

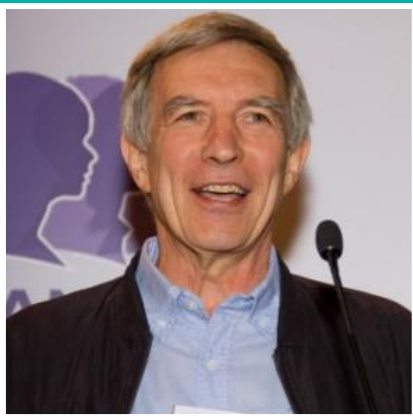
Think Piece

The importance of the labour
movement in reducing inequality

Richard Wilkinson
and Kate Pickett

July 2014

Authors



Professor Richard Wilkinson

Richard Wilkinson is Emeritus Professor of Social Epidemiology at the University of Nottingham Medical School, Honorary Professor at UCL, a Visiting Professor at the University of York and co-founder of The Equality Trust.

Throughout his career Richard has played a formative role in international research on the social determinants of health and on the societal effects of income inequality. Richard is the co-author of the groundbreaking book *The Spirit Level: Why Equality is Better for Everyone* which won the 2011 Political Studies Association Publication of the Year Award.



Professor Kate Pickett

Kate Pickett is Professor of Epidemiology at the University of York. Kate leads the Health Inequalities Research Group and is co-author of the groundbreaking book *The Spirit Level: Why Equality is Better for Everyone*.

Kate is a National Institute for Health Research Career Scientist, a Fellow of the RSA and of the UK Faculty of Public Health and a co-founder of The Equality Trust, a non-profit organisation seeking to explain the benefits of a more equal society.

Acknowledgements

This paper has been produced from a more extensive report by the authors entitled *The World We Need* written for the International Labour Organization (ILO).

Executive summary

Few people understand how damaging large inequalities can be. There is a common view that inequality only matters if it creates poverty or if it is widely regarded as unfair. But in reality, inequality has much deeper and more powerful effects on the wellbeing of the vast majority. Our own research, and that of many other researchers around the world, shows that almost all the health and social problems which tend to be more common lower down the social ladder also tend to be worse in societies with bigger income differences between rich and poor.

As human beings, we have deep-seated psychological responses to inequality and these are reflected in worse population health and wellbeing, less social cohesion, more violence and many other problems¹. Bigger income differences increase the effects of social class and differences in status. All the ways in which class imprints itself on people, from earliest childhood onwards, are strengthened by bigger income differences between rich and poor. Rather than affecting just the poor, the effects of inequality extend to the vast majority of the population because it damages the whole social fabric.

Drawing on a range of evidence, this short *Think Piece* looks at the role of the labour movement in achieving a more equal society. The weakening of the labour movement during the last quarter of the 20th Century has had a significant impact on the ability of working people to influence their standard of living and quality of life. This paper argues that we must now recreate a movement with the political and social influence that enabled the former labour movement to achieve the major reductions in inequality during the middle decades of the 20th Century. A fairer and more sustainable future is possible.

Creating a more equal society

There are several quite different approaches to increasing equality. Mostly people think in terms of more progressive taxation and more generous social security systems. We must of course tackle tax avoidance, end tax havens and make taxation more progressive so that the rich pay a higher proportion of their income in taxes than the less well off. However, there are two weaknesses in this approach: first, any progress on taxes and benefits can very easily be reversed by a new government, and second, there is always a tendency for people to think that taxes are a kind of legalised theft – that the government is taking their money. This is despite the fact that almost all production and the creation of wealth is a cooperative process. Everyone is dependent on the whole society and its infrastructure for their individual incomes and living standards. The wealthy would not be wealthy if it were not for an educated population, electricity supplies, transport systems, accumulated technical and scientific knowledge and so on. Living standards are a product of the combined efforts of vast numbers of people.

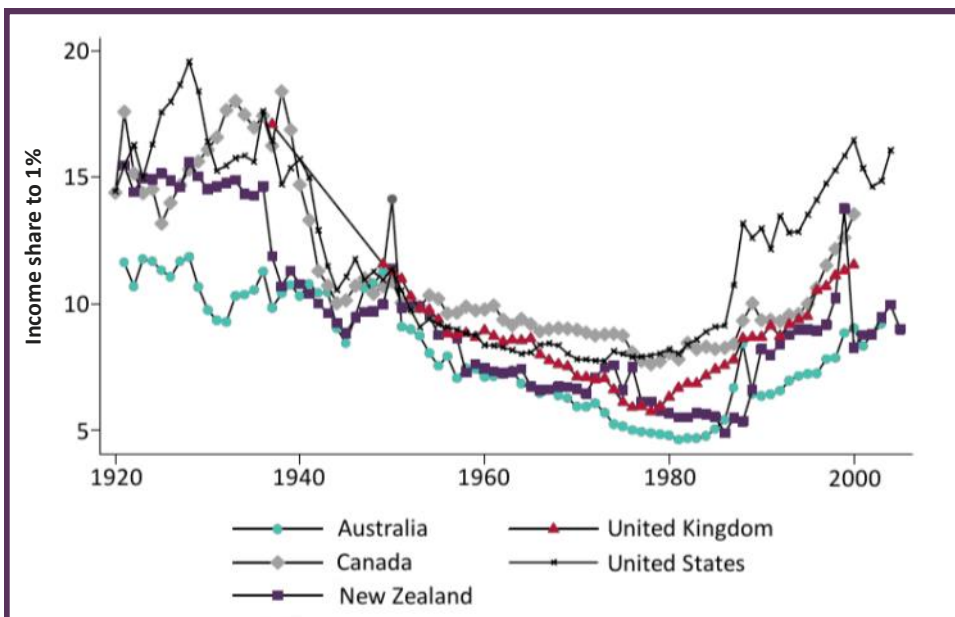
A much more fundamental approach to reducing inequality is to reduce differences in people's incomes *before* tax. Some of the more equal societies gain their greater equality by redistribution, but others start out with smaller differences in pre-tax incomes². The social benefits of greater equality do not seem to depend on which method is used.

The widening income differences seen in so many countries are primarily a reflection of a tendency for top incomes to grow faster than incomes throughout the rest of society. Over the last few decades large international corporations have been powerful generators of inequality. From the 1970s to the early 1980s, the CEOs of the largest 350 US companies were paid 20 or 30 times as much as the average production worker. By the first decade of the 21st Century they were getting between 200 and 400 times as much³. Among the 100 largest UK companies (FTSE 100 companies), the average CEO received just above 300 times the minimum wage⁴. These levels of pay, which are, at best, only very weakly related to measures of performance, are an indication that systems of accountability for people at the top are not effective⁵. Although the widening is more extreme in the USA than in many other countries, differentials have increased in most countries. This widening gap seems, in the absence of strong trade unions and an effective labour movement, to reflect a lack of any effective democratic constraint on top incomes. If that is so, then part of the solution is to build effective constraints by extending democracy into our economic institutions.

The importance of the labour movement

The long term changes in inequality for several developed countries are shown in Figure 1. The broad pattern is similar in many different countries and can be seen across all measures of inequality. Inequality goes through a 'U'-shaped pattern of change during the 20th Century. It was high until the 1930s, when a long decline in inequality starts. The exact timing of the start of the decline varies by 5-10 years from country to country and measure to measure. Inequality continues to decrease until sometime in the 1970s. Then, from around 1980 or a little later in some countries, inequality starts to grow again, until, by the early 21st Century, some countries have returned to levels of inequality not seen since the 1920s.

Figure 1 – Income share of richest 1% in Anglo-Saxon countries 1921-2002

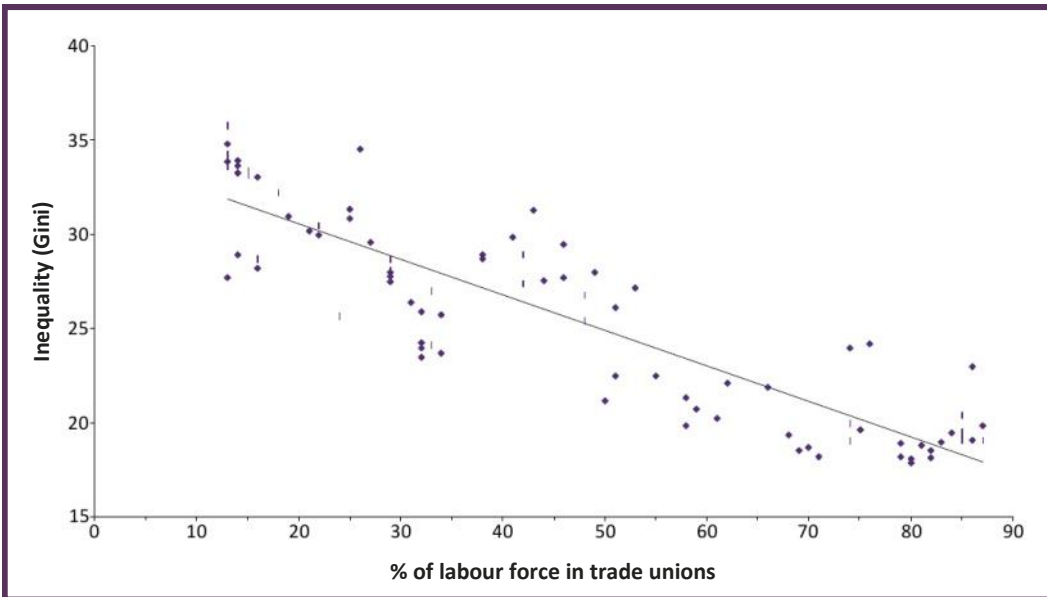


Source: Atkinson, A.B., Leigh, A. (2010) Distribution of Top Incomes in Anglo-Saxon Countries. IZA Discussion paper 4937, Bonn, Germany.

This pattern reflects the strengthening and then weakening of the labour movement during the 20th Century. If we consider the proportion of the labour force in trade unions as a measure of the strength of the labour movement as a countervailing voice and force in society, the relationship with inequality is very clear. Figure 2 shows the relation between inequality and the proportion of the labour force in trade unions in 16 OECD countries at various points between 1966 and 1994⁶. Each point is a country at a particular date. As trade union membership declined, inequality increased. Within

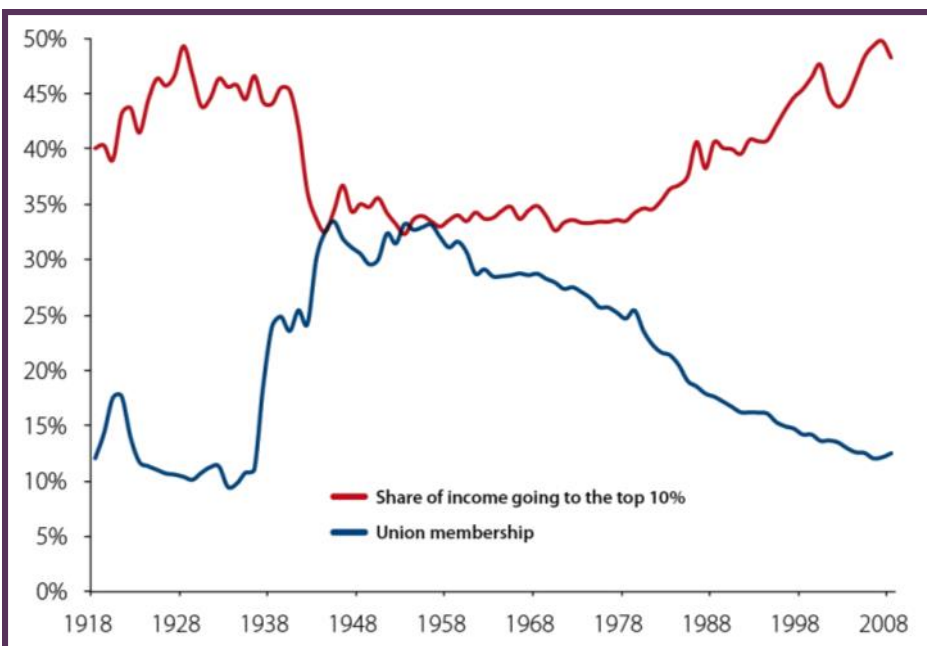
individual countries it is possible to track trade union membership data over time during the 20th Century and find something like an inverted version of the trend in inequality shown in Figure 1. This can be seen in the case of the USA in a 2012 study by the Economic Policy Institute shown in Figure 3⁷.

Figure 2 – Countries with stronger trade unions are less unequal (data for 16 OECD countries 1966-1994)



Source: Gustafsson B, Johansson M. In search of smoking guns: What makes income inequality vary over time in different countries? *American Sociological Review* 1999:585-605.

Figure 3 – Unions and shared prosperity in the USA (1918-2008)



Source: Eisenbrey, R and Gordon, C. *Economic Snapshot—unions and labor standards* (2012). Data from Historical Statistics of the United States, unionstats.com, and Piketty and Saez 2003 *The World Top Incomes Database*⁷.

The connection between trade union membership and inequality should not however be seen simply as a reflection of what trade unions manage to do for the wages of their members. Instead, the relationship indicates the strengthening and then the weakening of the overall political and ideological influence of the left in society. The rise in inequality since around 1980 is of course largely attributable to the political power of the neoliberal ideology which was ushered in by Reagan and Thatcher. To gain substantial reductions in inequality in the future will require the recreation of a sustained political movement.

The role of politics – as opposed to strictly market forces – in the 20th Century reduction and subsequent widening of inequality, is also confirmed by a World Bank Report on the eight countries (Japan, Republic of Korea, Taiwan, Singapore, Hong Kong, Thailand, Malaysia, Indonesia) which used to be known as the ‘tiger economies’⁸. It describes how, with well-publicised programs of “shared growth”, they all deliberately reduced their income differentials during the period 1960-1980. Policies variously included land reform, subsidies to lower fertilizer prices to boost rural incomes, wealth sharing programs, large-scale public housing programs, and assistance to workers cooperatives. The World Bank report says that in each case governments reduced inequality primarily because they faced challenges to their legitimacy often from communist rivals and needed to win wider popular support. For example, South Korea faced North Korea, Taiwan and Hong Kong faced the claims of China, and communist guerrilla forces operated widely. So here, as in the rich developed countries, it is a mistake to think that the main changes in inequality have resulted simply from impersonal market forces rather than from the outcome of political and ideological processes. Similar political forces are also evident behind the reduction of income inequality in Britain during the two world wars, and in the earliest development of welfare systems under Bismark.

Strengthening the role of the labour movement

Companies have two functions. One is to produce the goods and services which we all need, but the other is to concentrate wealth and power among top executives and generate profits for shareholders. We need the first of these, but not the second. The second has been the mainspring of rising inequality and has provided powerful perverse incentives to top management.

Increasing employee representation on company boards and expanding the share of the economy made up of mutual, cooperative and employee owned companies would begin to tackle growing inequality and the concentration of wealth at the top. More democratic companies tend to have much smaller pay ratios among their staff. In the Mondragon group of cooperatives in Spain (which has 84,000 employees and annual sales of £13 billion) pay ratios average around 1:5. In large public sector organisations ratios are usually between 1:10 and 1:20. Around half the countries belonging to the European Union have some kind of legal provision for employee representation on company boards. The various different provisions in Europe are recorded on Eurofound⁹. Some of the provisions are very weak - they need to be substantially strengthened and made universal. The evidence suggests that board level employee representation does tend to reduce pay ratios within companies¹⁰.

As well as smaller income differences and good economic performance, cooperatives, employee owned companies and others in the stakeholder business sector have other advantages. Community life has weakened substantially in rich countries over the last generation but, as Oakeshott remarks, an employee buyout can turn a company from being a piece of property into a community¹¹. Perhaps a stronger sense of community at work could replace the sense of community that has declined in residential areas. It is also likely that less hierarchical structures at work could begin to change the experience of work – making it possible for more people to gain a sense of self-worth and of being valued from their employment. Certainly, a sense that you don't have control over your work, of unfairness, or an 'effort-reward imbalance', have each been linked to worse health and wellbeing.

The scales of top pay and of tax avoidance are two indications of how problematic the mismatch between profit seeking and the public interest can be. Other indicators

include corporate-funded opposition to scientific evidence of harm associated with company products, such as the role of fossil fuel companies opposing climate science, the manipulation of regulatory bodies set up to safeguard the public interest, and the purchase of political influence on a scale which threatens the effective functioning of democratic institutions. In his book, *Lethal but Legal: Corporations, Consumption, and Protecting Public Health*¹², Freudenberg argues that the conflict between the public interest and profit seeking in big corporations is now a major threat to public health.

Considerations such as these are likely to have contributed to the resurgence of interest in more democratic economic institutional structures. But at the same time, traditional systems of share ownership have become increasingly inappropriate for controlling modern companies. A report called *Workers on Board*¹³, from the Trade Union Congress, identifies how in the 1960s most shares were owned by individuals with a longer term interest in a small number of companies. But in many countries the vast majority of shares are now owned by financial institutions which spread their investments across hundreds or even thousands of companies, and make money through short-term share trading and have little or no knowledge or long-term interest in the companies. The TUC report says that the situation has reached a point where a large listed company may have thousands or tens of thousands of shareholders and find it difficult even to get full information on who its share owners are.

At the same time, modern production increasingly involves the integration of the expertise and knowledge of many different people – so much so that the value of a company is now less a matter of its buildings and capital equipment than of the value of the integrated group of employees with their skills and knowledge. This means that buying and selling a company amounts to buying and selling a group of people – an appallingly anachronistic process, especially when that group of people could be running their own company democratically. Interestingly, large workplace studies of health have shown that lack of control at work is a significant health hazard¹⁴. It may seem utopian to imagine that stakeholder owned businesses could ever compete with multinational corporations, but they have commercial advantages and higher productivity. It is surely not beyond the wit of government to create fiscal incentives and legislative frameworks to expand economic democracy.

Pursuing equality and social solidarity over consumerism

By increasing social anxieties and competition for social status, inequality replaces genuine community and undermines human companionship which is fundamental to human wellbeing. The evidence suggests that although absolute material standards are no longer critical to wellbeing in the richest societies, the quality of social and community life has become critical to wellbeing, particularly in the more unequal societies. The importance of this shift can scarcely be overestimated. What it implies is that if rich societies are going to make further real improvements in the quality of life, it is to the quality of the social environment and social relations that they must turn.

Consumerism is not a reflection of a basic acquisitive human nature. It stands instead as a marker of the dysfunctional power of status competition in social relations. Reducing inequality is not only key to improving aspects of social life and wellbeing, but also the key to reducing consumerism. People in more unequal societies work longer hours¹⁵, get into debt more and are more likely to go bankrupt^{16 17}, because of societal pressures of consumerism. Reductions in the pressure to consume may mean that people in richer societies may be more willing to use the benefits of increased productivity to give themselves more leisure rather than higher levels of material consumption. The New Economics Foundation has suggested that a 21 hour week should become the norm¹⁸. As well as the evidence of a social deficit in modern life, surveys have shown that there are widespread perceptions that consumerism involves sacrificing time which would be better spent with friends, family and community¹⁹.

With reductions in inequality we could not only reduce consumerism but also improve the real quality of life for the vast majority. If the main effort to reduce inequality were a focus on the expansion of economic democracy in all its forms – union and employee representation on company boards, mutuals, employee owned companies and cooperatives – then we also start to transform people’s experience of work. Community life would be stronger and status insecurities reduced.

Conclusion

It's time for a major shift in our thinking. The changes needed to achieve economic and environmental sustainability are also the changes needed to improve the real quality of our lives. Although people in developed countries live in historically unprecedented comfort and luxury, they are nevertheless immersed in social and economic problems with huge human costs. Whether it is the prevalence of mental illness, depression and anxiety, the poverty of community life or problems such as violence, drug abuse, and people being devalued and made to feel inferior, the data show that they all become substantially worse in more unequal societies and damage us all.

Since the financial crash of 2008, think tanks, charities and research groups around the world have produced a spate of publications pointing to the need for a fundamental transformation in the conduct of economic and social life – a recognition that it has become impossible to continue with 'business as usual'²⁰.

The weakening of the labour movement during the last quarter of the 20th Century also saw a decline of any sense of how to improve our societies. Progressive politics lost sight of the direction in which we should be trying to move social and economic change to produce a better quality of life for everyone. Rather than the economy serving people, there was an increasing sense that we had little choice but to serve the economy and that change was out of our control. Politics lost a sense of idealism and the ability to inspire. Attempts at reform became piecemeal, lacking a sense of coherence and direction.

We need now to recreate a movement with the political and social influence which enabled the former labour movement to achieve the major reductions in inequality during the middle decades of the 20th Century. We need a new vision capable of responding to inequality in ways which contribute to improving the real quality of life for all of us. In the last period of progressive politics, in the 1960s and 1970s, there was a failure to produce the structural changes which would ensure progress was not reversed. More work is needed in discussing, developing and setting out the vision to ensure that in future we make genuine progress in maximising sustainable human wellbeing. Progress will depend not only on government action, but on wider civic society; trade unions must play a central role in the progressive alliance.

The challenge is daunting, but the problems we face are linked in such a way that solving one paves the way to solving others, and each left unsolved exacerbates the others. Effective international measures to prevent the use of tax havens for avoiding national taxes would make it easier to reduce inequality, which would reduce status competition and consumerism, so improving the quality of life for all. And it is clear that if rich societies were to give a higher priority to leisure over consumption, it would leave more room for the economic growth which developing countries continue to need.

Moving towards sustainability and maximising wellbeing both involve changing some of the counterproductive aspects of our social and economic systems. Humanity cannot develop sustainable ways of living on the basis of huge international inequalities, unbridled consumerism, international conflict, with our economic life dominated by enormously powerful corporations which avoid any effective democratic accountability. Addressing each of these issues is not only about removing a major obstacle to sustainability; it is also about enabling important advances in wellbeing.

References

- ¹ **Wilkinson RG, Pickett K.** *The Spirit Level: Why Equality is Better for Everyone.* London: Penguin, 2010. Chapter 3.
- ² Ibid
- ³ **Mishel L, Sabadish N.** Pay and the top 1%: How executive compensation and financial-sector pay have fuelled income inequality. Issue Brief: Economic Policy Institute, 2012.
- ⁴ **One Society.** A third of a percent. London: The Equality Trust, 2012.
- ⁵ **Tosi HL, Werner S, Katz JP, Gomez-Mejia LR.** How much does performance matter? A meta-analysis of CEO pay studies. *Journal of Management* 2000;26(2):301-39.
- ⁶ **Gustafsson B, Johansson M.** In search of smoking guns: What makes income inequality vary over time in different countries? *American Sociological Review* 1999:585-605.
- ⁷ **Eisenbray R and Gordon C.** As unions decline, inequality rises, Economic Policy Institute, 2012. Available: <http://www.epi.org/publication/unions-decline-inequality-rises/>
- ⁸ World Bank. *The East Asian miracle.* Oxford: Oxford University Press, 1993.
- ⁹ See <http://www.eurofound.europa.eu/eiro/1998/09/study/tn9809201s.htm>
- ¹⁰ **Vitols S.** Board level employee representation, executive remuneration and firm performance in large European companies. European Corporate Governance Institute and European Trade Union Institute., 2010.
- ¹¹ **Oakeshott R.** *Jobs and fairness: the logic and experience of employee ownership.* Norwich: Michael Russell, 2000.
- ¹² **Freudenberg N.** *Lethal but Legal: Corporations, Consumption, and Protecting Public Health:* Oxford University Press, 2014. And Oreskes N, Conway EM. *Merchants of Doubt: how a handful of scientists obscured the truth on issues from tobacco smoke to global warming.* New York: Bloomsbury, 2010.
- ¹³ **J. W.** *Workers on Board: The case for workers' voice in corporate governance.* In: Congress TU, editor. TUC. UK, 2013.
- ¹⁴ **Bosma H, Marmot MG, Hemingway H, Nicholson AC, Brunner E, Stansfeld SA.** Low job control and risk of coronary heart disease in Whitehall II (prospective cohort) study. *British Medical Journal* 1997;314(7080):558-65.
- ¹⁵ **Bowles S, Park Y.** Emulation, inequality, and work hours: was Thorsten Veblen right? *The Economic Journal* 2005;115:F397-F412.
- ¹⁶ **Kumhof M, Rancièrè R.** *Inequality, Leverage and Crises.* Working Paper: International Monetary Fund, 2010.

¹⁷ **Adkisson RV, Saucedo E.** Emulation and state-by-state variations in bankruptcy rates. *The Journal of Socio-Economics* 2012;41(4):400-07.

¹⁸ **Coote A, Franklin J, Simms A, Murphy M.** 21 Hours: Why a Shorter Working Week Can Help Us All to Flourish in the 21st Century: New Economics Foundation, 2010.

¹⁹ **The Harwood Group.** Yearning for balance: Views of Americans on consumption, materialism, and the environment. Takoma Park, Maryland: Merck Family Fund, 1995.

²⁰ **German Advisory Council on Global Change.** World in Transition – A Social Contract for Sustainability. Berlin, 2011; Stockholm Environment Institute. Great Transition: The Promise and Lure of the Times Ahead. Stockholm, 2002; and Share The World's Resources. Financing the global sharing economy. London, 2012.



Centre for Labour and Social Studies

The Centre for Labour and Social Studies (Class) is a new think tank established in 2012 to act as a centre for left debate and discussion.

Originating in the labour movement, Class works with a broad coalition of supporters, academics and experts to develop and advance alternative policies for today.

Through the production of high quality, intellectually compelling publications and events Class seeks to shape ideas that can inspire the trade union movement, cement a broad alliance of social forces and influence policy development to ensure the political agenda is on the side of working people.

www.classonline.org.uk

[@classthinktank](https://twitter.com/classthinktank)

The Centre for Labour and Social Studies (Class) is a new think tank established in 2012 to act as a centre for left debate and discussion. Originating in the labour movement, Class works with a broad coalition of supporters, academics and experts to develop and advance alternative policies for today.



128 Theobalds Road, London WC1X 8TN
Email: info@classonline.org.uk
Phone: 020 7611 2569
Website: www.classonline.org.uk

The views, policy proposals and comments in this think piece do not represent the collective views of Class but only the views of the authors.
© Class 2014