



## Seminaris Àmbit Econòmic 2012-13

L'Europa Social: Benestar i Cohesió - Documentació de Treball - Juny 2012

## Títol del Seminari: L'Europa Social: Benestar i Cohesió, Juny 2012

- **Període Seminari:** 1 a 30 Juny 2012
- **Data Sessió Presencial:** 14 Juny, 18:00-21:00
- **Responsable - Ponent:** David Lizoain, Economista
- **Convidats**
  - Javier Ramos, Universitat de Zurich.
- **Participants**
  - Pere Almeda, Jurista i Politòleg
  - Max Vives, Director FCE
  - Roman Weissmann, Economista
  - Francesc Trillas, Economista
  - Daniel Duro, Assessor Fiscal
  - Jordi Soy, Economista
  - Sergi Palavecino, Financer
  - Juan Josep Berbel
  - David Espiga, Economista
  - Joan Miquel Piqué, Economista
  - Oriol Aspachs, Economista
  - Carles Rivera, Economista
  - Raul Blanco, Economista
  - Pau Mas, Politòleg
  - Simon Toubeau, Politòleg
- **Suport Administratiu**
  - Mireia Santacreu, FCE

## Text Preparatori del Seminari

### *Introduction: revolts against inequality in a historical context*

The global democratic revolt of 2011, exemplified by the Arab Spring, the indignados, and the Occupy movement, has succeeded at placing inequality back on the political agenda. The income share of the wealthiest 1% has reached levels not seen since immediately prior to the Great Depression. The slogan “We are the 99%” directly challenges this state of affairs.

The complicated relationship between inequality, democratic freedoms, and economic outcomes has long historical roots. In *Debt: The First 5000 Years*, David Graeber (one of the key figures of the Occupy movement) argues that the debate about debt and debt forgiveness - the conflict between debtor and creditor - has been a recurring feature of human history. One person’s debt is always someone else’s asset; therefore to cancel a debt is also to reduce someone’s stock of wealth. If we assume that an excess of debt acts as a constraint upon individual and collective liberty, the tension between democratic freedoms and an unequal distribution of wealth becomes apparent.

Debt relief was essential to the founding of democracy in Athens. When Solon began to overturn the Draconian laws, he instituted the Seisachtheia, a series of reforms that cancelled outstanding debts and broke up large concentrations of land. In the cradle of democracy, economic reforms were necessary for the transformation of the political structure.

This link is longstanding. In his masterful *The Class Struggle in the Ancient Greek World*, G.E.M. de Ste. Croix explains how the concentration of wealth in the Mediterranean combined with a breakdown of popular freedoms to the point that the barbarians were able to topple the Roman Empire on account of the indifference of its subjects. A rise in inequality stifles dynamism and generates fragility.

St. Croix’s work helpfully complements Graeber where he describes how the programmatic demands of ancient popular revolts could be summarized as debt cancellation and land reform. This recalls the simplicity of the slogan of the October Revolution: Peace, bread, and land.

The post-war settlement, in my view, was the actualization of the programme of land reform, resting on two pillars. Workers were guaranteed a solid and improving standard of living, guaranteed by basic public services (health, education, and pensions) in a context of full employment and decent jobs.

All societies have some level of distribution that is so unequal that they will provoke revolts. John Steinbeck described this relationship in *The Grapes of Wrath*, his brilliant chronicle of land dispossession during the Great Depression:

the great owners, who must lose their land in an upheaval, the great owners with access to history, with eyes to read history and to know the great fact: when property accumulates in too few hands it is taken away. And that companion fact: when a majority of the people are hungry and cold they will take by force what they need. And the little screaming fact that sounds through all history: repression works only to strengthen and knit the repressed. The great owners ignored the three cries of history. The land fell into fewer hands, the number of dispossessed increased, and every effort of the great owners was directed at repression.

The creation of a proletariat meant that welfare was, for the first time in history, no longer linked to land, but rather to the labour market. The ancient programme of debt cancellation and land reform was given new content by the labour movements, who demanded a fair wage for a fair day's work. The fight for the 40-hour workweek was also the fight against subsistence wages, the fight over a larger share of the total surplus being generated.

The neoliberal attack on this settlement has been focused on both undermining public services and labour rights. Through what David Harvey has referred to as "accumulation by dispossession", privatization, financialization, and the manipulation of crises has been used to centralize wealth and power. Full employment is not guaranteed - unemployment is the epidemic of our age, and even having a job is no guarantee against poverty.

Presently, we are living through a systemic breakdown - a time of rebellion and repression. Our responsibility is to heed the cry of history.

The key arguments of this paper are:

We are obliged to modernize the programme of debt cancellation (redistribution) and land reform (universal well-being).

Debt cancellation is understood to represent a profound redistribution of wealth in society.

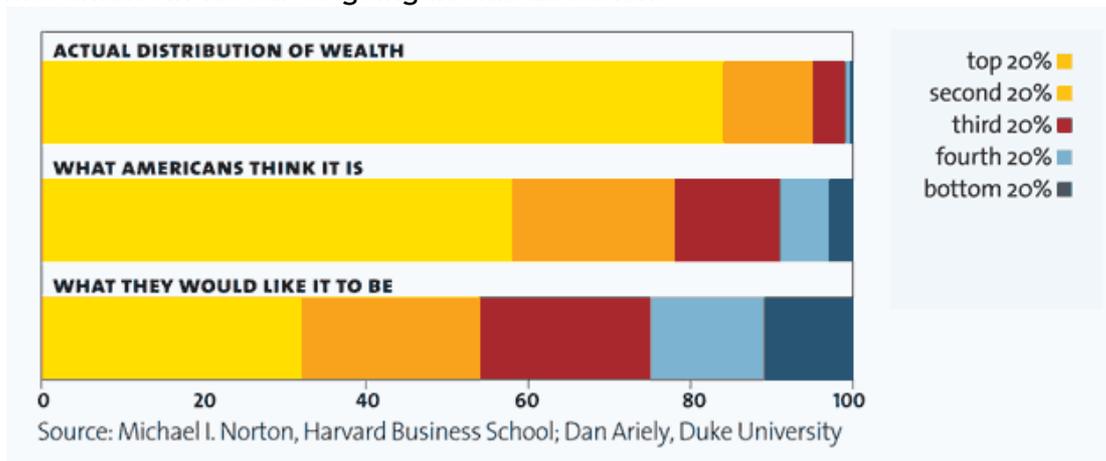
**We should be far more forceful in our demands for redistribution and actualize our programme accordingly.**

Land reform is understood to represent a guarantee of universal well-being. I will argue that strong public services must remain a key component of this bundle, but that we must guarantee new endowments in new ways, in order to respond to the context of globalization and technological developments.

**We must invent a new republican settlement where well-being is guaranteed universally.**

## The case for more equality

In the most direct sense, the present crisis is forcing the issues of debt restructuring and more inflation back into the discussion. But debt cancellation and inflation are two elements in a broader set of mechanisms for redistributing wealth across society. We should be looking at all the ways in which we might reverse the trend towards the concentration of wealth, and towards a falling labour share of national output. There is a growing movement in favour of going in this direction:



In *The Spirit Level*, Richard Wilkinson and Kate Pickett argue that **more equal societies do better on almost every measure**: health, social problems, trust, education, crime, social mobility, innovation, and sustainability.

Joseph Stiglitz's forthcoming book, *The Price of Inequality: How Today's Divided Society Endangers Our Future* will elaborate on the arguments that increased inequality threatens general prosperity.

In *Fault Lines*, Raghuram Rajan chronicled how rising inequality led consumers to compensate for wages that were not keeping up with productivity gains by taking on excess debt. This increase in leverage helped trigger financial meltdown. Kumhof and Ranciere elaborate on this line of work explain how strengthening labour power can help in the aftermath of a financial crisis. Berg and Ostry explain that the trade-off between equality and efficiency does not exist.

The Centre for American Progress recently published "The American Middle Class, Income Inequality, and the Strength of our Economy" which offers a good overview of the evidence regarding why a strong middle class (and hence a more equal society) is good for growth. They cite four factors:

- A strong middle class promotes the development of human capital and a well-educated population.
- A strong middle class creates a stable source of demand for goods and services.
- A strong middle class incubates the next generation of entrepreneurs.
- A strong middle class supports inclusive political and economic institutions,

The argument that security breeds innovation is similar to Rodrik's work, where he shows that government consumption reduces risk, permitting countries with larger state sectors to be more open.

The debate is moving in the direction that **equality is not just desirable, in and of itself, but also necessary if we wish to ensure solid economic outcomes.**

Javier Ramos' forthcoming paper, "Growth and Equality under Globalisation: the consolidation of a non- redistributive growth model", is a very useful contribution to this discussion since it tackles this link and situates the debate within a context of globalization and technological change,

### ***Towards a new republican settlement***

Globalization has strained the ability of national governments to redistribute incomes and finance public services, but it has had even a sharper impact on labour markets. Growing competition resulting from the integration of less developed countries into the global market has put an immense strain on labourers in the developed world looking to defend their acquired gains. When added to the growing use of automation techniques, both trade and technology exacerbate a tendency towards inequality.

Ulrick Beck refers to this situation as the Brazilianization of the west, and charts the rise of precarians. We must ask: **Can generalized welfare be guaranteed through the labour market?**

Guy Standing, who coined the term, defends a universal basic income as a response to labour markets that are no longer able to guarantee decent jobs. It is possible that we should be exploring more heterodox solutions, ranging from the basic income, to the universal inheritance (transferring a lump sum of wealth to each citizen upon the acquisition to the age of majority) to solutions that look to reduce the labour week (hence the nef's call for a 21 hour work week). We should also ask: **does the road to a classless society involve breaking the link between well-being and access to the labour market?** We must also consider who belongs to our communities - especially given how Milanovic shows that migration is the main driver of reducing inequalities

Simultaneously, as we consider how to guarantee universality, we must consider the movement taking place against the excess concentration of wealth and privilege - hence the conclusion of the High Pay Commission in the UK, in favour of limiting executive compensation. The executive sector must be the clearest example of an area where income and productivity bear no relation to one another.

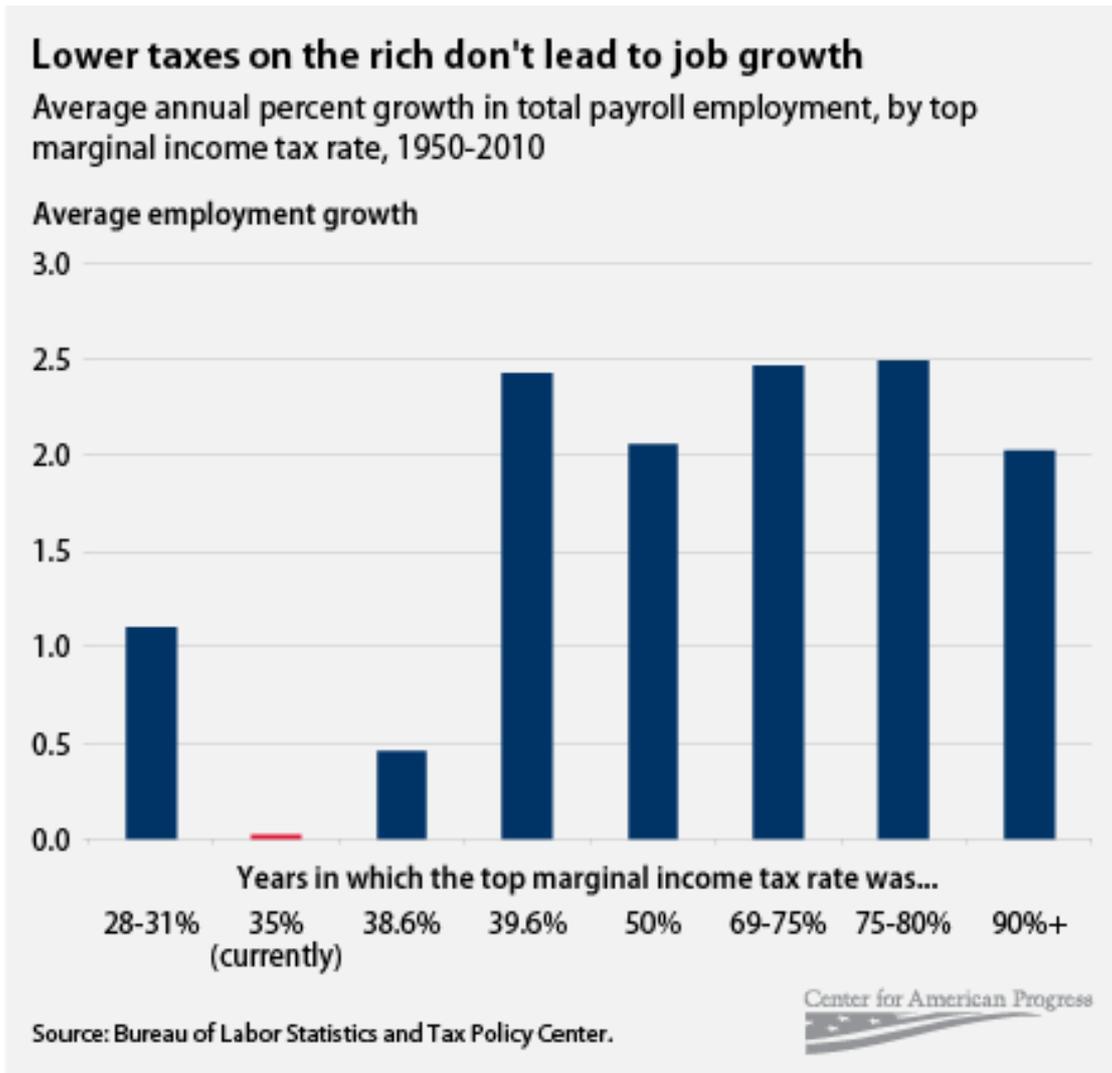
Michael Young, who coined the term meritocracy, argues that an excess belief in merit helps conceal existing structural inequalities. **Rather than focusing on an imaginary formal equality of opportunities, we should be looking to**

eliminate privileges, democratize capabilities, and strongly defend equality.

If we begin to question the concentration of incomes, the logical endpoint is to consider the legitimacy of the concentration of wealth and the transmission of inheritances: thinkers ranging from Karl Marx to John Stuart Mill to Bertrand Russell have called this practice into question.

**Shifting fiscal arguments and the limits of a big stimulus**

On the fiscal side, the premises of the neoliberal case for lower taxation are beginning to be undermined. Piketty et al have made the argument for much higher taxation on labour incomes. Francois Hollande has taken this battle into the political arena, by making a 75% tax on high earners one of his flagship policies. Economic history shows us that the Roosevelt-Truman-Eisenhower high tax era was linked to years of far better economic performance than the post-Carter era. **The evidence is growing that we should raise taxes on the wealth.**



Every time a policy of taxing wealthy earners is mooted, the press will always find someone willing to say that he is considering leaving the country on account of the new change. Yet the evidence never seems to point in this direction. The Center on Budget and Policy Priorities has an interesting piece, “Tax Flight is a Myth” showing these fears of exile to be unfounded.

But if the case is growing for higher taxes on income, in parallel the case for higher taxes on capital and inheritances is being made, with Piketty and Saez again at the forefront. We should ask: **should all factors of production be taxed equally?**

If the argument is that tax competition makes tax increases unsustainable, the counter-argument is that taxes must be harmonized. But at a domestic level the issue of tax evasion clearly remains important, and the proposal to move away from physical currency to have electronic records of all transactions bears scrutiny. On the European level, we should ponder why we permit micro-states to continue operating as tax havens; and whether their destiny is not to repudiate their sovereignty and annex themselves to the Union.

The debate on green taxes is clearly urgent, and an arena where serious work needs to be done. Energy, in the abstract, represents our ability to transform reality. With more energy we can carry out greater transformations. The challenge is to continue to grow our productive powers while moving towards a sustainable model. This is a key area of policy and also one with profound generational distributional consequences. Jeremy Rifkin’s *Third Industrial Revolution* is a useful addition to this broader discussion.

We should consider the case for a progressive consumption tax (which would tackle head-on the differences in consumption between individuals) and the implementation of stricter luxury taxes. (Sales volume of luxury goods has gone up in Spain during the crisis). This would be in keeping with true austerity.

The argument calling for a large tax increase to provide a fiscal stimulus and a vast expansion of the public sector is worth debating. **Why should we not do as Vicenç Navarro proposes and create 5 million additional public sector jobs?** This line of reasoning was further developed by Michal Kalecki in “Political Aspects of Full Employment” where he points out that stable public investment helps end the dependency of the economy on private states of confidence.

Finally, Lothian and Unger’s critique of vulgar Keynesian offers us a way out of the sterile debate between stimulus and austerity. They call for a three point program:

- Have finance serve the real economy, thickening the link between savings and productive investment, through institutional innovation
- A reinvention of industrial policy, involving “a patient and fearless experimentalism”

- Broad-based investment in the educational capabilities of the population

As they conclude:

“Every aspect of this three-part program requires institutional innovations, not just commitment of resources. A premise of such innovations is that **it is not enough to regulate the market economy or to compensate for its inequalities by means of retrospective redistribution through the familiar tools of redistributive taxation and social spending.** It is necessary to change how we organize our societies and economies the better to achieve a decisive broadening of economic and educational opportunity.”

## Preguntes a Respondre durant el Seminari

### ***1.-Primer Bloc: Desigualtat, mobilitat social i la suposada existència d'una meritocràcia.***

- És la concentració de la riquesa hostil a la prosperitat? El lliure mercat porta inevitablement a una solució d'oligopolis i a situacions de domini i posicionament econòmic privilegiat?
- S'haurien de limitar els alts salaris ? És a dir, és pot i s'hauria de socialitzar una part del benefici individual/corporatiu en favor de tots aquells condicionants que l'han creat?
- Existeix tal cosa com una meritocràcia a Catalunya, Espanya, Europa? Com podem millorar?
- És desitjable i possible avançar en la democratització d'oportunitats?

### ***2.-Segon Bloc: Revisió dels arguments i límits dels estímuls fiscals i de les polítiques fiscals redistributives.***

- Quines són els avantatges i les limitacions d'avançar cap a un règim fiscal fortament progressiu? Com podem modificar el nostre sistema impositiu?
- Quin paper ha de jugar l'Estat en la supervisió dels vincles entre l'estalvi i la inversió?
- El nostre sistema econòmic reparteix equitativament els beneficis en moments d'expansió i els costos en moments de recessió?

## Documentació de Referència

- Ulrich Beck, "[La Política económica de la inseguridad](#)"
- Andrew G. Berg and Jonathan D. Ostry, "[Equality and Efficiency](#)"
- Center for American Progress, "[The American Middle Class, Income Inequality, and the Strength of our Economy](#)"
- Center on Budget and Policy Priorities, "[Tax Flight is a Myth](#)"
- David Graeber, *Debt: The First 5000 Years*
- The High Pay Commission, "[Cheques With Balances: why tackling high pay is in the national interest](#)"
- Michal Kalecki, "[Political Aspects of Full Employment](#)"
- Michael Kumhof and Roman Rancière, "[Inequality, Leverage and Crises](#)"
- NEF, "[21 hours](#)"
- Tamara Lothian and Roberto Mangabeira Unger, "[Crisis, Slump, Superstition and Recovery: Thinking and Acting Beyond Vulgar Keynesianism](#)"
- Branko Milanovic, "[Global Inequality: From Class to Location, from Proletarians to Migrants](#)"
- Thomas Piketty and Emmanuel Saez, "[A Theory of Optimal Capital Taxation](#)"
- Thomas Piketty et al, "[Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities](#)"
- G.E.M. de Ste. Croix, *The Class Struggle in the Ancient Greek World*
- Raghuram Rajan, *Fault Lines*
- Javier Ramos, "Growth and Equality under Globalisation: the consolidation of a non-redistributive growth model" (forthcoming)
- Jeremy Rifkin, *The Third Industrial Revolution*
- Dani Rodrik, "[Why do More Open Economies have Bigger Governments?](#)"
- Guy Standing, *The Precariat: The Dangerous New Class*
- John Steinbeck, *The Grapes of Wrath*

- Richard Wilkinson and Kate Pickett, *The Spirit Level*
- Michael Young, "[Down with meritocracy](#)"