World Economic Forum: towards sustainability with neoliberal recipes?

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The World Economic Forum has recognised intellectually that Scandinavian social models offer an alternative to rising inequality. It just can't accept this ideologically.

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The World Economic Forum (WEF), which met last week in Davos, has raised its moral bar ever higher in recent years. The new Davos Manifesto 'states that companies should pay their fair share of taxes, show zero tolerance for corruption, uphold human rights throughout their global supply chains, and advocate for a competitive level playing field'. And in the WEF's Global Competiveness Report 2019 growing social inequality is heavily criticised.

At the same time, it is stressed that inequality is not a fateful consequence of globalisation and new technologies but can be combatted politically. The Scandinavian countries are named as models, as they 'have not only become among the world's most technologically advanced, innovative and dynamic economies in the world, but are also providing better living conditions and better social protection, are more cohesive and more sustainable than their peers'.

Of course, one immediately asks oneself how seriously such statements are really intended. After all, the WEF seeks a closing of ranks between politics and the billionaires of the world. It is precisely the large international companies which are shifting their profits to tax havens and show no readiness at all to pay their fair share of taxes. How should one then finance inclusive welfare states, such as those in the Scandinavian countries?

In addition, these companies depress their labour costs through outsourcing many activities to unregulated subcontracting chains at national and international levels. Poor wages and precarious employment are a central pillar of their business models and are responsible for growing social inequality.

Yawning gulf

The billionaires need not worry however that the WEF is really asserting their responsibilities beyond general declarations. How far the gulf between the Sunday speeches and everyday actions yawns is already clear in the Global Competiveness

Report 2019 a few pages after the executive summary, namely in the evaluation of the distinct labour-market institutions in the Scandinavian welfare states.

In the competitiveness indicator 'Flexibility of wage determination', Finland, Sweden, Denmark and Norway are downgraded to places between 118 and 133 out of a total of 141 countries—far behind the United States, the United Kingdom, Qatar or Saudi Arabia. The top positions, representing high competitiveness, are awarded to countries with weak trade unions, fragmented wage negotiations and low commitment to collective agreements.

The competitiveness indicator 'Labour tax rate' looks similar. This indicator, as defined in the report, takes in all mandatory contributions and taxes on labour paid by the business on top of gross wages, including social-insurance contributions. Developing countries without a welfare state achieve the highest values here. In the developed countries, the USA is to the fore with only a residual welfare state (29th place), whereas the Scandinavian countries again range clearly behind (Sweden 132nd, Finland 104th and Norway 67th). Denmark, in 13th place, is an outlier, but only because its welfare state is largely financed by progressive taxes, not social-security contributions, which for companies could be similarly unpopular.

Finally, let's look at the indicator 'Hiring and firing procedures'. Here one finds the USA (ranked 5th) and the UK (11th) in the top places, whereas Finland, Norway and Sweden, with their good protection against dismissal, are relegated to the lower ranks, between 85 and 97.

Imposed deregulation

The message the WEF intends to convey with this evaluation of central labour-market institutions is clear: good protection against dismissal, high commitment to collective agreements and high social-security contributions—for instance to finance a general sickness-insurance scheme or compulsory old-age insurance—are obstacles to competition. If countries want to prosper, they must get rid of such barriers to competition. The WEF thereby follows argumentatively exactly the line of the World Bank, the International Monetary Fund and the European Commission, which imposed on debtor countries, such as Greece, deregulation of their labour markets, with a dramatic increase in social inequality.

From the point of view of global companies, such evaluations of course make sense. If, through strong trade unions, wage-floor agreements applying to large and small companies in a sector are pushed through, this makes it difficult to achieve the desired wage differentiation in subcontracting chains. Weak protection against dismissal shifts the risks from entrepreneurs to employees and makes it easier for large investors to quickly withdraw their capital and relocate it to other countries. High social-security contributions are a cost burden one would rather pass on to the state, which at the same time is however deprived of a financial foundation.

Yet these labour-market institutions, which are so poorly rated, are precisely the prerequisite for the highly praised social cohesion in the Scandinavian countries. Only with the high commitment to collective agreements can one explain, for example, the very low proportion of low-income earners and the especially strong middle class in the Scandinavian countries, by international comparison.

Ideology and interest

Is it possible to find a scientific basis for the WEF's labour-market indicators or is pure ideology and a one-sided, interest-based politics hidden behind these figures? In neoliberal models with flexible wages, equilibria with full employment can actually be computed. But reality is more complicated.

Strong labour-market institutions can certainly increase costs in the short term but at the same time oblige companies to address the longer term. They invest more in apprenticeships and advanced training and in the quality of their products. Employees are more motivated and have more purchasing power and the economy develops better and more sustainably than in countries with mostly poorly-paid employees.

Even recent research from the IMF demonstrates meantime the beneficial effects of strong institutions. One study for instance made clear that in countries with low income inequality growth was not only higher but also more robust than in countries with higher inequality. Another attributes growing inequality to the erosion of labour-market institutions and finds positive effects of minimum wages and high trade-union density on employment. These new findings, however, have had no influence at all on IMF policy, which, contrary to the state of research, unwaveringly imposes drastic neoliberal cures on its debtors.

The OECD has also thoroughly revised its position. In its 1994 *Jobs Study*, it still advocated radical deregulation, but its latest empirical studies prove the opposite. For example, the OECD *Employment Outlook* of 2018 shows that countries with co-ordinated wage policies have higher levels of employment and lower unemployment than countries with decentralised wage systems, which are so positively rated by the WEF.

WEF dilemma

The Global Competiveness Report 2019 shows the WEF's dilemma. We know precisely that growing social inequality is the most important basis of social polarisation and currents hostile to globalisation. As well as climate change, these threaten the long-term stability of the capitalist economy and therefore endanger the system. Essential would then be the construction of strong labour-market institutions. At the same time, one does not want to hurt one's own clientele, which pays a lot of money for participation in the conferences and makes oneself an advocate of their short-term profit interests.

The intellectual contradictions to which this act of doing the splits leads have become apparent from the example of the evaluation of the Scandinavian social models. The WEF is to these contradictions as is the Catholic Church: on Sundays water is preached and during the week wine is drunk.