Inequality and unions — Brexit, Trump and ‘yellow vests’

By John Evans

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Sixty years ago, the sociologist WG Runciman published an influential study of attitudes to ‘relative deprivation’ in 20th century England. Runciman sought to explain why at crucial periods in the past century, notably after the first world war and in the Great Depression, high or rising inequality had not led to greater unrest or even revolution. His answer was that individuals tended to compare their social position only with ‘reference groups’ close to them.

Something has clearly changed. A decade into the great recession sparked by the 2008 financial crisis, politicians and commentators in industrialised countries are struggling to comprehend how in country after country there have been explosions of anger against governments and the ‘elite’.

The Brexit vote in the United Kingdom in June 2016, the election of Donald Trump in the United States the following November, the growth of nationalist and anti-immigration parties in northern Europe and, most recently, the ‘yellow vest’ insurrection in France all represent a populist reaction to the rising inequality, stagnant median incomes and economic insecurity which have become the dominant trends in many industrialised countries. They reflect a growth of relative deprivation, where significant segments of populations feel that, whereas others have gained from economic and social change, they and their families have lost out — and they fear a future of even greater insecurity. Sharpening divisions appear after decades of the weakening of intermediary institutions, notably trade unions, whose economic role was to act as a brake on rising inequality and whose political role was to provide voice to those feeling unjustly treated and to negotiate solutions to their grievances.

Brexit, Trump, nationalism and street violence all represent bad answers to an important question — how to reforge agreement on distributive justice for those who have lost out (or so feel) from globalisation, technological innovation or responses to climate change. A ‘new social accord’ is essential, in workplaces and communities, to rebuild trust in fractured societies. It must reduce income inequality, support purchasing power and median incomes, address job quality and counter the spatial concentration of discontent. Above all, it will entail reconstructing and reinforcing intermediary institutions, such as unions, which can provide voice and collective solutions.

Elephant curve

Over the past 30 years, income inequality at a global level has declined *between* countries — in the main due to the rapid industrialisation of China — but it has risen *within* most, particularly industrialised, countries. This has been depicted by Branko Milanovic of the World Bank in an ‘elephant curve’, showing that those who have lost out over the period have been low and middle-income groups in developed countries.

During the three decades, the share of labour in national income has declined by on average ten percentage points of gross domestic product. Work by the Organisation for Economic Cooperation and Development shows that in all countries the ‘very top of the income distribution’ has gained most — indeed, in the US, where the bottom 60 percent did not see any increase in their living standards from 1990, the top 1 per cent increased their income share from 13 per cent then to 18 per cent in 2014.

This rising inequality has clearly contributed to the fall in trust in several countries, notably the

US and the UK. It's also had a significant economic cost. International Monetary Fund research has shown that increasing inequality, along with the behaviour of financial intermediaries, contributed to the pre-2008 bubble. Other work concludes that 'equality appears to be an important ingredient in promoting and sustaining growth'. Via lack of access to education, high inequality is self-reinforcing and the OECD has calculated its negative impact on growth across a range of countries.

The economics profession must take its share of blame for the toleration or even encouragement of rising inequality. The father of rational-expectations theory, Robert Lucas, wrote in 2003: 'Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion, the most poisonous, is to focus on questions of distribution.' Such neoclassical economists have traditionally argued that wages reflect productivity and so the only solution to widening inequality — purportedly arising from global opening of economies or technological change — is to improve education and training for lower-wage workers.

Yet the growing gap between productivity growth and stagnant median wages in the US cannot be thus explained. Nor can rising productivity explain the explosion of chief-executive pay — in the US the ratio of CEO pay to that of the average worker in the top 350 companies rose from 20:1 in 1965 to 312:1 in 2017. Indeed, IMF researchers, examining 20 industrialised economies, concluded that 40 per cent of the rise in inequality between the top and bottom income deciles from 1980 to 2010 was due to the decline of trade-union density alone.

The 'great moderation' in wage and price increases following the oil shocks of the 1970s was in the main brought about by the weakening of trade unions and the dismemberment of collective bargaining, notably in the Anglo-American world under the Reagan and Thatcher administrations Keynesianism, under which, as Robert Skidelsky put it, 'macroeconomic policy would secure growth and full employment' while 'strong trade unions and redistributive taxation would ensure that the fruits of growth were fairly shared', was abandoned. The impact on income inequality, with the delinking of median wages from productivity in the US and wage stagnation in the UK, meant that what the International Labour Organization has called the 'crisis before the crisis' — inequality — increased the social vulnerability which saw the 2008 crash become the great recession.

Labour heartlands

Hence the delayed reaction of anger was initially felt in labour heartlands — the traditionally working-class areas in England and Wales and in the Great Lakes states of the US. But with the intermediary trade-union institutions weakened, the way was paved for self-harming populist responses: the election of Trump and the vote for Brexit.

A National Bureau of Economic Affairs study examined the effect of 'right-to-work' (anti-union) laws on voting behaviour and political activity in the US between 1980 and 2016. It found that they reduced Democrat presidential vote shares by 3.5 percentage points, with lower organised-labour campaign contributions to Democrats and less contact with potential Democrat voters in 'right-to-work' states. Moreover, fewer working-class candidates served in state legislatures and Congress.

In the presidential election, Trump effectively prevailed through victories in Indiana, Wisconsin and Michigan, which formerly voted Democratic. From 2008, when Barack Obama was elected, to 2016, union density dropped in Michigan from 18.8 to 14.4 per cent and in Wisconsin from 15.0 to 8.1 per cent. Three of the Great Lakes states had converted to 'right-to-work' states by the 2016 election. In another swing state which shifted to Trump,

Pennsylvania, union density dropped from 15.4 to 12.1 per cent.

Income inequality has been less pronounced in France over the past 30 years. On the common measure of inequality, the Gini coefficient (which ranges from zero inequality to a maximum of 1), at 0.29 France is higher than the Nordic countries but lower than the OECD average and a long way from the US level of almost 0.4. In its 2017 presidential election, France appeared to be a country that in electing Emanuel Macron steered away from populism. Nevertheless, low and median real incomes have been stagnant in France in recent years, whereas the income of top earners has risen significantly. The share of the top 1 per cent in pre-tax income rose from less than 8 per cent in 1983 to between 10 and 12 per cent between 2008 and 2013.

Gilets jaunes

Eighteen months after the election, France was confronted by violent protest. Several hundred thousand *gilets jaunes*, protesters wearing high-visibility jackets, blockaded hundreds of roads, access to refineries and shopping centres with increasing violence. The spark was a planned increase in fuel tax, part of the government's plan for 'energy transition' to a lower-carbon economy. But the driving force was the perceived injustice of stagnant *pouvoir d'achat* (living standards) among lower-middle income families.

The government's decision to abolish the *impot sur les fortunes* (wealth tax), coupled with some ill-judged conspicuous consumption by Macron and his elitist style, fuelled anger at the 'president of the rich'. Despite the violence, far-right infiltration and mounting cost of the protests, they sustained support from almost 70 per cent of the population. The government was forced to introduce a moratorium on the fuel-tax increases and sought to open dialogue with the protesters. But it appeared nonplussed and helpless, given the amorphous nature of the protests.

In the past, protesting French trade unions were able to negotiate outcomes, such as in 1996 following huge demonstrations against pension reform. Yet trade-union proposals earlier in 2018 for dialogue on the social measures to accompany climate transition were dismissed by the government. Only as the crisis mounted did it seek belatedly to bring trade-union and employer representatives into discussion.

While there are many national specificities to the French situation, in December the International Trade Union Confederation published a 14-country poll derived from interviews with almost 15,000 workers. Fifty-nine per cent of respondents in work said they were just about managing financially, struggling to make ends meet or not managing at all, often going without essentials or falling into debt. Nearly one in four (23 per cent) believed their job was insecure. Only 32 per cent of those just about managing, struggling or in debt thought their voice mattered in politics.

A feature of the unrest in France, but also present in the US and UK reactions, has been the increasing intolerance of spatial inequality. In France, the initial focus of the *gilets jaunes* was dependence on private vehicles in non-urban areas and rising fuel costs: 18 million people — almost 30 per cent of the population in France — have no access to public transport. In these circumstances an increase in fuel cost translates into a fall in real income and not a shift in consumption away from hydrocarbons. Relative isolation and the decline in public services in non-urban areas has also featured in the growth of right-wing populism: a 2016 survey found a relationship between the distance to post offices and the vote for the then National Front. In the UK EU referendum that year, pro-Brexit votes in the north and west of England and Wales, as against the solid 'remain' votes in London and some other cities, reflected resentment against urban agglomerations seen to be doing well out of globalisation.

Trade unions

The late Anthony Atkinson put forward 15 proposals to reduce inequality. These sought to establish a more favourable balance of power between labour and capital, allied with progressive taxation to help those in the lower deciles of the income distribution. They included trade-union representation of workers to relink productivity growth and incomes.

The declining influence of intermediary institutions, notably trade unions, since around 1980 is an important factor in explaining the rise in inequality in several countries and the associated inchoate explosions of anger. (Re)building a social accord must therefore begin with stimulating intermediary institutions rather than seeking to minimise or even destroy them.

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