Social Democracy and distributive conflict in the UK, 1892-2016

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Motivation

- Is there a future for electoral socialism and social democracy?
- Is it any longer possible to promote a significant redistribution of income in favour of labour?
- Political and economic events seem to suggest negative answers.
- Even when parties of the Left have been electorally successful, this has been at the cost of such a significant revision of their traditional programme and rhetoric that they have abandoned many of their egalitarian commitments in favour of market solutions supported by a rhetoric of ‘choice’, and have promoted policies with limited redistributive effects.
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Introduction

Class Compromise and Class Struggle

A rigorous analysis of why this has happened can be found in the influential and widely debated work of Adam Przeworski (1985, 1986, 1988).

- There is an irreversible tendency that makes it impossible in capitalist democracies in the long-run to promote a significant redistribution of income, let alone any socialist objectives.
- Przeworski (1985) rejects the standard Marxist view that the interests of workers and capitalists are diametrically opposed, both in short-run struggles over income distribution, and in the longer run struggle for a socialist transformation.
- The standard view contrasts with the passivity of the working class, a passivity born of acceptance of, if not active support for, the capitalist system.
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The standard view contrasts with the passivity of the working class, a passivity born of acceptance of, if not active support for, the capitalist system.
Przeworski rejects explanations of this phenomenon in terms of ideology, supposing instead that workers and their organisations are rational, self-interested, forward-looking utility maximisers.

He argues that the interests of capitalists and workers are indeed in conflict in the short-run: higher profits lead to lower wages, and vice-versa.

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- Both high levels of taxation imposed by a sympathetic government and the promotion of working-class militancy through class struggle are counterproductive, because each will generate a **profit-squeeze mechanism**:
  - low profits lead to a reduction in investment, which implies lower employment today and lower production and wages in the future.

- Significant changes in the distribution of income, either via a **welfare state** or via **bargaining and conflict** are severely constrained.

- The working class is therefore structurally dependent upon capital, and the argument is summarised as ‘the structural dependence thesis’ (SDT).
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Most authors focus on his analysis of electoral dynamics and the electoral dilemmas of socialist and social democratic parties.

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SDT, long- and short-run mechanisms

If SDT is correct and relevant, the range of income distributions attainable in advanced capitalist democracies should be narrowly circumscribed and the economy should gravitate around some tightly determined equilibrium.

"No government ... can reduce the share of income that owners of capital consume. Any additional income for wage earners, whether it consists of wage gains won at the bargaining table or as transfer payments won through election, reduces total investment, dollar for dollar" (Przeworski and Wallerstein (1988, p.16)).
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Attempts to redistribute income should therefore only yield temporary effects.

Two issues are thus of considerable interest in evaluating SDT:

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2. The behaviour of long-run income distribution.
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2. The behaviour of long-run income distribution.
The theoretical framework of our empirical analysis is based on a stylised account of class conflict over distributive shares in the process of capitalist accumulation.

The model identifies the two key variables of the analysis, the wage share and the employment rate, and it postulates a cyclical relation between them.
Profit squeeze cycle underlying SDT

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A scatter plot of the employment rate (on the vertical axis) against the wage share (on the horizontal axis), with scatter points considered sequentially in time, should generate a **clockwise path** if it is to represent a profit squeeze mechanism of the sort postulated by Przeworski.

We use the **UK as our case study**. As a canonical example of a liberal market economy, and given the influence of the SDT on policy making, the UK should be an excellent test for the theory.

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Employment rate: deviation from trend (% tag points)

- 1896-1902
- 1902-07
- 1958-63
- 1963-68
- 1986-93
- 2008-15

W age share: deviation from trend (% tag points)
Conflict and distribution in the long-run

- The empirical evidence does show the existence of a short-run profit-squeeze mechanism operating at any given point of time, as predicted by the SDT, but it also shows that this trade-off is moving over time.
- The determination of the longer-run equilibria of capitalist economies is therefore a significant issue.
- Does Przeworski’s approach provide an explanation of the long-run?
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*Does* Przeworski’s approach provide an explanation of the long-run?
There is no explanation of the long-run in Przeworski and the profit-squeeze mechanism is consistent with an **infinity of equilibrium income distributions**.

It seems very difficult to find some long-run explanatory mechanism that is completely independent of distributive conflict. The most obvious examples of such explanation are **exogenous technical change** or some **Malthusian population dynamic**.

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- Is there any role for class-related variables capturing power?
We suppose that increases in the power resources of one class have positive, long-lasting effects on the share of income that goes to that class.

In the empirical analysis below, we shall consider trade union density as the key measure of the bargaining strength of the working class.

We focus primarily on distributive outcomes rather than on welfare state provisions and redistributive policies, although the SDT applies to both.
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We use data from the **Bank of England** dataset.

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Panel (a)

- First difference of \( w \)
- First difference of \( e \)

Panel (b)

- First difference of \( u \)
- First difference of \((\log GDP - \beta \times \text{year})\), right scale
Results

Using the Johansen VECM methodology, we estimate:

\[ \Delta y_t = \sum_{j=1}^{p-1} \Gamma_j \Delta y_{t-j} + AB y_{t-1} + v_t \]  

(1)

At any time \( t \), our data are represented as a vector of four variables, \( y_t \), comprising measures of wage share, employment rate, trade union density and logGDP.
### Table: Estimated VECM

<table>
<thead>
<tr>
<th></th>
<th>Model 1 (unrestricted)</th>
<th>Model 2 (with restrictions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$w_{t-1}$</td>
<td>1.000</td>
<td>1.000</td>
</tr>
<tr>
<td>$e_{t-1}$</td>
<td>-0.088</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(0.190)</td>
<td></td>
</tr>
<tr>
<td>$u_{t-1}$</td>
<td>-0.475</td>
<td>-0.669</td>
</tr>
<tr>
<td></td>
<td>(0.085)</td>
<td>(0.092)</td>
</tr>
<tr>
<td>$\log GDP_{t-1}$</td>
<td>2.408</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(1.513)</td>
<td></td>
</tr>
<tr>
<td>$t$</td>
<td>-0.138</td>
<td>-0.138</td>
</tr>
<tr>
<td></td>
<td>(0.104)</td>
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</table>

Notes: Standard errors in parentheses. The coefficient $\beta_1$ is normalized to one.
Wage share and employment rate alone are **not** cointegrated, contrary to SDT.

In the long-run WR & ER are **correlated but via other variables** and the signs of the coefficients are in contrast with SDT: trade union density and wage share are positively correlated: an increase in the power resources of the working class tends to modify the long-run income distribution in favour of workers.

Hence, by estimating these LR relationships we also **reject the assumption of a dollar-for-dollar relationship** between wage share and employment rate.
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Figure: Impulse Response Functions. Cholesky decomposition, shocks of 1 standard deviation
Conclusions

Przeworski is effective in exposing some problems of naïve visions of the electoral road to socialism.

There certainly are structural limits to attainable distributions within capitalist institutions, and the empirical evidence suggests that *some form of profit squeeze is indeed operating* at any given point in time.

Our empirical analysis, however, shows that strong versions of the structural dependence thesis, such as Przeworski’s, do not explain the actual choices and trade-offs faced by the labour movement.

The real history of *class power and class capitulation has more to offer* than an abstract story of optimising forward-looking individuals subordinating themselves to capitalist rationality.
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