Workers' taxes, social benefits and the fiscal crisis in Southern Europe

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Abstract: In the economic crisis the need for traditional expansionary fiscal policies to stimulate effective demand has faced a serious obstacle – public deficits and the levels of public debt. We examine empirically whether workers are responsible for the public deficits and the accumulated debt in the Southern European countries. By subtracting labour taxes from labour benefits derived from public spending we estimate the net social wage for the period, 1995 to 2008. The net social wage ratio expresses the net social wage as a percentage of the gross domestic product and reveals the significance of the positive or negative net fiscal position of the working class for the system as a whole. Our results suggest that the net social wage is always and everywhere negative in these years indicating that the fiscal imbalances in Southern European countries have not been caused by the subsidisation of the income of labour.

Keywords: social wage; fiscal crisis; welfare state.

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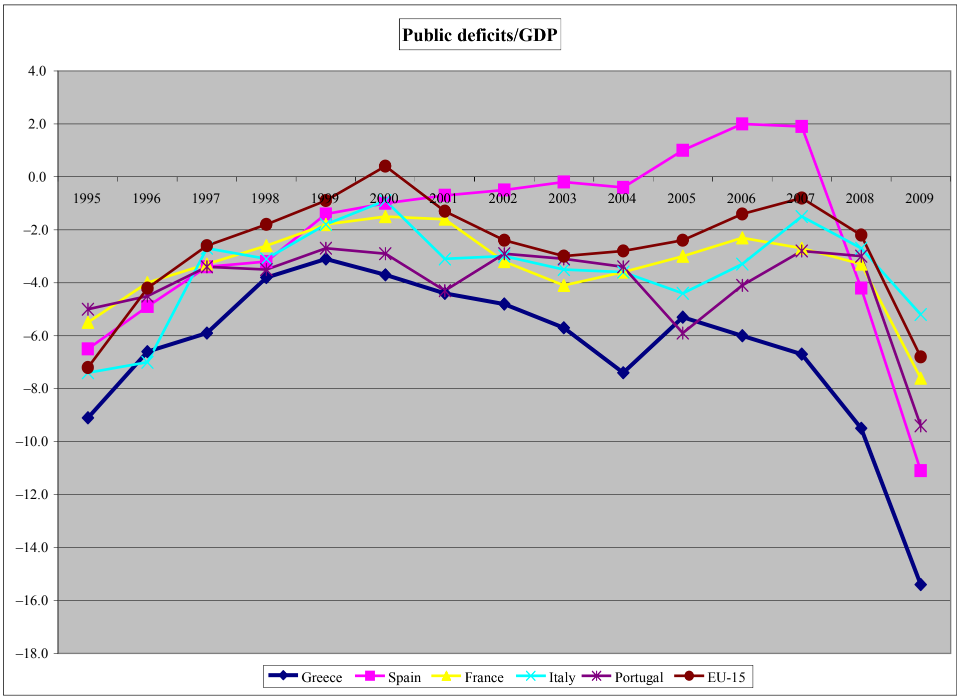
1 Introduction

The previous crisis that hit the capitalist world economy during the late 1960s and continued into the entire period of the 1970s was attributed by mainstream and certain radical authors primarily to excessive wage growth (Glyn and Sutcliffe, 1972; Weisskopf, 1979; Armstrong et al., 1991) and in many cases to generous social benefits for workers as well (Bowles and Gintis, 1982a, 1982b; Glyn, 1975, 2006). According to the logic of this argument, the increases in the market wage and the 'social wage' undermined directly or indirectly profitability and eventually ended the postwar boom. This argument was disputed empirically later (Moseley, 1988; Shaikh and Tonak 1994) albeit after the crisis had bottomed down and the neoliberal period had already begun.

The latest crisis is still underway and running its course. The overall assessment of the origins of crisis, its fundamental cause and its economic and social effects has not been done yet.[1] It is still debated whether it was a rupture in the financial sector which led to a crisis in the 'real' economy, or a case where a stagnating 'real' economy due to the incomplete recovery of profitability, led to financial overexpansion and then, when the financial bubbles broke, to a serious crisis in the 'real' economy. It is clear, however, that the unprecedented fiscal stimulus which was applied during the initial stages of the crisis and especially the public expenditures undertaken for the bailout of the financial sector institutions, have exacerbated the fiscal distress from which many states were suffering even before the onset of the economic crisis.

Thus, most countries and especially the Southern European economies have found themselves, in the midst of a fiscal crisis with huge public deficits (see Figure 1); in many cases (especially in Greece and lately in Portugal) this fiscal crisis tends to overshadow the underlying economic crisis.

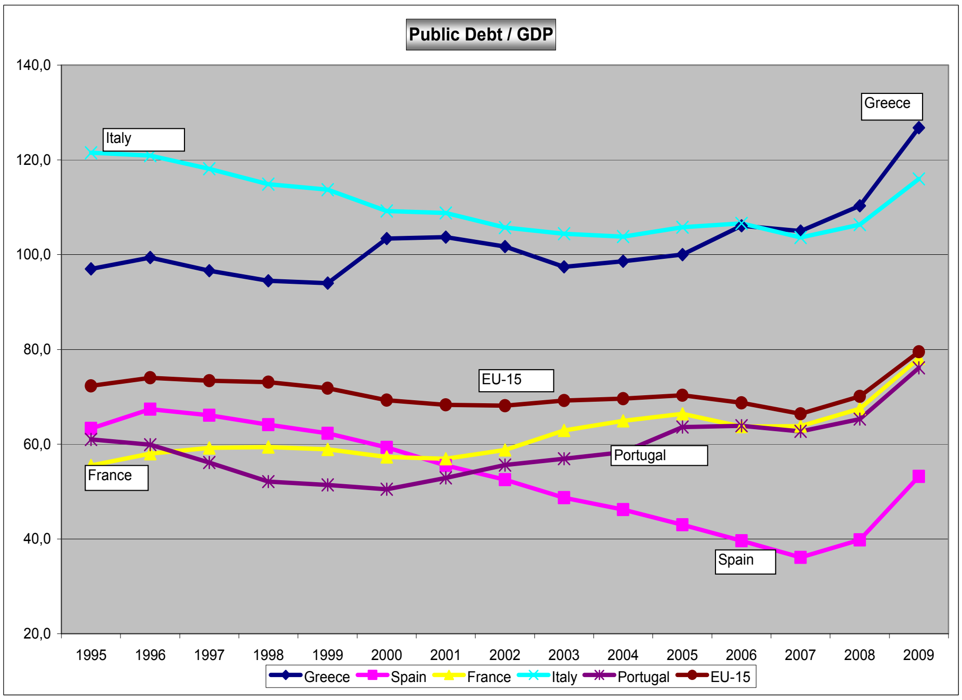
Figure 1 Public deficits as a percentage of GDP (see online version for colours)



Source: Eurostat, government finance statistics

This is a period where the costs of the crisis are distributed on the different social classes as governments try to find the appropriate measures to lift their economies out of the deep recession. After many years of stagnating or even falling real wages it is not easy for the ruling elite to blame high labour costs as the cause of crisis, as it happened in the 1970s. However, as the turn of events has brought to the forefront the fiscal difficulties and the 'sovereign debt crisis' of many countries (see Figure 2), the terrain of the ideological battle has changed. During the initial stages of the crisis the role of the greedy and myopic financial capitalists or the faltering and weak 'real' capitalists was emphasised. Now this has been forgotten, and it is fiscal profligacy and generous social policies which are presented as the main culprits of the current economic malaise.

Figure 2 Public debts as a percentage of GDP (see online version for colours)

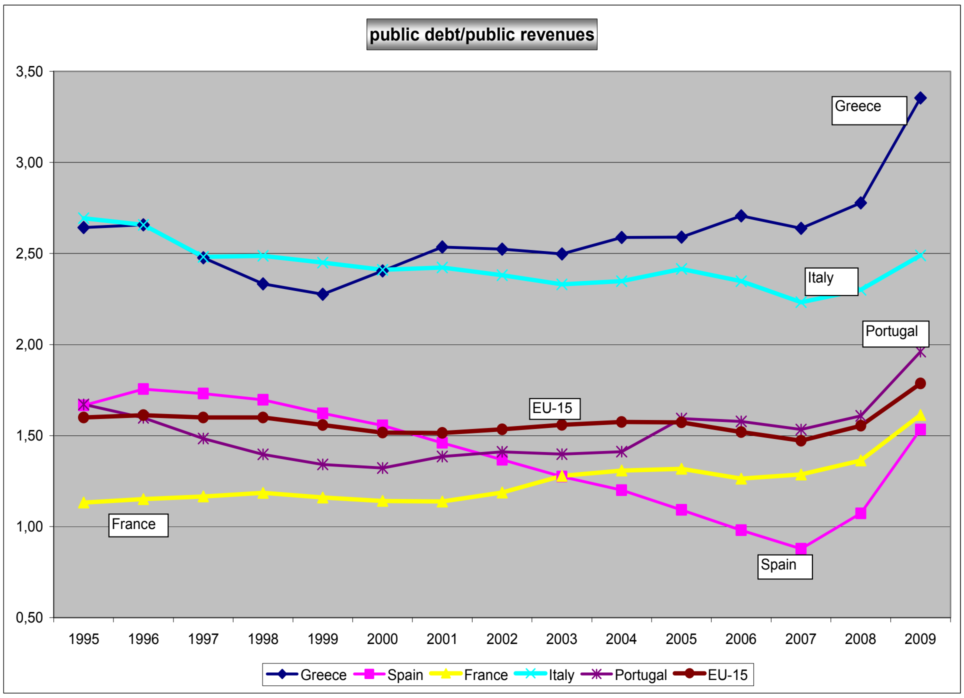


Source: Eurostat, government finance statistics

In many countries, the 'fiscal excesses' have been used as an excuse for the attack, first on the wages of public employees, and subsequently on the wages and social benefits (especially on pensions but practically on all entitlements) of workers in general. Behind this attack lies the often implicit claim that somehow workers and pensioners are responsible for the fiscal crisis. Demographic reasons (increases in life expectancy, low fertility rate, etc.) are also cited as responsible for the fiscal austerity implemented against the majority of the population, but the victims of those developments regarding people's welfare and standard of living are predominantly workers, the elderly and the poor.

In fact though, public deficits as a percentage of GDP were shrinking before the onset of the crisis (in 2007 they were smaller than the corresponding ones in 1995 in all countries examined here) and public debt as a percentage of GDP was more or less stable during the same period. Italy and Spain had lower ratios of debt to GDP in 2007 compared to 1995 and only in Greece this ratio was increasing for most of the 1995 to 2007 period. Of course the two years of economic and fiscal crisis significantly increased both deficit and debt as a percentage of GDP everywhere. The same is true for the ratio of public debt to public revenues, which is a more reliable index of the 'solvency' of the public debt in each country. Thus, in an ideological sense the fiscal crisis is being used as an opportunity to strengthen the dominance of capital over labour. The ideological hegemony of capital appears as strong as ever. Somehow, the response to both crises by the system has been similar; it even seems that the attack on wages and social benefits is stronger in the present crisis relative to what happened at the initiation of the first neoliberal period in the late 1970s.

Figure 3 Public debts as a percentage of public revenues (see online version for colours)



Source: Eurostat, government finance statistics

The claim that the working class is to blame for the fiscal imbalances and the accumulated public debt in southern Europe, calls for an examination of the class aspect of the public budget, and therefore of the budget deficits and debt in those countries.

The answer to this question is provided in the radical and Marxist political economy tradition by the empirical investigation of the social wage issue. In simple terms, the measurement of the net social wage for labour in one country involves the estimation of the net benefits wage and salary earners receive from the state expenditures directed at them when all kinds of taxes that are paid by those workers are subtracted.

We will discuss briefly the methodology of estimating the net social wage below, and we will present our results for the five Southern European countries. We will also compare our results regarding the distributive performance of the welfare state vis a vis labour in South Europe with the results for the net social wage ratio in countries such as the USA, UK, Canada and New Zealand. But before that, it is illuminating to look at the overall picture of the public finances in the five countries (which include some of the most discussed cases with serious fiscal problems) for the most recent 1995 to 2009 period. It could be argued that at least as far as Greece (the country with the biggest fiscal problems) is concerned, it is so obvious where the source of the fiscal imbalances lies, as to almost predetermine the results of the estimation of the net social wage for labour.

2 Comparing the fiscal structure in southern European countries and EU-15, 1995 to 2009

Table 1 presents in summary form the fiscal structure of the five economies compared to that of the EU-15 as a whole, during the past 15 years. It is evident there, that despite arguments about profligate state spending in southern Europe, except from France, only in Italy the state spends more than the EU-15 average. The other three countries[2] and especially Spain spend considerably less than the European average. A similar picture emerges for government revenues. While the French state collects in revenues five percentage points of GDP more than the European average and Italy exactly the average, Greece, Portugal and Spain stand out for the low share of state revenues in GDP compared to the European average. Greece and Portugal have large public deficits even though they spend much less than the EU average. Hence, the reason for their deficits seems to be not heavy spending but rather inadequate state revenues. The same holds true for Spain which has the lowest share of public revenues in GDP among the five countries.

Looking at the structure of public expenditures we observe that in Greece, Italy and Spain the wages of public employees (a usual target of neoliberal attacks) as a percentage of GDP are equal to the EU average for the whole period on average and only in Portugal and predictably in France they exceed the European average. In the traditional fields of social welfare expenditures (health, education and social protection, i.e., pensions, unemployment benefits, etc.) Greece is lagging seriously behind the European average in all three categories. Spain also spends below average in all categories and especially social security, Portugal spends more on education but much less on social security, Italy spends slightly less than the average in all three categories and France spends much more than the average in all three categories. In the major public expenditure categories which are not related to the welfare of the working population we see that the two countries with the heaviest debt burden pay a significant amount (almost double that of the European average) of their product (6% to 7% of GDP) to their creditors in the form of interest while the other three pay an amount close to the European average. It is interesting to note that interest payments are roughly equal to budget deficits for all five countries except Italy which appears to have primary budget surpluses over the past 15 years. Since interest payments are included in the category of general public expenditures (general administration, courts, etc.) the same picture emerges for this category as well. Finally, Greece is a well known heavy defence spender followed by France with the other three countries falling below the European average.

On the side of revenues and taxes we observe that the main reason for Greece, Portugal and to a lesser extent Spain lagging behind the EU average appears to be the relatively low taxes on income and wealth, especially on households, since taxes on corporate profits are quite low across Europe to allow for significant divergence from the average in individual countries. Indirect taxes are close to the European average for Greece, Portugal and Italy with Spain and France being two percentage points of GDP lower and higher respectively.

In short, Greece, Portugal and Spain lag behind European averages for total and almost all individual tax categories, and Italy is close to those averages. Taxation in France is based heavily on indirect taxes (which offset the lighter taxation on household income and profits bringing tax revenues equal to the average for EU-15) and much higher than average social security contributions.

The fiscal structure of France indicates that heavy public spending does not necessarily mean high budget deficits and public debts. On the contrary, when state expenditures are quite high but largely matched by public revenues not only public deficits and debt are relatively low by international standards but also the servicing of debt appears to be more manageable (see Figure 3).

Table 1 Average values for public expenditures, taxes and budget deficits as a percentage of GDP in Southern European countries and EU-15 (1995 to 2009)

Categories		*EU-15*	*Greece*	*Portugal*	*Italy*	*Spain*	*France*
1	Government expenditures/GDP	47.7	45.9	43.1	49.1	40.5	53.2
2	Government revenues/GDP	45.1	39.4	39.1	45.5	38.3	49.9
3	Budget deficit/GDP	–2.6	–6.5	–4.1	–3.5	–2.2	–3.3
Public expenditures/GDP							
4	Government employee compensation	10.8	11.0	13.0	10.9	10.5	13.3
5	Education	5.2	2.9	6.8	4.7	4.4	6.3
6	Health	6.4	4.4	6.5	6.2	5.4	7.5
7	Social protection expenditures	18.8	17.2	14.0	18.0	13.4	21.4
8	Interest payments	3.6	6.7	3.2	6.6	3.0	3.0
9	General public expenditures	7.1	10.6	6.8	10.3	5.7	7.6
10	Defence expenditures	1.6	2.6	1.4	1.2	1.1	2.1
Taxation/GDP							
11	Total receipts from taxes and social contributions	41.3	34.1	35.3	41.9	34.9	45.4
12	Total tax receipts	27.2	21.2	23.7	28.9	22.5	27.1
13	Total (actual and imputed) social contributions	14.3	12.9	11.6	13.1	12.9	18.5
14	Current taxes on income, wealth, etc.	13.2	8.0	9.1	14.4	10.5	10.9
15	Taxes on income	12.3	7.6	8.8	13.9	10.2	9.9
16	Taxes on individual or household income including holding gains	9.7	4.5	5.5	10.9	7.0	7.4
17	Taxes on the income or profits of corporations including holding gains	n.a.	2.9	3.2	2.9	3.1	2.5
18	Taxes on production and imports	13.7	13.0	14.6	14.2	11.6	15.8

Source: Eurostat, government finance statistics

In addition, it is obvious that relatively low social spending and high spending for state bureaucracy, waste and armaments, and reliance on social security taxes, consumption taxes along with low taxes on profits suggest that a certain bias exists which calls for a class-based analysis of public spending and taxes Thus, the question of who pays for the social expenditures in those countries is not so difficult to answer even with a cursory look at the structure of their public finances. We turn to this issue next, namely to the estimation of the net social wage ratio for labour in Greece, Portugal, Italy, Spain and France.

3 The net social wage literature and empirical methodology

Over the last 25 years, a number of studies have appeared in the literature, which try to estimate the net benefit received by workers when both state expenditures directed at workers, and taxes paid by them are taken into account (Shaikh, 1984; Shaikh and Tonak, 1987, 1994, 2000; Tonak, 1987; Miller, 1992; Guerrero, 1992; Sepehri and Chernomas, 1992; Akram-Lodhi, 1996; Fazeli, 1996; Maniatis, 2003; Shaikh, 2003; Freeman, 1991; Fazeli and Fazeli, 2009; Reveley, 2006). Even though there are still some inconsistencies in the empirical methodology applied in the studies for certain countries, by and large, a common methodological framework has been established.

3.1 Measuring the net social wage

Table 2 summarises the net social wage terminology.

Table 2 Net social wage definitions

Net Social Wage = Labour Benefits – Labour Taxes
nsw = lb – lt
Benefit Ratio = Labour Benefits / GDP (or Employee Compensation)
Lbr = lb / GDP (or ec)
Tax Ratio = Labour Taxes / GDP (or Employee Compensation)
Ltr = lt / GDP (or ec)
Net Social Wage Ratio = Net Social Wage / GDP or
Net Social Wage / Employee Compensation
nswr = nsw / GDP or
nswr = nsw / ec

3.1.1 General methodology

In measuring the net social wage we follow the methodology developed by Shaikh and Tonak (1987, 1994, 2000) adjusted for the treatment of indirect tax class incidence in order to make our results comparable with those of similar studies in other developed capitalist economies. Shaikh and Tonak note,

> Our primary focus is on the extent to which the state's involvement in taxation and expenditures serves to redistribute a portion of the nation's surplus product to, or from, the working class. In keeping with our focus on class, we define the category of 'working population' as consisting of those members of the population not having ownership of capital as a principal income source. Our task is to assess the impact of government activities on the income and consumption of this population by properly accounting both the expenditures directed toward them and the taxes deducted out of their income stream. [Shaikh and Tonak, (2000), p.248]

More specifically, if we think of society as consisting only of capital (property owners) and labour[3] (wage and salary earners) the net national income is divided into a labour portion (wages and salaries) and a capital portion (property income). The state modifies this original division as it taxes all market incomes and uses some of those revenues in order to create and provide health, recreation, cultural, education services, and pay for pensions, unemployment benefits and other transfers that form part of the overall standard of living of active and retired labourers. The net social wage, defined as the difference between labour benefits and labour taxes, expresses the way in which the original labour portion is affected by those activities. Therefore, in order to gauge the net impact of state spending and taxation on gross labour income or total economic activity, we calculate three ratios. The labour benefit ratio, defined as labour benefits received from the state divided by wages and salaries or the GDP, the labour tax ratio defined as labour taxes divided by wages and salaries or the GDP, the net social wage which is defined as labour benefits minus labour taxes, and the net social wage ratio defined as the net social wage divided by wages and salaries or the GDP (see Table 2).

It is obvious from the above that there are three crucial issues in measuring the net social wage; the definition of what ST call the 'working population' which is used as a proxy for labour or the working class, the estimation of the part of total state expenditures that becomes labour benefits in the form of monetary income (i.e., unemployment benefits, pensions, etc.) and consumption (i.e., education, health services, etc.) and the estimation of the part of total taxes that is paid by labour.

3.1.1.1 The working population

Our definition of the working population includes all wage and salary earners and their dependants, as well as the pensioners who were wage and salary earners in their economically active life. In effect, this definition of labour includes the persons who currently depend, had depended or will depend mainly on the sale of their labour power for their reproduction. The net effect of fiscal policies on the market income of this population (i.e., the net social wage), and its magnitude relative to the total wage bill or the gross domestic product (i.e., the net social wage ratio) express the state impact on the standard of living of this population. This is exactly the definition of labour adopted in all similar studies [see Shaikh and Tonak, (1994), p.356; Akram-Lodhi, (1996), p.181; Sepehri and Chernomas, (1992), p.75] since they focus on how the state changes the market distribution of net national income between capital and wage-labour. Adopting this definition of labour means that self-employed persons and especially farmers[4] are excluded from the population on which the redistributive effect of the welfare state is measured. It could be argued that at least a section of the farmers' population should be included in the definition of labour or working class. However, small independent farmers are excluded from the definition of labour in this study for two reasons. The first has to do with the nature of the methodology used, which focuses on the distributive struggle between capital and wage-labour and the way the state affects market wages and profits. The second reason for the exclusion of small farmers is a practical one having to do with the lack of sufficient and reliable information for their number during the whole period, their income and other data that would allow us to estimate the portions of state spending that benefit them and the taxes they paid each year. This exclusion makes international comparisons of the net social wage for wage earners more consistent but it should be kept in mind that the overall redistributive effect of fiscal policies may be somewhat different from the one reported below.

3.1.1.2 Allocation of state expenditure to workers

National Accounts classify total state expenditures into public consumption expenditures, subsidies, net transfers to households, net transfers abroad, public investment expenditures and interest paid on the public debt. We can distinguish three groups of state expenditures according to how they relate to labour income and consumption.

Table 3 Allocation of benefits from state expenditures to wage labourers

Categories of public expenditures classified by economic function			*Labour benefits*
A	Public consumption		
	1	General public services	---
	2	Defence	---
	3	Public order and safety	---
	4	Education	Labour share
	5	Health	Labour share
	6	Social security and welfare	Labour share
	7	Housing and community services	100% or (LS)
	8	Recreation, culture and religion	Labour share
	9	Economic services	---
		9a Fuel and energy	
		9b Agriculture, forestry and fishing	
		9c Mining, manufacturing and construction	
		9d Transportation and telecommunications	Labour share
		9e Other economic services	
	10	Other functions	
B	Subsidies		
	Subsidies to firms		----------
C	Current transfers to households		
	1	Pensions	100% or labour share
	2	Unemployment compensation	100%
	3	Family allowances	100% or labour share
	4	Sickness allowances	100% or labour share
	5	Welfare transfers	100%
D	Public investment		
	1	General public services	-------------
	2	Defence	-----------
	3	Housing	Labour share

E	Property income paid		
	1	Interest	------
	2	Rent	-------

Group 1 includes government spending for transfers and social consumption that are directed toward the whole population, namely health, education, social security and welfare from public consumption expenditures and health and education transfers from the category net transfers to households. In order to determine the portion of those expenditures that becomes labour income and consumption, we multiply them by the proportion of wage and salary earners in total employment.

Group 2 includes state expenditures that are directed exclusively toward labour, subsidising its income and consumption. Those include pensions for former wage and salary earners, unemployment allowances, industrial injury allowances, family allowances and transfers to non-profit institutions from the category net transfers to individuals, and housing expenditures from the category public investment.

Group 3 includes all those state expenditures that cannot be considered labour income or consumption such as public consumption expenditures for general administration, justice, police, and defence. All of them represent costs for the reproduction of the system, and along with transfers such as war pensions, net transfers abroad, subsidies to firms and interest paid on the public debt are not directed in any way toward the working population.

The sum of labour benefits derived from state expenditures in group 1 and group 2 gives us the total labour benefits (lb) for each year.

3.1.1.3 Allocation of total taxes to workers

Total state revenues fall mainly into six categories: personal income taxes, social security contributions, corporate income taxes, property taxes, indirect or consumption taxes and other direct taxes for local government and public funds.

Table 4 Allocation of taxes to wage labourers

	Tax categories	*Labour taxes*
1	Personal income tax	Labour share
2	Local government taxes	Labour share
3	Corporate income taxes	---
4	Social security contributions of wage earners	100%
5	Payroll taxes	100%
6	Property taxes	---
7	Indirect business taxes (consumption taxes)	Labour share
8	Other taxes	Labour share

We can distinguish again three groups of taxes according to how they relate to gross labour income. Group 1 includes taxes that flow entirely out of labour income (total employee compensation and labour pensions) such as personal income taxes paid by wage and salary earners and pensioners and their social security contributions.

Group 2 includes taxes that fall on the entire population like direct taxes for local government and other public institutions and indirect or consumption taxes as well as public monopoly revenues. In order to estimate the portion that is paid by labour we multiply the first category by the share of wage earners and pensioners in total employment and the second category by the share of total wages in private consumption expenditures.

Group 3 includes taxes which are not paid by labour, like corporate income taxes that are paid out of profits, property taxes that are paid by wealthy individuals, personal income taxes paid by farmers, merchants, industrialists, independent professionals and rentiers.

The sum of group 1 taxes and the estimated taxes paid by labour from group 2 gives us total labour taxes for each year.

3.1.1.4 Net social wage and net social wage ratio

The difference between total labour benefits received from the state and total taxes paid by labour equal the net social wage. This net transfer is the net contribution of the state to the standard of living of labour and it can be positive or negative; in the latter case it is a net tax on labour. It is also useful to express the net social wage as a percentage of some measure of market labour income like total employee compensation or the total product (GDP) of the economy. This is the *net social wage ratio* and it indicates the significance of the net impact of the state budget either on the market income of labour or on the total economic output of the country. It should be noted that this kind of information is not provided by the *transfer ratio* (the ratio of labour taxes over labour benefits), a measure introduced in Tonak (1987) and used widely afterwards especially in inter-country comparisons of the distributive performance of the welfare state in Freeman (1991), Sepehri and Chernomas (1992) and Akram-Lodhi (1996).

4 The net social wage in Greece, Portugal, France, Italy and Spain

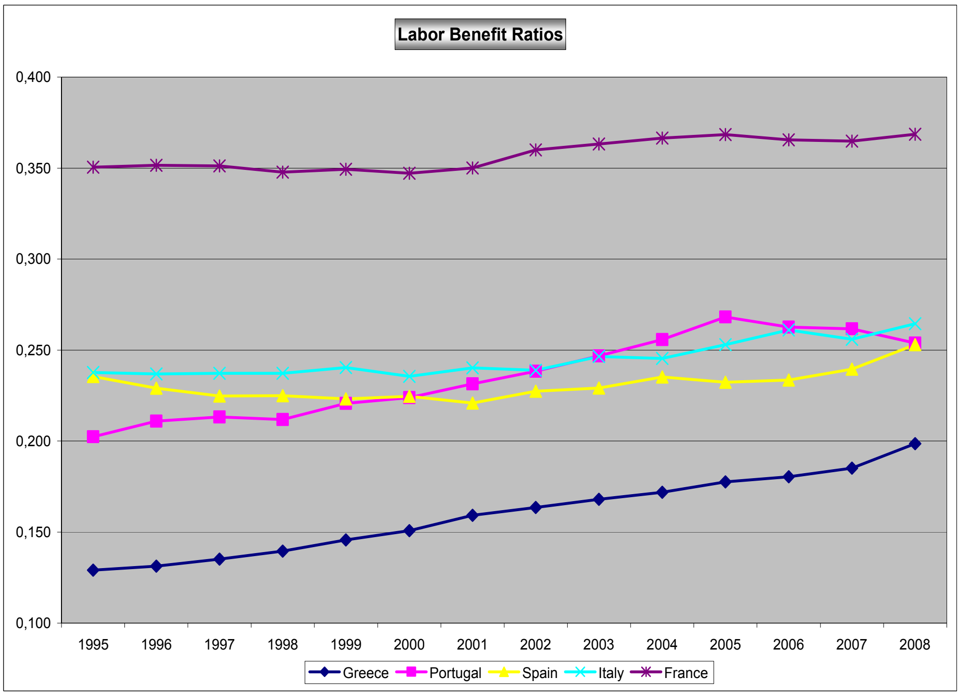
Our results for the net social wage ratio and its constituent parts, the labour benefit ratio and the labour tax ratio are presented below and they reveal some common characteristics in the redistributive activity of the welfare states across all five countries in southern Europe and especially Greece, Italy, Portugal and Spain.

Table 5 The labour benefit ratio (lbr = lb / GDP) in Greece, Portugal, France, Italy and Spain, 1995 to 2008

Year	*Greece*	*Spain*	*France*	*Italy*	*Portugal*
1995	0.129	0.235	0.350	0.238	0.202
1996	0.131	0.229	0.352	0.237	0.211
1997	0.135	0.225	0.351	0.237	0.213
1998	0.140	0.225	0.348	0.237	0.212
1999	0.146	0.223	0.349	0.240	0.221
2000	0.151	0.225	0.347	0.236	0.224
2001	0.159	0.221	0.350	0.240	0.231
2002	0.163	0.227	0.360	0.239	0.238
2003	0.168	0.229	0.363	0.246	0.247
2004	0.172	0.235	0.366	0.245	0.256
2005	0.178	0.232	0.368	0.253	0.268
2006	0.180	0.234	0.365	0.261	0.263
2007	0.185	0.239	0.365	0.256	0.262
2008	0.199	0.253	0.369	0.264	0.254
Average	0.160	0.231	0.357	0.245	0.236

Table 5 and Figure 4 indicate that over the last 15 years the labour benefit ratio is rising modestly in all countries but more so in Greece, which starts from a very low value reflecting among other things the relatively low percentage of wage labourers in total employment (around 65% at the end of the period compared to 80% on average for the other four countries). It is interesting to note that the labour benefit ratio appears to be the same in Italy, Spain and Portugal both as far as the level and its fluctuations and trend are concerned. In France the labour benefit ratio is much higher than everywhere else reflecting the extensive involvement of the state in the reproduction of labour power, while in Greece it is much lower for the entire period.

Figure 4 The labour benefit ratio (labour benefits/GDP) in Greece, Italy, Spain, Portugal and France (see online version for colours)



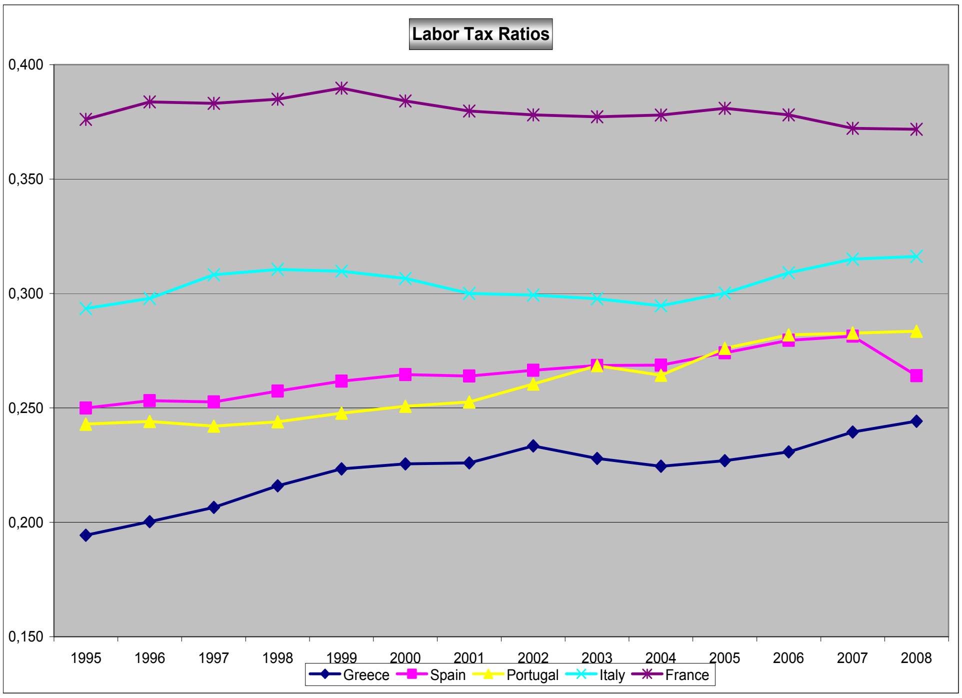
In a symmetrical manner, the labour tax ratio is much higher (and more or less stable) in France than in the other four countries and the lowest but with a rising trend in Greece. Portugal, Spain and Italy also exhibit a modestly rising trend in their labour tax ratio. In the same way with the benefit ratio, the tax ratios of Portugal and Spain appear almost identical in level and trend. However, the tax ratio in Italy is higher than that in Portugal and Spain by about four percentage points of GDP on average.

It should be noted that despite common notions about the withdrawal of the state from the fields of social welfare during the period of neoliberalism, labour benefit and labour tax ratios in all five countries (with the exception of the tax ratio in France) were still rising albeit at a slow pace.[5]

Table 6 The labour tax ratio (ltr = lt / GDP) in Greece, Portugal, France, Italy and Spain, 1995 to 2008

Year	*Greece*	*Spain*	*France*	*Italy*	*Portugal*
1995	0.194	0.250	0.376	0.294	0.243
1996	0.200	0.253	0.384	0.298	0.244
1997	0.207	0.253	0.383	0.308	0.242
1998	0.216	0.257	0.385	0.311	0.244
1999	0.223	0.262	0.390	0.310	0.248
2000	0.226	0.265	0.384	0.307	0.251
2001	0.226	0.264	0.380	0.300	0.253
2002	0.233	0.266	0.378	0.299	0.260
2003	0.228	0.269	0.377	0.298	0.268
2004	0.225	0.269	0.378	0.295	0.264
2005	0.227	0.274	0.381	0.300	0.276
2006	0.231	0.280	0.378	0.309	0.282
2007	0.239	0.281	0.372	0.315	0.283
2008	0.244	0.264	0.372	0.316	0.284
Average	0.223	0.265	0.380	0.304	0.260

Figure 5 The labour tax ratio (ltr = lt / GDP) in Greece, Portugal, France, Italy and Spain (see online version for colours)

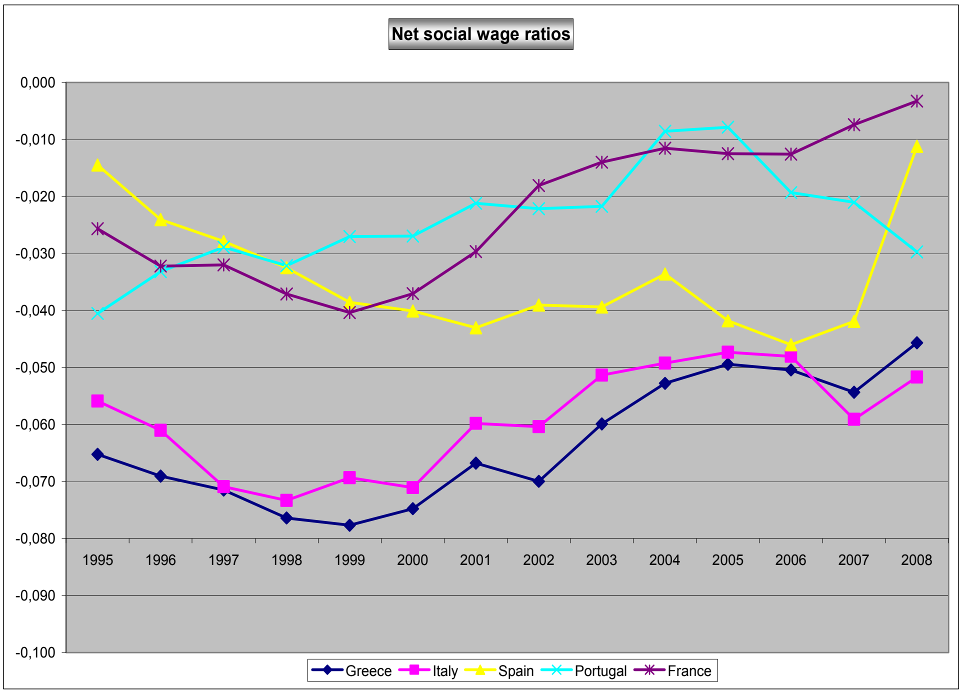


The results of the estimation of the net social wage as a percentage of GDP, i.e., the net social wage ratio are presented in Table 7 and Figure 6. The net impact of the state on the market income and the standard of living of labour in all five countries was consistently negative (i.e., it was a net tax on labour) for all the years of the period.

Table 7 The net social wage as a percentage of GDP in Southern European countries (1995 to 2008)

Year	*Greece*	*Spain*	*France*	*Italy*	*Portugal*
1995	–0.065	–0.014	–0.026	–0.056	–0.041
1996	–0.069	–0.024	–0.032	–0.061	–0.033
1997	–0.071	–0.028	–0.032	–0.071	–0.029
1998	–0.076	–0.032	–0.037	–0.073	–0.032
1999	–0.078	–0.039	–0.040	–0.069	–0.027
2000	–0.075	–0.040	–0.037	–0.071	–0.027
2001	–0.067	–0.043	–0.030	–0.060	–0.021
2002	–0.070	–0.039	–0.018	–0.060	–0.022
2003	–0.060	–0.039	–0.014	–0.051	–0.022
2004	–0.053	–0.034	–0.012	–0.049	–0.009
2005	–0.049	–0.042	–0.012	–0.047	–0.008
2006	–0.050	–0.046	–0.013	–0.048	–0.019
2007	–0.054	–0.042	–0.007	–0.059	–0.021
2008	–0.046	–0.011	–0.003	–0.052	–0.030
Average	*–0.063*	*–0.034*	*–0.022*	*–0.059*	*–0.024*

Figure 6 The net social wage ratio (net social wage/GDP) in Greece, Italy, Spain, Portugal and France (see online version for colours)



In Greece and Italy, the average value of the net social wage ratio for the period of 14 years was very close –6.3% and –5.9% of GDP respectively. Its overall trend was positive though, and furthermore we can observe that during the first part of the period (1995 to 2002) the average value is –7.1% for Greece and –6.5% in Italy with the net social wage ratio remaining more or less constant, whereas for the remainder of the period (2003 to 2008) it was –5.2% in Greece and –5.1% in Italy with a rising trend.

The net social wage ratio in the other three countries appears to be similar in average value over the whole period ranging between –2% to –3.5% of GDP. In France it is rising throughout the whole period, in Spain it is falling (with the exception of the last two years, when as the crisis starts to develop the net social wage increases everywhere except in Portugal) and in Portugal it is first rising and then falling.

Table 8 brings together the average values of the public deficit, interest paid on the public debt and the net social wage as a percentage of GDP for the 1995 to 2008 period. It is evident there that in all five countries, it is the interest paid on the public debt which is responsible for the public deficits at least for the last 14 years. Workers contribute with their net taxes (the negative net social wage) to public finances helping the state to run a balanced budget when interest charges are deducted from total state expenditures.

Table 8 Average values for net social wage ratio, budget deficit and interest paid on public debt as a percentage of GDP, 1995 to 2008

Year	*Greece*	*Spain*	*France*	*Italy*	*Portugal*
Public deficit/GDP	–0.065	–0.022	–0.033	–0.035	–0.041
Interest paid/GDP	0.067	0.030	0.030	0.066	0.032
Net social wage ratio	*–0.063*	*–0.034*	*–0.022*	*–0.059*	*–0.024*

In general, our results for the five countries of Southern Europe highlight four points. First, the net social wage is consistently negative in all five countries for every year of the period examined. In a similar way with all other countries which have been examined so far in the literature (see Table 9) labour in effect subsidises the state and possibly capital paying a net tax on its market income every year. It is clear that workers cannot be held responsible for the fiscal difficulties encountered by the South European countries. Their social benefits are financed entirely by their taxes. Second, the average magnitude of the net social wage ratio appears to be relatively similar in all five countries ranging from –2% to –6% of GDP. Third, the net social wage ratio does not fluctuate by much in France and Portugal, whereas in Spain it follows a falling trend, the opposite of what happened in Greece and Italy.

Fourth, even though the estimated results for the different countries refer to different chronological periods, we can draw the following provisional conclusion. The net social wage ratio in two of the Southern European countries namely Greece and Italy seems to be closer to the value of the USA net social wage ratio which differs markedly from the average value of the net social wage ratio in almost all other developed capitalist countries. Since in the other two southern European countries, Portugal and Spain the net social wage ratio is close to that of the UK we could argue that the redistributive activity of the ‘Mediterranean’ welfare state vis-à-vis labour resembles that of the liberal, residual welfare state.

Table 9 Average values of the net social wage ratio in selected countries for selected periods

Country	*Net social wage ratio (nsw/GDP)*
USA (1952–1997)	–0.067
UK (1970–1990)	–0.024
New Zealand (1949–1975)	–0.016
Canada (1955–1988)	0.0
France (1995–2005)	–0.022
Italy (1995–2008)	–0.059
Spain (1995–2008)	–0.034
Portugal (1995–2008)	–0.024
Greece (1958–1995)	–0.064
Greece (1995–2008)	–0.063

Source: Shaikh and Tonak (2000), Sepehri and Chernomas (1992), Akram-Lodhi (1996), Maniatis (2003) and Reveley (2006)

5 Conclusions

Taking into account the results of our empirical investigation along with those of similar studies, it appears that since the net social wage is actually a net tax on labour, the term welfare state is a misnomer for the actual role played by the capitalist state in the distribution of income as far as labour is concerned. As Shaikh and Tonak noted in the 1980s, the welfare state was a 'myth' and it remains so three decades later. This does not mean that labour should not fight against attempts for cutbacks in social spending, increases in retirement age, and increases in labour taxes which will lower even further the net social wage ratio. Those attempts do not stem exclusively from the fiscal difficulties encountered by governments all over the world. The reduction in the market and the post-fiscal share of labour is even more necessary for the system as the economic performance of the neoliberal and especially the current period of crisis lags behind the experience of the 'golden age' period, not allowing any wage or social wage concessions. The fight against neoliberal capitalism has been ineffective so far because the first round of neo-liberalism was treated by its adversaries and radicals in particular as an erroneous, inefficient policy regime on the part of governments, and capital, and not as the only form current capitalism can assume. The fight against neo-liberalism can only be effective if it is a fight against the system as a whole and not against some presumably ill-conceived or 'unjust' policies.

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Notes

1 See Maniatis (2012) for an assessment of the current crisis under the light of previous Marxist explanations of past economic crises.

2 Greece, Spain and Portugal (along with Italy) form the core of the Mediterranean or Southern European model of welfare state according to Ferrera (1996). France belongs to a different cluster, the corporatist model in Esping-Andersen's (1990) typology of welfare states and it is included here in order to highlight possible differences in its fiscal structure and the net fiscal position of its workers with those of the other four countries.

3 That is, abstracting from intermediate social strata like self-employed professionals and small farmers.

4 The vast majority of farmers work in family-owned farms. The small number of wage earners in the agricultural sector is included in our definition of labour.

5 Harman (2008) made the point that class struggle and the needs of the system for a healthy and functional labour force prevent the state from making drastic cuts in social spending. Of course, our empirical analysis shows that these expenditures the bulk of which goes to retired labourers as pensions are paid by (active) workers themselves.