p. 26).

The South African grant system strictly follows the liberal ideology of the poor laws: the programmes are means-tested. Given the high unemployment rates, a considerable number of South Africans (and migrants) are not eligible for the grant system, because they could theoretically provide a living for themselves. As unemployment rates have not dropped substantially during recent decades, it is questionable whether there are decent jobs for the unemployed.

The general gist of our argument is that South African social policies have been marked by a radical transformation concerning the historical heritage of racialism and – to a lesser extent – state interventionism in the

Bismarckian tradition. The British liberal tradition has been strengthened in the process. This has been accompanied by a considerable expansion of cash transfers, which have become an important instrument in the fight against poverty. In relation to cash transfers, critics mostly focus narrowly on means-testing, which excludes the unemployed.

Regardless of internal criticism, the South African Government has held to a liberal conception of social policy, which is targeting the “deserving poor” and is trying to address the problem of unemployment with the help of workfare policies. The Government has moved towards the universalization of social rights by completely abandoning racism in social policy, but this has not taken place on the basis of the universalist tradition of social democracy: Neither social services nor social infrastructure have been the prime targets of government intervention. Even AsgiSA (Accelerated and Shared Growth Initiative for South Africa) – the programme aiming at the construction of a “developmental state” (for a discussion, see Turok, 2008) – did not include social investments on a grand scale (which were a prominent feature of the Brazilian counterpart).

Service provision instead suffers from unintended consequences of other government policies, most notably the ambitious affirmative action programme Broad-Based Black Economic Empowerment (B-E). As private companies are forced to employ a considerable number of formerly disadvantaged people at all levels, this leads to a “crowding out” of skilled state personnel (Southall, 2007). Additionally, increased mortality rates due to TB and HIV/AIDS also take their toll in the public sector and further decrease the number of skilled workers. Therefore, it will be a difficult task to substantially boost public service provision.

## Final reflections

Mkandawire (2005) argues that policy advice has not learnt from the historical experience with targeting, and that more equal societies have tended to lean towards universalism. Many late industrializers facing widespread poverty adopted universal social policies. Targeting was simply too costly and too demanding in terms of the skills and capacities of the administration available. Nevertheless, targeting does not necessarily contradict the universalization of social policies, because universalism does not preclude targeting. Indeed, Theda Skocpol (1991) highlights the potentially progressive role of “targeting within universalism”. She discusses the Civil War Pensions in the United States, as well as US maternity protection and social security schemes which distributed proportionally more retirement income to low-income workers. All these programmes received widespread support although they favoured particular groups. Universal health and education systems often also receive high rates of approval among all sections of society.



The contradiction between targeting and universalism only occurs if targeted measures, especially cash transfers, are crowding out public investment in social policies and infrastructure. In this case, targeting “tends to reinforce a ‘residual’ notion of social policy, which focuses attention merely on the malfunctions of markets rather than transformation of institutions” (de Haan, 2011, p. 15).

Investments in social services and infrastructure are crucial because they can increase social mobility and solidarity. The Brazilian example shows that universalist social policies can be a political and economic success. The inclusion of the poor potentially leads to an increase in demand, which has a positive impact on economic growth. Additionally, if governments promote the universalization of targeted programmes, this can lead to electoral success. In this context, it is important to promote the “de-clientelization” of social policies.

The South African case highlights a number of problems linked to the history of institutionalized racism: as a result of racist education policies in the past and affirmative action policies in the present, skills shortages in the public sector have emerged. It is difficult to solve these problems quickly, but it is nevertheless important to address them through investment in public education.

The Indian case shows that targeted programmes are costly and fraught with targeting errors. The literature on these kinds of problems reveals that targeting based on income and expenditure is likely to be very difficult, while self-targeting or targeting on the basis of group characteristics is typically less expensive and less likely to lead to leakage. Not only in this respect, the Mahatma Gandhi Rural Employment Guarantee Scheme appears to be more successful. With its legal entitlement, the scheme is an example of a rights-based approach to social policy rather than discretionary assistance. Universal programmes in India nevertheless tend to be a universalization at low cost and without quality. They are therefore a form of “false universalism”: public education and public health care are usually poor services for the poor. The better-off turn to private services.

In this respect, targeted universalism could be a more appropriate approach for the emerging economies, which are faced with widespread poverty and persistent social inequality. Social policy based on targeted universalism does not exclusively favour a single constituent group. This approach “supports the needs of the particular while reminding us that we are all part of the same social fabric” (Powell, Menendian and Reece, 2009). It addresses the needs of both dominant and subaltern groups, but pays particular attention to the situation of the subaltern. Targeted universal policies improve the lives of the entire population, but in addition they close gaps and disparities between groups (Grassroots Policy Project, undated). Combined with a rights-based approach, the Indian MGNREGS could be a positive example of targeted universalism: the upgrade of infrastructure for all is combined with job opportunities for the poor and the needs of local communities.

Targeting universal policy would avoid the pitfalls of a “false universalism” and the political liability that lies in limiting the scope of policy to a certain group or section of the population. As Vivek Chibber (2010, p. 178) points out, “in excluding large sections of the population from its ambit, it [targeting] automatically creates a constituency that gains nothing from the programs”. Due to their limited social base, targeted social policies are likely to be contested at the political level. In contrast, universal programmes usually have broader political support from the middle classes. If implemented in the right way, targeted universalism might be an approach strengthening cross-race and cross-class alliances.

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# Progressive tax reform in OECD countries

## *Opportunities and obstacles*

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The substantial increases in the disparity of wealth and income distribution over the last decades, in combination with the need for tax increases due to the budgetary stress experienced since the Great Recession, have led to calls for progressive tax reforms in many OECD countries. However, the dominant economic argument against such reforms is that they would be detrimental to growth and employment and would lead to increased tax avoidance. In our article, we provide a critical assessment of the standard arguments and complement them with a macroeconomic perspective. In our view there is more room for manoeuvre for national governments to increase the progressivity of the tax system and to raise additional revenue than is often suggested. We start with an overview of the regressive taxation trends since the 1980s and show that despite some changes there are no signs of a comprehensive trend reversal, precisely because of the allegedly strong efficiency/equity trade-off that supposedly does not allow for such changes. We then scrutinize the standard wisdom regarding the negative economic effects of progressive tax reform. Finally, we introduce a macroeconomic perspective into our analysis and draw some conclusions concerning future tax policies on the national and international level.

### Taxation trends since the 1980s: Traditional standards of tax justice under pressure<sup>1</sup>

Traditionally, the aims of taxation in the industrialized countries in the area of distribution were (a) to avoid tax privileges for specific sources of income (comprehensive income approach); and (b) to achieve a high degree of progressivity. However, these goals have come under increasing pressure since the 1980s. According to the OECD (2011), market incomes have become more unequal in most OECD countries since the mid-1980s. Additionally, redistribution by the State has on average become less effective, especially since the mid-1990s. It is impossible to establish the extent to which the changes in the tax systems are responsible for this state of affairs. Nevertheless, the general taxation trends as reflected in some important indicators point to a connection. Strong drops in the top marginal income tax rates, in the corporate income tax rates, as well as an increasing of dualization of the income tax (that is, increasing privileges for capital income) demonstrate that the traditional standards of tax justice have come under severe pressure in recent decades.

On average, taxes on personal income used to be the most important source of revenues for OECD countries. They accounted for about 30 per cent of total tax revenues in the 1980s. Since then, their relative importance has declined to about 24 per cent while the weight of social security contributions

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1. For a more extensive overview, see Godar and Truger (2014a).



has increased (OECD, 2012a). In order to evaluate how progressive income tax systems are, top statutory tax rates can be used as an indicator for broad international trends and a proxy for the intended redistributive effects of income tax systems. Since the 1970s, the top income tax rates have declined in nearly all OECD countries. In 1981, the top combined statutory personal income tax (PIT) rate in the OECD countries was on average 65.7 per cent. If we consider only the countries already included in the data set from 1981, the average rate declined to 50.7 per cent in 1990, to 48.9 per cent in 2000, and to 45.8 per cent in 2010 (OECD, 2012b, p. 33). In the meantime other countries have joined the OECD; if we include them the average tax rate in 2010 was 41.7 per cent.

Recently, many European governments have deliberately broken with the comprehensive income approach by subjecting the capital income of individuals to a separate tax schedule with a single tax rate while retaining progressive taxation in the area of labour income. In many OECD countries (for example Austria, Finland, Germany, Ireland, Japan, Spain and Sweden), certain types of capital income of individuals (such as interest, dividends and capital gains) are excluded from progressive income taxation (OECD, 2013a; Deloitte, 2013). As Margit Schratzenstaller (2004) points out, many West European countries have reformed their taxation of capital income since the early 1980s, moving away from the comprehensive income approach and towards dualization of income tax. Capital gains are most frequently taxed at a rate lower than the individual marginal tax rate. Additionally, there are manifold tax reliefs, which apply to different types of capital gains (Deloitte, 2013). Since 1981, the maximum overall tax burden on dividends has declined significantly (OECD, 2013a).

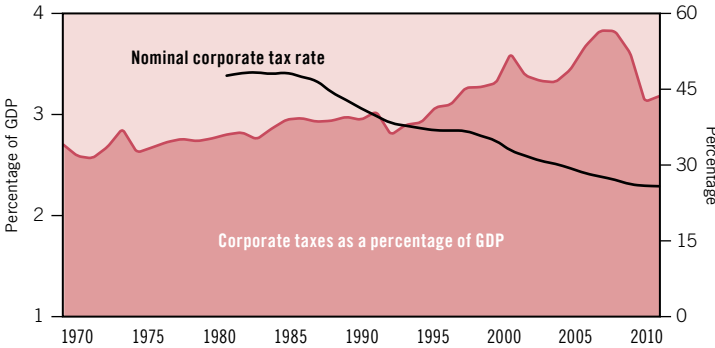
The taxation of corporate income (CIT) has witnessed nearly three decades of an international race to the bottom in terms of nominal corporate tax rates. If we examine the countries for which OECD data are available since 1981, the (unweighted) average combined corporate income tax rates declined by more than 20 percentage points – from 47.5 in 1981 to only 27.2 in 2012. The average reflects the individual trends quite well as virtually all countries in the sample cut corporate tax rates significantly.<sup>2</sup>

However, one should note that the falling tax rates are at first sight not reflected in the revenues generated: until 2007, corporate taxes as a percentage of GDP increased significantly in most OECD countries as compared to the levels of the 1970s and 1980s (figure 1). Despite declining considerably in 2008–09, the average level in 2010 was still higher than in the 1970s and 1980s. Part of the explanation of this puzzle may be that declining nominal

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2. More sophisticated measures for effective tax rates such as the Effective Marginal Tax Rates (EMTR) and Effective Average Tax Rates (EATR) on new investment based on micro-economic models of investment (Spengel et al., 2012) as well as the aggregate implicit tax rates calculated by Eurostat (European Commission, 2012) broadly show a similar picture.

**Figure 1. Corporate taxes as a percentage of GDP, and nominal corporate tax rates. OECD averages 1970–2010**



Source: OECD (2013a).

rates were to some extent accompanied by measures to broaden the tax base. Another explanation may be that “stimulated by the steep fall in corporate tax rates, which in some countries are now well below the top PIT rate, growing incorporatization has been boosting CIT revenues at the expense of the personal income tax” (European Commission, 2012, p. 23). However, the most likely cause of this strong development of corporate tax revenues lies in the rising share of corporate profits in GDP (Devereux, Griffith and Klemm, 2004).

Compared to the 1970s, the revenues from property taxes as a percentage of GDP have on average remained fairly stable in the OECD countries. This points to a considerable fall in the effective taxation of private wealth, because as shown by Piketty and Zucman (2013) since 1970 the ratio of private wealth to national income has risen considerably in many rich countries. Hence the development of property taxation has negatively affected both tax justice and income distribution.

### Current trends and policy proposals

In the face of rising inequality and strong budgetary pressures in many OECD countries since the Great Recession, there are some signs that the downward trend in redistributive taxation may have come to a halt recently.<sup>3</sup> In the majority of the OECD countries, top statutory income tax rates were increased after the financial crisis (IMF, 2013). Since then, a number of countries have also increased their maximum tax rates on the capital income of individuals. Remarkably, since the economic crisis the average level of corporate tax rates has seemed to stabilize (OECD, 2013a) while some countries have

3. For a more extensive overview, see Godar and Truger (2014a).

seen a broadening of the corporate income tax base. Belgium, Greece, Ireland, Portugal, Spain and the United Kingdom increased their taxes on immovable property (European Commission, 2012; IMF, 2013).

While the developments mentioned are steps in the direction of greater tax justice, there also some steps in the opposite direction: since 2009, many governments have raised their value added tax rates in order to generate additional revenues (EC, 2013a; IMF, 2013). In addition, there were numerous increases in excise taxes. As pointed out by the European Commission (2013a), the revenue-generating measures since 2009 have heavily focused on consumption taxes, which are regressive in nature, constituting a clear move away from tax justice and redistribution.

In the last few years, many important international institutions have presented proposals on how to respond to the need for fiscal consolidation in terms of socially acceptable tax reforms (European Commission, 2012 and 2013c; ETUC, 2010; European Attac Network, 2013; European Council, 2012; ILO, 2011; IMF, 2013; ITUC, 2010; OECD, 2012c, 2012d and 2013b; Tax Justice Network, 2013; UNCTAD, 2012). While there seems to be a widely shared belief that combating tax evasion, limiting tax avoidance and introducing a financial transaction tax should be priorities, opinions differ when it comes to the need for truly progressive tax reforms. Whereas the trade unions, the ILO, UNCTAD and some NGOs make such demands, dominant mainstream institutions such as the European Commission, IMF and OECD are very hesitant about, if not openly opposed to, such reforms.<sup>4</sup>

The conventional wisdom of the IMF (2013) lies in proposing consolidation on the revenue side, that is, focusing on broadening the tax base of the value added tax as well as of personal and corporate income taxes, increasing recurrent taxes on residential property and extending environmental taxation. Their aim is to raise additional revenues without affecting low-income households too much – a view that is shared by the OECD (2012c). Both institutions suggest introducing additional transfers in order to mitigate the regressive impact of the proposed changes. One of the most repeated OECD proposals is to close tax loopholes and to reduce “tax expenditures which mostly benefit the well-off” (ibid., p. 3) in order to order to promote growth and reduce inequality. According to the OECD, the least distortive taxes, such as taxes on immovable property and consumption, are supposed to improve living standards but could lead to higher inequality. It concludes that “[t]argeted transfers (...) can reduce the severity of this trade-off” (ibid.). Similarly, the European Council “invites Member States, where appropriate, to review their tax systems with the aim of making them more effective and efficient, removing unjustified exemptions, broadening the tax base, shifting taxes away from labour, improving the efficiency of tax collection and tackling tax evasion” (European Council, 2012, p. 3).

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4. For a more extensive overview, see Godar and Truger (2014b).

Some of the proposed measures may lead to a reduction in income inequality or at least show a concern for negative distributive effects of taxation, but the institutions in question do not consider more fundamental reforms: increasing personal and corporate taxation as well as the general taxation of wealth are not on the agenda.<sup>5</sup> Obviously, the main reason for the reluctance to propose fundamental changes consists in the perceived trade-off between equity and efficiency. As the OECD (2012d, p. 39) puts it: “Simply raising marginal personal income tax rates on high earners will not necessarily bring in much additional revenue, because of effects on work intensity, career decisions, tax avoidance and other behavioural responses.”

### Standard arguments against progressive taxation under scrutiny<sup>6</sup>

The standard arguments against progressive taxation rely on claiming that it creates negative incentives for private households and enterprises and reinforces tax avoidance. However, it can be argued, on the basis of mainstream arguments (e.g. Rosen and Gayer, 2008; Salanié, 2011) and other literature that these effects need not be large. This suggests that the equity/efficiency trade-off is probably rather small. Furthermore, government spending financed with the additional revenue may offset or even overcompensate for the negative effects of taxation on output and employment.

Turning first to the private household sector, the most important negative incentive effects discussed refer to the labour supply, savings and – more recently – to tax avoidance. The typical argument raised against progressive income taxation is that taxes reduce the compensation for work and thus lower the opportunity cost of leisure. Theoretically, however, the overall effect on the labour supply is indeterminate as the income effect may outweigh the substitution effect (Salanié, 2011). Since high-income earners are often assumed to be high-productivity workers, Bernard Salanié argues that discouraging them from supplying their labour may cause a greater welfare loss than discouraging the labour supply of the low-productivity worker. However, as Giacomo Corneo (2005) puts it, the substitution effect is only relevant as long as a person’s working potential is not exhausted. In general, considering the need to earn a living in combination with social norms, the notion that individuals decide about their labour market participation with respect to the income tax rate is not very convincing.

Therefore, it hardly comes as a surprise that at the empirical level the labour supply seems rather inelastic with respect to wages – that is, it does not

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5. In fairness, the IMF does at least discuss the issue extensively and does not rule out per se an increase in personal income taxation (IMF, 2013).

6. For a more extensive overview and discussion, see Godar and Truger (2014c).

respond negatively to drops in the real wage. In a meta-study, Evers, de Mooij and Van Vuuren (2008) review empirical estimates of the uncompensated wage elasticity of the labour supply. The mean of the empirical distribution of the estimated elasticities for the labour supply of men is 0.07 and the median is 0.08. The respective values for women are 0.43 and 0.27, or 0.34 and 0.26 excluding outliers (*ibid.*, p. 32). This implies that on average, a percentage change in the net hourly wage rate, holding other things equal, leads to a 0.07 percentage change in hours worked by men and 0.43 (0.34) by women. The evidence that the female labour supply is more sensitive to wages can partially be explained by the fact that on average women still “undertake a much higher load of unpaid work than men” (OECD, 2012e, p. 73). According to the OECD, in countries with high childcare costs women are much more likely to work part time.

In addition, Facundo Alvaredo et al. (2013) suggest that the model of pay determination used in much of the optimal tax literature may be oversimplified. They consider the possibility that the growing bargaining power of top income earners helps them to increase their compensation at the expense of other income groups. From this perspective, lower top marginal tax rates provide an incentive to increase bargaining efforts which have nothing to do with productivity-enhancing work efforts. Higher top incomes may thus be the result of redistribution between income groups rather than of additional economic activity. If we include the effect of top marginal tax rates on bargaining efforts, there may be room for a higher marginal tax rate because discouraging bargaining efforts can have positive effects on economic efficiency.

Although it is often argued that taxes on capital income discourage savings and therefore investment and growth, economic theory does not provide clear results supporting this view. This is not astonishing since even in a simple life-cycle model of consumption the income effect can outweigh the negative substitution effect of taxation on saving (Salanié, 2011). James Banks and Peter Diamond (2010) review different versions of models, commonly applied in optimal tax theory, which predict that the optimal tax rate on capital income is zero. They criticize that the standard results rely on restrictive assumptions and are thus “not robust enough for policy analysis” (*ibid.*, p. 5). They find that “at present, the literature has only little to say about how to combine the two sources of income to determine taxes” (*ibid.*, p. 6).

Instead of actually changing behaviour in real terms, wealthy households can simply avoid a tax – for example by formally becoming a resident of a tax haven<sup>7</sup> or by opening a bank account in a tax haven protected by complicated legal structures that conceal its true ownership. James S. Henry (2012) estimates that the value of offshore financial assets today ranges from US\$21 to 32 trillion. Ann Hollingshead (2010) suggests that “current total deposits by

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7. Despite individual examples of migrating millionaires, Kleven, Landais and Saez (2010) and Young and Varner (2011) find only a very weak or no statistical correlation between the millionaires’ choice of residence and tax legislation.

non-residents in offshore and secrecy jurisdictions are just under US\$10 trillion” (ibid., p. 3). Apparently, tax planning and tax evasion might represent a certain threat to governments’ ability to effectively redistribute income and wealth. However, Piketty, Saez and Stantcheva (2011) estimate an average long-run elasticity of top incomes with respect to the net-of-tax rate of about 0.3 to 0.4. In order to compute the optimal top marginal tax rate, they develop a model integrating three different components of this overall elasticity: a supply-side effect (real behavioural adjustments), a tax avoidance effect, and a compensatory bargaining effect. For the United States, they estimate that the top marginal tax rate is well below its revenue maximizing point. Also, Diamond and Saez (2011) suggest that the US top tax rate of 42.5 would only be optimal if the elasticity of the tax base were 0.9. This is much higher than the “mid-range estimate” of 0.25 that they have made on the grounds of empirical literature. With a similar approach, the IMF (2013) calculates a range of revenue-maximizing top PIT rates for 16 OECD countries. In 12 countries, the actual top rate is below or in the lower half of that range, indicating substantial leeway for increased tax rates.

According to mainstream economic reasoning, the tax that is seen as most detrimental to economic growth is corporate income tax (CIT). “Corporate income taxes are the most harmful for growth as they discourage the activities of firms that are most important for growth: investment in capital and productivity improvements” (OECD, 2010, p. 20). Furthermore, it is supposed that high corporate tax rates induce firms to move their production abroad and thus decrease domestic employment. The theoretical mechanism behind these effects lies in the effect of the CIT on the cost of capital: the basic neoclassical idea is that “firms accumulate capital as long as the return to investment exceeds the cost of finance and depreciation. Due to decreasing returns to scale, there is a marginal project that just breaks even, i.e. which earns a return that precisely matches the costs (pre-tax rate of return on the marginal investment project is defined as the cost of capital)” (de Mooij and Ederveen, 2008, p. 684). However, as it turns out this standard approach relies on very narrow theoretical assumptions. The fact that firms invest as long as the return to investment is *higher* than the cost of capital does not offer any answer to the question of *how much* higher the return on investment must be. The neoclassical break-even point is only reached under perfect competition, and it implies that firms do not realize profits on their marginal investment project. However, under conditions of an imperfect competitive market, firms realize more than zero profit on the marginal investment project. This suggests that there will still be an incentive to invest as long as the corporate tax does not completely deplete this economic profit. Moreover, Richard and Peggy Musgrave (1989) point out that the effects of corporate taxes on investment depend on the specification of the investment function, that is, on the underlying theory of investment. Investment may depend, *ceteris paribus*, inversely on the interest rate and therefore on taxation

through its effect on the cost of capital. But we should include many other variables in the investment function, relaxing the *ceteris paribus* assumption, for example past sales, the business climate and unit labour cost. In other words, the potentially positive long-term effects of public funding of research and development expenditure and human capital accumulation should be considered – as well as the potentially positive agglomeration effects that may compensate for the negative effects of taxation (Brühlhart, Jametti and Schmidheiny, 2012).

The empirical evidence suggests that investment behaviour is affected by corporate taxation, but it is hard to get reliable estimates of the magnitude and thus the relevance of this effect. There is not much empirical evidence of tax effects on aggregate real investment. Evidence from micro-level studies hints at negative effects of taxes on investment ranging from rather inelastic ( $-0.25$ ) to more elastic ( $-1$ ) responses of investment, but it is difficult to transfer these results to aggregate investment on the macroeconomic level (Hanlon and Heitzman, 2010). A meta-study by Ruud de Mooij and Sjef Ederveen (2008) on the impact of taxation on foreign direct investment shows considerably varying effects: on average “a 1-percentage point increase in a tax measure in a certain location reduces foreign capital by 3.3 per cent” (p. 689). However, the standard deviation of 4.4 is very high and foreign direct investment cannot be used as a proxy for aggregate real investment as it also includes portfolio investment. Two recent studies trying to assess investment effects of corporate tax cuts in Germany (Reinhard and Li, 2011) and the United Kingdom (Maffini, 2013) come to the sobering conclusion that there is no convincing evidence that the goal of encouraging investment was reached. Ludwig Reinhard and Steven Li (2011, p. 735) even conclude that “market opportunities and competitive pressures appear to be more important for investment decisions than domestic tax changes”.

It is sometimes suggested that tax cuts pay for themselves because the lower tax rates will substantially increase investment and corporate income. This would imply that the economy was situated on the downward sloping part of the Laffer curve, where tax hikes trigger such a strong decrease in the tax base as to overcompensate for the positive effect of the tax rate increase on revenues. Recent empirical estimates, however, show that this is improbable. After reviewing the literature and estimating the effects of CIT rate reductions for 17 OECD countries from 1982 to 2005, Aleksandra Riedl and Silvia Rocha-Akis (2012, p. 65) conclude that “on average, the tax base is inelastic with respect to the domestic statutory rate. In other words, on average, the statutory CIT rates are in the upward sloping region of the Laffer curve, indicating that a unilateral rise in the statutory CIT rate would result in a less-than-proportional decrease in that country’s CIT base and, therefore, a higher level of CIT revenues.” It is also remarkable that although they find substantial effects of the CIT rate on the country’s aggregate CIT base, income per capita and real unit labour costs are found to be more important factors.



Besides the real behavioural reactions to taxation, a much-debated issue today is the avoidance strategies of firms, which manipulate the tax base in a country without actually changing the level of economic activity. According to the OECD's comprehensive report on base erosion and profit-shifting (2013b), multiple opportunities exist for corporations to shift income among entities and thus to countries where lower tax rates or special exemptions are applied. Examples for such opportunities are using licences for brands, patents or other financial services provided by a foreign subsidiary in a low tax jurisdiction, as well as the manipulation of transfer pricing. Although there are no reliable numbers about how much profit-shifting actually occurs (*ibid.*), the existence of profit-shifting activities is largely unquestioned. Jost Henrich Heckemeyer and Michael Overesch (2013) review the empirical literature on the profit-shifting behaviour of multinational firms. On average, the 25 studies estimate a semi-elasticity of reported profit or earnings before interest and taxes with respect to the international tax differential between a country and other subsidiary locations of 1.55 with a relatively high standard deviation of 2.23 (*ibid.*, p. 8). Although at first sight the number seems substantial, it implies that on average a country with an overall tax rate on corporate profits of 20 per cent may increase its rate by 5 percentage points or one quarter at a cost of losing only 7.75 per cent of its tax base. In the absence of tax avoidance, it would not receive the full revenue benefits of the tax increase but more than two-thirds of it.

All in all, the case against progressive taxation turns out to be substantially weaker than claimed by mainstream approaches. Both from a theoretical and an empirical point of view, the negative effects on growth and employment and the erosion of the tax base may not be large. What is more, factors other than taxation (the cyclical condition of the economy, infrastructure investment, research and development expenditures, the educational system as a provider of a qualified workforce) may be much more important. If these factors can be enhanced through government expenditure, financed through progressive taxation, then the overall economic effect of the latter may well be positive.

### Macroeconomic arguments in favour of progressive taxation<sup>8</sup>

From a macroeconomic perspective, it is possible to strengthen the case for redistributive taxation. If the economy is constrained by insufficient demand and if inequality is detrimental to private consumption, redistributive taxation may strengthen growth and employment via the resulting increase in private consumption.

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8. For a more extensive overview and discussion, see Paetz and Truger (2014).



Recent multiplier estimates tend to strengthen the traditional Keynesian proposition that fiscal policy is effective, especially under the current conditions in the euro area with monetary policy at the lower bound and fixed exchange rates within the currency union (Auerbach and Gorodnichenko, 2013; Batini, Callegari and Melina, 2012). As suggested by the standard Keynesian textbook models and the Haavelmo Theorem, the expenditure multiplier tends to be larger than the revenue side multiplier (Gechert and Will, 2012), suggesting that increasing (progressive) taxation in order to finance government spending may actually be conducive to growth and employment.

In addition, there is also a macroeconomic rationale for revenue-neutral redistributive tax reform. According to John Maynard Keynes (1936 and 1937), effective demand consists of private consumption and investment demand. Keynes placed particular emphasis on the importance of investment demand because he was convinced that its high volatility in combination with the multiplier process was the most important cause of fluctuations in overall economic activity (*ibid.*, 1937). Investment demand depends on the fluctuating subjective expectations of firms with regard to the profitability of real investment and the monetary rate of interest, which in turn is influenced by the fluctuating liquidity preference of economic agents. However, private consumption also plays a central role, particularly the fact that it is assumed to be dependent on current disposable income. Keynes contends that private consumption is positively related to overall disposable income in the economy, with the marginal propensity to consume indicating how large the share of the income is that goes into additional consumption, with the residual going into savings. If overall income rises because of an increase in investment activity, this will lead to an additional increase in private consumption, which in turn will lead to an additional increase in income, etc. The stronger the induced multiplier process, the higher the marginal propensity to consume and the lower the marginal propensity to save.

Based on these theoretical assumptions, it is possible to derive a negative relationship between private consumption and the disparity in the income distribution: if lower-income households have a higher propensity to consume than higher-income ones, redistribution in favour of low-income households will increase the overall propensity to consume and therefore private consumption. In this case, a tax correction of the disparity would lead to a strengthening of private consumption demand and hence, *ceteris paribus*, to an increase of growth and employment.<sup>9</sup> Therefore, one could expect an

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9. However, the underlying hypotheses regarding private consumption behaviour are certainly not without controversy (see van Treeck and Sturn, 2012). The validity of the Keynesian consumption function assumes that private consumption depends on current real disposable income. In addition, it is assumed that the marginal propensity to consume or to save in different income classes remains unchanged if there is a change in income distribution. However, other theories of consumption may lead to different results. The result

increase in consumer spending via a fiscally-induced reduction in income inequality. This raises the question under which conditions such an increase in demand will actually be transformed into higher overall economic activity. Obviously the answer depends very much on the underlying macroeconomic paradigm. According to New Consensus Macroeconomics (NCM) (Clarida, Galí and Gertler, 1999) – the dominant paradigm – higher overall economic activity, will most likely be only a short-term result. In the long run, the so-called NAIRU (non-accelerating inflation rate of unemployment) and the associated output and employment equilibrium will prevail and erase the short-term impacts on employment. However, as shown by Marc Lavoie (2009), the NCM model can easily be transformed into post-Keynesian macroeconomic approaches with some stepwise modifications that are closer to the traditional Keynesian analysis, namely, assigning an important role to aggregate demand, both in the short and the long term (Hein, 2008). These approaches are certainly more plausible than the NCM models with their restrictive assumptions. According to them, redistribution through the tax system can systematically lead to higher growth and employment because of the considerable shock of the Great Recession. Thus, from a macroeconomic point of view the trade-off between equity and efficiency might well disappear even in the long run.

## Conclusions<sup>10</sup>

Opportunities for a truly progressive reform of the tax system have developed in a rather favourable way over the last few years. There are some signs that the downward trend in redistributive taxation may have come to a halt recently. At the same time, a number of international institutions have commented in a more or less progressive way on how to respond to the need for fiscal consolidation in terms of socially acceptable tax reforms. Against this background, there are at least two conclusions to be drawn from this article.

At the international level, the widespread consensus concerning the need to combat tax evasion, limit tax avoidance and to introduce a

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to be expected, a weakening in consumer demand, could at least be mitigated or in the extreme even be overcompensated. Overall, the response of private consumption to increasing income inequality seems to depend on country-specific factors, mainly on the access of lower- and middle-income groups to credit (ibid., 2012). The extreme increase in inequality in the United States went hand in hand with a strong long-term debt-financed development of private consumption and a significant increase in household debt which triggered the financial market bubble, until it burst and proved to be unsustainable. However, in countries with less accessible credit markets, where households were unable to get credit due to credit rationing by banks, the Keynesian consumption theory seems to hold.

10. For a more extensive discussion of reform proposals and alternatives, see Godar and Truger (2014b) in general, and for the case of Germany in particular, Eicker-Wolf and Truger (2013).

financial transaction tax should be used to promote the implementation of such reforms in the most ambitious way possible. The plan of the European Commission to revise the Savings Directive in order to make it applicable to dividends, capital gains and all other forms of financial income (European Commission, 2013b), making them subject to an automatic exchange of information among Member States, would be an important step against tax evasion by individuals. In the area of corporate taxation, the same applies to the OECD Action Plan on Base Erosion and Profit Shifting (OECD, 2013c). A potentially even more important step would be to pursue the Unitary Taxation approach, which requires multinational companies to submit their worldwide consolidated accounts (covering all parts of the company engaged in a unitary business) to local tax authorities so that their internal transfers would no longer be of interest (Picciotto, 2012). This could be complemented by some minimum tax rates to prevent harmful tax competition. A Financial Transaction Tax covering both spot and derivative assets could help to reduce the size and volatility of financial markets while at the same time generating substantial revenue (Schulmeister, Schratzenstaller and Picek, 2008). However, for all these proposals there is the serious danger that they will be delayed, watered down or not be implemented at all due to political pressure.

Quite independently of the success of measures at the international level, national tax policies should seek to achieve a substantially higher level of redistributive taxation even without international coordination. We have demonstrated that there is considerable scope for redistributive tax policies at the national level, and that far more is possible than claimed by the mainstream view dominating the debates. There is no need for national tax policies to restrict their efforts to the rather faint-hearted measures proposed by numerous influential international institutions, such as broadening the tax base and increasing taxation of residential property while at the same time avoiding the excessively negative distributional consequences of increasing consumption taxes. Instead, for many national governments there seems to be substantial leeway to increase top PIT rates, the CIT rate and the taxation of capital in general. National governments should make use of this leeway, because it would create extra revenue that could be used for essential public purposes and for decreasing inequality while at the same time encouraging progressive reforms at the international level.

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# The role of the public sector in combating inequality

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In the last decades, the merits of the public sector, including public infrastructure and services, have mostly been discussed with respect to their efficiency. The general assumption was that public providers of goods and services tend to underperform compared with private-sector companies and therefore present a drag on the economy. Economists in the developed and developing world have advised governments to privatize not only state enterprises but also public infrastructures in order to boost productivity and economic growth, or to use public–private partnerships (PPPs) and subcontracting to emulate private-sector business strategies in cases where privatization is not possible.

The view of the public sector as a liability rather than an asset was confirmed by the recent politics of crisis management in Europe and elsewhere. Representatives from the European Commission, the European Central Bank and the International Monetary Fund (IMF) have required those Member States that were dependent on external funds from the European Stability Mechanism to drastically cut back public-sector spending, including spending on health care and education. Other governments did so voluntarily in anticipation of being downgraded by the American rating agencies. As a result, countries across Europe are currently in the process of downsizing public-sector workforces. The United Kingdom alone has eliminated almost half a million jobs since the start of the crisis (Hermann, 2013).

While downsizing is supposed to improve public-sector productivity, officials have paid little attention to the redistributive effects of public services. Even though redistribution is not the primary objective of public-service provision, equal access to essential services such as health care, education, transport and energy affects low-income earners differently from high-income earners. This article attempts to fill this gap. It discusses the effects of public services on income distribution and the role of the public sector in combating inequality. At the same time it also explores the consequences of privatization, marketization and of public-sector cuts for social equality and social justice.

The article starts with a theoretical and historical account of the public sector and its role in a predominantly private and market-based economy. The next part presents the rationale and the political underpinnings of the shift towards privatization and marketization, followed by a discussion of the redistributive effects of public services. The article ends with a description of public-sector retrenchment during the crisis and some concluding thoughts.

### The evolution of the public sector

The public sector is a contested concept and as such open to different interpretations. What seems to be clear is that the public sector deals with government provision, and that it is more than government administration. It includes a variety of economic activities that are carried out by public

establishments rather than private companies. According to orthodox economic theory, the public provision of goods and services is acceptable when they have certain qualities which prevent markets from functioning in this area (Altwater, 2004). For the provision of public services, two conditions are particularly important: first, the existence of positive externalities impacting on third parties that are not directly involved in the market transaction. Here the classic case is the health-care sector: it contributes to containing infectious diseases, which benefits not only those who seek treatment, but also society at large. Second, the existence of so-called natural monopolies, which makes it impossible or undesirable to have more than one provider for a particular service (Baumol, 1977). Here the classic case is the network industries such as electricity, gas and water. Up to the 1980s it was widely believed that the government or non-profit organizations should provide these services (Clifton, Comín and Díaz Fuentes, 2003).

In the real world, the extent of the public sector was not so much the result of theoretical considerations than of social conflicts, political pressures and pragmatic solutions to pressing problems. The expansion of public utilities (water, gas, electricity) in the rapidly growing European cities of the late nineteenth century was, for example, driven by the need to provide services to poor households and to prevent the spread of contagious diseases. Private water suppliers had previously focused on the connection of factories and wealthy neighbourhoods. These customers were able to pay fees that were high enough to ensure a decent return on private investments (Millward, 2005). As returns were considerably lower in poor neighbourhoods, the local authorities often stepped in and built community infrastructures that were necessary to provide the poor with acceptable living conditions. In the United Kingdom, this was part of what has been described as municipal socialism (Sheldrake, 1989). As such, it was also a correction or an alternative to the prevailing market economy. Gerold Ambrosius (2008) has argued that European governments opted for public provision rather than imposing public regulation on private monopolies because they assumed that ownership would be more effective in terms of controlling output.

After the traumatic experience of the Great Depression and the Second World War, the pressure to tame markets and provide equal access to essential services became even greater (Millward, 2005). As a result, governments took over network industries such as gas and electricity. In some countries, they also nationalized key companies in the mining, petroleum, production and banking sectors. In the United Kingdom, nationalization also included the creation of the National Health Service, integrating hundreds of public and voluntary hospitals and providing free health care for all citizens across the country. By providing comparably cheap inputs for the rest of the economy, the public sector proved to be highly functional for Fordist mass production and the consumption model of the postwar years. In the developing world, public ownership became an important element in post-colonial

nation-building and subsequent import-substitution strategies. However, often nationalization was simply a pragmatic response to private-sector failures and was aimed at protecting jobs and companies, the most recent case being the nationalization of bankrupt banks during the financial crisis.

During the post-war decades, economists have interpreted the growth of the public sector as a result of economic progress. Because of increasingly saturated markets for mass-produced goods, the public sector and especially public services such as education were expected to become key investment areas in the new affluent societies. Fred Hirsch (1977, p. 4), for example, noted that “[a]s demands for purely private goods are increasingly satisfied, demands for goods and facilities with a public (social) character become increasingly active”. William Baumol (2012) went even further and argued that because many public services are highly labour-intensive (meaning that workers can be replaced by labour-saving technology only gradually), the public sector must necessarily increase in relation to the private economy. “Auto workers and police officers will see their wages rise at roughly the same rate in the long run, but if productivity on the assembly line advances while productivity in the patrol car does not, then the cost of police protection will increase – in relative terms to manufacturing” (ibid., pp. 21–22). Over several decades the different cost structures add up, making public services increasingly expensive in relation to mass-produced output. However, because of burgeoning private-sector productivity gains, Baumol argued that advanced economies can afford to have large public sectors.

In Europe, the growth of the public sector and especially of public services went hand in hand with the expansion of the welfare state. The British sociologist T.H. Marshall (1950) has argued that in modern democracies, citizens have not only civil and political but also social rights, such as the right to basic economic welfare and education. In this conception, access to public services became an essential feature of what has been described as “social citizenship” (Mahnkopf, 2008). In France and parts of Southern Europe, the provision of public services was not so much perceived as an individual right of citizens, but as the collective responsibility of the State to provide for its citizens something that is described in French as *service public* (Ambrosius, 2008). As Birgit Mahnkopf (2008, pp. 72–73) notes, “[u]ntil the 1980s, there remained a vital cross-party and even cross-country consensus in the European Union that certain goods and services ought to be excluded from the functioning of the market... Public services were perceived as essential for creating and strengthening social cohesion and thus were strongly related to social justice, even if their economic efficiency proved to be lower than under market condition.” At the same time as the consensus for universal services started to erode in Europe, it became increasingly prominent in the developing world. This is epitomized in the 1978 Alma-Ata declaration on “Health for All”. In it, the World Health Organization proclaimed the goal of establishing worldwide access to primary health care by the year 2000 (Rao, 2010).

Welfare-state theorists such as Gøsta Esping-Andersen (1991) emphasized the decommodifying effects of modern welfare states, reducing the inequality caused by a purely market-based distribution of social wealth. However, he also showed that different welfare state conceptions have different consequences for equality. While conservative welfare states tend to reproduce inequality by making social benefits dependent on previous contributions, and liberal means-testing social policies are limited to alleviating the situation of the poor, the social democratic welfare regime is “committed to equalize living conditions across the citizenry” (Esping-Andersen and Myles, 2011, p. 646). It does so by combining the payment of universal cash benefits that cover more than minimum needs with the public provision of social services, which in other systems are provided by unpaid female family members or by fee-charging private agencies. As a result, the social democratic welfare states of Northern Europe are not only leading in terms public service expenditure and female employment rates, but also display the lowest levels of inequality.<sup>1</sup>

Esping-Andersen’s typology focuses on social policy and social services. If we take health care, the United Kingdom would belong to the same category as Sweden as both display a Beveridge-style health-care system. Funding is based on tax income rather than on contributions to social security funds, and the provision of inpatient care is almost exclusively provided by public institutions (until the recent wave of privatization and marketization). In contrast, most continental European countries have adopted a variation of the Bismarckian welfare regime, in which so-called third-sector organizations play an important role in providing health care (Hermann, 2009). Legally speaking, third-sector organizations are private institutions because they are run by private bodies, in many cases religious charities. At the same time, they are not strictly private because their purpose is the enhancement of common welfare rather than making a profit. In the absence of government institutions, third-sector initiatives are particularly important in developing countries where they provide a wide array of services. However, as non-profit organizations they supplement rather than substitute for the public sector.

## Privatization and marketization

The perception of the public sector changed in the 1970s. During this period, the discourse of market failure was gradually replaced by the discourse of state failure (Megginson and Netter, 2001). The discursive shift took place against the backdrop of a major economic crisis that had ended more than two decades of economic growth in Europe and North America. In the wake

1. In terms of equality, the Scandinavian countries are only surpassed by Slovenia if indices such as the Gini coefficient are used.

of the economic slowdown, public-sector expenditure tended to increase faster than GDP growth, adding to the fiscal crisis of the State (O'Connor, 1979). Given the increasing scarcity of resources, which was caused not only by slow growth but also by tax breaks granted by newly elected conservative governments, an increasing number of economists found that the public sector was inherently inefficient, and that this was a major problem. In a nutshell, critics argued that governments pursue a number of different and perhaps contradicting goals with public companies, which distracts them from the main objective, that is, improving efficiency (Megginson and Netter, 2001). Here is not the place to discuss the validity of such claims (for one of many refutations, see Tatahi, 2006). However, from the 1980s onwards, the improvement of efficiency has become the main goal of public sector reform, while other objectives such as the promotion of equality and social justice have increasingly become marginalized.

To some extent, the abolition of public monopolies was the result of the invention of new information and communication technologies, which reduced the need to maintain extensive and costly material networks and opened up the possibility that various competing providers can use the same infrastructure. However, more than anything else, the “shift to privatization was something of a leap of faith” (Nellis, 2006, p. 6). As Malcolm Sawyer (2009, p. 70) notes, “[t]he big push towards privatization can be dated as starting in the early 1980s, and gathering pace from the late 1980s ... This push ... has clearly gone on alongside the rise and dominance of neoliberalism at the national and international levels. Privatization epitomizes neoliberalism in terms of the further expansion of markets and competition in economic life, the entry of capital into new areas and the greater importance of the financial sector and of profits and the pursuit of profits at the expense of all other considerations.”

Privatization typically started with the divestment of public enterprises in dominantly private sectors such as manufacturing, banking and mining. However, it was not long before the same policies were applied to traditional public sectors such as telecommunications, energy, water and parts of transport. In Europe, the Conservative government led by Margaret Thatcher in the United Kingdom, which came into power in 1979, was among the first to embark on a systematic privatization programme (Florio, 2004; Leys, 2001). From the mid-1990s onwards governments across Europe with different political backgrounds followed the United Kingdom, partly spurred on by European legislation and the alleged creation of European public-service markets (Frangakis and Huffs Schmid, 2009).

In the developing world, privatization was widely promoted as part of the Washington Consensus, and IMF and World Bank support programmes were increasingly linked to the introduction of certain economic policies such as the sale of state assets. About 70 per cent of all structural adjustment loans made by the World Bank during the 1980s contained a privatization

component (Cramer, 1999). Privatization became part of a new development agenda that promised economic growth based on liberalized markets and the rollback of the State in all conceivable economic areas. As in the developed world, the main promise was that privatization would increase efficiency. The World Bank continued to push for privatization and expanded the scope of state divestment to include not only state enterprises but also public infrastructures such as water and electricity networks in spite of at best ambiguous results and growing resistance by the people affected (Fine and Bayliss, 2007).

More recently, the privatization of public services such as telecommunications, transport and energy has been complemented by a marketization of service areas that are, for political and economic reasons, more difficult to privatize. This includes the marketization of health care and education through processes such as the creation of internal markets, outsourcing, the formation of PPPs including private finance initiatives, and the promotion of New Public Management techniques. The common idea behind the different marketization processes is that service providers should be subjected to economic pressures similar to those faced by private companies in the hope that they will adopt private-sector efficiency-enhancing strategies (Hermann, 2011). The same rationale has been applied to third-sector organizations which, as a result, increasingly look like private profit-seeking enterprises. Marketization processes were often coupled with public-sector cuts. The resulting lack of funding led to a deterioration of service quality, which then led to the emergence of a parallel layer of private providers that offer the same services with significantly higher quality. As described below, the emergence of two-tier health care and education systems are particular corrosive for social equality.

## The public sector and equality

While there is a large amount of literature on public-service efficiency, there are only a few studies on the effects of the public sector on equality. Part of the problem is that it is difficult to determine the value of freely accessible or subsidized services. However, the Organisation for Economic Co-operation and Development (OECD) has calculated the cash value of social services such as health care, education, social housing, child care and elder care. The value of these services increases disposable household income on average by 29 per cent. For comparison, the share of cash benefits amounts to 23 per cent of disposable income. There are only a few countries where the value of cash transfers as a proportion of disposable income is higher than that of services (OECD, 2011, p. 314).<sup>2</sup>

Access to public services not only increases household income; it also tends to reduce inequality. Across the OECD, health care, education, social

2. Including Austria, Germany and Poland.



housing, childcare and elder care reduce inequality by a fifth, that is, the Gini coefficient is 20 per cent lower when the income effect of these services is taken into account (on average the Gini coefficient falls from 0.30 to 0.24). The effect varies between a 16 per cent decline in Greece and 24 per cent reduction in the United Kingdom (*ibid.*, pp. 316–317). For other inequality measures, the effect is even larger: the ratio of income that goes to the top and bottom deciles of the income scale drops by one-fourth if social services are taken into account; and that between the top 20 and bottom 20 per cent of the income scale falls by almost one-third. Again there is a considerable variation among the OECD countries, ranging from 46 (Mexico) to 17 per cent (Slovenia) in the first case; and from 49 (Mexico) and 19 per cent (Slovenia) in the second.

The main reason for the equality-enhancing effect of public services is that the (cash) value of public services accounts for a significantly larger proportion of the income of poor households than of rich households. The use of health care, education and other services accounts for 76 per cent of the income of the poorest quintile of the income scale, as opposed to 14 per cent of the richest income quintile. Hence “benefits of equal size will ... translate into larger proportional increases in the incomes of poorer households” (*ibid.*, p. 315). Because the lowest income group benefits most from public services, the promotion of public services also reduces poverty. According to the OECD, poverty rates (measured as 50 per cent of median disposable income) fall by 50 per cent if the value of health care, education and other services is taken into account. On average, poverty rates decrease from 10 to 5 per cent. In this area, too, there is considerable variation among OECD countries: in Belgium, Ireland and the United Kingdom the poverty rate declines by close to 60 per cent, in Estonia and in Sweden by about 27 per cent. Without the income-enhancing effect of social services, poverty levels range from 6 to 18 per cent; with social services, the span is 3 to 10 per cent.

The OECD study covers only social services such as health care and education. If other public services such as transport, water and energy are taken into account, the equality-enhancing effects of public services are even greater. Even though these services are not freely accessible, in many countries they are subsidized – at least until they are subjected to privatization and marketization processes. As with the (cash) value of freely accessible services, these subsidies make up a larger part of the budget of low-income than of high-income earners and therefore have a redistributive effect. Among the rare studies which have explored the distributional effects of subsidized services, Neil Fearnley (2006) has found that in the United Kingdom bus subsidies predominantly benefit lower-income households, women, and those aged below 24 or over 60.

In addition to benefiting low-income households, public services also promote social equity by providing comparably decent employment opportunities, especially for low-skilled workers and for marginalized groups such

as women, coloured people and migrant workers (Hermann and Atzmüller, 2008). In a comparison between public- and private-sector wage systems in France, Italy and the United Kingdom, Paolo Ghinetti and Claudio Lucifora (2008) have found not only that average wages in the public sector are higher but that the sector also displays lower levels of wage dispersion. The authors also note that low-skilled workers especially (blue-collar and service staff) tend to be better off in the public sector as the wage differential is highest for these workers (*ibid.*). Other studies have compared the gender wage gap and found that the difference between male and female wages tends to be smaller in the public than in the private sector (Meurs and Ponthieux, 2008). Gender equality in public services is promoted not only through more egalitarian wage policies, but also through more family-friendly work arrangements such as the right to switch to part-time or generous leave schemes.

Privatization and marketization have in several ways eroded the equality-enhancing effects of public services. In the European Union, the liberalization of public-service markets went hand in hand with a ban on public subsidies and a shift towards market-oriented prices. As a result, service providers introduced different prices for different groups of customers, eroding the equalizing effects of public-service provision (Hermann and Flecker, 2012). Furthermore, a number of studies have shown that with the exception of telecommunications, where privatization took place during a phase of groundbreaking technological innovation, public divestment was often followed by an increase in prices or fees (for a thorough evaluation of the effects of privatizations in the United Kingdom, see Florio, 2004). Supporters of privatization do not deny this effect. As John Nellis (2006, p. 17) notes: “There is no dispute that under state ownership many governments set utility prices at less than cost-covering levels.” Yet supporters argue that these policies have resulted in scarcity and rationing and that they starved state firms of investment and expansion capital. “Thus, price increases are often unavoidable if the firm is to modernize, expand to meet demand, and operate without – or with smaller – subsidies” (*ibid.*).

Massimo Florio (2004), among others, has shown that state enterprises and public infrastructure providers flourished before privatization. However, regardless of the economic rationale, the abolition of subsidies together with price increases or the introduction of fees or co-payments affect low-income earners disproportionately more than high-income earners, thereby reversing the equality-enhancing effect of public services. Catherine Waddams Price and Ruth Hancock (1998) have found that the privatization of utilities in the United Kingdom has mainly harmed low-income households and pensioners. However, the effects of cost recovery are even worse in the developing world. Here, price rises for water and electricity not only increase inequality; the disconnection of households which can no longer pay for their utility bills on a mass scale threatens the livelihood of the population. David Macdonald (2009) reports that in South Africa up to 9.6 million people were affected by



power cut-offs at some point between 1994 and 2002. Since then the number of cut-offs has decreased but they have not disappeared (ibid.).

The negative effect on the poor has largely discredited privatization in the developing world and has initiated a series of struggles against what David Harvey (2003) has called “accumulation by dispossession”. While complaining about the unpopularity of privatization in the developing world, Nellis (2006) argues that the negative effects of price increases on the poor are more than compensated by the positive effects of the infrastructure extensions accomplished by the new private operators. However, the difficulties experienced by developing countries in raising funds for public investment – after all, World Bank loans are often linked to the obligation to privatize or at least use PPPs – are hardly a justification for privatization (Fine and Bayliss, 2007).

Inequality is increased not only by privatizing public infrastructures. As mentioned before, the underfunding of public services can also lead to the emergence of an alternative structure of private institutions, which not only offer services of better quality but also offer them at higher prices. As Mohan Rao (2010) states with respect to the Indian health-care system, the increasing weakness of the public system encourages those who can afford it to search for help in the burgeoning private health-care industry, even though they have to pay considerable amounts of money for treatment (quite often, families have to borrow money to pay hospital bills). This situation is not unique to the developing world; in parts of Central and Eastern Europe the well-off also seek treatment in private hospitals while those who cannot afford it bribe the staff in public facilities to get proper treatment (Hermann, 2009).

In other words, poor households may still have access to public services – but at significantly lower quality than the better-off. As Mahnkopf (2009, p. 228) notes: “Privatization ... contributes not only to a new and deeper social divergence, but it will also lead to a cut-back in the quality of public goods and services that remain in the public responsibility because these will be produced only for the people in the greatest need.” When the middle and upper classes no longer use public services, political pressure to maintain service quality is reduced, and governments that are looking for possibilities to cut spending tend to disadvantage those groups with the least political leverage. As a result, “services mainly for the poor are usually poor services” (ibid.). Given the inequality-enhancing effects of privatization, it should not come as a surprise that, as a European survey shows, low-income earners are much more sceptical about the merits of privatization than high-income earners (van Gyes and Vandekerckhove, 2012).

However, privatization and marketization not only increase inequality through changes in prices and the quality of services. They have also transformed the public-sector employment system and eroded the more egalitarian public-sector pay policies. The search for greater efficiency often took the form of work intensification as well as the precarization and fragmentation

of employment relations. The result is increasing wage differentials between managerial staff and non-managerial employees, between skilled and unskilled workers, as well as between core and peripheral workers (Hermann and Flecker, 2012). A widespread effect of privatization is an upward adjustment of manager salaries to private-sector standards (which is necessary to hire managers with private-sector experience). Top managers are therefore among the main beneficiaries of public divestments, especially when they are offered stock options for the newly privatized firms. In contrast, many non-managerial workers are confronted with wage cuts, especially newly hired workers (*ibid.*). Case studies from privatized German hospitals show that while non-medical staff and assistant nurses are paid considerably less than their counterparts in the public system, there is almost no difference in the wages of doctors (Schulten and Böhlke, 2012).

### The crisis and public-sector retrenchment

While the current crisis began as a financial crisis in the United States, it soon became an economic crisis and, in Europe, a sovereign debt crisis, not least because governments saved the failing banks by nationalizing their debt. The following austerity and structural adjustment programmes often included the downsizing of the public sector, even though the public sector was in no way responsible for the crisis. Greece and Portugal and, to a lesser extent, Ireland, Italy and Spain responded to the crisis with ambitious privatization plans. The projects envisaged include not only state-owned banks and industrial corporations, but also public services such as railways, electricity, gas, water and post (Busch et al., 2013).

While the privatization agendas are country-specific, a number of governments in Europe have announced cuts in public employment. The Greek Government, for example, wants to reduce public employment by 25 per cent (Tzannatos and Monogios, 2012). The British Government has shed 420,000 jobs between 2010 and 2012 and is well on course to reach its goal of cutting 10 per cent of the public-sector workforce by 2015. Yet while the United Kingdom simply dismisses public-sector workers, other countries shrink the workforce primarily through non-replacement of retirees or voluntary dismissals. After a temporary ban on recruitment, only every tenth public-sector employee is replaced in Greece (later to be reduced to every fifth). In Romania this applies to every seventh and in Italy to every fifth worker who leaves the public sector (Hermann, 2013). Public-sector cuts were introduced regardless of the fact that the reasons for the economic turbulence were not the same in all countries, and that the scale of public services differs considerably among EU Member States.<sup>3</sup> And while politicians often defend job cuts with the

3. This does not mean, however, that the motives for the cuts were the same in every country.

need to curtail inflated bureaucracies, actually many of the cuts affect health-care and education workers (Vaughan-Whitehead, 2013).

Public-sector cuts are part of a wider process of welfare state retrenchment – even if welfare spending in Europe initially mitigated the worst effects of the crisis (European Commission, 2012). In addition to cuts in benefits, governments have also reduced in-kind services, including those services that were covered by the OECD study cited above. Between 2009 and 2012, spending on in-kind services was cut by 29 per cent in Greece, by 19 per cent in Portugal and by 16 per cent in Ireland (*ibid.*). As Zafirios Tzannatos and Yannis Monogios (2013, p. 279) note with respect to the Greek case, “the 40 per cent cuts in hospital budgets ... ha[ve] resulted in understaffing and reported shortages of medical supplies as well as increased bribes to medical staff to jump queues in overstretched hospitals”. As a result, “[t]hose in need are increasingly unable to see a doctor” (*ibid.*). In Ireland, Latvia and Portugal, health-care cuts have led to hospital closures, while Spanish hospitals have responded to the budget fallout with downsizing and temporary closures. Spain and the United Kingdom have, furthermore, deepened the marketization and privatization of health care in the hope that this will save money (Hermann, 2013).

The public-sector retrenchment is very likely to increase inequality in Europe. The OECD study has not only demonstrated that public services tend to reduce inequality. It has also revealed a “strong link between changes in the relative size of health, education and housing services ... and changes in the effectiveness of these services to reduce inequality across countries” (OECD, 2011, p. 329). Comparing data from 2000 and 2007, the OECD shows that countries which have increased spending on social services during this period have reduced inequality, while countries which have reduced spending have recorded a rise in inequality. “Belgium and the United Kingdom are two countries which combine a considerable increase in spending with a large extent of inequality reduction” while “Italy and Denmark record a fall in inequality reduction alongside a decreasing size of services” (*ibid.*).

The British finding is particularly interesting: while the OECD argues that the growth in public-sector spending has significantly reduced inequality between 2000 and 2007, the National Office of Statistics has found a decline in public-sector productivity over roughly the same period (Phelps *et al.*, 2010). Measuring productivity in public services is not without problems. Especially when services are freely available, there are no market prices and, hence, no straightforward way of determining the value of output. And without the value of output, it is impossible to determine if more or less has been produced with the same inputs (Simpson, 2009). While in the past, output was equated with inputs – which by definition meant that public-sector productivity was stagnant – national statistical services have experimented more recently with new methods of measuring output. In the United

Kingdom, for example, the National Office of Statistics counts output as the number of public-sector activities such as pupil attendance or health procedures multiplied by a certain cost factor, reflecting the different costs involved in carrying out these activities (Phelps et al., 2010). There are serious doubts that these measurements are accurate (Jääskeläinen and Lönqvist, 2011). The decrease in productivity could very well represent a failure to adequately capture the growth in output caused by the growth in public-sector spending, introduced by the Labour government after it came into power in the late 1990s.<sup>4</sup> However, if the measurement is correct, the British findings suggest that efficiency and equity are conflicting goals when it comes to public-sector reform.

## Conclusion

The public sector, no doubt, is a key to the combat against inequality. As I have shown, low-income earners benefit more from access to public services than high-income earners because the value of these services corresponds to a larger proportion of their income. However, in addition to the quantitative gains for poor households, there is also the dimension of quality. As Mahnkopf (2009, pp. 228–229) notes: “Only if the access to public services is guaranteed as a social right and is available for all people through their status as citizens, including well-to-do middle class, might there be pressure in favor of high standards and optimal supply.” If services are provided only to the poor, there is a high risk that service quality diminishes, as is shown by the deteriorating public health-care systems in Eastern Europe, India and other parts of the world. In spite of the positive effect of public services on social equality, much of the debate on public-sector reforms in the last decades has centred on questions of efficiency.

Since the 1970s, the general wisdom of (orthodox) economics is that the private sector can provide the same services more efficiently. Hence governments around the world have introduced far-reaching privatization and marketization programmes, partly enforced by the World Bank and the European Union. Little attention has been paid to the social impact of the resulting price increases, even though they tend to reverse the equality-enhancing effect of public services. Public-sector cuts, as widely introduced in the current crisis, also hurt the poor more than the rich. As the OECD data show, the promise that improvements in productivity allow the public sector to produce more with fewer resources is quite unrealistic. In the light of these findings, the public sector should be seen as an economic asset and as a promoter of social justice, rather than as a drag on the private economy.

4. The surge in spending, however, was coupled with a simultaneous push for more marketization.

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# The impact of financial liberalization on income inequality

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In the first three decades after the Second World War, the financial sector was tightly regulated in most capitalist countries. In both developed and developing countries the main aim of economic policy was to promote economic growth and high levels of employment. Under the influence of Keynesian ideas, there was a belief that low interest rates were desirable to promote investment. As a result of the experience of the 1929 crash and the subsequent depression there was widespread scepticism about the stability of an unregulated financial system. Famously, in the United States the Glass-Steagall Act of 1933 had imposed a complete separation between commercial banks (which accept deposits and give loans) and investment banks (which are involved in securities markets). More widely, countries established strict controls on the financial sector, often involving limits on interest rates and the creation of government programmes to direct the allocation of credit. In many countries, state-owned development banks were established to ensure that credit would be made available to priority sectors. These ranged from the *Kreditanstalt für Wiederaufbau* in a developed country like Germany, to the *Banco Nacional de Desenvolvimento Econômico e Social* in developing Brazil.

In the 1970s, when the post-war economic boom came to an end and the high rates of economic growth could not be sustained, the government regulation of finance began to be challenged, both by academic writers and by large financial institutions, in particular the big banks in the developed countries, which were keen to escape the constraints on their profit-making activities. This article will first outline the arguments that were put forward in favour of policies of financial liberalization; it will then turn to examine the impact of such policies, first in the United States, which was the archetypal example of financial liberalization, and then in Brazil, Germany and India, three countries where the impact of financial liberalization has had rather diverse outcomes.

### Financial liberalization

In the early 1970s, the predominant view that the financial sector should be subjected to tight regulation by the State was challenged in influential books by two US economists, Ronald McKinnon (1973) and Edward Shaw (1973).<sup>1</sup> The books appeared as the post-war economic models were running into difficulties in both developed and developing countries, and as a more general critique of interventionist policies by neoclassical economists such as Milton Friedman was gaining influence in policy-making circles.

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1. This draws on Evans (1998).

Much post-war economic analysis had paid relatively little attention to the monetary and financial dimensions of the economy – despite the fact that Keynes himself had, above all, been a specialist in monetary economics. The analysis of McKinnon and Shaw, which was primarily concerned with developing countries, represented a shift away from the post-war focus on the so-called “real” economy. They argued that greater monetization and the development of financial intermediation were conducive to economic growth. McKinnon and Shaw referred to the expansion of the financial sector, approvingly, as “financial deepening”, and used the ratio of monetary assets to gross domestic product as a key indicator of how far it had advanced.

McKinnon and Shaw were very critical of policies which they considered restricted the process of financial deepening. They argued that government ceilings on interest rates, or programmes to direct credit to priority sectors, had had a negative impact on economic development. They categorized these policies as “financial repression” – a term which sought to appropriate the language of freedom and liberty to support their proposals for financial liberalization.

A key argument in favour of financial liberalization was that, by eliminating legal limits on interest rates, it would be possible for interest rates to rise above the government-imposed ceilings. Higher interest rates, it was argued, would lead to higher savings, as the higher return would make it more attractive to postpone consumption. Higher savings, in turn, would increase the funds that were available to finance investment in production and growth.

A further argument advanced in favour of financial liberalization and higher interest rates was that it would lead to better quality investment. With higher interest rates only those projects that could generate a high rate of return would obtain financing, in contrast to the situation with programmes of directed credit which often resulted in the financing of projects with low (or even negative) rates of return.

### Criticisms of financial liberalization

The analysis of McKinnon and Shaw proved to be very influential, both in academic circles and amongst policy-makers. However, it has also been subject to considerable criticism. One line of criticism has been based on analysing the impact of early financial liberalization programmes. A widely cited example of this was the analysis by Carlos Días-Alejandro (1985) of developments in Chile after the military coup in 1973. Under the influence of neoliberal economists from the University of Chicago, the military dictatorship privatized the banking system, eliminated interest rate controls, and removed all restrictions on international capital transactions. Chilean banks

responded by borrowing large amounts of capital abroad, and lending this at much higher interest rates to domestic private firms. This initially proved extremely profitable but, following a flight of capital from the country in 1981, the banks were hit by a major crisis. Faced with a widespread collapse of the banking system, the Government was obliged to intervene and take over large parts of the financial system.

A second line of criticism of the policy of financial liberalization has been based on questioning the neoclassical argument that higher interest rates will lead to higher savings. From a Keynesian or Marxist perspective, an increase in interest rates is likely to lead to a decline in investment. This will have a negative effect on the growth of national income which, in turn, will tend to depress the amount of savings (Burkett and Dutt, 1991).

A third criticism of financial liberalization has been based on the results of econometric studies. Such studies are always faced with problems of obtaining appropriate data, and this is especially true in developing countries. There have, however, been many such studies and while some of these do appear to lend support to the arguments in favour of financial liberalization, there are many which do not. An influential survey co-authored by Rudiger Dornbusch and Alejandro Reynoso (1989) concluded that the strong claims for financial liberalization were not supported by the evidence.

In the face of the criticisms and doubts about the claims made for financial liberalization, the response of some mainstream economists was to sidestep the terms of the debate. An important example of this was an article by Robert King and Ross Levine (1993) which surveyed a large quantity of cross-sectional data for indicators of financial development in 80 countries over a period of some 30 years. They concluded that an argument by Joseph Schumpeter, that finance is important for development, was right – albeit without entering directly into the controversy over financial liberalization. A later survey article by Levine (2005) reached a similar conclusion, adding that the development of the financial system is a precondition for economic development, rather than a result thereof.

Ronald McKinnon also responded to the criticisms of financial liberalization with a collection of essays (McKinnon, 1993) in which he distanced himself from some of the positions he had taken in his earlier book. In response to developments in Chile and various other countries he argued that financial liberalization should be carefully phased, and that the order in which different measures were implemented should depend on the specific conditions in a country. He also accepted that the empirical evidence showed that savings did not respond to higher interest rates, as he had argued in his earlier work. Perhaps most strikingly, he agreed that, due to what he referred to as “information deficiencies”, governments should probably introduce ceilings on interest rates.

## The impact on official institutions

Despite the more critical approach of some academic economists, the arguments for financial liberalization have had considerable influence on official international institutions. Following the onset of the debt crisis in many developing countries in 1982, the countries that were affected had to turn to the International Monetary Fund (IMF) and the World Bank for financial support. The IMF had since its inception held deeply conservative positions on financial policies, calling for sharp cuts in public spending as a condition of financial support.

The World Bank, by contrast, had previously provided long-term finance for funding development projects, such as road building or rural electrification. In the early 1980s, however, it shifted its approach with the adoption of so-called structural adjustment programmes. In place of funding for specific projects, governments received loans to support their general spending, but it was a condition of such loans that the government introduce major policy changes. Subsequently, in 1987, the IMF introduced what it called “enhanced structural adjustment programmes”, which also involved advancing loans on the condition that governments introduce major policy changes.

One of the conditions that countries were usually required to meet in return for a structural adjustment loan was the introduction of financial liberalization programmes. These programmes typically involved the liberalization of interest rates, the abolition of directed credit programmes, and the closing of state-owned development banks, many of which had made losses.

In 1989, the World Bank dedicated its prestigious annual development report to the subject of finance and development (World Bank, 1989). This presented a radical critique of state intervention in the financial system, and argued strongly for the adoption of policies of privatization and deregulation. In subsequent reports, the World Bank stepped back from its more extreme calls for liberalization, and adopted a somewhat more nuanced position. But while the analytical positions adopted in World Bank publications might have stepped back from some of the more wide-sweeping claims for the benefits of free-market economics, the policies which it and other international financial institutions promote have continued to lay stress on the benefits of financial liberalization.

## Financial liberalization in the United States

The United States – along with the United Kingdom – was one of the first developed capitalist countries to embark on a widespread deregulation of its financial system.<sup>2</sup> In 1980, as official interest rates were raised to combat

2. For a fuller account, see Evans (2009).

rising inflation, the Carter administration abolished the legal ceiling on deposit interest rates that had been introduced in 1933. The process of financial liberalization then accelerated after Ronald Reagan took office in 1981. In 1982, a new banking law lifted many of the restrictions on the activities of savings and loans associations (S&Ls), financial institutions which allowed households to save and subsequently obtain financing to purchase a home. This allowed the S&Ls to expand rapidly and many embarked on financing more speculative activities until huge losses led to a serious crisis in the sector in the late 1980s and early 1990s, requiring government support of some US\$150 billion. In 1987, the Reagan administration appointed Alan Greenspan as head of the Federal Reserve and in the following years the Fed adopted an increasingly flexible interpretation of the 1933 Banking Act, allowing commercial banks to slowly expand into activities that had previously been prohibited. Finally, in 1999, under the Clinton administration, the legal separation between commercial and investment banks introduced in 1933 was entirely lifted, allowing the re-emergence of giant financial conglomerates.

The financial sector had grown roughly in line with the rest of the US economy between the 1950s and 1970s, but from the 1980s its growth registered a significant acceleration. Firstly, there was a major expansion of financial institutions, including banks, institutional investors (in particular mutual funds where better-off middle-class households could invest their savings) and, somewhat later, smaller but highly speculative hedge funds and private equity funds, which operated to a large extent with borrowed money. Secondly, there was a rapid growth of financial markets, including the foreign exchange market, and the markets in bonds, shares and other securities. Finally, there was a rapid process of innovation which gave rise to the creation of a whole range of new financial instruments, including exotic forms of derivatives and highly complex instruments such as collateral debt obligations which were designed so as to obscure the risks which they involved.

Developments in the financial sector had a significant impact on non-financial corporations. Institutional investors, which had previously played a relatively passive role, began to exert pressure on non-financial companies to give priority to raising their short-term profitability, so as to push up dividends and share prices. Companies that failed to meet profit projections were threatened with the prospect that investors would sell their shares, and a fall in share prices would leave the top management vulnerable to a hostile takeover. Indeed, non-financial firms began to buy back their own shares in order to strengthen their price. In order to meet the profit targets, firms were under constant pressure to rationalize and cut costs by closing the least profitable units and by outsourcing tasks, either within the United States or abroad. Because of the constant pressure to obtain high returns, non-financial firms also began to invest in financial markets themselves when this appeared to offer a higher return than investing in production or commerce.

The constant pressure to rationalize production and cut costs, together with non-financial firms' investments in financial assets rather than in productive or commercial projects that might create jobs, significantly weakened the bargaining position of workers. The downward pressure on wages and on jobs, once described by two mainstream economists as "the frightened worker effect" (Blinder and Yellen, 2001) has led to a very marked increase in inequality in the distribution of income. According to estimates by the Economic Policy Institute, between 1979 and 2007, real wages for the lowest paid 20 per cent increased by 10 per cent and for the middle 20 per cent by 20 per cent, with most of the increase occurring in both cases during a short period of strong growth in the late 1990s. By contrast, there has been a strong growth of income during this period for the top 20 per cent, with the very top 1 per cent benefiting from an increase of 240 per cent (Mishel et al., 2012). According to estimates published in Alvaredo et al. (2013), the share of the top 1 per cent in US national income increased from 9 per cent in the late 1970s to around 20 per cent in 2007, although it then declined slightly as a result of the financial crisis.

In the United States, the growth of the financial sector from the 1980s was therefore strongly associated with a major increase in inequality. Top incomes increased dramatically, both in the financial sector and in non-financial corporations, while the income of middle- and working-class sectors remained stagnant or increased only very slowly. However, as became obvious, these developments were unsustainable. The income generated by big banks and other financial institutions was dependent on the creation of ever more dubious financial instruments. Non-financial corporations increased their holdings of financial assets, which proved more profitable than fixed investment in expanding productive capacity. Domestic demand was consequently strongly dependent on consumer spending, but with wages for most working- and middle-class households effectively stagnant, spending was financed by borrowing against rising house prices (Rajan, 2010). This constellation collapsed in the financial crisis which broke in the United States in August 2007 and, after a dramatic deepening in September 2008, led to the most severe recession in the United States since the 1930s.

### Financial inclusion in Brazil

The financial system in Brazil is predominantly bank-based, and is characterized by conglomerates organized around large public and private banks.<sup>3</sup> In 1994 the Government launched the Real Plan which was intended to stabilize the economy and which brought a lengthy period of very high inflation to an end. The financial system was subsequently subjected to a policy

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3. This section is based on Magalhães Prates and Nunes Ferreira (2013).

of deregulation and partial privatization, and foreign banks were allowed to enter the country as part of a policy of promoting greater competition. This led to a wave of mergers and takeovers among private national banks in the late 1990s and early 2000s, as they sought to consolidate their position. Despite the liberalization programme, public banks continue to play a major role in the economy, and include two universal banks, the national development bank (BNDES) and two regional banks. The public banks are largely responsible for managing an extensive programme of “earmarked” credits for priority lending to households and businesses at reduced interest rates. In 2011, public and national private banks each accounted for about 41 per cent of bank assets, and foreign banks for 18 per cent.

Despite the important changes in the structure of the Brazilian banking system after 1995, banks initially continued to favour investments in short-term treasury bills, which were indexed to the central bank’s policy rate, and which offered a high rate of return. Although nominal interest rates declined after the end of hyperinflation in 1994, real rates remained high and between 1994 and 2002 the volume of bank lending actually declined as a share of GDP.

A major change occurred from 2003 following the election of President Lula da Silva, and the beginning of a strong period of economic growth. The new government raised the level of minimum wages and pensions, and introduced the *Bolsa Família*, a programme of cash grants for poor families. Growth benefited strongly from the demand for the country’s primary commodity exports – in particular from China – while at the same time an inflow of foreign capital contributed to lower interest rates and a stronger exchange rate. In the following years bank lending increased significantly, rising from 25.7 per cent of GDP in 2003 to 49.0 per cent in 2011. This involved a large expansion of lending to the business sector, but an even larger expansion of lending to private households. This was encouraged by the new government’s policy of promoting financial inclusion, which involved the introduction of payroll deducted credit schemes for workers and pensioners. The aim was to enable lower-income households to purchase consumer durables and homes, and contributed to a strong growth of domestic demand.

The onset of the international financial crisis resulted in a considerable modification in the pattern of credit expansion. Between 2003 and 2008 the expansion of credit was led by national private banks and foreign banks, which were primarily involved in the provision of non-earmarked credits, including the strong growth of credit to households. But from 2008, the growth of private and foreign bank lending declined sharply in response to the deepening international crisis, and the public banks embarked on a strong increase in their lending, including for earmarked programmes, as part of an anti-cyclical credit policy. The national development bank (BNDES) in particular played a key role in implementing a programme of investment support in 2009, which provided substantial financing for private companies,



with around half of its resources intended for micro, small and medium enterprises. From 2011, as the danger of contagion declined, the private and foreign banks increased their rate of credit expansion, while the public banks began to scale their lending programmes back.

The restructuring of the banking sector in the 1990s led to a significant loss of jobs in the sector, although this was partially recuperated after 2003, when the policy of expanding access to credit led to the establishment of new bank branches with new posts. Wages in the banking sector also increased in real terms by some 14 per cent between 2004 and 2012, although this was accompanied by a shift to the employment of less qualified staff and more precarious contracts, so that the cost for banks increased somewhat less.

Also since 2003, in a context of strong economic growth and high prices for export commodities, there was a strong growth of employment and real incomes, especially for lower income groups (Azevedo, Inchausti and Sanfelice, 2013). Despite the shift towards a more liberalized financial model in the 1990s, the period since 2003 has been characterized by a reduction in income inequality. In 2012, as the demand for Brazil's commodity exports began to weaken, economic growth slowed. But a major expansion in the availability of credit to households since 2003 has contributed to making consumer durables and homes available to much wider sectors of the population than before.

### Limited changes in Germany

Germany has a predominantly bank-based financial system in which, in principle, universal banks combine commercial and investment banking activities.<sup>4</sup> Unusually for a developed capitalist country, private profit-oriented banks account for a minority of banking assets (38 per cent in 2012), and the sector is dominated by four large banks, of which one – Deutsche Bank – is much larger than the others. There is also an important publicly owned sector (29 per cent), which consists of local savings banks owned by city and county governments and regional *Landesbanken*. In third place, a cooperative sector (12 per cent) includes local cooperative banks and two regional organizations.<sup>5</sup> Historically, the profit-oriented banks lent predominantly to large corporations in which they also had significant shareholdings, whereas the savings and cooperative banks provided finance for Germany's very successful small and medium enterprise sector.

In the 1990s, the German Government launched a series of legislative initiatives designed to promote a more active role for financial markets in

4. This section is based on Detzer (2013).

5. Remaining assets are mainly accounted for by specialized mortgage banks.



the economy (Financial Market Promotion Acts of 1990, 1995 and 1998). This was strongly encouraged by the big private banks which were keen to develop their investment banking activities as industrial companies had become largely self-financing and cut back their borrowing from the banks. Financial market activity also received an impetus from the elimination of a tax on capital gains in 2001 which made it much more attractive for banks to sell off their large shareholdings in non-financial corporations, and from the introduction of a law in 2002 which reduced the ability of firms to defend themselves against hostile takeovers. The growth of financial markets was also strengthened in the 1990s by a privatization programme, most notably of the national telecommunications company, and for a time it looked as if a more shareholder-oriented culture might be taking hold in the country, but the collapse of the stock market in 2000 quickly brought this to an end.

In Germany, unlike the United States, the size of financial markets has not increased in relation to the rest of the economy. Financial corporations' share of value added has fluctuated somewhat since the turn of the new century but has, if anything, slightly declined. Since the early 1990s, earnings in the financial sector have increased roughly in line with economic growth, and although top incomes in the financial sector have risen strongly, the increase is in general similar to that in other sectors of the German economy.

The regulatory changes in the financial sector have however been accompanied by a change in the pattern of share ownership. In the 1990s, there was a significant increase in the proportion of shares held by German institutional investors, such as insurance companies and pension funds; and in both the 1990s and in the first decade of the new century there was an even stronger increase in the proportion of shares held by foreign shareholders, in particular institutional investors from the United Kingdom and the United States. Surveys indicate that this has led managers of German firms to give greater attention to meeting demands from shareholders for higher returns. There has also been a rise in the activities of hedge funds and private equity funds, both of which invest in companies and then pressure them to raise their returns, something that invariably involves pressure to lay off workers and cut costs.

The German financial system remains predominantly bank-based despite attempts to promote a more active role for financial markets. Such measures have had a rather limited impact on the source of company financing, but have nevertheless put greater pressure on German companies to raise returns. These changes coincided with a marked deterioration in the distribution of income in Germany, especially in the first decade of the 2000s. This was a period when real wages did not rise for the great majority of employees and the share of wages in national income declined. However, these wage developments affected all sectors of the economy, and not just those that were most affected by the increased shareholdings of institutional investors or the more active interventions of hedge funds and private equity funds.

The deterioration in the distribution of income in Germany appears to be due primarily to the radical labour market reforms introduced by the Social Democratic–Green coalition government in the early 2000s, rather than to developments in the financial system. As a result of these reforms, Germany’s relatively generous system of unemployment insurance benefits was curtailed and the possibility of unemployment therefore became much more threatening for many workers. In this situation, the unions responded by shifting the main focus of their bargaining away from demands for higher wages and instead gave priority to obtaining guarantees of job security for their members.

### The decline of priority lending in India

The financial system in India consists of an organized sector, which is predominantly based on public and private banks together with various development financial institutions, and a large “unorganized” or informal sector which provides loans for those who do not have access to the organized sector, but at much higher interest rates.<sup>6</sup>

The organized sector was subjected to a major policy initiative in 1969, when 14 banks were nationalized on the grounds that the private banks had primarily served big industrialists and ignored rural areas, leaving much of the population without access to banking services. Two development banks were set up shortly after, the Regional Rural Bank in 1975 and the National Bank for Agricultural and Rural Development in 1982. Following nationalization, a lead bank scheme allotted districts throughout the country to one public bank or another and the banks were required to focus on priority lending to agriculture and small industry. The priority lending was later broadened to include retail trade and professional and self-employed people, together with housing and consumption loans. Banks were also required to expand their network of rural branches, and a central bank directive in 1980 required public banks to allocate 40 per cent of their loans to priority lending. During this period the Finance Ministry also introduced the concept of “social banking”, by which public banks were to promote various poverty alleviation programmes, and which are reported to have contributed to a substantial reduction in rural poverty (Burgess and Pande, 2005).

In 1991, the Indian Government initiated a major shift in policy, and as part of this the financial system was subjected to a policy of liberalization, with the stated aim of creating an efficient and competitive financial system that could stimulate growth. This followed concerns about the low returns obtained by the public banks, and revelations that loans intended for poverty alleviation had partly benefited public functionaries. Liberalization resulted

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6. This section is based on Anjali Bedekar (2013).

in an easing in priority sector lending, and a reduction in targeted lending to small farmers and entrepreneurs. The mandate to open rural branches was relaxed and the number of rural bank branches declined. The policy of liberalization resulted in the establishment of new private banks, and also permitted the entrance of foreign banks. However, these concentrated their business primarily on entrepreneurs and corporations, rather than rural lending which was seen as unprofitable and unreliable.

Despite the shift in policy, the State Bank of India, the key public sector bank, is by far the largest bank in the country, with more than 14,000 branches and some quarter of a million employees. Overall, public sector banks accounted for 76 per cent of loans in 2012, compared with 19 per cent by private banks and 5 per cent by foreign banks. The private banks and the foreign banks pay much higher salaries than the public sector banks, but jobs in the public sector banks are highly prized as a source of stable employment, with applicants for jobs massively exceeding vacancies.

The period after 1991, when the Indian Government adopted policies of liberalization, was characterized by higher economic growth. However, it was also marked by a very marked increase in inequality (Aug, 2008). Real wages for the great majority of the urban and rural poor have not risen, and the benefits of economic growth accrued to the middle- and above all the upper-income groups. Developments in the financial sector appear to have contributed to this process by shifting the availability of credit towards business and the better-off, while the ending of interest rate ceilings put the cost of credit beyond the capacity of many rural and small-scale producers.

## Conclusion

Closely regulated financial systems in both developed and developing capitalist economies began to come under pressure from the 1970s in response to the challenge from neoliberal thinkers, who advocated a process of liberalization, and private bankers, eager to expand the sphere for profit-making activities. Although financial liberalization programmes of one form or another were widely introduced, they have had a rather diverse impact. In the United States, extensive liberalization in the 1980s and 1990s was closely associated with a major increase in inequality, due to both the very high incomes paid in the financial sector and the pressure from financial institutions on non-financial corporations to reduce wage costs and employment. In Brazil, although a liberalization programme was launched in the 1990s, government policies from 2003 on led to a rise in the minimum wage and pensions, and new credit programmes have provided lower income groups with greater access to housing and consumer durables. Although incomes in Brazil remain highly unequal, inequality has declined. In Germany, government initiatives in the 1990s to promote a more active role for financial markets in the country's

traditionally bank-based system had only a limited success. There was, however, a notable increase in inequality from the early 2000s, but this was primarily due to labour market policies, in particular revisions to the country's unemployment insurance system, rather than to any changes in the financial system. Finally, in India financial liberalization in the early 1990s has led to a marked retreat from earlier credit programmes designed to counter inequality, most notably in rural areas. Economic growth accelerated but the benefits have accrued almost exclusively to middle- and upper-income sectors and the country has seen a marked rise in inequality. While financial liberalization generally results in greater inequality, Brazil shows that committed government policies can, at least to some extent, counter this; in Germany, by contrast, although attempts to reshape the financial system met with only limited success, inequality increased.

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# Inequality – the Achilles heel of free market democracy

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Fifteen months before she became Prime Minister in May 1979, Margaret Thatcher gave a speech in which she laid out her vision of democracy. Unsurprisingly, she suggested that democracy flourishes only if there is a free market economy:

... the democracy of the ballot box, important though it is, is only one form of democracy. In a truly free society, and a society of truly free men, it must be reinforced by the democracy of the market, in which people can cast their vote, not once every four years or so, but every day as they go about their daily business, making their own decisions about how to spend – or save – their own money (Thatcher, 1978).

According to Margaret Thatcher, democracy is based not just on political freedom, that is, the right of the people to elect their own government (“the democracy of the ballot box”), but also on economic freedom, defined as the absence of “government interference” with property ownership and the decision-making of economic actors (“the democracy of the market”). She suggests that state interventionism is an authoritarian mode of government at odds with the ideal of “rule of the people”. Inherent in this conception of democracy is a specific take on equality: government should not intervene to redress economic inequality, as government interventions compromise democracy even if they are the result of democratic decision-making. In other words, democracy is best served if political equality, symbolized by the ballot box (“one man, one vote”), exists alongside the economic inequality produced by the free market. Correspondingly, it is up to individual citizens to act “responsibly” when they vote by supporting politicians prepared to defend the free market. Capturing this line of thinking, from the late 1980s Thatcher started to speak of “free market democracy” (ibid., 1989). Obviously, this perspective on democracy was and continues to be very influential: it informed US foreign policy and the New Labour governments in the United Kingdom, and informs management of the Eurozone crisis by Angela Merkel, who is credited by the German media with coining the term “market-conforming democracy”.

In our view, the Achilles heel of this neoliberal conception of democracy is economic inequality. Capitalism is characterized by systemic inequality in the form of specific class relations, which stem from the commodification of labour power and the division between owners of capital and workers: competitive pressures create a strong incentive for reinvestment, resulting in the accumulation of capital, while workers tend to remain in a situation of wage dependency. If governments (and trade unions) refrain from interfering with market results, inequality tends to increase. This dynamic has far-reaching economic and political consequences for individuals: not only does inequality seriously constrain or widen the choices they can make in the market, depending on their wealth; it also compromises political equality and thus democracy. In situations of extreme wealth disparity, those at the top find

it relatively easy to influence political decision-makers, while those at the bottom struggle to make themselves heard.

In this article, we briefly discuss (1) the most important drivers of economic inequality in the last 20 years; (2) the mechanisms whereby this rise in inequality has compromised the quality of democracy; (3) the aggravation of this development in the course of the global financial and economic crisis; (4) some of the challenges faced by political forces trying to address inequality; and (5) recent campaigns with union involvement in Germany, Namibia and South Africa that have addressed the issue of inequality and have thus made a positive contribution to revitalizing democracy. We believe that these campaigns resonate with experiences in other countries around the world and thus address issues whose political significance transcends national boundaries. Building on our analysis of the campaigns, we end with some reflections on strategic lessons for the labour movement, which concern ways of deepening democracy.

### **Neoliberalism, financialization and the rise of inequality**

In most OECD countries, there has been a substantial rise in economic inequality over the last decades, no matter whether we consider the share of income of labour and capital (Dünhaupt, 2013) or personal income distribution (OECD, 2011). This trend has been particularly pronounced not just in countries that have experienced neoliberal “regime shifts” (Jessop, 2002, p. 85) such as the United Kingdom and United States. It is also visible in those regions of the global North where changes at the political level have been less drastic, for example in Germany and Scandinavia.

In the emerging economies, economic inequality is a persistent problem. According to the OECD (2011), income inequality has decreased in Brazil in the last 15 years, but it has risen in China, India and the Russian Federation. The South African case also confirms this trend: when the apartheid regime collapsed, the Gini coefficient registered was among the highest in the world. Despite vociferous calls for redistribution in the post-apartheid period, according to official statistics inequality continued to rise considerably in the next decade – from 0.56 in 1995 to 0.72 in 2005–06, where it continues to hover (Leubolt, 2013, p. 3). The neoliberal turn during the Mbeki presidency, in which austerity, liberalization and privatization were pursued, contributed to this state of affairs (Scherrer and Hachmann, 2012).

Part of the neoliberal agenda was the liberalization of finance. Among other things, governments started to remove capital controls and barriers to financial innovation. Both measures reinforced considerably the financialization of the economies in the global North, that is, the increasing weight of financial transactions in the circuit of total capital (see Bryan, Martin and



Rafferty, 2009; Müller, 2013; Evans, in this volume). Furthermore, liberalization resulted in the functional integration of financial markets at the international level, which increased pressure for businesses to maximize profits. They reacted by reducing labour costs and thus shifting the burden onto workforces. Correspondingly, governments faced increased pressure to create “competitive” conditions for investment in their countries (Herr, Ruoff and Salas, in this volume).

In the global South, the shift towards financialization created strong incentives (sometimes without alternative choices) for countries to “opt” for development models based on attracting foreign direct investment (FDI) through world market integration. The International Monetary Fund (IMF) and the World Bank actively promoted this agenda by imposing structural adjustment programmes on countries in the global South, and the World Trade Organization pushed for a liberal international trade regime, which had similar effects (Mosoetsa and Williams, 2012).

In sum, neoliberalization and financialization are accompanied, in most countries, by self-reinforcing tendencies towards higher levels of economy inequality. Whereas workers with low to medium qualifications mostly experience this as a race to the bottom, workers with high qualifications and owners of capital often become part of a race to the top.

### **From “free market democracy” to “corporate authoritarianism”**

In our view, the political dynamic triggered by rising economic inequality undermines the claims of the proponents of “free market democracy”: if there are significant increases in economic inequality, it starts to “submerge” the field of politics by creating political inequality. There are three political developments illustrating this trend: (1) the growing political influence of financial capital; (2) the corresponding decline in the influence of trade unions; and (3) the decline in the political participation of people with low incomes.

These developments infringe upon the principle of the free and equal vote, which is the very foundation of representative democracy (notably in the United States; see Scher, 2011). But mostly they have damaging effects on voter choice: there is a streamlining (and narrowing) of the agenda of mainstream parties and governments. Put simply, voters are free to choose whatever they want, but no matter what they choose, the outcome is already fixed: governments will prioritize financial and corporate interests. Under these conditions, it is not surprising that low-income groups withdraw from politics as there is little chance that they can influence political decision-making through voting or other forms of political participation available to them.

The first political development illustrating how inequality is compromising democracy is the political strengthening of financial capital on the back

of financialization. This is reflected in two mechanisms: (1) political pressure produced through the market mechanism, for example, through investors threatening to withdraw their funds in response to political decisions they disapprove of; and (2) political pressure produced through networking, that is, through representatives of finance influencing political decision-makers with the help of their wealth, prestige and purported expertise.

The classic example of a U-turn resulting from pressures created in the financial markets is the first presidency of François Mitterrand in France, who took office in 1981. Mitterrand headed a coalition between Socialists and Communists and embarked on a Keynesian agenda that was a left-wing response to the neoliberalization taking place in the United Kingdom and United States. This Keynesian agenda involved the nationalization of key sectors of the economy, wage and tax increases, the extension of union rights and an expansionary fiscal policy. It was implemented against the backdrop of the existence of the European Exchange Rate Mechanism (ERM) and the commitment of the Banque de France to hold the exchange rate of the franc to the Deutschmark within a certain band. This commitment was at odds with the new economic strategy: it meant that financial investors would “punish” the Banque de France if it strayed from the anti-inflationary monetary policy pursued by the Bundesbank. And this is what happened: immediately after the 1981 elections, investors began to sell francs and thus put the French currency under serious pressure. After three devaluations of the franc within the ERM had not calmed the situation, Mitterrand faced the choice of either leaving the ERM (and, possibly, the European Community) or abandoning his economic strategy. He chose the latter and imposed an austerity agenda on the French population (Lewis, 1983; Eichengreen, 1995; Watson, 2011).

Equally indicative of the political strength of financial capital are the mechanisms by which it influences political decision-making in a more personal way. Jacob Hacker and Paul Pierson (2010) argue that there was a shift in the United States in the 1970s that concerned how business organizations worked to influence political decision-making. Corporate campaign contributions grew considerably and now increasingly went to Republican candidates (or to Democrats with close links to finance) (see also Phillips, 2008); furthermore, business interests started to set up think-tanks and foundations with the aim of influencing the broader political climate and advancing the free market cause while continuing to further their influence through lobbying (Hacker and Pierson, 2010; Harvey, 2005; Engelen et al., 2011). These new strategies were highly successful: corporations were able to create a stranglehold on political decision-making in the United States. Along these lines, Hacker and Pierson speak of “winner-takes-all politics”. They refer to a situation where Republicans and Democrats are locked in a determined struggle to show who could shower more benefits on those at the top (Hacker and Pierson, 2010, p. 178). This is also visible in developments at the legal level. In 2010, the US Supreme Court ruled that corporations enjoy the same rights as

individuals in matters of freedom of speech, which means in essence that there are no longer any limits to the corporate funding of candidates (Liptak, 2010).

For the United Kingdom, Ewald Engelen et al. (2011) argue that the issue is not so much that business interests target individual decision-makers but rather national parties. In their view, there is a fundamental change in the British political system, which consists in “the decline of class-based political parties with mass membership” (ibid., p. 145). As a result, parties are more dependent than before on donations from corporate interests (ibid., p. 248). Correspondingly, various commentators point out that about half the donations to the Conservative Party currently come from the City of London (Ertürk et al., 2011; Wilks-Heeg, Blick and Crone, 2012).

At a more general level, some of the same authors highlight the close personal links and personal overlaps between financial institutions on one side, and central banks, ministries of economics and finance and governments on the other; that is, the “revolving door” that exists between the corporate sector, in particular finance, and state institutions (Engelen et al., 2011; Blanes i Vidal, Draca and Fons-Rosen, 2012). Others stress how political elites have adapted to habitual patterns emerging out of the world of finance, and how this has created a convergence of opinions, attitudes and values that is damaging the existing relations of representation between political decision-makers and the broader population (Dorn, 2010).

The mirror image of the rise of finance and its increasing political influence is the decline of trade unions as organizations representing the collective interests of workers – not just at the economic, but also at the political level. The weaker unions became, the harder they found it to make themselves heard at the political level. In recent years, unions even struggle to have an impact on nominally social democratic governments, for example New Labour under Tony Blair and Gordon Brown in the United Kingdom, the red-green coalition government under Gerhard Schröder in Germany, and, to a degree, also the Mbeki presidency in South Africa (Waddington, 2003; Scherrer and Hachmann, 2012). This poses a problem for democracy, because unions have historically acted as a democratizing force in many parts of the world. In the aftermath of the Second World War in Western Europe, they actively used their political weight in order to counter advances by corporate interests and ensured that political decision-makers registered the needs and interests of working people (Crouch, 2004; Gallas and Nowak, 2011). Moreover, they were at the forefront of struggles against authoritarian regimes across the globe.

The third relevant development in this context is the fact that economic inequality leads to equally unequal rates of political participation between different income groups, as Armin Schäfer (2010) has observed with reference to the OECD countries. In this context, it does not matter whether the focus is on voting or on other forms of political participation such as being an active member of a party, demonstrating or signing a petition. According

to Schäfer, voter turnout is an indicator of how economic inequality translates into political inequality:

Since elections are a low-threshold form of involvement, they secure, to a stronger degree than other types of political activity, equal participation. However, this is only the case as long as turnout is high. If turnout is falling due to social inequality, the form of participation that secures the political equality of citizens becomes less important (*ibid.*, p. 143, translated by the authors).

The observation that low-income groups in unequal societies are not getting involved politically to the same degree as other groups may be a reflection of a development discussed earlier: if financial and other corporate interests set the political agenda to a large degree, no matter whether conservative, liberal or social democratic governments are in power, voters abstain from voting.

In conclusion, neoliberalization has created a situation where there are strong links and personal overlaps between governments and big corporations, in particular from the financial sector. Conversely, low-income groups find it very difficult to influence the processes of political decision-making in any meaningful sense. In other words, economic inequality has reached a level where it starts to translate into political inequality. In this situation, “free market democracy” turns out to be little more than “corporate authoritarianism”. Colin Crouch (2004, p. 4) famously summed up these developments by speaking of a “post-democratic” mode of political decision-making where the electoral “spectacle” is covering up the fact that “politics is mainly shaped in private by interaction between elected governments and elites that overwhelmingly represent business interests”. In other words, Crouch argues that unelected and unaccountable networks connecting the executive branch of the State with key representatives of business are exercising a strong degree of control over the political process and parliamentary procedures without suspending the latter.

### The great crisis of democracy

The great crisis of global capitalism post-2007 has, on the whole, reinforced economic inequality (OECD, 2013; Mosoetsa and Williams, 2012). Obviously, it would be possible to simply infer that this constitutes a continuation of the existing trend and further erodes the quality of democracy. This observation may not be completely off the mark, but it misses the specific dynamic triggered by the crisis in the area of policy-making and its impact on the political system.

As has been mentioned, the increase in economic inequality triggered by neoliberal restructuring had already undermined political equality when

the crisis hit. In other words, the crisis emerged against the backdrop of a prevalence of authoritarian, “post-democratic” modes of political decision-making that favoured financial capital. Under these conditions, it comes as no surprise that financial capital was capable of thwarting attempts to re-regulate the financial system, which posed a threat to highly profitable but risky transactions (see Engelen et al., 2011). A mode of crisis management emerged in the OECD countries that shielded finance from losses by burdening the population with the economic fallout from the crisis. In fact, financial interests were able to use the post-democratic model of politics for the preservation of their business models, wealth and economic and political dominance. The main mechanisms that facilitated this process were: (a) the bailouts and nationalizations in the banking sector; and (b) the subsequent cuts to state expenditure, which started when the crisis turned into a sovereign debt crisis in Europe. In sum, the public purse was used to socialize the huge losses accrued by financial capital; a form of government emerged where political decision-makers were acting as fixers for finance. In the global South the crisis was not as severe, but rather experienced through the ramifications of the crisis in major markets in Europe and the United States. Nevertheless, the inequality rates that plague the global South, which were in many cases driven up by neoliberal structural adjustment programmes, have the same effects on the political efficacy of citizens.

All of this gives rise to the question of how far the dominant patterns of political decision-making differ pre-crisis and today. The patterns of justification used for the interventions into the financial sector are not entirely new; in fact, they closely follow the “there is no alternative” (TINA) principle that was famously ascribed to Thatcher. Similarly, Crouch made his observations concerning the post-democratic mode of policy-making long before the crisis hit.

Despite all this, there are good reasons to expect that authoritarianism will deepen in a crisis of capitalism. Under capitalist conditions governments are likely to fall if they fail to secure the conditions for the successful accumulation of capital as well as in ensuring that people broadly accept (or are made to accept) the decisions taken in order to secure it. This double challenge for governments brings into view a key difference between the conjuncture of crisis and the pre-crisis period: in the pre-crisis period of neoliberalism, acceptance for the course of many governments was furthered through stabilizing or even increasing the living standards of people on low to medium wages in a precarious fashion, by expanding consumer credit. Under this arrangement, which was called “privatised Keynesianism” by Crouch (2009), it was comparably easy for governments to justify their accumulation strategies because they directly benefited a large number of people, at least over the short term. In contrast, the current mode of crisis management brings immediate material benefits for a much smaller circle. In other words, it is harder to align the chosen accumulation strategy with the attempt to further

acceptance of government decision-making among members of the public. Under these conditions, it is likely that governments increasingly resort to authoritarian modes of policy-making.

In our view, this is visible when we look at the political interventions aimed at protecting financial capital. The key to establishing the mode of predominant mode of political crisis management was the invocation of an economic “state of emergency”. Interpreting the Great Depression of the 1930s as a result of policy inaction, governments started justifying their interventions with the imminent breakdown of their respective economies. More specifically, there were at least three techniques of political intervention that were justified with reference to arguments of this type, which all by-passed democratic decision-making:

1. With reference to the speed of developments in the financial markets, the executive arms of governments took ad hoc decisions simply sidelining parliament, as well as accelerating parliamentary procedures. Both made it almost impossible to voice dissent both inside and outside parliament against planned interventions; visible protests often took place after the interventions had already been carried out.
2. Interventions were presented in a technocratic fashion, that is, as neatly defined, problem-solving operations that were unavoidable. Initially this concerned bailouts, nationalizations and recapitalizations targeting the banking sector; after the onset of the Eurozone crisis, public sector cuts were also framed in this way. In Italy and Greece, the technocratic mode of political intervention served as the justification for installing unelected caretaker governments headed by supposedly independent economists (Mario Monti and Lucas Papademos), which oversaw the political management of the crisis for some time.
3. At the European level, governments instigated fundamental institutional changes that drastically narrowed the scope of their own decision-making, namely the Fiscal Compact. This agreement permanently removes important aspects of economic and fiscal policy from democratic decision-making, most importantly by obliging the participating countries to introduce “debt brakes” at the level of their constitutions, which seriously compromises the capacity of parliaments to exercise one of their key rights, that is, the right to pass a budget (see Oberndorfer, 2012).

Furthermore, several governments in the global north are currently working to curtail the right to demonstrate (Seymour, 2013), and there are also cases of state bureaucracies operating with blanket bans of large demonstrations directed against the political management of the crisis. In May 2011, the Spanish electoral commission ordered the “*indignados*”, an anti-austerity protest movement, to leave a protest camp taking place in a central square in Madrid ahead of the general elections. In May 2012, a large-scale mobilization

against the political management of the crisis in Germany – Blockupy, an attempt to blockade and occupy the city centre of Frankfurt, where the European Central Bank is located – was prohibited by the city council with reference to a purported threat to law and order. In both cases protestors defied the ban, but the attempt by state authorities to thwart protests against the crisis management of governments is indicative of the state of democracy. Finally, governments across Europe have also restricted collective bargaining (Hermann, 2013); the ILO has found that the Greek Government had violated international labour rights when it did so (ILO, 2013).

All of this suggests that political decision-making has indeed changed with the onset of the crisis. It is not just that it happens behind closed doors; the governments also make sure that it is difficult to oppose the decisions taken in any meaningful sense. This suggests that authoritarianism is spreading from the mode of political decision-making to the mode of implementing policies. As a result, we contend that it is justified to speak of an “authoritarian turn” in economic policy-making in the OECD countries.

In the global South developments are more ambiguous, but again, there are certain parallels when we look at South Africa. Economic policy-making in the post-apartheid period has been shrouded in secrecy, with the most well-known example the 1996 Growth Employment and Redistribution (GEAR) strategy, which set a neoliberal macroeconomic framework for the country. In a more recent example, the Marikana Massacre in August 2012, where a contingent of the South African Police Service killed 34 striking miners, is an instance of state violence being used to defend neoliberalism (Satgar, 2012).

### Challenges to combating inequality

While the crisis has shaken the public’s confidence in financial capital, the widespread outrage over huge bonuses for those who effectively brought about the crisis did not lead to collective action. History informs us that in dire economic times the middle and working classes do not always direct their anger at the rich: they may also turn against members of their own class, and especially against poorer classes. In fact, we are currently witnessing the rise of a xenophobic and sometimes anti-welfare right in many countries. Possibly the most widely discussed example is the rise of the Tea Party in the United States, but there are now strong right-wing groupings outside the traditional conservative parties in many European countries, whose ideology ranges from populism and “Euro-scepticism” to openly neo-fascist orientations. Among the countries affected are those as diverse as Denmark, France and Greece. Hungary, under the leadership of the far-right Orbán government, is in the process of demolishing the institutions of liberal democracy. In the global South, there is also a rise of authoritarian



populism and ethnic and religious sectarian movements, as seen in South Africa and India, for example.

It seems that people who feel uneasy about a high level of income and wealth inequality – a majority of people even in the United States (Hayes, 2012) – cannot be easily mobilized for campaigns proposing to increase taxes or cap top-level wages. This was confirmed most recently in Switzerland. Early on in the campaign, the initiative to cap the income of top-level earners at 12 times the income of the lowest paid workers in every firm was well received by the majority of the Swiss population. However, in the end voters rejected this proposal by a large margin. In their eyes, the Government and business associations had argued persuasively that such a cap would undermine the freedom of business and would lead to large corporations leaving the country (Zumach, 2013). In this case, as in many others, the politics of fear is easily used to ensure populations stick to the status quo.

A further political challenge lies in the firmness of anti-egalitarian ideology. Meritocracy as a principle of distribution is both popular and consistent with neoliberal convictions. On the grounds of meritocracy, it would be possible to justify the introduction of a high inheritance tax, which would be one way of ensuring more equal opportunities within societies. Even though most people would not be affected by a higher tax rate, it does not have very many supporters – and this holds across most countries. In other words, many people see the intergenerational transfer of wealth within the family as legitimate no matter whether they possess wealth that they can pass on or not (Beckert, 2008). Strategies aimed at combating inequality have to take account of these widespread convictions and contradictory processes.

In the current situation, symbolic power – the framing of issues as morally just in order to win widespread support even from those who may not be directly affected – is one of the most important issues that campaigners need to engage with (Chun, 2009). In contrast to traditional forms of power aimed at demonstrating leverage (e.g. by workers in the economy) in relation to decision-makers (e.g. employers), symbolic power aims at framing issues as legitimate and just in order to gain support from a broader public. For example, the Justice for Janitors campaign in Los Angeles, California in 1988 drew a great deal of support from LA residents when it framed its struggle as hard-working immigrant women trying to earn a living by cleaning the buildings of the wealthy corporate elite, rather than an issue of winning concessions – such as union recognition or higher wages – from the State. The women did not simply go on strike against their direct employers, but held public events that brought the “city’s poorest workers into direct contact with the affluent world of the corporate tycoons who owned and rented the office buildings” (Voss and Williams, 2012, p. 15). These “shaming rituals” highlighted the injustice of the poverty wages of those who cleaned the buildings for CEOs who earned obscenely high incomes, and won the janitors widespread public support, which proved crucial in their struggle.



## Campaigns to learn from

Over the course of the twentieth century, labour played a central role in struggles for democratic transition in many societies around the world. Indeed, in nearly every transition from authoritarian to democratic rule in the global South, labour was at the forefront of the democratization struggles. By the end of the twentieth century, however, labour's continued role had waned, leaving many labour scholars and activists to question its role in deepening democracy. It is not simply that labour lost interest in democracy, but that it came under increasing attack from neoliberal processes that encouraged the dismantling of industrial policies, including labour market policies. Thus, labour has been largely on a defensive footing over the past quarter of a century, focusing its attention on maintaining the gains made in an earlier era (Chun and Williams, 2013). The same processes that are increasing inequality, therefore, are also undermining democratic processes within societies.

While the waning significance of labour in democratization struggles has occurred over the past two decades, there has been a global rise in protests and movements for deepening democracy outside of traditional trade unions, such as the World Social Forum, Occupy Wall Street, the Arab Spring, the European movements against austerity, and the rise in cooperatives and the solidarity economy. To be sure, labour has often been involved in many of these protests, and in the case of the political strikes against the cuts in Europe (Gallas, Nowak and Wilde, 2012), it was at their forefront. But in general, labour has not led these new movements. This is also true for countries in the global South such as Brazil, India and South Africa (for a discussion of this last one, see Sikwebu, 2013 and Devan Pillay, 2013).

In this section, we discuss some creative campaigns – started by trade unions and other social organizations – to address questions of poverty and inequality in their societies, and which have either directly or indirectly contributed to revitalizing democracy. What is interesting about the recent campaigns is that they diverge significantly from traditional issues of the shop-floor that have preoccupied labour for the greater part of the twentieth century, to broaden the range of issues. In addition, many struggles today look to new and creative tactics that transcend the strike, such as creative pilot projects of alternatives, global campaigns that link different nodes in the production cycle, symbolic struggles aimed at winning public support, and broad alliances with a wide range of civil society organizations. For example, in Namibia the creative Basic Income Grant partially decommodifies labour by providing every member of society a basic income (Jauch, 2013). While labour was not the only driver of this campaign, it did play a vital role.

We draw on nine innovative campaigns from six different countries. They include the Brazilian labour movement's struggle for gender equality

(da Costa, 2013) and its minimum wage campaign (Barbosa de Melo, 2013); Argentina’s mass campaign for income redistribution (Campos, 2013); the South African Treatment Action Campaign (TAC) for access to HIV/AIDS drugs (Heywood, 2013); the National Union of Metal Workers of South Africa’s (NUMSA) initiative for socially owned renewable energy (Satgar, 2013); the Namibian Basic Income Grant campaign (Jauch, 2013); the New Trade Union Initiative’s efforts to organize informal workers living in shacks in India (Vyas, 2013); the Indian movement for access to forest land (Bijoy, 2013); Germany’s minimum wage and Emmely campaigns (Nowak, 2013); and the European Financial Transaction Tax campaign (Wahl, 2013). In all these initiatives labour has played an important role, even if not always the leading role. What the wide range of issues raised from a range of countries around the world suggests is that conditions under which labour operates and the demands made on labour have significantly changed.

The campaigns demonstrate enormous creativity in both the goals and tactics used. What is especially interesting is that labour’s role varies across the campaigns. The campaigns can be divided into two groups – those that directly look at raising the standards of living of workers and the poor and thus *directly* address inequality, and campaigns that *indirectly* address issues of inequality.

The campaigns that have directly addressed issues of inequality are the Namibian Basic Income Grant (BIG), the minimum wage campaigns in Germany and Brazil, the struggles for access to land and for shack dwellers’ basic services in India, the struggle for redistribution in Argentina, and the European Financial Transaction Tax. To take one example from the global South, the Namibian Basic Income Grant initiative was an attempt to pioneer a universal grant system that would help alleviate dire conditions of the poor (Jauch, 2013). Facing heavy resistance from international bodies such as the IMF, the initiative ran a pilot project to demonstrate that the BIG could be administered and that it would have positive developmental impacts and reduce inequality. The developmental impacts of the pilot surpassed the expectations of those involved in the project: it not only alleviated dire conditions of poverty but also had other unintended consequences of reducing domestic violence, empowering women and increasing the school attendance rate of children. The initiative was designed to converge with participatory democratic processes by requiring communities to collectively discuss and manage the campaign. A committee was elected from the community to oversee the implementation, which helped ensure transparency and that it was rooted within the local community. A number of crucial organizations supported the BIG, including churches, trade unions (the main Namibian federation was actively involved), NGOs, AIDS organizations, legal aid and labour research organizations; and support was even won from the business community and some international agencies. While the initiative was not expanded to the national level due to complex internal

political wrangling, the initiative nevertheless demonstrated the positive correlation between providing universal basic income, decreasing poverty and inequality, and revitalizing democracy.

In the global North, the Emmely campaign in Germany also directly attempted to challenge differential treatment of workers and managers, thus combating inequality. It was a bottom-up campaign in defence of a shop clerk who lost her job for ostensibly stealing a 2-euro coupon (Nowak, 2013). Two things that are noteworthy in this campaign are that the struggle was largely waged outside of formal union structures, and that it primarily invoked symbolic protests which centred around the unjust world in which bankers get away with “stealing” billions of euros while a shop clerk is fired after 32 years of service for 2 euros. The campaign demonstrates the power of symbolic struggles aimed at winning public opinion and the way in which the legal system can be a weapon of struggle for greater equality. Another important campaign from Germany that directly addresses inequality is the German Trade Union Federation’s (DGB) minimum wage campaign, which won minimum wage agreements for 11 sectors covering 4 million workers (Nowak, 2013). What is particularly noteworthy about the minimum wage campaign is that it demonstrates trade unions’ capacity to shape public discourse in order to win support for the idea of a minimum wage, even for those who are not members of unions. The range of activities used is also noteworthy: information campaigns, protests, research, lobbying and collective bargaining were enlisted in the campaign. Thus, in Germany we have cases of an institutionalized trade union movement and grassroots movements engaging in struggles to directly challenge inequality.

Other campaigns indirectly address issues of inequality, such as the Treatment Action Campaign (TAC), NUMSA’s socially owned renewable energy initiative, and the campaign for gender equality in Brazil. Looking at the TAC’s struggle for universal access to anti-retroviral drugs also reveals that the campaign was also fundamentally about issues of inequality. The class basis of HIV/AIDS in South Africa mirrored apartheid cleavages, with the overwhelming majority of those infected and affected the working class and the poor, and especially women. The struggle, therefore, importantly affected those who could not afford the expensive drug cocktail. Thus, the TAC’s struggle was not only about access to life-saving drugs, but also a struggle to overcome class-based inequalities in access to these drugs. The innovative strategies and tactics that the campaign used introduced new forms of struggle into South African protest politics, which tends to rely heavily on confrontation. The TAC used symbolic protests in which moral and legal (and constitutional) legitimacy were the underpinning sources of power. The innovative way in which the TAC reclassified struggles for access to anti-retroviral drugs centred on human rights and enlisted support from both national and international actors. The reframing of the issues transformed the struggle from a special-interest struggle into a struggle for basic

rights. The methods used included highly visible campaigns, public media to deepen public awareness and understanding, provocative t-shirts (e.g. “HIV POSITIVE”), court cases using the progressive legal framework, and charging public leaders of culpable homicide. The rights framework helped frame the struggle as “just” and drew on symbolic power, and the pro-poor laws that exist meant that litigation became a powerful tool to build power. The powerful alliance forged with the main labour federation, the Congress of South African Trade Unions (COSATU), was crucial to the TAC’s success as COSATU was able to directly mobilize over two million people and register pressure on the Presidency (Heywood, 2013). The TAC’s struggle demonstrates how citizens became actively engaged in creative struggles against both the State and transnational pharmaceutical corporations and in the process challenged the unequal access to life-saving drugs and deepened democratic activism.

## Conclusion

A strong case can be made for the argument that inequality undermines democracy. In particular, financialization has increased inequality and widened the access of corporations to the State, to the detriment of the general population. The financial crisis hastened the authoritarian turn in economic policy-making. In many countries, a majority of the population is in favour of less inequality, but far fewer are actually willing to support limiting the incomes and the wealth of top earners. Discontent with inequality is counterbalanced by a strong belief in meritocracy and the legitimacy of inheriting wealth. In addition, people feel exposed to threats that capital will relocate if there are higher tax rates for the rich.

So far, struggles against poverty have been more successful than mobilization for limits to top incomes. These struggles revitalize democracy through creative activities that directly involve people in tackling the problems they face. Direct action, public awareness campaigns and education drives are important instruments in the struggle for re-democratization. The campaigns analysed suggest that movements must forge broad alliances with civil society and labour. Therefore, the issues at stake have to be framed in an accessible, creative, understandable and inclusive way. Furthermore, the relations with ruling parties are always complicated – even if ruling parties are left of centre.

All the campaigns discussed have contributed positively to combating inequality and deepening democratic processes in their respective societies. What is particularly noteworthy is that the campaigns have exercised new forms of power, in particular symbolic power, which results from conceiving public opinion as an important arena of struggle. While traditional trade union tactics – most notably the strike – is still an important form of

resistance, it is not necessarily the dominant form we are seeing in the new millennium. What this suggests is that overcoming inequality and deepening democracy will be forged on new terrains of struggle with alliances involving a wide range of actors – from formal trade unions to informal workers and the unemployed.

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