

The trade-off between economic competitiveness, welfare, and inequality

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The solution to the financial crisis of 2008 was to promote economic competitiveness, and to reduce public spending. Often these choices are depicted as two incompatible poles: we cannot have strong social protection and high levels of public spending without compromising economic competitiveness. This line of thinking is particularly true in small open economies such as the Republic of Ireland, where remaining economically competitive often implies a trade-off in protections for workers such as generous welfare, union membership, and labour laws.

Is this an inevitable compromise? One thing we can do as sociologists is compare countries of similar geographical and economic profile. The Republic of Ireland, along with the United Kingdom, and United States is often held as an example of a 'liberal' economy, with means-tested welfare, low levels of regulation in the labour market, and less intensive social protection. Denmark is another example of a small open economy, geographically similar to Ireland. Unlike Ireland, Denmark is often classified as a 'social democracy', with higher levels of social spending, universal access to a range of state-funded social services, and greater protections for workers.

Figures 1 and 2 highlight a crucial difference between both countries. Although both record above-average levels of economic openness (Ireland especially so), the cost in terms of Irish unionisation has been severe. Unionisation is often noted as a key predictor of equality in international studies, and higher levels of union membership are associated with higher levels of income equality, and greater wealth redistribution. As the Irish economy grew in the 1990's thanks to strong growth in the service sector, traditional union bases became eroded as industrial employment declined, whilst the jobs of the 'new economy' were often de-unionised and poorly regulated. The Danish 'Ghent' system, where unemployment assistance is often administered through unions and indexed against previous pay levels, coupled with a centralised industrial relations system, has ensured that Denmark, despite similar growth in the service economy, has maintained higher levels of unionisation since the 1990's relative to Ireland.

Figure 1: Economic Openness and Union Density, Ireland (1960-2011)

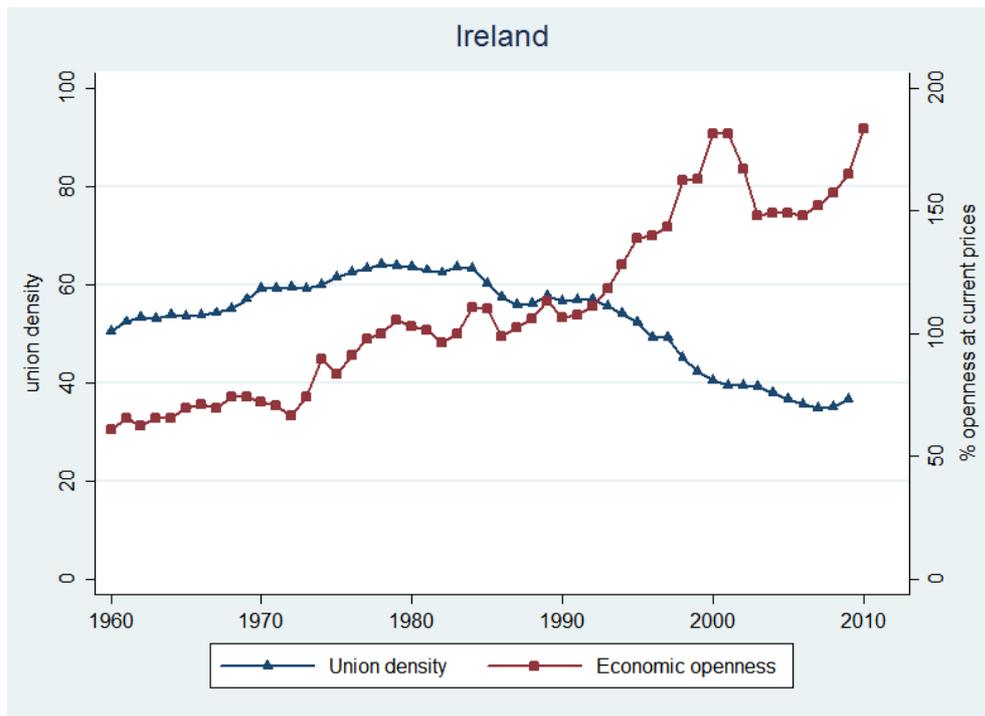
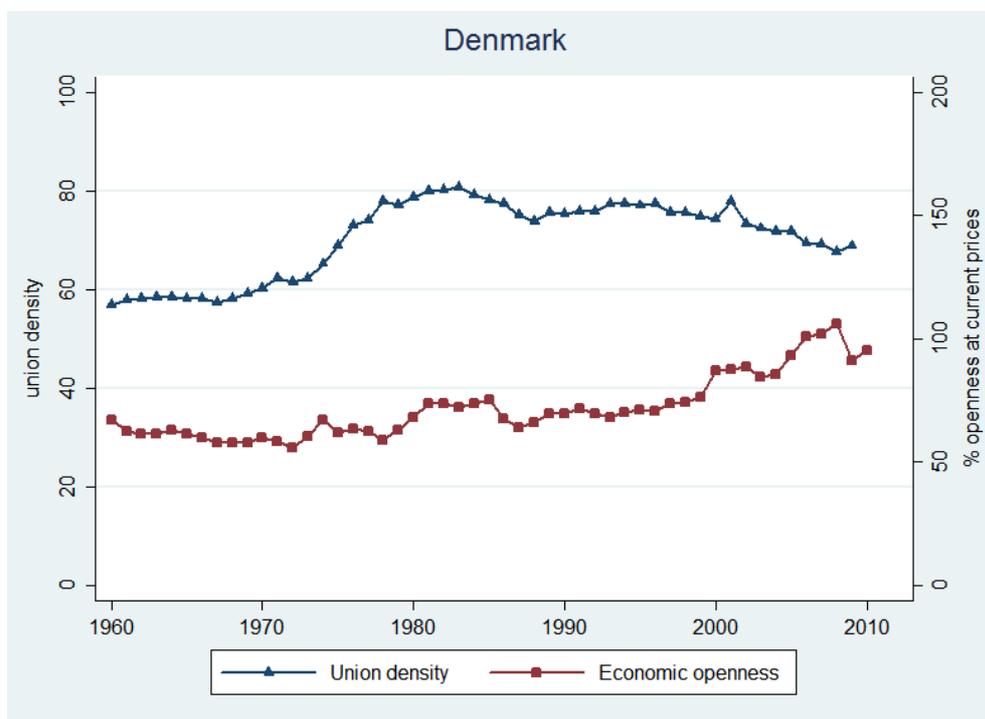


Figure 2: Economic Openness and Union Density, Denmark (1960-2011)



How do these trends relate to levels of income inequality? Denmark often scores well comparatively, with lower levels of income inequality relative to other advanced democracies. This is due in part to strong redistribution of income through its welfare state, but also to its high unionisation which tends to equalise wage levels between different sectors of the economy. Figure 3 graphs the ability of the welfare state to redistribute income: it is a measure of the percentage reduction in inequality due to taxes and social transfers. We see that although Denmark has performed strong on income redistribution, Ireland has fluctuated thanks in part to strong economic growth during the early 2000's, albeit on a very unsteady foundation of property and construction. The important lesson is that there are many different ways of organising welfare, as well as many different aspects to social protection. 'Welfare' is not just about state benefits, it is about the strength of workers relative to employers, and the ability of workers to prosper in times of economic difficulty. Whilst the trade-off between economic competitiveness in Denmark was far from benign, it has weathered the economic storm of the late 2000's better than Ireland. At the very least, it suggests that competitiveness need not be a zero-sum game of driving down wages, cutting welfare, and eroding workers protections in the labour market. These are some of the many issues that occupy comparative quantitative sociologists.

Figure 3: *Redistribution of income in Ireland and Denmark, 1975-2011*

