The Welfare State and the Distribution of National Income in Spain Since the Transition

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The Welfare State and the Distribution of National Income in Spain Since the Transition

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Any empirical analysis of state redistribution of income must first resolve a number of theoretical and methodological problems that deeply affect any approach focusing on the quantitative aspect of the investigation. A first important question is how to measure this national income whose distribution and redistribution is of interest to us. Although it might seem that this problem has been resolved, this is only the case in the domain of conventional national accounting, which uses categories that seem clear but that are actually clear only by convention, and not because they have helped to resolve acute outstanding conceptual problems.

An example is the assumption that the “production” of civil servants should be considered an integral part of the GDP, while household “production” should not be: If the latter is excluded, however useful it might be, on the basis of arguments that it does not consist of commodity production, the first would also have to be excluded, since it too in no way seems to be production of value. Indeed, that is what will be done in this study, in accordance with postulates explained more extensively elsewhere (see Guerrero, 1989, and Díaz Calleja, 1993). Another question addresses an approach that focuses on the redistribution of income by the state. As we shall see, this problem is
not unrelated to the more general construction of the previous problem of income distribution, since, if it is thought that the latter takes place through the market’s compensating each factor an amount that is the equivalent of its contribution to production, then there is no place for the question that will concern us later, namely, how does the state correct this spontaneous distribution by the market, since it makes no sense to correct a distribution that is already optimal and just? Consequently, before we take up the question of redistribution and the state’s role in it, we need to look at the theoretical problem of income distribution. Only after dealing with these two points will we be sufficiently equipped to move on to the empirical side of the investigation.

**Distribution of income**

Since we shall opt unequivocally for one theory of income distribution and disregard others that are more generally accepted, we should begin by clarifying our reasons for this choice. The most elaborate theories of income distribution have demonstrated their limits. Both neoclassical (Clarkian) theory and neo-Ricardian (Sraffian) theory are imbued with the principle of comparative statics, which annuls the dynamic analysis and diminishes the explanatory capacity of these theories in an area such as capitalism, which is anything but static. Guerrero (1996) intimates that perhaps it is necessary to adopt a new global approach to the history of economic thought that will resituate the contributions of different paradigms and schools as a function of the new developments achieved by authors who proceed from the labor theory of value as a basic interpretive principle. In particular, we should begin our thinking in two major areas of neoclassical economics (which perhaps would be better called “static economics”) and, instead of identifying neoclassicism with marginalism, we should clarify that the assumptions implicit in Sraffa’s theory coincide much more profoundly than had hitherto been surmised with Walras’s assumptions, so that it would be more correct to distinguish two major branches within the static-neoclassical, or perhaps better, modern static-mathematical current. First is marginalism, always characterized by its subjectivism, although no longer by the utilitarianism with which it was originally associated; the second is matrixism, characterized by a nonutilitarian but physicalist objectivism. Both are contrary to the dynamic analysis characteristic of the classics and of Marx and which is more in accord with the nature of the system.
under investigation. Hence, our first thesis says that this opposition, rather than entailing analytic progress, necessarily takes economic analysis back to a pre-Marxian (and in some cases even a preclassical) stage. The consequence is, of course, a reaction to this tendency with a view to rescuing dynamic analysis so as to recover lost ground and move forward again on the basis of what had once already been achieved. But let us look more closely at the two versions of the static theory of distribution before we outline the alternative theory.

First, the neoclassical theory of income distribution is a theoretical edifice based on the illusory principle that the factors of production (labor, land, capital, etc.) are remunerated in accordance with their specific contributions to production. More specifically, this theory postulates that, under conditions of perfect competition—which is the obligatory point of reference for conventional neoclassicists—the remuneration of each factor is given by the value of its short-term marginal product (i.e., the result of multiplying the physical product obtained by the last factor unit, which is presumed to be declining, by the price, presumed to be constant, of this product. The possibility of calculating marginal products (and accordingly marginal costs) rests on the disputed assumption that there are no indivisibilities and no discontinuities in the use of all factors, but this problem has nothing to do, as some believe, with the form (smooth and convex or just different) of the isoquanta of production, but with the unit of measurement of the quantity of factors, so that it is not a problem of practical relevance. However, more important is the question of the “terms,” or periods of time, in the context of the “fictitious time” the neoclassicists are accustomed to using.

Declining marginal productivity derives from the well-known “law of diminishing returns,” which reigns only in contexts of comparative statics, where technology is given once and for all. If with a given technology the scale of an enterprise’s plant and equipment (its fixed capital) is also presumed given, the productivity of the variable factor (direct labor, primary materials, energy, etc.) will in the end begin to diminish as additional quantities of the factor are added. Put in this way, this result is absolutely beyond dispute, but completely trivial and irrelevant in practice if what interests us is how capitalist enterprises function. In the reality of this system, technology varies continuously in real time, and this means increasing returns over time (i.e., historically). On the other hand, labor never operates alone (without primary
materials, without energy, etc.), lest a marginal product equal to zero be produced, so that in neoclassical logic, one would have to conclude that the marginal product of the variable factor (factors) is in reality the price of a complex and strange commodity formed by labor plus primary materials plus energy. Finally, if in applying the peculiar analytic symmetry of neoclassical theory, capital—that is, plant and equipment—is presumed variable, and labor (plus primary materials and energy) is presumed to be fixed, the price obtained in this case on the basis of the corresponding marginal productivity of the variable factor would be the price of the plant and equipment, but one would still have to demonstrate what type of relation exists between the latter and the general rate of profit or the rate of interest in the economy.

So there is no need to assume declining productivity of individual "factors" over the short static term to determine their price. It is enough to apply the general law of demand, which certainly requires no reference to the concept of utility as the thoroughbred neoclassics claim. The argument is as simple as the following: In our system, anyone who needs anything, whether a good or a factor, will have to pay its market price; consequently, assuming that those making the demand have the disposable income for that purpose, it will be enough that the price of the something in question falls such that at least one demander, or for that matter all of them—assuming the price has declined to a certain level, and in light of the greater real buying power generated by the decline in this price—increases the quantity demanded at the new price. Guerrero (1995) shows that, according to Rubin (1929), if the cost of production of a good or a factor is socially given, the price will tend to stabilize around this cost or price of production (including a rate of profit that tends toward the average rate for the economy as a whole), and that, over the long term of real time, demand merely determines the quantity that can be purchased at a given price.

Second, the neo-Ricardian and Sraffian critics of marginalism reject, as we do, the Clarkian theory of income distribution, but, on the other hand, they defend another theory that is equally unable to transcend neoclassical comparative statics. They claim that it is impossible to calculate any physical quantity of capital from which one could derive, prior to knowing prices (of production), a "marginal physical product of capital" that would serve to determine the price of this
factor (as in the marginalist model). Hence, they resort to a system of simultaneous equations and matrix algebra to determine simultaneously, not sequentially, the prices of production and the distributive variables (of the two to which this model reduces: namely, rate of profit and real wages) whose value is not fixed from without. Two points must be stressed in this regard. First, it is true that distribution and prices are determined simultaneously, but not in the way these writers are accustomed to doing it; rather, they are determined in a way that Marx pointed out and which other authors have developed in our day (see Giussani, 1993–94; Freeman, 1995; Carchedi and de Haan, 1995). But, second, the basic question lies within the underlying theory of value. For Marx, prices are determined by the abstract labor necessary to reproduce commodities—that is, by values—and values are in turn determined by productivity, which is another way of referring to the state of technology (the social development of the forces of production) at a specific moment in history. As this changes and tends to improve with time, productivity increases and prices or values decrease (in terms of constant money). Therefore, it is of fundamental importance theoretically to include this declining tendency in explanatory models of the realities of capitalist enterprise, and it is precisely what is lost when this dynamic approach is abandoned in favor of comparative statics (in the neoclassical marginalist version as well as in the Sraffian matrix version).

Third, if one bears in mind this tendency, what is most important is to observe how actual prices evolve in relation to past prices (of the immediately preceding period). Therefore, the key methodological principle consists in considering the old prices as givens (in that they are already materialized in elements acquired by capitalists and comprise the value of their assets or company balance sheets at the beginning of the productive period) and to understand how, in the same process in which production and present prices are determined, the "simultaneous" distribution of income is determined. However, this distribution is the result of a dual process which, as a social process, is conditioned by the class struggle between capital and labor, but which, from the economic standpoint, amounts to the manifestation of a dual tendency. On the one hand, the process of intrasectoral competition tends to establish uniform (present) prices in the sector (for the same good of a given quality) on the basis of given (past) prices of inputs; on the other hand, the process of intersectoral competition tends to fix
(present) prices that permit a remuneration of capital proportional to the total stock invested (already valued at past prices).

From this perspective, there is no such thing as the famous "transformation problem" which many have used as the basis for rejecting the labor theory of value. According to this theory, the origin of profit—which is simply the monetary expression of surplus value—is rooted in the difference between the new value that human labor creates in commodity production and the value of the means of subsistence and reproduction of this human labor. Profit is then not compensation for the services of any factor but a part of the value created by labor that capitalists are able to appropriate because they are the owners of the means of production and also the owners of the labor performed by the labor power they have bought in accordance with the general principle of the exchange of equivalents.

Therefore, it is invalid to regard the process of creation and circulation of national income as economics textbooks usually do, as illustrated in figure 1. Rather, one should interpret this process as in figure 2, where we observe an essential division within enterprises as well as within the totality of families. In enterprises, only part of the income that labor creates goes to workers: Since the capital that capitalists allocate for paying wages is "variable capital," that is, the only thing that grows in magnitude via the process of production, we shall call the income of wage earners $V_1$ (later the "corrected" terms $V_2$ and $V_3$ will appear, but these are merely modified quantities of variable capital), while unpaid labor yields the income of capitalists that comes into being as $PV_1$, the surplus value out of which $PV_2$ and $PV_3$ later arise. Wage-earning families receive $V_1$ and spend it entirely on consumer goods, while capitalist families receive $PV_1$, which they use to consume a part of consumer goods and to buy all investment goods. Obviously, this model disregards savings and the financial system, just as it also disregards the presence of the state (solely for purposes of simplifying the presentation), but the next step is to analyze how the state affects the primary distribution of the income (between $V_1$ and $PV_1$) obtained within enterprises: we shall see later how the initial distribution is transformed first into a distribution between $V_2$ and $PV_2$ and finally into a division between $V_3$ and $PV_3$; at this point we must compare these new apportionments with the original to discover empirically the effect of an interventionist state. But first let us analyze the role of the state from a theoretical perspective.
The state and the redistribution of income

The relationship among the economy, society, and the state

There are two orthodox approaches to relations among the state, the economy, and society: the liberal neoclassical approach and the "Social Democratic" approach. The latter consists of a broad range of theoretical currents from Keynesians and Post-Keynesians to the regulationists, the radicals, the Polanyists, the Habermasians, many Marxists, all of the theoreticians of the welfare state, and so on. For the typical neoclassical author, society exists solely as an aggregate of individuals, and the state is limited—or should be limited—to laying the legal groundwork of a market economy within a context delimited by the basic capacity of the market system for self-regulation. The result is a self-regulating market conceived as a blessing and an ideal, which in its practical operations consists of omnipresent, efficient, Pareto-optimal, beneficent markets that engender social harmony.

For the second approach, the very idea of a self-regulating, self-sufficient,
and beneficent market is an impossible utopia that should be replaced or complemented by a more realistic concept of "simultaneous" state and/or institutional hetero-regulation. The market may have a special importance within the totality of social institutions, but the economic dynamic is subject in large measure to regulation by the state and the state’s economic policy, so that it normally will be possible to correct (albeit imperfectly) the flaws occasioned by the "spontaneous" functioning of the market and to mitigate their social costs. The present economy is from this perspective simply a step beyond a pure self-regulating market, which has as such become a thing of the past. In its Polanyi version, currently so fashionable though merely a modern Owensian and utopian socialist vision—although nonetheless very critical of the dominant liberal approach—the fashionable interpretation is that the flaws of the market (the self-regulating market typical of the nineteenth century and the first decades of the twentieth century) have become so numerous and so deleterious to man’s social being, or the human essence of society, that there is no other remedy than a reaction in which society must in the end dismantle the self-regulating market
and clear the way to an interventionist and protective state, today called the welfare state, and to new forms of economy that accord with the latter. Therein lies the "great transformation" that was in the works in the middle of this century, according to Polanyi's famous work (1944).

The two above approaches, however, do not exhaust the spectrum. There is still place for a third approach that diverges from both the liberal and the Social Democratic approaches and is basically characterized by its "realist" claims. From this standpoint, the self-regulating market is still today not only a perfectly real possibility but a perfectly possible reality; at the same time, it is an enormous misfortune for most of humankind.

Subject to enslavement by the market that goes so far as to include the use of their own capacity for work, people are also bombarded by arguments over whether the traditional "flaws of the market" or the more recent "flaws of the state" are most abundant—while the liberals go all out in their counterattack, ignoring the essential truth concealed by both phrases: that the flaw is the market and hence neither society nor its economy can function until they free themselves from it. As regards the relationship between society, the state, and the economy, this third position may be developed on the basis of the following three basic propositions: (1) the idea that the market presupposes the state; (2) that in turn the state presupposes the market; and (3) that the self-regulating market, or Smith's invisible hand, continues to function even in a modern capitalist economy, despite the huge growth and increased influence of both the state and the monopolies (the large firms).

First, from a historical perspective, the state performed an essential role in the creation of the national market (the internal market as opposed to local markets and foreign or international trade; the labor market; the market economy per se; all these are discussed by Polanyi [1944]), together with the parallel evolution in the material, technical, and social spheres dominated by the transition from tools to machinery and from simple cooperation and manufacture to large-scale industry and automation. In this sense, there is no doubt that the state establishes the market and Marx's analysis of the primitive accumulation of capital in *Capital* (Marx, 1867, ch. 24) is ample illustration of this.

Second, on the other hand, the market establishes the state, since, as Block (1977) stated, in our society the state is "structurally dependent
on the market economy.” This means that, leaving aside the question of which class civil servants concretely belong to, and over and above the notion that affirms the state as an instrument purely at the service of the ruling class, the state apparatus performs a dual function for capitalist reproduction (namely, it permits the free accumulation of capital and it contributes to the legitimation of the system), which is made necessary by the simple persistence of capitalist relations of production. Or, in other words, the mere fact that the capitalist mode of production dominates a society, with the consequent universal privatization of labor and the results of labor (surplus value, accumulation or investment, capital stock, etc.), objectively puts in the hands of the capitalist owners the necessary tools (control of investment and of financial flows, if not the power to stop capital investment, etc.) to stymie the state’s aspirations to autonomy whenever it exceeds certain limits. All this makes it unnecessary to use the state as if it were a new instrument to regulate the economy: As long as the basic instruments continue to be intrasectoral competition and the tendency for the sectoral rates of profit to even out (for regulatory capitals), the state alone can adapt to the functioning of these laws. This does not mean, however, that humanity cannot free itself from the tyranny of the market. It only means that, for that to happen, it will not be sufficient merely to apply some other economic policy; what is necessary is first to put an end to the privatization of labor, that is, to change fundamentally the relations of production and thus make possible a change in the nature of the state to enable the state to implement a policy at the services of the citizen, a policy freed of the straitjacket imposed by the market and competition.

Finally, Smith’s invisible hand is still operating more than two centuries later. Stripped of the apologetic garb in which it first appeared, the idea of the invisible hand is also present in Marx, although with a quite different meaning: Society can reproduce itself materially without labor having to be directly social, as is demonstrated by the practicability of capitalist society in which reproduction is possible indirectly through private labor socialized ex post, through the intermediary of the market and market prices. Furthermore, not only is this capitalist reproduction possible, but in historical terms this social form has proven to be far superior to previous forms in terms of its contribution to the development of the forces of production and to economic growth. Indeed, as socialization of collective labor and the productive
force linked to science and technology progress, capitalist development slowly but surely eliminates the material base on which this system developed, namely, private labor. In other words, it gradually creates the material basis for the self-limitation and self-destruction of the old system, which society can use as a springboard to construct a new economic and social system that will logically need the state again (however, the relative position between the state and the economy cannot change within the capitalist system; rather, a new social form would have a different economy and a different state).

The welfare state—truth and myth

The myth that the market and perfect competition produce optimal results, in Pareto’s sense, and maximum social efficiency is opposed by those who believe a good dose of state intervention is necessary to correct the numerous “flaws of the market” that characterize real competition and the way markets function in practice. But the latter in the end have forged their own myths out of their arguments, from which has come a different idea, albeit also idealized, of contemporary capitalist societies. In this new version, it is presumed that the state’s weight and power in the economy are sufficient to correct substantially the modus operandi of the market, not only via other dimensions of economic policy but also by virtue of a redistribution of income that the machinery of the state could effect. This redistributive function has numerous aspects that we analyze in this study—interregional or geographic redistribution, intergenerational redistribution, redistribution of the category of the employed into the category of the unemployed, and so on. But an essential component in any definition of the welfare state is the redistributive effect—apparently from capital to labor—spawned by the existence of the modern “social wage” (consisting of pensions and other social and health benefits, plus various forms of subsidies and assistance), which has put in its appearance to complement increasingly the “direct wage” paid by enterprises to their workers.

The dominant interpretation of this redistributive function of the state (from a functional point of view) is that it serves largely as a brake on the tendency toward inequality, which this approach, in contrast to the purely neoclassical interpretation, associates with the spontaneous functioning of the market. Thus, it is assumed that, thanks to public intervention, the popular classes are able to attain levels of
disposable income and consumption above those that they would enjoy if the direct distribution that takes place within enterprises were not modified by the presence of the welfare state. This interpretation is found in both orthodox and radical analyses, as the two examples we now discuss will show.

In a report to the Organization for Economic Cooperation and Development (OECD) (1987, pp. 9–354), Sanders and Klau sum up the principal conclusions of various studies (located in the first line quoted) on the “net budgetary incidence” as follows:

1. “Taxation in its totality is *grosso modo* proportional to initial income” (OECD, 1987, p. 310). In the case of the United Kingdom (1971), according to a study by O’Higgins and Ruggles, however, it is regressive for the lowest levels: Similar conclusions follow, according to this study, for the case of the United States (1971). For Canada (1970), according to Dodge, “[t]axation in its totality is roughly proportional in the intermediate income range, regressive for lower incomes, and slightly progressive for the higher ranges” (OECD, 1987, p. 318). There seems to be a major progressivity in total taxation solely in Sweden (1970), according to a study by Franzen, Lörgren, and Rosenberg.

2. Given the generally nonprogressive nature of taxation, the redistributive effects seem to be reduced to public spending: In particular, spending on “transfers perform an essential role in the redistribution of income insofar as it is essentially the lower levels that benefit” (OECD, 1987, p. 332), especially because retired couples are concentrated in the lower income levels. A study by Medel, Molina, and Sánchez, for the case of Spain (1981), however, points out that, even though “public spending percentage-wise benefits the poorest, in absolute terms the situation is the inverse” (Medel, Molina, and Sánchez, 1988, p. 74).

As for radical economics, there are studies that come to the same conclusions as the preceding ones. Bowles and Gintis, well-known proponents of this current, in their study of the crisis of “liberal democratic capitalism,” affirm that the “advanced capitalist social formation may be more appropriately represented as an articulation of the liberal democratic state with capitalist production,” the essential aspect of which is the dynamics of class struggle, since the power of workers in the political struggle to impose a more favorable distribution serves as
a key impediment in the slowdown of capital accumulation, and is for this reason at the heart of the present economic crisis (Bowles and Gintis, 1982, pp. 51–52). Bowles and Gintis’s central thesis is basically that the liberal democratic state and the links that tie liberal democracy in the narrow sense to capital accumulation can only be reproduced via what they describe as a historical and consequently a conjunctural accord between capital and labor. In this sense, the accord, which reforges relations between capital and labor in the postwar period and has a decisive impact on the present dynamic of accumulation, has distributive consequences that are materialized in a “substantial redistribution from capital to labor” via the redistributive impact of state intervention and, more concretely, by virtue of the so-called citizen wage or social wage (Bowles and Gintis, 1982, pp. 69–70).

However, according to Shaikh and Tonak (1987), “Conventional methodology makes it difficult to deal with many important questions concerning the social impact of taxes and public spending: first, because conventional studies generally classify the population as a function of the size of their incomes, uniting in the same group those who receive income from work and those who receive income from property. The net effect then is to blur the distinction between workers and nonworkers. Second, in the analysis of the impact of public spending on these groups, all public spending is regarded as pure social spending. In such a context, the very idea of social spending loses any sense, since a major expansion of military spending (as during the years of the Vietnam War) is considered essentially the same as an expansion of welfare spending. Thus, the underlying methodology actually conceals the social costs and social advantages of state intervention” (Shaikh and Tonak, 1987, p. 183). For this reason, the recent period has seen a new interpretation of the redistributive function of the state that questions the preceding way of looking at events, and moreover not always from Marxist positions or inspired by the labor theory of value, but also from less heterodox perspectives. The basic conclusions of these studies is that the net impact of state intervention on income distribution in “functional” or “interclass” terms is not significant, so that one can say that the state redistributes better in a “horizontal” direction (within social classes) than in a “vertical” direction (between the different social classes).

For a classical analyst of social policy such as Richard Titmuss, this idea is perfectly reasonable in light of the origins of the welfare state,
which led him to question the redistributive role of British social policy in the first five years of its existence (Titmuss, 1964). In the same sense, Mishra pointed out that “the general conclusion that the majority of studies brings to light is that the redistribution of income between classes, i.e., from the higher socioeconomic groups toward the lower, is quite modest, and that the nature of income transfers entailed is basically intra-class or generational” (Mishra, 1989, pp. 120–121). In Spain as well, Rodriguez Cabrero and Roca propose a similar idea; the former explaining that “the financing of social services is done on the basis of a tax system to which all income levels contribute, the middle to low ranges being the central axis of financing, so that income distribution and welfare distribution are more a redistribution between social groups (from the employed to the retired, from the employed to the unemployed, etc.) than between social classes (from the upper classes to the lower classes)” (Rodríguez Cabrero, 1986, p. 48); Roca, in his study on Spain (1970–88), wrote that “the public sector acted more as a redistributor within the working class than as a redistributor from other social groups to wage laborers, and has not altered the broad trends of the share of wage earners in total income (Roca, 1991).

The same conclusions have been drawn from various Marxist positions. Mandel tells us that what is produced is a “horizontal redistribution via a centralization of some surplus value and some wages (“indirect wages,” the effect of which is to guarantee payment of certain expenditures which, although important to preserve bourgeois society, are not covered by private disbursements from the principal income groups (Mandel, 1972, pp. 313ff.). Claus Offe writes: “Despite the undeniable advantages in the living standards of wage earners, the institutional structure of the welfare state has done little or nothing to alter the income distribution between the two principal classes, which are labor and capital. The tremendous machinery of redistribution functions in a horizontal and not in a vertical direction (i.e., within the class of wage earners)” (Offe, 1980, p. 143).

Shaikh and Tonak’s work9 represents an essential step forward in empirical studies on this issue.10 They go further than simple criticism of preceding critical studies and show that “upon closer scrutiny such studies reveal that either they have disregarded taxes paid by those who are the recipients of welfare spending,” as in the case of Therborn (1984), or they have very seriously underestimated them, as in the case
of Bowles and Gintis\textsuperscript{11} (Tonak and Shaikh, 1987, p. 183). The most salient feature of these studies is the decisive improvement they make in methodology. Thus, Tonak has developed an empirically workable method to determine what the net impact of the state’s distributive activities is on the wages of the working class as a whole and on various segments of it (Tonak, 1986, p. 47). The conceptual derivation of net tax—which produces an appropriate measure of “real” wages, that is, nominal wage adjusted for the taxes paid and for benefits received (in money and in kind) by workers—is done in a six-phase procedure (Tonak, 1986, pp. 49–51):

(1) The accounting aggregate used as a starting point is the net national product, naturally at market prices. In this first step, this aggregate is divided into two parts: gross income from labor (GLI), and gross income from sources other than labor (GNLI). The GLI is composed of gross salaries and wages (including the contributions of workers and owners to social security) and a residual part called other income from labor. The GNLI consists of the incomes of owners, the profits of enterprises, ground rent, net interest, indirect taxes recovered by enterprises, and finally transfers to enterprises.

(2) The second step entails assigning taxes among the different labor and nonlabor segments. The latter include the state deficit (negative tax).

(3) The gross incomes obtained in the first phase are adjusted on the basis of the calculations in the second phase to estimate: (i) income from labor after taxes (ATLJ), which results from subtracting from the GLI the tax burdens assigned to workers; (ii) nonlabor income after taxes (ATNLJ), which also results from subtracting from the GNLI the taxes paid by the nonlabor segment.

(4) In this phase, state expenditures are assigned in money and in kind to the labor and nonlabor segments.

(5) In this phase, the net tax borne by both segments is calculated logically on the basis of the corresponding calculations in phases (3) and (4).

(6) After-tax incomes obtained in phase (3) are adjusted as a function of the magnitude and the sign of net labor and nonlabor taxes to estimate incomes after received profits and earnings; in the case of workers, the observed real wage is calculated.
Calculations of "net taxes" obtained\textsuperscript{12} for the United States (1952–80) show a clear net transfer from the labor segment to the nonlabor segment (and to simple "absorption" by the state of net labor deductions) in the subperiod 1952–70, and a lower transfer, moreover, with opposite sign since 1970, from which it may be concluded that it seems "difficult to argue that the welfare state has provided net benefits to the workers of the United States" (Tonak, 1986, p. 64). Developments in the most recent period (to 1989) likewise lead these authors to comment that those who receive wages income "paid more in taxes than they received as part of state welfare spending" (Shaikh and Tonak, 1994, p. 141).

Finally, in our own studies, we have replaced an analysis of "functional" incidence by an analysis of the "economic" incidence of overall state intervention, the most important innovation of which is the fact that the incidence of monetary income flows is driven above the incidence of use value flows from the benefits of public services. Thus, for example, the pay to civil servants is wholly assigned to the sector of wage earners—instead of assigning it in terms of the various functions that each particular type of civil servant performs—simply because their pay assumes the form of wages and because this group of workers, despite its specific features, must be considered an integral part of the totality of wage earners.\textsuperscript{13} In the next section we discuss in detail the method of assignment used for each type of public revenue and each public expenditure.

The redistribution of income in Spain since the transition: The model and the empirical results

The model we describe starts out simply by introducing two properties into the circular income flow model (figure 1) that are always absent in the neoclassical approach. The first of these is the distinction between workers and capitalists: However simplified this distinction may be, it is no more simplified than the conventional assumption that all families in society are equal and indistinct (because they are all identified as mere possessors of certain combinations of productive factors). This first property, which we commented on earlier, enabled us to develop the "class" model presented in figure 2. As we see, it is assumed that all workers are wage earners—that is, we are operating theoretically with a pure capitalist society in which there is no place for self-
employed workers or for cooperative workers, or for any other individual different from wage earners and their employers—and that altogether they have no room for saving and hence consume all their income. Consequently, variable capital paid by enterprises finances the totality of workers' wages, and workers and their families spend the whole of this income on a segment of the consumer goods and services produced by the productive sector.

The second property introduced is the state, whereupon the totality of the different flows, both incoming and outgoing, that arise between the public sector and the private sectors bear scrutiny. The state has been introduced in the model in figure 3 along with consequent redistributive flows, which we shall comment upon later. As the incomes from labor and capital are generated in the entrepreneurial sector, it becomes necessary to pay "taxes" on part of both types of income: a total quantity $I_A$ (welfare contributions, that part of $IRPF$ that is levied on income from labor, and one-half of the other direct taxes) is levied on income from labor while income from capital must pay the magnitude $IK_1$ (corporate taxes, taxes on interest, dividends, and other incomes received by the state, the remainder of the $IRPF$, and the other half of the remaining direct taxes).

The state in turn channels the first monetary flows to both groups of families, which become part of their respective disposable incomes: $GA_1$ is paid to workers (wages of civil servants, unemployment benefits, and a percentage of the rest of pensions), and $GK_1$ is paid to capitalists (the rest of pensions and the totality of interest on public debt). After these two operations, the initial wages ($V_1$) have been transformed into $V_2$ ($= V_1 - IA_1 + GA_1$) and profits ($SV_1$, the monetary expression of surplus value) have been transformed into $SV_2$ ($= SV_1 - IK_1 + GK_1$). When they spend this disposable income ($V_2$ and $SV_2$), families must pay new taxes, called indirect taxes. The families of workers will pay a percentage (equal to the disposable income they spend on total private consumption) of "taxes on production and imports," and of current transfers and capital transfers received by the state (summed up by $IA_2$). The families of capitalists will also pay the remainder of these taxes and transfers, plus the totality of taxes on capital, inheritance, and land and estates (for a total of $IK_2$). In turn, both groups of families will receive new incomes from the state: Workers will receive $GA_2$ (a percentage identical to that on subsidies, current transfers, and capital transfers paid by the state, as well as
allowances for pharmaceuticals), while capitalists receive $GK_2$ (the remainder of these same four items). As for purchases of consumer goods and capital investment goods by the state, contrary to what previous studies have assumed (see Guerrero, 1992; Guerrero and Moral, 1990), we believe that they should be assigned in the same proportion as the last items quoted, and not wholly to capitalists, as was done in those studies. As a result of this second type of state intervention, $V_2$ will be transformed into $V_3 (= V_2 - IA_2 + GA_2)$ and $SV_2$ into $SV_3 (= SV_2 - IK_2 + GK_2)$.

If we now call $IA$ the taxes$^{16}$ paid by wage earners in the two moments indicated ($IA = IA_1 + IA_2$), $IK$ the taxes paid by capitalists ($IK = IK_1 + IK_2$), and $GA$ and $GK$ the state spending received by wage earners ($GA = GA_1 + GA_2 + GA_2$) and by capitalists ($GK = GK_1 + GK_2$),
respectively, we can define $NA$ and $NK$ as the difference between the state spending received and the taxes paid by each of the two classes ($NA = GA - IA$, and $NK = GK - IK$). Figure 4 presents an overall view of how each of these variables has evolved as a percentage of national income over time in Spain in the period 1970–92. We see that public revenues and public spending regarding wage earners are much greater quantitatively than revenues and spending regarding capitalists ($IA$ and $GA$ are very much higher than $IK$ and $GK$), and that the net result is very little in both cases ($NA$ and $NK$ are almost identical, at a level near to zero).

However, before we embark on an analysis of redistribution, we should consider the primary distributive context in which redistribution takes place. To this end we use two indicators that are distinct but interrelated. First, we calculate the "wage coefficient" (and its parallel, the "profit coefficient"), defined simply as the ratio between the proportion represented by wages in national income and the proportion represented by workers (employed and unemployed) in the active population (or the excess and nonworkers in the case of the second coefficient). Both appear in figure 5 as $CA_1$ and $CK_1$, accompanied by $CA_2$ and $CK_2$, corrected coefficients that we shall comment on later.

It may be observed that the values assumed by the two coefficients ($CA_1$ and $CK_1$) diverge increasingly from one another over the period from 1970 to 1982 and especially between 1982 and 1992, which signifies that the spontaneous distribution of income, which responds directly to market forces, makes for a growing inequality. The same conclusion results from the second indicator (which we calculate), which is simply the classical rate of surplus value defined as the ratio between surplus value and variable capital. This indicator, which derives all its meaning from the labor theory of value, should not be interpreted as a magnitude measurable exclusively in terms of quantities of labor: The theoretical reasons for calculating it in money terms (see Guerrero, 1989) go hand in hand with the practical reasons given by Shaikh and Tonak (1994) on the basis of the empirical evidence of a correlation between the data yielded by the two possible types of calculations (see also Delaunay, 1984).

Consequently, we define the rate of surplus value here as the quotient between the magnitude of surplus value in money terms (equal to the total national income created in enterprises that entrepreneurs do not pay to their employees as net wages) and the monetary value of the
Figure 4. Percentage of National Income Represented by Taxes and Spending Borne by Wage Earners ($IA, GA$) and by Capitalists ($IK, GK$), as well as the Balance Between the Two ($NA = GA - IA$, $NK = GK - IK$)

total sum of net wages (remuneration of wage earners minus welfare subsidies and direct taxes) in the entrepreneurial sector. The Spanish rate of surplus value exhibits the behavior illustrated in figure 6, where it is compared with the rate of surplus value of the United States for the period 1970–89. In particular, we may observe how this rate moved from 150 percent in the period 1970–76 when it underwent a slight decline, to values around 300 percent at the end of the period considered (the 1990s). This means that, at present, workers employed in the entrepreneurial sector are paid only one-fourth of their labor time, the remaining three-quarters going for the various ways surplus value may be utilized: the private profit of capitalists (for consumption
and investment), but also for the funds necessary to finance workers in the public sector, unemployed workers (those who have lost their jobs, the ill, etc.), and those who have retired (and their families).

Finally, let us move from distribution to redistribution. Now that we have analyzed the rate of surplus value in the strict sense, we may flesh out its interpretation with an analysis of the different “rates of exploitation,” which do not exactly coincide with it. If the rate of surplus value is defined for the totality of workers in the productive sector, who are the creators of value, and hence of surplus value, the rate(s) of exploitation correspond best to the total distribution of income between the two big social classes, regardless of whether the income that goes to
workers (or to capitalists) is distributed directly from enterprises or indirectly through the state. This approach makes it possible to calculate more than one rate of exploitation, depending on which place in the model in figure 3 we choose for our analysis. If from surplus value we exclude that part of it that is the remuneration of wage earners which is actually the "social wage" of the unemployed in the public sector, we can calculate a first rate of exploitation \( p'_{1} \) as the quotient of what we have called \( SV_1 \) divided by \( V_1 \); a second would then be \( S'_2 = SV_2/V_2 \), and finally, we could define \( s'_3 = SV_3/V_3 \).

The most synthetic way to quantify the total impact of state intervention on income distribution brought about by market forces is to
compare the rate of exploitation at the precise moment of product and generation of incomes (or $s'_1 = s\nu_1/\nu_1$) with the rate in the last important phase of the economic cycle being analyzed, which coincides with the effective spending of disposable income (or $s'_3 = s\nu_3/\nu_3$) and is the end result of the totality of redistributive operations of revenues and spending in which the state intervenes (see Díaz Calleja, 1995a). The myth of the welfare state would only be verified if the rate of exploitation of labor were notably affected (specifically, diminished) as a result of public intervention, but it can be shown that this has not been the case in Spain since 1970. As is evident from figure 7, the three exploitation rates defined evolve entirely in parallel throughout the entire

Figure 7 The Parallelism in the Three Rates of Exploitation of Wage Labor ($s'_1$, $s'_2$, $s'_3$).
period, with the exception of a slight divergence in the last years considered. However, it is relevant here to recall the second pair of coefficients that appeared in figure 5—that is, $CA_2$ and $CK_2$, the "wage" and "profits" coefficients obtained after taking into account overall state intervention—since the above-mentioned divergence becomes very relative when $CA_2$ and $CK_2$ are compared, since, whereas $CK_2$ was 1.76 times greater than $CA_2$ in 1970, this proportion rose to 2.42 in 1982 and to 4.23 in 1992, thus showing an enormous increase in economic inequality in Spain between the two principal social classes.

This objective trend against wage earners, which picked up further momentum in the second half of the period analyzed, should not be interpreted as the result of the economic policy pursued in the second period. This is because the growth in inequality does not appear to be due to some particular bent of the PSOE governments, and not only because this same trend might also have been observed if another party had been in government, but also and above all because the general situation in the 1980s was not the same as the situation that dominated the preceding decade, as demonstrated by the fact the other countries around Spain have had a similar experience. What we want to emphasize is that it seems beyond doubt that the impact of internal factors on the actual dynamic of capital accumulation has been much greater than the impact from the various interventionist measures of the respective governments.

More specifically, the fact that in the 1970s not enough time had yet passed for the strategies for reconstructing industry aimed at recovering profitability by attacking the living standard and working conditions of wage earners to achieve their full amplitude; the rise in unemployment due to the persistence of the situation of overaccumulation for several decades, and the consequent economic policies implemented in the eighties and nineties throughout the world to "reduce inflation" (i.e., to increase unemployment and roll back the gains of the working class); the possibilities, made good use of, of partly correcting the situation by resorting to massive public deficits that ease distributive tension over the short term but that which sooner or later have a very clear redistributive effect against income from labor—all these factors play a major part in explaining the phenomenon with which we are here concerned, regardless of the concrete measures implemented by one or another government.
We may conclude from the foregoing that the available empirical evidence for both Spain and the other OECD countries strongly supports the thesis defended here that a major portion of the benefits attributed to the so-called welfare state are pure myth—a myth that may be food for the political media but is hardly relevant in scientific analysis. This does not mean, however, that we discount the struggle of those social sectors that are opposed to what is today called "the necessary reform of the welfare state with a view to rescuing it" (Rojo, 1996; also Gómez Castañeda, 1995, among others). We simply suggest that things be called by their right name, and that the increase in the share of the state in the gross domestic product does not in itself signify prosperity for all, or that the capitalist state can appropriately be called a benefactor by those who must endure it. If we oppose what many call the "dismantling" of the welfare state, it is because we are against the content of what has been done, and what is still intended under the cloak of this inadequate designation. We oppose the rhetoric of the welfare state just as we oppose the rhetoric of competitiveness and Europism, because we suspect that what many would like to dismantle is the totality of workers' rights, one by one, as well as their living standard and working conditions. It is essential to bear in mind, however, that the only state that can correspond to a market economy, and hence an economy of distress, is a "State of Trouble and Woe."

Notes

1. Guerrero (1995) expresses his intention to develop important aspects of microeconomic analysis using an alternative approach based on the dynamic principle that inspired the classics and Marx.

2. One need not belong to the ubiquitous sect of the permanent "scientific and technical revolution" to make such a statement.

3. See the trenchant criticism of this interpretation in Weeks (1989).

4. One should bear in mind the more precise definition in the section below on the redistribution of income in Spain since the transition, where we distinguish between the rate of surplus value and the rate of exploitation.


6. See the two interesting and recent reviews of Marxist literature on the state in Das (1996) and Jessop (1995).

7. The methodological hypotheses of these studies concern both taxes and spending. Thus, to measure the allocation of taxes not directly attributable, specific hypotheses are advanced: That is the case with the hypotheses on the repercussions of taxes imposed on enterprises, both direct and indirect, on prices and profits, and it is the case with hypotheses for measuring the repercussions of
contributions to social security on prices and wages. On the other hand, profits from the public debt that are not directly attributable are estimated as a function of the use their beneficiaries make of the goods and services and, if that is not possible, as is the case with "public goods in the strict sense" (such as expenditures for defense and civil security), the corresponding public expenditures break down equally among all species of income established by other methods, which involve sensitive studies, disregarding, in the general case, "any external economy" (OECD, 1987, p. 309).

8. Guerrero (1989, 1990a, 1990c, 1992), Diaz Calleja (1993, 1994, 1995a), and Guerrero and Moral (1990) review this literature, to which we must add others they do not mention: Freeman (1992), Bartelheimer and Wolf (1992), or Shaikh and Tonak (1994). Several empirical checks of the consistency of these ideas as applied to the cases of Spain and the major OECD countries have also been made and will serve as a basis for our study. Actually, this string of empirical studies on the functional or social impact of the state on income distribution, which all start out from the categories and analytical tools provided by the labor theory of value, are part of a broader current, at present enjoying tremendous development. This current emphasizes the crucial importance of empirical confirmation of any thesis concerning economic theory and economic realities that spelled out in terms of postulates of the labor theory of value. Regardless of whether it is supposed that variables must be quantified in terms of labor values or in terms of the monetary expression of these values, those who adopt this approach are already part of a broad tradition that extends to ever more diverse fields (see the reviews of this literature, in Delaunay, 1984; Shaikh and Tomak, 1994; Guerrero, 1966; Duménil and Lévy, 1993; Moseley, 1993; Carchedi, 1991; Calmans, 1998; Khanjian, 1989; Papademitriou, 1988, and others) and that has spawned the important pioneering works of Gilman (1957), Maje (1993), and the like (see in general the content of periodicals such as Capital & Class, Review of Radical Political Economics, New Left Review, Science & Society, Plusvalore, International Journal of Political Economy).


10. And not only in this material: See the exhaustive and detailed contribution concerning the field of national accounting, the input-output tables, and the measures of essential variables of analysis based on the labor theory of value, in Shaikh and Tomak (1994).

11. We may point out the empirical flaws in the work of Bowles and Gintis in this regard: Whereas the average typical working-class family hypothetically consists of four members and one income recipient, the "average North American family for the year 1977 was composed of roughly three members and 1.2 income recipients," so that social spending going to workers is overestimated and the tax burden they must bear is underestimated. Once these errors are corrected, "their conclusions become the direct opposite" (ibid., p. 185).

12. Taxes paid to the state and benefits and payments received from the state by the two segments are assigned by using as a basic indicator the share of each type of income in "adjusted" personal income, or the ratio of the labor share to the nonlabor share, respectively. Thus, the procedure first assigns state tax revenues, with the exception of the few headings that are assigned directly to the labor and
nonlabor segments; thus, the tax on personal income, the tax on the inheritance of families, motor vehicle licenses, personal nontax burdens, and other taxes are attributed to the workers as a function of the ratio of income from labor to total income. Likewise this ratio is used (with the exception of directly assigned items) in assigning state spending in money and kind, to workers (and proprietors): education, health and hospitals, recreational and cultural activities, energy, natural resources, postal service, and transportation.

13. Clearly there are exceptions to this qualification, but it should also be remembered that such exceptions also exist in the private sector where some putative wage earners are in fact capitalists who thus gain additional income, whether in money, or in kind, via the state.

14. This means that incomes in the civil-service sector that come from a redistribution of authentic income are left out (Guerrero, 1989).

15. Actually this refers to the total civil service, but we refer to it with a more convenient term as the "state."

16. Not only taxes in the strict sense, but all revenues received by the state for any reason.

17. The national income obtained on the basis of the \( ND_{P_{n}} \) once the added values assigned to civil servants, domestic services, and the housing rental branch are subtracted. For a theoretical defense of this procedure, see Guerrero (1989).

18. According to the data of Shaikh and Tonak (1994), who used a different methodology, above all because they consider that all labor performed in sectors linked to distribution is nonproductive; as a consequence, these wages must be added to surplus value and subtracted from variable capital. For a criticism of this assumption, see Guerrero (1993), and for a detailed analysis of the question of productive labor, see Guerrero (1989), and a summary in Guerrero (1990d).

19. Guerrero (1990a, 1992) and Guerrero and Moral (1990) point out that there was an intensification of the redistributive bias against workers during the period 1982–87. This effect is not so obvious to the eye in a broader perspective.

20. Although one should also examine the extent to which this background economic situation explains the "necessity" of governments of this sort insofar as they seem to have demonstrated the universal historical experience that certain unpopular measures of adjustment and austerity are better accepted if they are implemented by Social Democratic governments than if they are implemented by governments of the more traditional right.

21. The reason is that interest on the public debt, which begins to accumulate owing to deficits, clearly is of benefit to the capitalist class, the only class with the capacity for net saving, while the share of workers in the total sum of new financial assets is no more than a small percentage of the total.

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