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The net social wage in different welfare regimes

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Abstract
This article investigates empirically the net fiscal position of the working class in nine European countries for the 1995–2015 period. This is done through the estimation of the net social wage for wage and salary earners in those countries, characterized by different types of welfare states. The negative net social wage ratio in eight out of nine countries indicates that in advanced capitalism, the state budget redistributes income in such a way that the post-fiscal or true rate of exploitation is higher than the pre-fiscal or apparent one. Adverse economic conditions and ageing of the population have made the net social wage ratio less negative recently, while the accumulation of public debt and the increased obligations for interest payments on this public debt have acted in the opposite direction.

Keywords
distribution, net social wage, welfare state, working class

Introduction

Issues related to the distribution of income between classes have always been of great significance in the realm of political economy since the time of Ricardo (1817), who claimed that 'To determine the laws which regulate this distribution, is the principal

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problem in Political Economy' (p. 3). However, as neoclassical orthodoxy prevailed, historically more and more it was only radical and Marxist authors who insisted on emphasizing and investigating the process of inter-class market income distribution theoretically and empirically. In addition, during and after the post-war period of the rapid expansion of the role of the state, a substantial body of literature emerged dealing with the effect of the state intervention in the distribution process. Nevertheless, after more than three decades of empirical studies on the estimation of the sign, size and importance of the net transfer between the state and labour for a number of advanced capitalist economies, certain misconceptions and unjustified differences in the empirical method applied in this exercise can be found to persist.

This open issue could be of some importance as the state in advanced capitalism absorbs and recirculates close to 50% of total output every year (according to Eurostat, total government expenditures as a percentage of gross domestic product (GDP) were 50.5% in 2009 and 47.7% in 2015 in the European Union – 15 countries), and potentially, it could alter in a substantial way the market distribution of income between classes, affecting seriously the profitability of capital and the capital accumulation process. Outside of mainstream economic literature, there are at least two different theoretical disciplines which analyse the nature and economic effects of the state and, in particular, of the welfare state on income distribution in advanced capitalism.

Within the first current, encountered mostly in the field of political sociology, we find after some initial contemplation about the origin of the welfare state, a debate around (a) the identification of the objective factors or the social and other forces behind its spectacular growth, especially, during the second half of the 20th century and (b) the issue of the possible convergence of the individual national welfare states (see Alber 2006; Holzinger and Knill 2005; O' Connor 1988; Scmitt and Starke 2011; Starke et al. 2008). The current discussion has been sparked in part by the well-known contribution of Esping-Andersen (1990) and his argument that distinct welfare state regimes have been formed with each cluster of national welfare states (social democratic, corporatist, liberal) characterized by certain common elements. It was argued that characteristics such as the degree of decommodification of labour power, the extent of universality in the provision of social services, and the existence of generous social transfers were different across countries forming a much more rich and complicated picture compared to the simplistic approach which had identified welfare state effort with the share of total state spending or of social expenditures in the total product (GDP). Although it was not always stated explicitly, one could easily deduce from this literature the claim that social democratic welfare states were more friendly towards the working class (or citizens in general) in (re) directing resources towards workers than the corporatist and certainly the liberal welfare regime. Later, Ferrera (1996) investigated the possibility of the existence of a distinct southern European welfare model with expensive health care systems and extensive clientelistic features among other such similar characteristics. In all cases though, it appeared that citizenship was undermining class cleavages in the process of distribution in advanced capitalism through the functions of the welfare state. Income distribution was seen as less and less dependent on the functioning of the capitalist labour market. Instead, state transfers and spending in general allocated according to political or citizenship criteria created an altogether different profile (certainly more egalitarian) of the overall

income distribution compared to the original or primary much more unequal income distribution which was largely based on the distribution of ownership of the means of production.

Meanwhile, in the mainstream economic literature, the view that most welfare state arrangements, especially, those affecting the functioning of the labour market and the terms of the reproduction process of labour power were detrimental to the process of economic activity and economic growth, dominated the field, albeit without strong empirical support (Atkinson 1999). Not recognizing the concept of social class, the neoclassical argument was cast more in terms of disincentives to work, tax distortions, reduced savings and low rates of capital accumulation, labour productivity and output growth rather than in terms of a direct redistribution of income in favour of the working class.

The other major stream of thought which has dealt with the phenomenon of the welfare state and its impact on class income distribution belongs to the field of radical and Marxist political economy. Historically, the initial preoccupation primarily with the effect of state expenditures on surplus creation and surplus absorption (see among others, Gough 1975; Fine and Harris 1976, 1979; Mosley 1982) soon gave way to the examination of the role of the (welfare) state regarding distribution, crisis and the end of the post-war boom. Two different but related concepts were developed in this direction, the 'citizen wage' or 'net social wage' or 'net transfer' and the 'cost of job loss' with 'wage dependence' also introduced as an alternative measure of the state mediation of the capital–labour struggle. The first figured prominently in the discussion regarding the causes of seriously diminished profitability of capital in the 1970s which ended the post-war boom of rapid capital accumulation and strong growth (Bowles and Gintis 1982a, 1982b; Glyn 1975; O' Connor 1984; Shaikh and Tonak 1987; Tonak 1987). The second measure, the 'cost of job loss', defined as the percentage of current income or standard of living lost in the case of losing or quitting one's job was supposed to play a major yet indirect role in affecting capital profitability and accumulation of capital by influencing directly labour intensity and productivity growth, strike activity, wage flexibility and ultimately output growth, distribution and crisis (Bowles et al. 1986; Naples 1986; Schor and Bowles 1987; Weisskopf et al. 1983). Here, we take into account both theoretical traditions mentioned above (radical and Marxist political economy and political sociology) and estimate the first distributional measure, that is, the net social wage for labour for a number of countries which may belong to possibly different welfare regimes. In the next section, we concentrate on the radical and Marxist literature around the issue of the (net) social wage for labour, and in the third section, we present the method of estimation of the net social wage ratio using the standard tax and state expenditure categories of the Eurostat database. In the fourth section, we present our results from the estimation of the net social wage ratio in nine European countries with (seemingly) different welfare states. The last section of the article discusses conclusion drawn from our empirical results.

The literature on the social wage

It is interesting to note that all three variants of the 'profit squeeze' theory of economic crisis[1] (rising strength of labour, Social Structures of Accumulation School, Regulation

school) developed to explain the end of the post-war boom and the stagflation crisis of the late 1960s–1970s resorted at a certain point to some version of a state-induced profit squeeze. The latter supposedly worked through the subsidization of the working class, namely, through a large and growing (net) social wage[2] which lowered the post-tax profit share or raised the post-fiscal wage share lowering the net rate of profit and capital accumulation (see Aglietta 1979; Bowles and Gintis 1982a; Glyn 1975; O' Connor 1984). It is also interesting to observe that as long as the Keynesian influence was still present (roughly until the late 1970s), many radical and Marxist authors tended towards the view that the redistributive role of the state was in favour of workers.[3] On the contrary, during the neoliberal period that followed, more and more we see radical and Marxist authors tending to support the opposite view adopting the anti-neoliberal spirit of the era, pervasive in the non-mainstream camp (Akram-Lodhi 1996; Bin 2015; Freeman 1991; Guerrero 1992; Maniatis 2003; Miller 1989; Reveley 2006; Sepehri and Chernomas 1992; Shaikh and Tonak 1987).

While the first current (Glyn, Bowles, Gintis, O' Connor, etc.) was part of the prevalent view that time subscribing to one of the different 'profit squeeze' theories of crisis as a result of the increased strength of labour, the second current has been based either explicitly or implicitly on the various arguments advanced in the radical and Marxist literature about the (adverse for labour) effects of neoliberalism, in general, regarding all aspects of income distribution. The general line tends towards the view that the neoliberal state-restricted benefits and the 'social wage' in the same way and direction with what happened to market wages in the battle between capital and labour. This is based on the belief that the state activity in neoliberalism (but not necessarily in capitalism, in general) is placed clearly in favour of the capitalist class. It is also in contrast to the prevalent argument during the 'golden age' about the existence of 'social contracts' or 'accords' accompanied by the implicit notion at the time that the government based on the universal vote acted in favour of the citizens (and therefore labour) in the process of distribution by transferring to them a large and growing 'citizen wage'.

However, the real picture of fiscal redistribution appears somewhat more complex if one takes into account the increased unemployment and economic hardship, the ageing of the population and the pattern of development of the primary income distribution and their effects on the labour benefits derived from social expenditures as well as on labour taxes.[4] Then, the net effect of the state activity on workers' standard of living might still be negative, but the overall time trend of the redistributive measure might be positive as a result of the combined effect of the above-mentioned factors.

In addition, both sides of the debate and the whole history of this empirical literature suffer from methodological errors and inconsistencies. Tonak (1987) and Shaikh and Tonak (1987) exposed the errors contained in the method employed by Bowles and Gintis (1982a) in estimating a significant transfer ('citizen wage') from the state to the US working class. Then, Miller (1989, 1992) showed unequivocally that even under the most favourable tax and social benefit incidence assumptions for labour (those were the ones employed by Shaikh and Tonak where indirect taxes are not treated as a burden for labour but as entirely paid by capital), the net social wage for labour in the United States was negative.

Starting with Freeman's paper in 1991 for the UK economy and the contribution of Sepehri and Chernomas (1992) for Canada, a number of empirical works appeared which not only found that the net social wage in the countries examined was negative (Guerrero 1992 for Spain, Trethewey 1994 for Australia, Akram-Lodhi 1996 for the United Kingdom, Reveley 2006 for New Zealand) but also that in most cases it was less (that is more negative) than that in the United States reported by Tonak (1987) and Shaikh and Tonak (1987). However, the results of those comparisons were falsely based on the crucial mistake made in almost all studies to compare the net social wage in countries such as Canada, United Kingdom and New Zealand estimated under the assumption that indirect taxes are mostly paid by labour, with the net social wage in the United States estimated by Shaikh and Tonak (1987, 2000) under the assumption that indirect taxes are paid entirely by capital. Recently, in Maniatis (2014), the net social wage ratio for the United States, United Kingdom, Canada and New Zealand was estimated under the common assumption that indirect taxes are partly paid by labour in all countries, and it was shown there that the US net social wage ratio is consistently the lowest among those of the countries examined.

It could be argued therefore that there exists currently a well-developed and generally accepted method of allocating state expenditures and taxes to the different classes, especially, labour and estimating the net transfer or net social wage.[5] However, the fiscal difficulties faced by many countries in the form of the accumulation of public debt at precarious levels compared to GDP have turned the attention of radical researchers to the somewhat different and much more specific (narrower) issue of the relationship between public debt and workers' income. In particular, Bin (2015) and Davanzati and Patalano (2017) concentrate more (almost exclusively) on the relationship between financialization, public debt accumulation and the future taxes on labour that it implies without considering at any point the balance between current labour benefits and current labour taxes in order to determine the net fiscal position of labour. Thus, the terms 'fiscal exploitation' or 'fiscal expropriation' used by those authors to describe the state redistributive effect vis-à-vis labour are not based on a sound empirical method that does justice to the substantial empirical literature regarding the method of estimation of the net transfer for labour or the net social wage.[6] We turn to this empirical method in the next section.

The empirical method for the estimation of the net social wage

In this section, first we summarize the basic methodological points one has to apply in attempting to assess the state redistributive impact on the standard of living of workers. Those principles have to be included in the method of the estimation of the net social wage in order to stay within a class theoretical framework such as that of the Marxist political economy. As we mentioned above, those principles have been established during a long period as the issue of the net fiscal position of labour in a number of advanced capitalist countries was being investigated empirically. Here, we use the term net social wage in the sense found in the literature as the difference between the

labour benefits in cash and in kind received through state spending by active and retired workers minus the taxes they pay to the state out of their gross (market) income:

(a) The assessment of the impact of state spending and taxation has to be done on a social class basis (mostly according to one's current and past place in the labour market) and not on individuals or families according to their place in the personal income distribution as it is usually done in mainstream studies that concentrate on the extent of pre- or post-fiscal income inequality among households.
(b) One has to take into account both social benefits received by labour and labour taxes paid each year.
(c) Not all state expenditures become income or social benefits for labour. Some like housing become almost exclusively workers' income or increase their standard of living, some like education benefit not just the workers but the entire population and some like interest on public debt, military and police spending and bureaucracy costs are typical examples of state expenditures that do not contribute to the income or the standard of living of the working class.
(d) Even state social expenditures per se are not in their totality labour benefits since they are directed towards the whole population which includes self-employed people, professionals, small employers who are included in the labour force but are not members of the working class as it is defined here. This is especially true for southern European countries like Greece, Spain and Italy in our sample which are characterized by large segments in their labour force that are not wage or salary earners.
(e) Tax revenues are derived from variable capital (and total wages, on which see below) as well as from surplus value. The primary (market) class income distribution is a result of the class struggle between capital and labour, and it does not (cannot) take into account in advance what will be the size and direction of the state intervention afterwards. Market gross wages are generally higher than the subsistence wage in advanced capitalism, and therefore, a portion of total tax revenue is extracted from the gross wage of workers. A certain amount either in the form of transfers (money) or in the form of privately and collectively consumed services (health, education, parks, recreation, etc.) returns back to workers. The extracted and the returned part are not necessarily related in any way, and obviously for active labourers, this difference is negative, whereas for retired workers, it is most certainly positive. This is one of the reasons why the incidence of state revenues and expenditures has to be assessed on a social class basis and not on an individual basis.
(f) Many types of state expenditure and taxes are directed towards the whole population. As we describe in detail below, their portion that becomes labour benefits and labour taxes is estimated by multiplying the total by the labour share, thus avoiding a possible bias in the estimating of either labour taxes or labour benefits.
(g) It has to be stated explicitly and clearly that indirect taxes are borne in part by labourers when they act as buyers of commodities. When international

comparisons of the net social wage are made, the method of estimation has to be exactly the same across countries unlike many cases referred to above in the literature.

(h) The sign of the net social wage in each year denotes the positive or negative contribution of the state to the standard of living of the average worker. In order to gauge the importance of the size of the positive or negative net social wage, it has to be compared to some macroeconomic aggregate. The ratio of the net social wage to GDP has been labelled the net social wage ratio in the literature, and when added to the market wage share (in GDP), it gives the portion of total output that is finally earned by active and retired wage earners. The ratio of labour benefits to GDP is the labour benefit ratio, and the ratio of labour taxes to GDP is the labour tax ratio. Obviously, their difference is the net social wage ratio.

(i) The countercyclical nature of the net social wage ratio measure: out of a number of factors that may influence the level and the fluctuations of the net social wage ratio, the rate of unemployment is the one on which most researchers agree that it has a positive influence on the net social wage ratio since the increase in unemployment lowers GDP, labour income and labour taxes, while at the same time, automatically increases spending on unemployment and other social benefits for labour, thus raising the net social wage ratio. Of course, the unemployment rate is well correlated (negatively) with GDP growth (although a well-constructed combined index of the two measures would have been more helpful in proxying the cyclicality of economic performance).

In summary, total value added in each year is constituted from variable capital (the reward of productive labour) and surplus value. One part of surplus value takes the form of wages and salaries of unproductive labourers (in the spheres of circulation, distribution, etc.) with most of them belonging to the working class. The latter in most empirical studies is approximated by the mass of wage and salary earners (and pensioners who were workers in their economically active life). Thus, although variable capital and surplus value are the two fundamental income categories, wages and profits (property income) are the two original concrete forms that national income takes in the process of market income distribution. Of course, taxes are levied on wages and profits, not on variable capital and surplus value. Wages are generally higher than the minimum acceptable level of the value of labour power (the 'subsistence level' in classical political economy), providing room for taxes to augment the initial mass of surplus value extracted from productive labour in the production process and even lower further the market wage share. Here, we are interested not only in the portion of the social product that is taxed away from productive labour; on the contrary, we focus on all wage earners (and pensioners). In addition, we take into account the social benefits derived by labour from the relevant parts of state expenditure. The difference between social benefits received and taxes extracted by labour denotes how much the working class in a broad sense gains or loses from the direct state intervention in distribution (see Maniatis 1996; Shaikh and Tonak 1994). To complete the picture of the state redistributive impact, one would have to repeat the same exercise for capital or property owners, but this is beyond the scope of this article.

In this study, we use exclusively data from the Eurostat database in order to make sure that our estimations which cover a large number of countries are done on a consistent cross-national basis. Unfortunately, the Eurostat database starts in 1995, and we cannot extend our empirical study sufficiently in the past so that a direct comparison between the neoliberal period and the previous one of the 'Keynesian compromise' could be made. Incidence assumptions are those established in the studies by Tonak (1987) and Shaikh and Tonak (1987, 1994, 2000) and followed by almost all other researchers except for the case of indirect taxes. In Table 1, we present the major tax categories reported by Eurostat for all European Union countries and the assumptions adopted here for their incidence on labour income.

It has to be stated clearly that indirect taxes (D2 'Taxes on production and imports' in Table 1) are assumed to be paid partly by workers as they spend their income buying commodities in proportion to the labour share which is defined as the ratio of employed and unemployed wage and salary earners over total employment.[7] Reveley (2006) uses the ratio of wages in total consumption expenditure which generally gives a larger amount of labour taxes than that resulting from our method. We prefer the labour share in employment which is also used on the side of expenditure allocation as mentioned in point (f) above, thus offsetting any upwards or downwards bias in either side. Personal income taxes paid by labour are also estimated by multiplying personal income taxes (D51A-D51C1 'Taxes on individual or household income including holding gains') with the labour share. While we exclude from labour taxes the other major item of the category 'current taxes on income, wealth, etc.', that is, corporate taxes (D51B-D51C2 'Taxes on the income or profits of corporations including holding gains'), we also apply the labour share in order to estimate the taxes paid by labour from the other minor tax categories such as D51D 'Taxes on winnings from lottery and gambling', D51E 'Other taxes on income not elsewhere classified', D59D 'Household taxes for licences' and D59F 'Other current taxes, n. e. c.'. All capital taxes (D91) are excluded from labour taxes for obvious reasons. Net social security contributions of workers (D61) are considered as labour taxes since they are a part of the gross wage of labour which does not become disposable labour income.

In Table 2, we present the major categories of total state expenditures reported by Eurostat classified according to their function in the process of economic and social reproduction and our assumptions about their impact on the income and the standard of living of the working class.

General public services refer to the general expenditures for the state bureaucracy (and among other things for the interest paid on the public debt) which do not support the income of workers. So-called defence expenditures serve more as a means to protect the national bourgeoisie from external threats or to establish more firmly its position in the international arena, and they are not considered as providing use-values for the reproduction of the working class. Public order and safety expenditures mostly serve the protection of private property, not necessarily augmenting the standard of living of workers. Public expenditures for transportation, environment protection health, recreation, culture religion and education which contribute in certain ways to the reproduction of labour power are multiplied by the labour share in order to determine their portion which has to be allocated to labour as labour benefits.

Table 1. Tax categories (Eurostat) and tax incidence on labour.

Tax categories	Coefficient of allocation	Labour tax
D2. Taxes on production and imports	Labour share (LS)	(D2-D29C) × LS
D29C. Total wage bill and payroll taxes	100%	D29C
D5. Current taxes on income, wealth, etc.		
D51. Taxes on income		
D51A-D51C1. Taxes on individual or household income including holding gains	LS	(D51A-D51C1) × LS
D51B-D51C2. Taxes on the income or profits of corporations including holding gains	0	0
D51D. Taxes on winnings from lottery and gambling	LS	D51D × LS
D51E. Other taxes on income n. e. c.	LS	D51E × LS
D59. Other current taxes		
D59A. Current taxes on capital	0	0
D59B. Poll taxes	0	0
D59C. Expenditure taxes	0	0
D59D. Household taxes for licences	LS	D59D × LS
D59E. Taxes on international transactions	0	0
D59F. Other current taxes, n. e. c.	LS	D59F × LS
D91. Capital taxes	0	0
D2-D5-D91. Total tax receipts		
D61. Net social security contributions	100%	D61
D995. Capital transfers from general government to relevant sectors representing taxes and social contributions assessed but unlikely to be collected		
Total receipts from taxes and social contributions (including imputed social contributions) after deduction of amounts assessed but unlikely to be collected D2-D5-D91-D61-Minus-D995		Total labour taxes

Source: Eurostat.

The same procedure is followed for social protection expenditures (pensions, unemployment benefits, welfare, etc.) in order to take into account the (few in many countries, numerous in southern European countries) pensioners who were not wage earners in their economically active life. Finally, expenditures for housing and community amenities are allocated entirely to labour benefits.

Empirical results

Table 3 presents the results for the average labour benefit ratio (labour benefits over GDP), the average labour tax ratio (labour taxes over GDP) and their difference, the

Table 2. State expenditure categories (Eurostat) and labour benefits.

Public expenditure categories	Coefficient of allocation	Labour benefit
1. General public services (GPS)	0	0
2. Defence (DEF)	0	0
3. Public order and safety (POS)	0	0
4. Economic affairs transportation (TR)	Labour share (LS)	TR × LS
5. Environment protection (EP)	LS	EP × LS
6. Housing and community amenities (HOU)	100%	Total HOU expenditure
7. Health (HEAL)	LS	HEAL × LS
8. Recreation, culture, religion (RCR)	LS	RCR × LS
9. Education (EDU)	LS	EDU × LS
10. Social protection (SOCPROT)	LS	SOCPROT × LS
Total state expenditures		Total labour benefits

Source: Eurostat (n.d.).

Table 3. Labour benefit ratio, labour tax ratio and net social wage ratio, averages for 1995–2015.

Country	Labour benefit ratio	Labour tax ratio	Country	Net social wage ratio
Denmark	0.387	0.411	United Kingdom	0.002
Sweden	0.369	0.406	Netherlands	–0.017
			Denmark	–0.024
France	0.363	0.391	France	–0.028
Germany	0.314	0.353	Spain	–0.029
Netherlands	0.296	0.313	Sweden	–0.037
			Germany	–0.039
United Kingdom	0.270	0.268	Greece	–0.045
			Italy	–0.064
Italy	0.261	0.325		
Spain	0.252	0.281		
Greece	0.203	0.248		

average net social wage ratio (net social wage over GDP) for each one of the nine countries examined over the period 1995–2015. From the related welfare regime literature, we can classify Denmark and Sweden in the social democratic welfare regime; France, Germany and the Netherlands in the corporatist welfare regime; the United Kingdom (after the decade of the 1980s) in the liberal regime; and Italy, Spain and Greece in the 'southern European' welfare regime.

Referring to Table 3 and Figure 1, we can conclude the following:

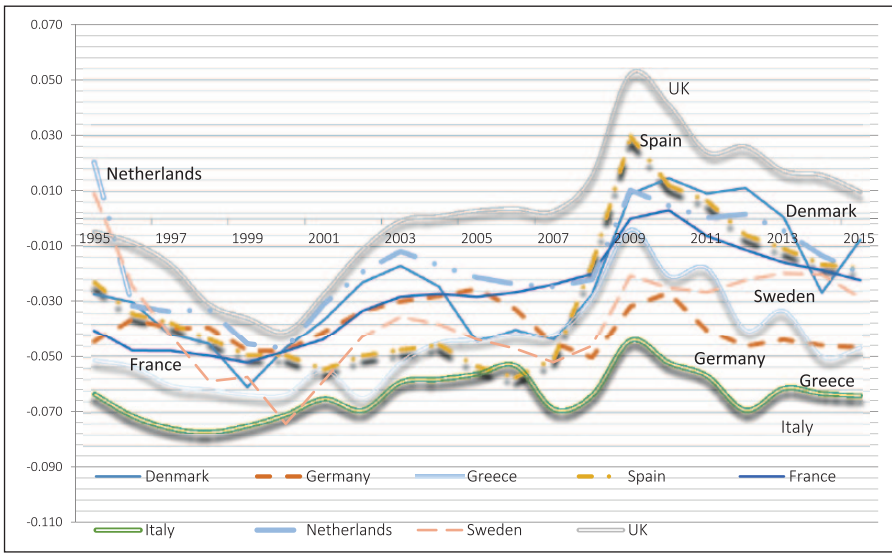

Figure 1. Net social wage ratio, nine countries, 1995–2015.

(a) *Sign of the net social wage*: For the 21-year period examined here (1995–2015) which includes the majority of the neoliberal era, the recent crisis and its aftermath, the average annual net social wage is negative in eight out of nine countries except in the United Kingdom, where it has a positive sign but it is very close to zero (0.2% of GDP). The working class is exploited by capital in the process of production but still extracts a wage that is higher than the subsistence wage, especially, in advanced capitalist economies. Our results show that in most cases during the recent period, its gross market wage and standard of living are further reduced by the redistributive functions of the state. The latter is partly subsidized by labour contrary to what was a common (but not empirically backed) view in the radical/Marxist circles until the late 1970s to early 1980s under the influence of the expansion of the size and the role of the state during the 'golden age' of capitalist accumulation. Labour is exploited by capital earning only a portion of the new value it creates and loses a part of its market reward through fiscal redistribution broadly defined.[8]

(b) *Importance of the net social wage*: The magnitude and importance of the net social wage as expressed by the average annual net social wage ratio for 1995–2015 appear to be relatively small in most countries except perhaps in Greece and Italy, where it is close to −4.5% and −6.5% of GDP, respectively. In the other seven countries, it ranges between 0% and −4% of GDP. The sign and relative magnitude of the net social wage ratio clearly indicate that nowhere in the countries of our sample, it could be regarded as a threat to profitability and capital accumulation. On the contrary, through the negative net social wage, the working class finances some of the state activities giving credence to the argument made by

Therborn and others that the state is probably in a better position than capital (due to its distance from the immediate process of production and its legitimating functions) to extract this further portion out of workers' gross income. Regarding the nature of the recent economic (and in many cases, fiscal) crisis and the attack on wages and social benefits by the state and capital, especially after 2009, we note that our results indicate that the cause of the recent crisis cannot be the (re)direction of an excessive part of national income towards labour (active and retired) by the state. The net social wage ratio was negative for many years before the onset of the crisis. However, the difficulties faced by the system in terms of the overaccumulation of capital (rising organic composition) and its low profitability dictated the further attack on wages and labour benefits, especially after 2009, resulting in a generally falling net social wage ratio, reversing the previous rising trend. It should be noted that the attack on labour had started during the stagflation crisis of the 1970s, although excessive wages and social benefits were not the ultimate cause of that crisis either (see Moseley 1988, 1991; Shaikh 1987; Shaikh and Tonak 1987, 1994; Tonak 1987). The (mediocre at best) economic performance of advanced capitalism since the 1970s in terms of productivity and profitability forces capital and the state to attack labour and try to make its position even worse, although its distributive gains or its high standard of living were not and are not the source of stagnation and recent crisis. Raising the apparent and true rates of exploitation is a necessary (but not sufficient) condition for overcoming most types of capitalist economic crisis (except perhaps those of the underconsumption/lack of effective demand variety).

(c) *The trend and fluctuations of the net social wage ratio*: The net social wage ratio follows the same trend and short run fluctuations in almost all nine countries over the period of 21 years examined here. Broadly speaking, we can discern in Figure 1 three different periods. First, the net social wage ratio falls between 1995 and 2000, then rises, in some countries sharply, from 2000 to 2009, the year of the peak of the crisis for most countries and falls again everywhere from 2009 until 2015. As shown in Figure 2, the average net social wage ratio for the nine countries exhibits a (statistically significant) modestly *rising* trend over the whole period of 21 years despite its fall after 2009. Labour was losing in the fiscal battle during neoliberalism but was losing less and less, especially until 2009.

More specifically, this overall rising time trend of the average net social wage ratio (the same holds for almost all the net social wage ratios of the individual countries) indicates that although the net social wage ratio was negative (as claimed by radical critics of neoliberalism), it was 'increasing' in the sense that it was becoming less negative over time. Workers were subsidizing some of the functions of the state but less and less so in the face of stagnant or declining real incomes, demographic developments like population ageing and generally increasing unemployment rates as we discuss below.

(d) *Dispersion or convergence of the net social wage ratios*: The (unweighted) average net social wage ratio for the nine countries was –2.5% in 1995 and –2.7% in 2015 (see Figures 1 and 2). The average value of the net social wage ratio for the

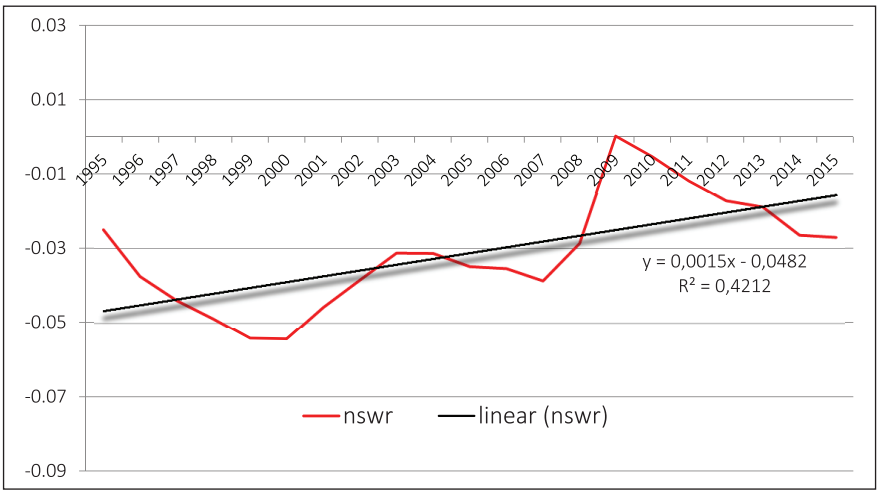

Figure 2. Average net social wage ratio for nine countries, 1995–2015.

entire period is –3.12%, its minimum value was –5.4% in 2000 and its maximum value was 0% in 2009. Since in the welfare state/regime literature the convergence or divergence of welfare effort (measured in different ways as we mentioned above) is a major issue, we note that the average standard deviation of the nine social wage ratios for the first 3 years of the period was 0.020, and after some signs of decline, it became 0.022 on average for the last 3 years of the period 1995–2015. Thus, in general, while the average magnitude of the net social wage ratios increased a bit (due to its rise for the sub-period 2000–2009), the dispersion and, for the most part, the rank of the net social wage ratios for the nine countries remained more or less the same over the period examined here. Furthermore, the overall range of values of the net social wage ratio varies from a minimum of –7.7% of GDP (1998 for Italy) to a maximum of 5.3% of GDP (2009 for the United Kingdom), a quite substantial difference of the order of 13% of GDP.

(e) *Labour benefit ratio and labour tax ratio*: The level (on average for the whole period) and rank of the labour benefit ratio for each of the nine countries mirror almost exactly the level and rank of the labour tax ratio (see Table 3). Denmark, Sweden, France and Germany have the highest labour benefit ratios and labour tax ratios as well. United Kingdom is next to last in tax ratio (probably as a result of tax reducing neoliberal policies) but is sixth in terms of the benefit ratio, thus exhibiting a tiny but positive value (0.2% of GDP) for the difference between the labour benefit ratio and the labour tax ratio, that is, the net social wage ratio.

The hierarchy of the different countries according to their labour benefit ratio follows the widespread opinion in the literature about the extent of the welfare state involvement in different welfare regimes. Social democratic Scandinavian countries come first,

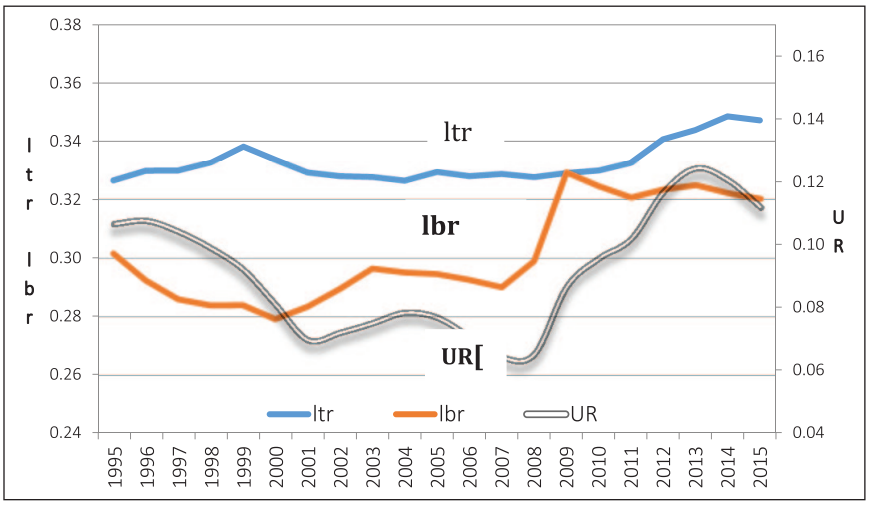

Figure 3. Labour benefit ratio (lbr), labour tax ratio (ltr) and unemployment rate (UR) averages for nine countries, 1995–2015.

corporatist economies follow and then come liberal economies, whereas southern European economies come last. However, taking into account the labour tax ratio and the net social wage ratio (see Table 3), we get an entirely different picture. It is well known that extensive welfare state involvement goes hand in hand with extensive (labour) taxation in general, and this was true, probably more so, during the neoliberal period. Thus, heavy state (social) expenditures do not necessarily imply subsidization of the standard of living of workers.

Any notion of distinct welfare regimes can be traced only across the dimension 'heavy state expenditures and heavy taxation' but certainly not regarding the redistributive role of the state in favour of labour. The only country with a non-negative net social wage ratio is the United Kingdom which has been characterized as a typical neoliberal example since the 1980s. Heavy spending means heavy taxation as well and does not imply automatically that extensive state expenditures are translated into a net subsidy for workers.

(f) *Labour benefit ratio and unemployment rate*: As shown in Figure 3, the average labour tax ratio for the nine countries remained more or less stagnant for the entire period except for a slight rise after 2009 (as GDP fell or stagnated but the tax structure remained the same), and it was the movement in the average labour benefit ratio which produced the pattern in the trend and fluctuations of the net social wage ratio. The movement of the labour benefit ratio followed quite closely the behaviour of the average unemployment rate.

Thus, the labour benefit ratio fell from 1995 until 2000 as the average unemployment rate fell from 10.7% to 7.0% in 2001, and at the same time, social expenditures as a percentage of GDP fell from 18.8% to 18% for the first time in post-war history in the

Table 4. Social expenditures as a percentage of GDP, selected OECD countries.

Country	1980	1985	1990	1995	2000	2005	2010	2015
Denmark	20.3	19.3	22.0	25.5	23.8	25.2	28.9	28.8
France	20.2	25.2	24.3	28.3	27.5	28.7	30.7	31.7
Germany	21.8	22.2	21.4	25.2	25.4	26.3	25.9	25.0
Greece	9.9	15.4	15.7	16.6	18.4	20.4	23.8	26.4
Italy	17.4	20.1	20.7	21.0	22.6	24.1	27.6	28.9
Netherlands	23.3	23.8	24.0	22.3	18.4	20.5	22.1	22.3
Spain	15.0	17.1	19.2	20.5	19.7	20.4	25.8	25.4
Sweden	24.8	27.0	27.2	30.6	26.8	27.4	26.3	26.7
United Kingdom	15.6	18.2	15.2	18.3	17.7	19.4	22.8	21.5
United States	12.8	12.8	13.2	15.1	14.3	15.6	19.3	19.0
OECD	14.9	16.5	16.9	18.8	18.0	18.8	21.1	21.0

Source: OECD Social Expenditures (OECD n.d.).
GDP: gross domestic product; OECD: Organisation for Economic Co-operation and Development.

Table 5. Public expenditure on old age and survivors cash benefits, as a percentage of GDP, OECD countries.

Country	1980	1985	1990	1995	2000	2005	2010	2013
Denmark	5.7	5.5	6.1	7.2	6.3	6.5	7.2	8.0
France	9.2	10.3	10.4	11.7	11.4	12.0	13.2	13.8
Germany	10.4	10.3	9.5	10.3	10.8	11.1	10.6	10.1
Greece	5.2	8.3	9.5	9.2	10.4	11.4	13.3	–
Italy	8.6	10.8	11.3	12.9	13.5	13.6	15.3	16.3
Netherlands	6.0	5.8	6.3	5.4	4.7	4.7	5.0	5.4
Spain	6.1	7.3	7.7	8.8	8.4	7.9	9.8	11.4
Sweden	6.7	7.2	7.3	7.9	6.9	7.2	7.3	7.7
United Kingdom	5.3	5.3	4.5	5.0	5.1	5.3	6.1	6.1
United States	6.0	6.0	5.8	6.0	5.6	5.7	6.8	6.9
OECD	5.7	6.3	6.4	6.9	6.8	6.8	7.7	8.2

Source: OECD Social Expenditures (OECD n.d.).
GDP: gross domestic product; OECD: Organisation for Economic Co-operation and Development.

Organisation for Economic Co-operation and Development (OECD) countries (see Table 4). Then, as unemployment rose and social expenditures increased, the labour benefit ratio increased until 2009. But after 2009, as social expenditures stagnated and the unemployment rate fell somewhat, the labour benefit ratio fell again until the end of the period widening the gap with the labour tax ratio.

The data in Tables 4 and 5 indicate that despite popular views regarding the development of social expenditures (in absolute terms and as a share of total output) during neoliberalism, those kept rising albeit at much slower rates. Both total social

Table 6. Percentage of population 65 years old or over, selected countries, 1981–2016.

Country	1981	1991	2001	2006	2016
Denmark	0.145	0.156	0.148	0.152	0.188
Germany	0.156	0.149	0.171	0.193	0.211
Greece	0.127	0.137	0.167	0.185	0.213
Spain	0.112	0.138	0.170	0.166	0.187
France	0.131	0.146	0.155	0.164	0.188
Italy	0.132	0.153	0.187	0.199	0.220
Netherlands	0.116	0.129	0.136	0.143	0.182
Sweden	–	0.179	0.172	0.173	0.198
United Kingdom	0.148	0.160	0.159	0.159	0.179
Average	0.131	0.144	0.162	0.170	0.196

Source: Population age structure by major age groups (Eurostat).

expenditures and pensions (as a share of GDP) increased by almost 40% between 1980 and the present. The increase in the average age of the population and in the share of people 65 years old or over (by 50% exactly between 1981 and 2016) in advanced capitalist countries seem to be an important factor behind this increase as Table 6 indicates.

However, as our results above indicate it was economically active wage, and salary earners who paid the bill for this substantial increase in labour social benefits and then some.

(g) *Interest paid on public debt and net social wage ratio*: As Figure 4 shows, the average net social wage ratio is negatively related to the requirements for interest payments on public debt of each state (which were 3.4% of GDP on average for the entire period for the nine countries). This is more or less expected as interest requirements place a burden on public finances, restricting the room available for state social expenditures and raising the requirements for current and future labour taxes as discussed recently in Bin (2015) and Davanzati and Patalano (2017). On the contrary, despite widespread views about state profligacy which supposedly end up subsidizing labour and the low-income strata of the population, there is no statistical evidence of correlation between the magnitude of the net social wage ratio and the average budget deficit of each country. The average budget deficit for the nine countries during the entire period was 3% of GDP, but it did not materialize into a subsidy for workers. It is quite probable that continuous efforts to balance the public budgets or restrict existing deficits will exert more pressure on the net income and the standard of living of the working class.

(h) *Net social wage ratio and unemployment rate*: The fluctuations of the net social wage ratio follow closely the inter-temporal behaviour of the unemployment rate and therefore (the inverse of the index of) economic performance in general. This countercyclical behaviour is true both for the average net social wage ratio for the nine countries and the average unemployment rate (see Figure 5) and also for most of the individual cases as well (see especially the UK case in Figure 6).

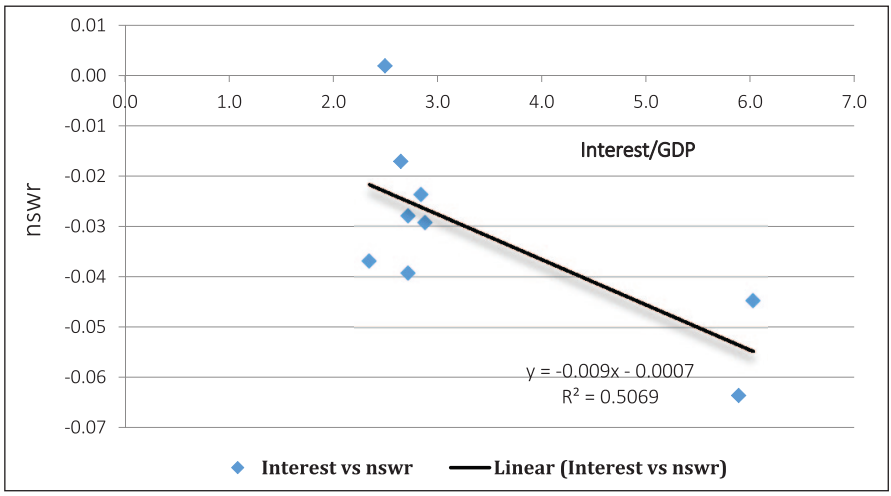

Figure 4. Interest paid on public debt and net social wage ratio, averages for nine countries, 1995–2015.

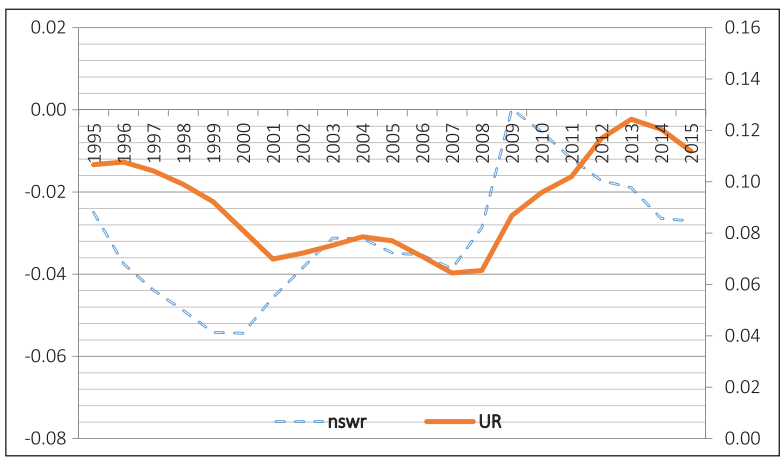

Figure 5. Average net social wage ratio and average unemployment rate, 1995–2015.

The same is true for Greece (see Figure 7) until the onset of the crisis in 2009. It is interesting to see in the same figure that the current crisis which has already assumed dramatic proportions has also lowered the standard of living of workers by 5% of GDP solely as a result of the 'fiscal adjustment' measures imposed by all four different governments of the crisis period. It is characteristic of the severity of the crisis that unemployment rates substantially above 20% and a loss of more than a quarter of national output coexist with a negative and rapidly falling net social wage ratio more than annulling the countercyclical nature of the latter.

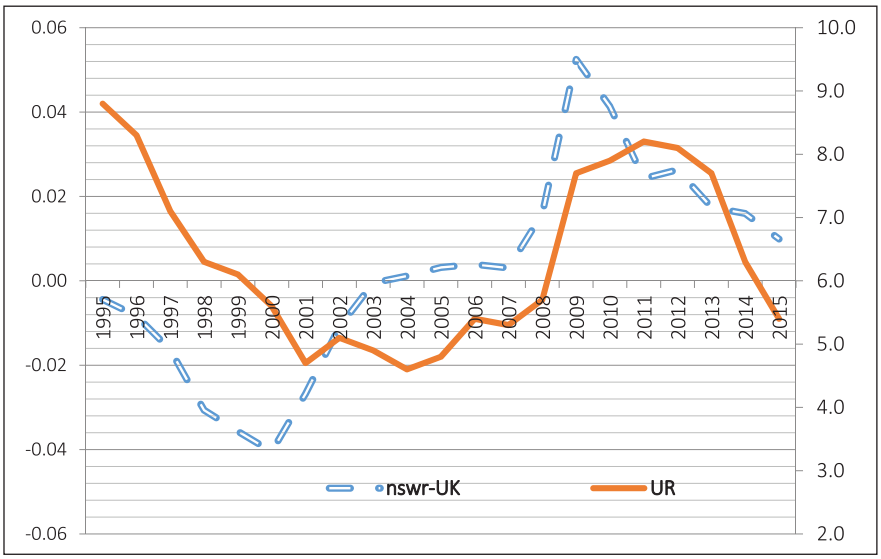

Figure 6. Net social wage ratio and unemployment rate, United Kingdom, 1995–2015.

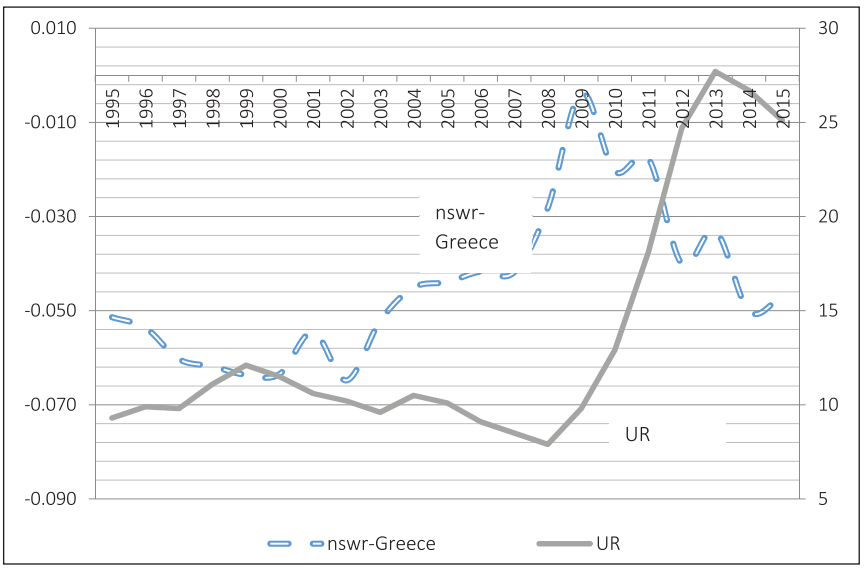

Figure 7. Net social wage ratio and unemployment rate, Greece, 1995–2015.

However, it should be noted that although the net social wage ratio fluctuates according to the movement in the unemployment rate, the latter cannot be considered as a factor that explains the *level* of the net social wage ratio across different countries. As shown in Figure 8, countries with higher average unemployment rates for the period examined do not have

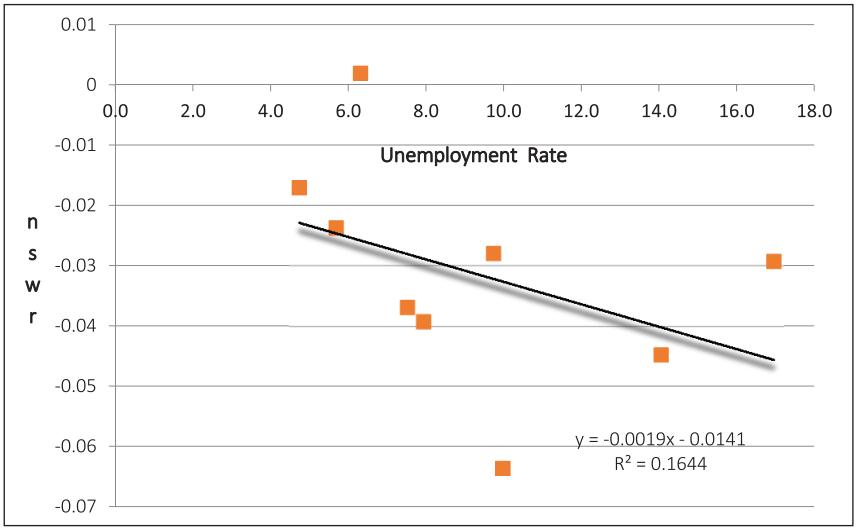

Figure 8. Unemployment rate and net social wage ratio for the nine countries, averages for the 1995–2015 period.

higher average net social wage ratios, if anything, there is a weak *negative* correlation between those two variables.

(i) *The net social wage ratio and the rate of exploitation*: Assuming that the net social wage (estimated here for all wage and salary earners) applies equally to productive labourers and unproductive labourers, then a negative net social wage means that the effective or true (post-fiscal) variable capital is lower than the initial market estimate, the apparent one (Marx 1976). If the net tax on productive labour (and not the entire net social wage) is added to the original estimate of surplus value, then the true (post-fiscal) rate of surplus value increases relative to its original market estimate, the apparent one. It is not clear (actually it seems unlikely) whether the net tax on productive labour becomes available to capital for accumulation purposes since it is very probable that it is absorbed by the state in order to finance its various functions. However, it is clear from our results that almost everywhere in advanced capitalism, the state by imposing a 'net tax' on labour lowers workers' standard of living and at the same time, it decreases variable capital and raises the true (post-fiscal) rate of exploitation for workers.

Conclusion

It is interesting to observe that contrary to what happened in the previous stagflation crisis when radicals and Marxists hastened to characterize the (welfare) state as an ally of the working class, nowadays the state is almost unequivocally (and imprecisely sometimes) labelled an agent that augments further the market exploitation of labour by capital. However, this claim has to be supported by the appropriate empirical evidence, and

the whole exercise has to be done in a methodologically sound and theoretically consistent way. 'Fiscal exploitation', whatever the content of the term, should not be taken for granted.

This article tried to examine empirically the annual impact of the state budget (and only indirectly and in passing the role of the public debt) on the income and standard of living of the working class defined as wage and salary earners, active and retired, in a number of advanced capitalist European countries which at first sight seem to have different types of welfare states or welfare regimes. The estimation and measurement of the impact of the state budget have to be assessed on the income of social classes and not on the income of individuals or households. Thus, we use the net social wage ratio, a measure developed in the Marxist political economy literature over the past 30 years in order to assess the precise impact of state activity as it is reported in the annual public budget on the market income of the working class.

The net social wage ratio was consistently negative during the neoliberal years that are covered here (a common claim advanced by critics of neoliberal.lism), but it was rising during the same neoliberal period. In fact, the average net social wage ratio for the nine countries exhibits a statistically significant positive time trend for the 1995–2015 period.

High unemployment rates and increased pension expenditures for a generally ageing population seem to be the primary reasons behind this development. In fact, old age (and survivors) pensions which increased by more than 40% (from 5.7% to 8.2% as a share of GDP) between 1980 and 2013 (i.e. during the whole neoliberal period) were apparently the major reason for the increase (by 40% from 14.9% to 21.0% of GDP) in total social expenditures as a share of GDP over the 1980–2015 period. Significant interest obligations due to the accumulation of public debt have also played a role in holding back the net social wage ratio supporting recent claims made in the literature regarding the negative effect of the public debt on the net income of workers through increased taxation.

Furthermore, the rank of the nine countries examined here in terms of their net social wage ratios indicates that the extensive literature on 'welfare regimes' is not helpful in drawing conclusions about the redistributive effect of the different types of welfare systems. Social democratic welfare states are characterized by negative net social wage ratios, and the liberal welfare state of the United Kingdom is the only one with a non-negative net social wage ratio.

Generally, our results indicate that the state in a capitalist economy is not independent in any serious way from the dominant relations of production, the process of creation of value and its primary distribution through the market mechanism. Given the level and structure of public finances in advanced capitalist economies, 'fiscal exploitation' and even its opposite can only be of a limited size and importance. The great bulk of workers' standard of living is determined by the specific historical conditions surrounding the process of capital accumulation in each country and the balance of power between labour and capital. Super-structural agents, like the state, only marginally alter the market outcome of class struggle between the two major classes in advanced capitalism. Thus far, this alteration has taken the form of a negative net social wage or net tax for labour, thus raising the apparent rate of exploitation as it is formed in the market.

Acknowledgements

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Notes

1. See among others Glyn and Sutcliffe (1972), Bowles et al. (1986), Aglietta (1979).
2. The use of the term net social wage to describe the net fiscal position of the working class was established in the literature after the paper by Miller (1989).
3. Interestingly, elements of this view could be traced in Sweezy (1942) even before the beginnings of the 'golden age':

   > Throughout the nineteenth century, the tax structure in all capitalist countries was highly regressive in its incidence, while transfer payments largely found their way into the hands of the wealthier sections of the population. Under these circumstances, there is little doubt that the State, through the mechanism of transfer payments, was acting as an engine of accumulation, siphoning purchasing power out of the pockets of consumers into the pockets of accumulators. In recent decades, however, the increasing use of corporation, income, and estate taxes and the growing volume of social-security payments have combined to shift the balance. That the transfer mechanism as a whole produces a net balance in favour of consumption is unlikely, but at any rate it is clear that it constitutes less of a drag on consumption than was formerly the case. (p. 233)

   As Shaikh and Tonak (1987) have pointed out, Therborn (1984) also seems to support the view that the state spending in advanced capitalism subsidizes labour, albeit without considering the effect of labour taxes.
4. See also Harman (2008) for a critique of the dominant conception of neoliberalism in radical circles. Harman notes that in many advanced capitalist economies, social expenditures as a share of gross domestic product (GDP) were rising between 1979 and 1995, and the net social wage ratio was higher in the 1980s compared to that in the 1960s and 1970s as shown in the results of various social wage studies cited in Shaikh (2003). His overall point is that the adverse for labour effects of neoliberalism should not be overemphasized nor juxtaposed against a supposedly favourable for labour social democratic regime which should become the strategic aim for the working class in the current era.
5. Once again, this statement is true with one major exception regarding the indirect tax incidence on workers. Especially the results for the net transfer or the net social wage for the UK economy have been quite contradictory since different empirical methods are employed (although not always stated clearly), and different time periods are covered in the various studies (Akram-Lodhi 1996; Fazeli 1996; Fazeli and Fazeli 2009; Freeman 1991; Gough 1979; Maniatis 2014).
6. 'Fiscal exploitation', which is not directly related to capital expansion or accumulation, is quite different from capitalist exploitation which is based on the sale and purchase of labour power. In order to describe the redistributive role of the state vis-à-vis labour, the term 'net tax' on labour (as a result of the special position of the state in the overall mode of production) when the net social wage happens to be negative seems preferable.
7. Except from the small indirect tax category (D29C 'Total wage bill and payroll taxes') which pertains more to a social security tax and is allocated entirely to labour taxes.
8. This was expressed by Therborn (2008) in the following way, although as noted in note 3, he has made the opposite point as well: 'From the perspective of the ruling class

problematic, state mediation of relations between the ruling class and ruled classes involves ensuring that the latter both submit to the established social order and contribute to its functioning' (p. 219).

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