INCOME INEQUALITY AND THE NEED FOR NEO-PUBLIC INTERVENTIONISM: COMPARISON OF U.S. AND EUROPE[1]

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ABSTRACT | Historical data show that income inequality has been steadily increasing since the 1980s. In fact, income inequality has reached the level of the early 20th century in many countries, especially in the USA. The main reason for this trend is the neo-liberal understanding. With neo-liberal policies, the economic sphere has distanced itself from the public/political sphere and intervention, and has gained so-called autonomy. On the other hand, the increase in income inequality, which is universal, appears in different forms and levels in the USA and Europe. The basis of this differentiation lies in the role of the state in economic and social life. Despite all contradictory discourses, facts and statistics indicate that the state is still an important tool in reducing income inequality. When the income inequality of the European countries and the USA are compared, the importance and necessity of the social state becomes concrete.

Keywords: *Income Inequality, Role of State, Public Policies, U.S. and Europe*

Jel codes: D63, H11, I38
Scope: *Economics*
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GELİR EŞİTSİZLİĞİ ve YENİ KAMUSAL MÜDAHALE İHTİYACI: ABD ve AVRUPA ÖRNEKLERİNİN KARŞILAŞTIRILMASI

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ÖZ Tarihsel veriler göstermektedir ki, gelir eşitsizliği 1980'lerden beri istikrarlı biçimde artmaktadır. Öyle ki, gelir eşitsizliği günümüzde başta ABD'de olmak üzere birçok yerde 20. yüzyılın başındaki düzeye tekrar ulaşmıştır. Söz konusu yönelimin başlıca nedeni neo-liberal anlayıştır. Neo-liberal politikalarla ekonomik alan kamusal/siyasal alan ve müdahaleden uzaklaşmış, sözde serbestiyet ve özerklik kazanmıştır. Diğer yandan, evrensellik arz eden gelir eşitsizliği artışı, ABD ve Avrupa'da farklı biçim ve düzeyde belirmektedir. Bu farklılaşmanın temelinde ekonomik ve toplumsal yaşama dair devlete biçilen rol yer almaktadır. Tüm aksi söylemlere karşın, olgular ve istatistikler, gelir eşitsizliğinin azaltılması konusunda devletin halen önemli bir araç olduğuna işaret etmektedir. Avrupa ülkeleri ile ABD'nin gelir eşitsizliği karşılaştırıldığında sosyal devletin önemi ve gerekliliği somutlaşmaktadır.

Anahtar Kelimeler: *Gelir Eşitsizliği, Devletin Rolü, Kamu Politikaları, ABD ve Avrupa*

JEL Kodu: D63, H11, I38
Alanı: *İktisat*
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1. INTRODUCTION

Income inequality, which is one of the fundamental problems of humanity, is one of the leading study topics of political economy. It is also a major source of the world's problems with poverty, hunger and health (Giddens,2009, p. 527) that arise at global/regional/national levels. On the other hand, income inequality has been steadily increasing around the world since the 1980s and as Branko Milanovic (2018, p. 1)correctly puts it, it is not only a national but a global phenomenon.The world we live in at the beginning of the twenty-first century is extremely unequal and inequality has become so dramatic that our world today is still a world in which the place where we wereborn or where we live matters enormously, determining perhaps asmuch as two-thirds of our lifetime income (Milanovic, 2016, p. 5). Most of the world does not have this advantage, which Milanovic calls it "citizenship rent". Presently the birthplace is perhaps the most important factor affecting a person's living conditions.

There is no conflict that inequality is not only an economic issue in terms of both its causes and consequences, and a significant portion of the studies focus on globalization, growth, inequality, poverty(and of course deprivation). As Milanovic (2018) called 'global sovereignty of plutocrats' or 'global plutocracy', the problem is more of a question of 'wealth' than 'poverty'. If the problem is presented in this way, it is 'wealth', not 'poverty' that needs to be tackled. It is matter of the fact that while low-income groups count in place, a wealth and income concentration is observed where income and wealth are collected at the top 1%.This orientation corresponds to the situation in which Faulkner (2013, p. 296) stated that created unprecedented resources of know-how and wealth –the fruits of five millennia of collective human labour– yet they are harnessed tothe greed and violence of a tiny minority who do no productive work at all.

Although poverty is the problem of all ages, as Bauman (2005) argues, poverty in the consumer society should be more humiliating, exclusion and greater deprivation than other types of society.Besides, increasing in equality of income, however, undercuts some of capitalism's mainstream ideological dominance by showing its unpleasant sides: an exclusive focus on materialism, a winner- take-all ideology, and the disregard of nonpecuniary motives (Milanovic, 2016, p.193).

Likewise, tragically, inequality, as a natural and ominous part of global capitalism, creates rivalry competition between states, nations, communities and individuals on a world scale, and creates repeated crises and devastations. The era of globalization, imprinted by the ominous cycle, is in fact an endless war. In

other words, it is a "global‘civil war" with its dispersed and illegal violence (Hardt & Negri, 2004, p. 239). One of the leading reasons for describing the global environment as "Pax Imperii" (Hardt & Negri, 2004, p. xiii) is the price or the result of global inequality. In that sense, Stiglitz (2012, p.13) one of the critics of neo-liberal capitalism, points out that capitalism is unsuccessful about realizing of its promises, contrarily, it has created huge problems such as inequality, environmental pollution and, most importantly, erosion of social and political values.

On the other hand, inequality is asymmetrical in the world. Global economic inequality primarily refers to systematic differences between countries in terms of wealth, income and working conditions. There are, of course, many differences within countries: even the wealthiest countries today have growing numbers of poor people, while less wealthy nations are producing many of the world’s super-rich (Giddens,2009, p. 527). Academic and popular studies on inequality have often compared the US as a "developed" country and the rapidly developing China. However, this study will include a comparison of the USA and Europe. The basis of this comparison is the comparison of the neo-liberal market with the social state. In this study, it is argued that in order to eliminate the inequality and the political-social problems that it has caused, approaching to the nature, organizational form and functions of the state is vital. In other words, social state should be reintroduced; and this is only possible with modernized policies in the context of the reality of the global economy.

The main motivation of the study (and other critical and normative studies on inequality) is that the increasing and deepening inequality becomes a threat to social, political, economic and legal structures (Stiglitz, 2012) such as decline of middle class and democracy (Milanovic, 2016, p. 195). In addition, many researchers have warned wisely that changes in recent years have led to new and heavier social conflicts and divisions. For instance, Milanovic advocates that the middle classbecomes increasingly irrelevant; production shifts toward luxuries, and social expenditures change from being directed toward educationand infrastructure to policing(2016, p. 198-199).Developed capitalist regions such as the USA and Europe are also affected by this negative trend.

In this study, it will be focused on USA and Europe cases where politics could be defined as plutocracy and populism respectively (Milanovic, 2016, p. 207) and argued that updating or modernization of the social state is essential to exit from today's global political-social congestion (Piketty, 2014).It is known that even though market forces help shape thedegree of inequality, government policies

also shape those market forces. Much of the inequalitythat exists today is a result of government policy, both what the government does and what itdoes not do. Government has the power to move money from the top to the bottom and themiddle, or vice versa (Stiglitz , 2012,p. 43).

In the first part of the study, the historical course of income inequality from the beginning of the twentieth century to the present day will be discussed along with the economic-political processes that characterize this course. In this part, also, the situation in the United States (and the United Kingdom) and Europe, which are symbols of the two major economic-political approaches to the nature and the political-social role of the state, will be compared. In the second part, it is tried to display which concrete policies (tax, labor policies, transfer expenditures, etc.) developedin the USA and Europe, which present different approaches about income inequality. In the third part, the new and re-assumed roles and duties of the state in order to reduce the income inequality and overcome the political and social problems caused by the dominant global market system will be discussed.

2. TWO STORIES OF INEQUALITY: EXAMPLES OF US AND EUROPE

Income has never been equally distributed in any period of modern history. However, historical data show that income inequality, which has been steadily increasing since the 1980s, has recaptured its historic peak before the century. While the share of the top 1% in global income was around 16% in 1980, it increased to over 20% in 2016. Estimates set out in the 2018 World Inequality Report show that 1% of the global income will be around 24%. On the other hand, it is estimated that if global income inequality follows the path in the US, it will be around 28% and 19% in the EU (Alverado Alvaredo, Chancel,Piketty, Saez &Zuckman 2018, p.252).This is a very significant difference.

The other side of the coin in income inequality is the comparison of the situation in the country. Comparing incomes between the rich and the poor in a single country reveals that in recent years some countries (USA, UK, Brazil) have experienced a growing income inequality, while others (France, Canada) remain stable. If we measure global inequality on an individual level since 1970, the average 'global citizen' has become more rich, regardless of the country in which he/she lives. However, this has been greatly influenced by the rapid growth of a small number of large countries, such as Brazil, Russia, India and China (BRIC). Excluding China, India and Vietnam, the World Bank reclassified thirteen countries as 'developing economies', with a total population of only two percent of the global population; thus they represent a small minority of developing

countries. Despite these statistics, the economic expansion in East Asia in partucular has not been without its costs. These have included the sometimes violent repression of labour and civil rights, terrible factory conditions, the explotation of an increasingly female workforce, the exploitaion of immigrant workers from improverished neighbouring countries and widespread environmental degradation (Giddens,2009, p. 545).

Contrary to expectations, income convergence failed to materialize between 1980 and 2000. But after 2000, as all three regions (Latin America, Eastern Europe, and Africa) picked up growth, andthe rich world was struck by the financial crisis, convergence did happen (Milanovic, 2016, pp.165-166). Milanovic argues that this gap was the keyforce behind the decline in global in equality, resulting in a decreaseof the global Gini value starting in around 2000 (2016, p.168). However, the sharing style of the created wealth (as is the production process) has been uneven, conflicting and bumpy. Indeed, as Piketty determines (2014, pp. 20-21), the history of the distribution of wealth has always been deeply political, and it cannot be reduced to purely economic mechanisms. Level of inequality is the joint result of relevant factors (economic, social, and political factors) combined. For instance, there was reduction of inequality which was produced by war and post-war social policies while inequality has increased after 1980s due to the neo-liberal government policies.

The above explanations in the context of the historical development of income inequality coincide with the developments in the US and Continental European countries. The reflection of the political and economic developments in both regions on income inequality can be seen clearly in Figure 1. During the 1900-2010 period, the United States could only be more egalitarian than Europe between 1900 and 1910. The decline in wealth, especially in the United States, was later (1930), slower, shorter, and consequently recovery process started earlier (1950), while in Europe, the decline was earlier (1910s), faster and longer due to war shocks, recovery was naturally later. Decreasing income inequality was due to decreasing physical capital and increasing taxes due to wars until the 1945s, whilein the thirty-year period thereafter, as Atkinson stated, the main factor explaining the decline in income inequality, especially in Europe, was the welfare state practices (Atkinson, 2015,p. 65).

However, the phenomenon of globalization that emerged after the 1970s and the neo-liberal policies implemented especially in the US reversed the trend of income inequality. Today, income inequality in the US has returned to record levels it reached in the period 1910-1920 (Price and Sommeiller, 2018). In

Europe, income inequality tends to increase, but the share of the top 1% of national income is still about 10% lower than the level of the early twentieth century.

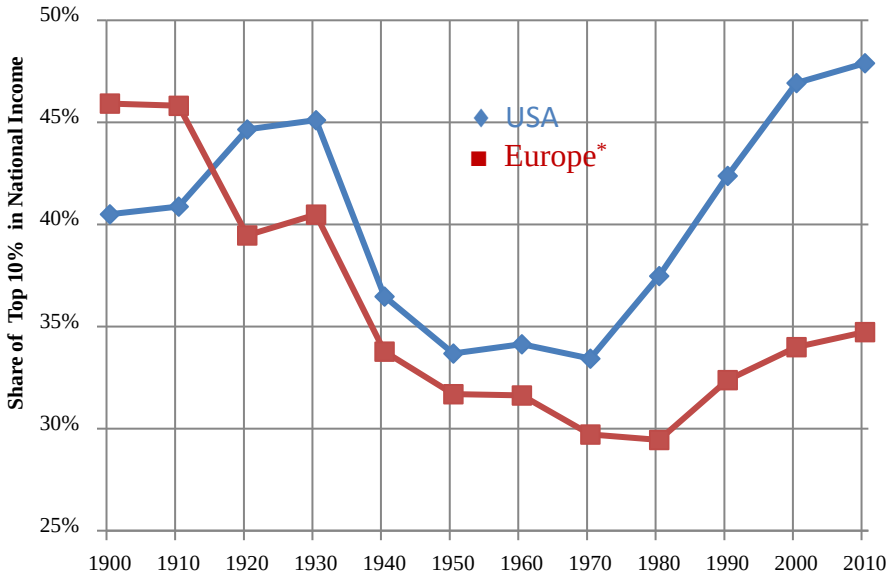

Figure 1: Share of Top 10% in National Income in Europe and USA (1900-2010)

*Average of data for England, Germany, France and Sweden.

Source: Created from data of World Inequality Database.

Income inequality is usually a magnitude measured by the Gini coefficient which is developed by Italian statistician Corrado Gini. When the Gini coefficient approaches zero, the income inequality in society decreases, and the approach to one shows that income inequality increases. Although the Gini coefficient provides a general picture of income inequality, it does not show income inequality among certain income groups. Therefore, the comparison of the share of upper and lower income groups from national income in the comparison of income inequality between regions or countries allows a more detailed analysis. From a historical perspective, when the share of the top 1% and the bottom 50%

income groups in the US and EU countries is compared, it is possible to see whether the dimensions of income inequality coincide with the public policies followed in this process.

In this context, Figure 2 clearly shows the dramatic dimensions that income inequality has reached in the US, while income inequality has increased in European countries, but remains lower than in the United States and is relatively stable than in the United States. European countries and the United States, which had a similar level of inequality in the early 1980s, are now quite different. In 1980, the difference between the shares of the top 1% in national income in both regions was four points (11-7) in favor of the USA, whereas in 2014 the difference increased to ten points (20-10).

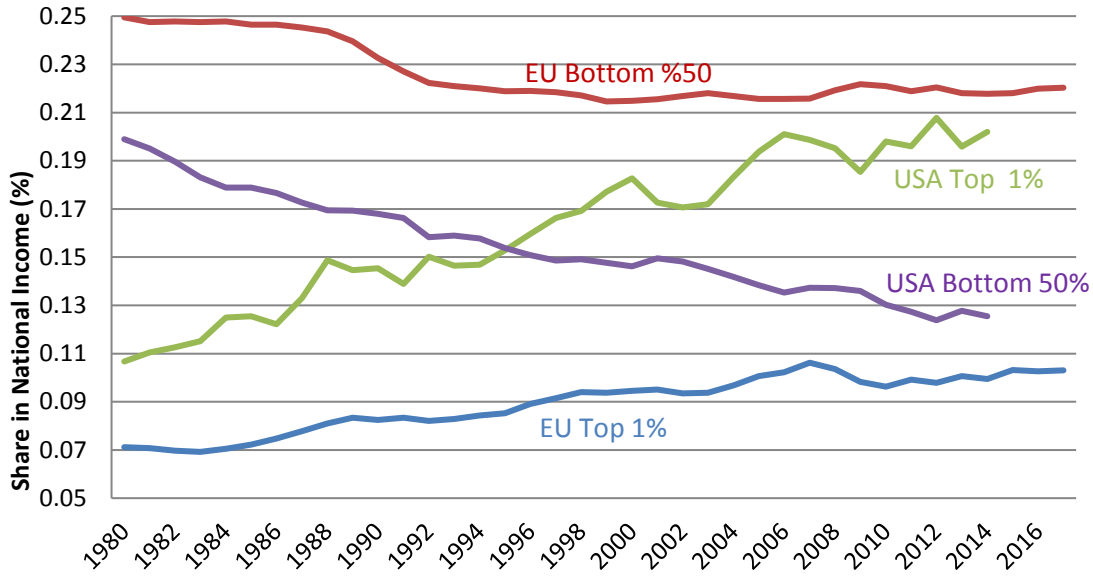

Figure 2: Share of Top 1% and Bottom 50% in National Income in US and EU Countries

Source: Created from World Inequality Database data.

Similarly, in 1980, the difference between the shares of the lowest 50% in national income was 5 points in favor of EU countries (25-20), while the difference increased to 9 points (22-13) in 2014. In the early 1980s, while the share of the lowest 50% in national income was about 3.5 times that of the top

1% (25/7) in the EU countries, today the difference has decreased to about 2 times (22/10). In the US, the relative status of these income groups has been reversed: while the share of national income of the lowest 50% was approximately twice that of the top 1% (20/11) in 1980, the difference has been changed in favor of 1% in 1995 and this trend continues increasingly. In sum, the continued increase in income inequality in both regions is slow in European countries and quite rapid in the USA.

3. INCOME INEQUALITY AND ROLE OF INSTITUTIONAL FACTORS

The causes of increase of income inequality in the literature and public debates are based on two different sources: market and institutional. According to the approach, which sees income inequality as a market-based phenomenon, since technological development is skilled-biased, it leads to an increase in wage inequality and thus income inequality by increasing the demand for qualified labor and decreasing the demand for unqualified labor. Although the market is effective in shaping today's inequality, also the state plays an active role in this process. State can essentially shape the inequality of income generated by the market as an actor who determines and applies the rules of the game. In this context, according to the approaches linking income inequality to institutional factors, regulations in labor and financial markets play a key role in the evolution of income inequality. The main problem with pure market disclosures is that it cannot take into account the fact that higher income shares in developed countries such as Japan, Germany or France, which are subject to the same technological developments, have increased more modestly than in the US and other Anglo-Saxon countries (Piketty, Saez & Stantcheva 2011, p. 1). This divergence between the US and developed countries is consistent with Stiglitz's hypothesis: market forces are real, but that are shaped by political processes. According to Stiglitz, markets are shaped by laws, regulations, and institutions. Every law, everyregulation, every institutional arrangement has distributive consequences-and the way wehave been shaping America's market economy works to the advantage of those at the top andto the disadvantage of the rest(Stiglitz, 2012, p.60).

Then, what could be the main dynamics of the divergence in the context of income inequality between Europe and the United States, especially since the 1970s, despite having similar technology and economic development? In order to understand these dynamics, the impacts of the state and public policies in this context and the mechanisms through which these impacts take place are important in shaping income inequality. To put it again, although social and

economic factors such as technological progress, demographic shifts and globalization are effective in increasing income inequality, public policies can alleviate or strengthen this increase in income inequality depending on politicians' political aims and priorities. In this context, according to the political scientist Larry Bartels (2008, p. 3), who states that the ideological beliefs of political elites are influential in increasing income inequality in the USA, income inequality is largely a political phenomenon. In other words, although the increase in income inequality is universal, policies implemented at the national level can play an important role in how income is distributed. Different inequality trends in countries show that institutional and political frameworks are effective in shaping income inequality. Therefore, increasing inequality of income should not be seen as an inevitable end that cannot be controlled.

Clearly, national policies have been influential in the history of income inequality in the US and Europe as well as globalfactors. In this process, where institutional and political factors play an important role at the national level, the application of social state policies towards social government expenditures, tax, education and labor market at different intensities forms the basis of different income inequalities between countries. In short, the role of the state in economic and social life has been decisive in the level of inequality. Although the weight of this role is different in the US and Europe, Atkinson (2015, p. 67)states that the main reason for the increase in global income inequality in the 1980s was the erosion of the social state practices implemented after the war.

The driving force behind income inequality is market inequality, which means income distribution before taxes and government transfers. Most OECD countries are constantly trying to reduce market inequality through the tax and transfer system, thus achieving much lower levels of inequality in terms of disposable income. However, using tax and transfer expenditures to combat income inequality is a policy choice. In this context, market forces and public policies can balance each other. A fiscal policy that is pro-disadvantaged groups as correction tool to market reduces the inequalities (Bucheli, Rossi, & Amábile, 2019). In case of US, however, market forces are not balanced by the government policies. Government, rather, fully frees market forces or in other words, does nothing to balance the disparities created by the market (Stiglitz, 2012, p.50). In other words, it is very difficult to reverse this process called "perfect storm" of inequality in US which is formed by the act of economic, social and political factors together. Due to this reality, Milanovic (2016, p.180) argues that US society lacks the power to reduce income inequality.

As a result, contrary to the widespread neo-liberal discourse, states can and

should take various measures and put forward various economic and social policies in order to reduce the income inequality created and deepened by the global market. These measures and policies, which can be described as a kind of correction instruments may cover a wide range, but only the tax, transfer expenditures and labor market policies will be examined below.

3.1.Tax Revenues and Progresessive Taxation

Taxes are one of the most important instruments used by the state to intervene in the economy. Pikketty argues that (2014, p. 321) the simplest way to measure the change in the government's role in the economy and society is tolook at the total amount of taxes relative to national income. The higher the share of tax revenues in national income, the easier it is for the state to combat income inequality. Otherwise, this will limit efforts and expected outcomes. The social state can increase the personal income of low-income groups by making social expenditures such as on education, health, pension and transfer payments with the tax revenues. The high inequality created by the market can thus be corrected to a certain extent.

Until the early 1900s, when the classical economic principles prevailed in the economy, tax revenues were very low in all countries. Again, within the framework of the classical economic understanding, the state did not have to make social expenditures or finance other public services which were thought to be outside of its 'essential duties' such as security. The increasing effectiveness of the state in order to solve the problems created by capitalism was made possible by increasing tax revenues especially after the Great Depression.In the post-war restructuring period, the increase in tax revenues accelerated.Although the data put forward by Piketty (2014, p. 322) indicate that similar developments are taking place all over the world, this rate of increase and duration of tax revenues vary for each country. In this context, the increase in tax revenues in Europe, which lasted until 1980s and remained constant afterwards, reached 50% of national income on average. In the USA, the rate of increase in tax revenues has been slower and shorter and has remained stable around 30% of national income since the early 1970s. This process provides important clues about the divergence of income inequality between Europe and the USA. Indeed, the 1970s and 1980s were also turning points in the rise in income inequality in the US and Europe, respectively.

Another important issue in the relationship between income inequality and tax is the degree of tax progressivity. Briefly, tax progressivity, which is defined as increasing tax rates as income increases, is a frequently used method to reduce

income inequality.The main purpose of the tax system is to finance public services. On the other hand, the main challenge in designing a good tax system is to increase revenues in a way that minimizes economic losses. This can be accomplished by a tax system with increasing rates at acceptable rates applied by basing tax rates on income and ability to pay (Greenstone & Looney, 2012). According to Piketty (2014, p.349, 360), who stated that income tax progressivity was the most important invention of taxation in the 20th century, this method was effective in reducing inequalities in the last century. The main reason for the decline in capital revenues in the US, France and Great Britain due to the wars and economic crisis in the first half of the twentieth century, could not return to the former high level was the dynamic effects of progressive taxes on capital revenues (Piketty & Saez, 2003, p.36).

Progressive taxation to the highest incomes was introduced in both the USA and European countries, particularly in the UKafter the First World War. The marginal tax rates in the USA, which were higher than the marginal tax rates applied to the highest incomes in France and Germany, started to decrease from 90% levels in the 1965s and fell below these countries in 1980. After Reagan's tax reform in 1986, the marginal tax rates on the highest incomes in the United States have reached the historical bottom with 28%. We are witnessing a similar trend in the United Kingdom, another Anglo-Saxon country, which is more similar to the US in income inequality (Piketty, 2014, p.344).

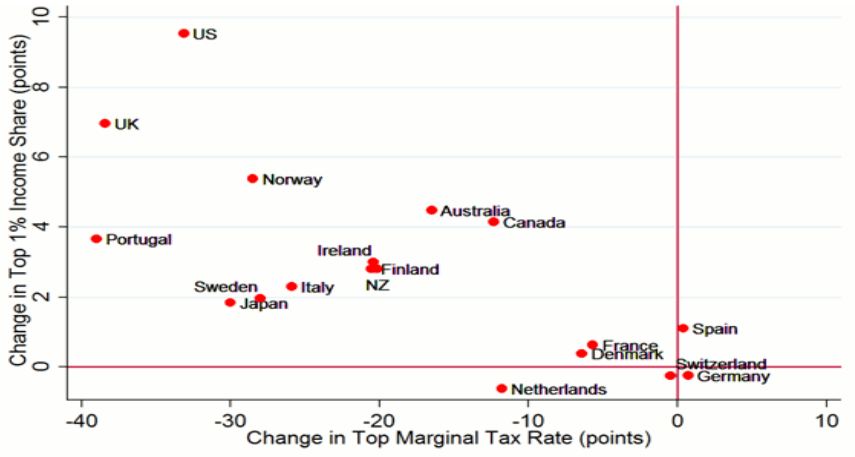

Figure 3: Changes in Top Marginal Tax Rates and National Income Share of Top 1% (1960s-2009)

Source: Piketty et al. 2011.

As can be seen in Figure 3, this decrease in tax rates applied to the highest incomes coincides with the increase in the share of the highest income from the national income after the 1970s in the USA. In the US and the UK, where the highest marginal tax rates have been declined sharply, the share of the top 1% in national income has almost doubled. In continental Europe, such as Germany and France, the decline in marginal tax rates and the rise in the share of highest income group were more moderate. This increase in revenues of the top 1% did not occur in other income segments. For example, in the USA, the revenues of the top 1% increased by 233% between 1979 and 2015, while the bottom 80% increased only 33% (CBO, 2018, p. 14). This means that after 1980s, the highest income earners were subject to the highest rate of tax cuts. This situation can clearly explain why the US and Europe differ in terms of income inequality.

Piketty and Saez argues that there was no significant change in the marginal tax rates of the remaining income groups in the face of this dramatic decline in the marginal tax rates of the top income earners (Piketty & Saez, 2007, p. 13). In this context, two features of the US tax system come to the fore: today the US tax system is less progressive than other developed countries, and the progressivityin the US tax system is gradually decreasing over the last forty-fifty years. This is reflected in the average tax rates paid by income groups. In the 1970s, the top 1% paid 40-45% of their incomes on average, while the lowest 50% tax rates were around 20-22%. In 2014, while the tax rate of the top 1% decreased to 35%, the tax rate of the bottom 50% increased to 25%, and the difference between the tax rates applied to the income of both segments decreased gradually (Alvaredo, Chancel, Piketty, Saez & Zuckman, 2018, p. 87 -88). All these facts and findings reveal that the state's tax policy has direct and comprehensive effects on income inequality.

3.2.Transfer Expenditures

Cash transfer expenditures should also be taken into account when assessing the impact of public policies on income inequality. United States is a relatively low-spending country for cash transfers. According to the OECD report published in 2008, in the mid-2000s, US cash transfers accounted for 9.4% of household cash disposable income, 32.9% in France and 28.2% in Germany. According to the same report, transfer expenditures of France and Germany are claimed to be twice as effective in reducing income inequality as in the USA (OECD, 2008, p. 103-110).

At this point, it is very important to analyze the effect of taxation and transfer expenditures on income inequality after 1970s in the context of divergent public policies. For this, it is necessary to examine the progressivty of tax and transfer systems.In order to assert that a tax system is progressive, the distribution of post-tax income should be more equal (Piketty & Saez, 2007, p. 5).The difference between the Gini coefficient measured before tax or market income and the Gini coefficient after tax and transfers gives an idea of the progressivity in taxation, but also shows the effect of the tax and transfer system on income inequality.Compared to European countries, the impact of tax and transfer expenditures on income inequality in the US is very limited (see Figure 4).

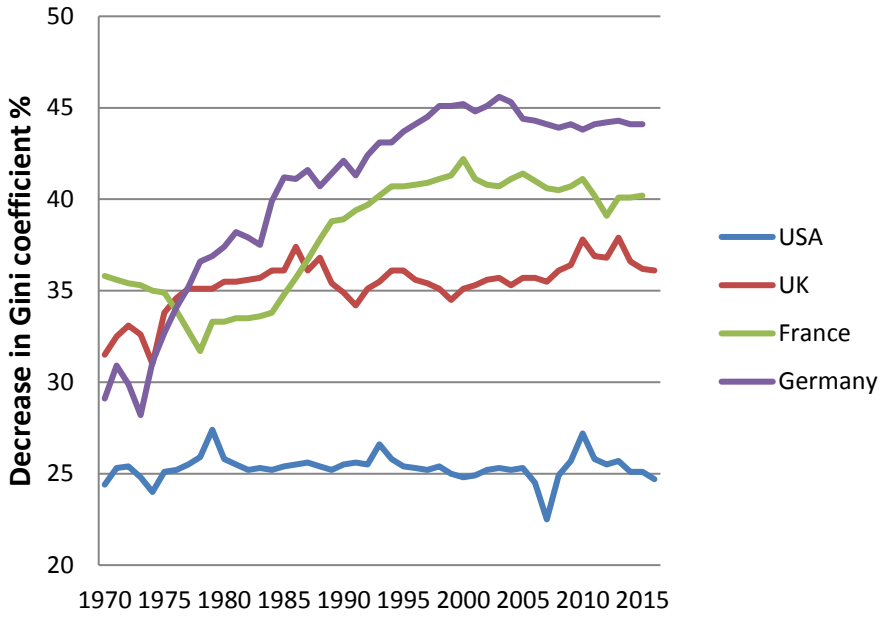

Figure 4: Impact of Tax and Transfer Expenditures on Income Inequality (1970-2016)

Source: Standardized World Income Inequality Database, 2019

According to the Standardized World Income Inequality Database (SWIID), created by Frederick Solt, it has been observed that since 1970s, tax and transfers have reduced the Gini coefficient by approximately 25% and this ratio has remained almost constant in US. Although the decrease in Gini coefficient after tax and transfers was higher, there was a similar trend in England. However, the

effect of tax and transfers on the Gini coefficient is stronger in Germany and France and this effect is increasing over time. Considering the fact that Gini coefficients that is measured by pre-tax and transfers market revenues are very close to each other in the US and Europe, the change in the Gini coefficient based on disposable income after taxes and transfers clearly shows the importance of public policies implemented in reducing national income inequality.

3.3.Labor Market and Minimum Wage

In order to understand the inequality trends among countries in the income inequality analysis, it is necessary to take into account the changes in labor market institutions among other institutional factors. It is observed that the increase in wage inequality especially after 1980s coincided with policies towards labor market institutions such as minimum wages and trade unions. The declining role of institutions and policies reduces governments' potential to redistribute income, becoming governments inadequate to limit the increase in income inequality (OECD, 2011, p. 99).

Therefore, it is useful to look closely at the functioning of the labor market in both regions in order to understand the divergence in the ongoing income inequality between the US and Europe and role of institutions in this context. Actually, the labor market is not a mathematicalabstraction whose workings are entirely determined by natural and immutable mechanisms and implacable technological forces: it is a social construct based on specific rules and compromises. Regulations and rules in the labor market are primarily effective in determining the minimum wage. Developments in minimum wage in Europe and the United States are important institutional factors that affect wage inequality and consequently income inequality (Piketty, 2014, p.213). The minimum wage, which has an impact on income inequality through three ways, is an important mechanism for redistributing income from upper-income segments to lower-income groups by increasing the income of low-wage earners, lowering the purchasing power of other consumers and reducing the rate of profit (Freeman, 1996, pp. 641-643).

As Stiglitz (2019a) argues US has been experiencing striking decline today, for instance America has higher inequality and less upward social mobility than most other developed countries. After rising for a century, average life expectancy in the US is now declining. And for those in the bottom 90% of the income distribution, real (inflation-adjusted) wages have stagnated: the income of a typical male worker today is around where it was 40 years ago. With regard to wages, as Stiglitz points out, the downward trend in the US also applies to the

minimum wage. As can be seen in Figure 5, the different trends in the development of minimum wage in both regions are part of the divergence in income inequality between regions. In the early 1970s, the minimum wage per hour in the US was $ 1 more than the minimum wage in the Netherlands, and about 2.5 times that in France. Since these years, the minimum wage has decreased in the USA and has started to increase in Europe and the gap has decreased gradually. Especially after the 1980s, the situation was reversed and the minimum wage gap between the two regions increased in favor of Europe. By 2018, the minimum wage was $ 7.4 in the US, $ 10.4 in the Netherlands and $ 11.6 in France. A similar process has been experienced in Germany, Belgium and some other European Union countries.

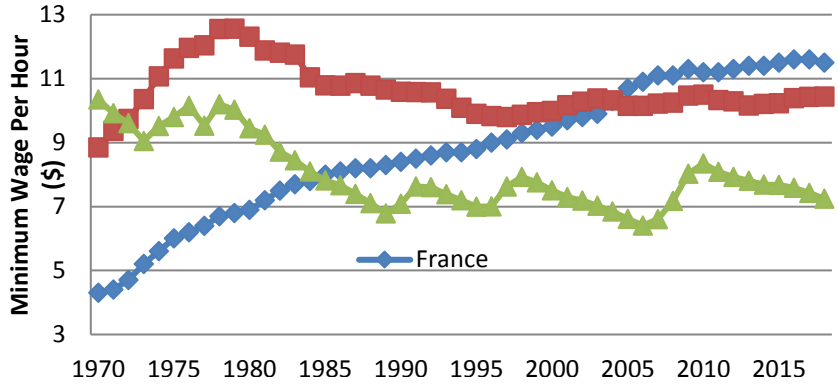

Figure 5: Minimum Wage Per Hour in the USA, France and the Netherlands (1970-2018)

Source: OECD.Stat

4. RE-PUBLIC INTERVENTIONISM AND BACK TO THE SOCIAL STATE

As stated above, due to the plurality of historical, socio-economic contexts and the internal dynamics of capitalism, income inequality (and its consequences) differs between regions and countries. For example, as highlighted above, the universal increase in income inequality has consequences in different forms and levels in the US and Europe. The reason for this is the different and sometimes contradictory approaches to economic and social life and the political-social role of the state. In other words, the 'redistributive role' of the state was very effective in reducing income inequality during the interwar period and Thirty Golden Years after the World WarII. However, the mechanisms leading to the

reduction of income inequality in the 20th century do not function effectively in the 21st century, which limits the redistributive role of the state.

Indeed, in order to reduce income inequality, a new understanding of public and social policy is needed. So what required is, as Piketty (2014, p. 518) argues, "not to destroy the social state but to modernize it."According to this approach, which is defined as defending of the collective guarantee of individual welfare by Bauman (2005), it is necessary to fortify and reconstruct the social-welfare state in Europe in the light of global realities. Modern redistribution, as exemplified by the social states constructed by the wealthy countries in the twentieth century, is based on a set of fundamental social rights: to education, health, and retirement. Whatever limitations and challenges these systems of taxation and social spending face today, theynevertheless marked an immense step forward in historical terms(Piketty, 2014, p. 325).As seen above, in Europe, especially in Sweden, Germany, and even in France, the role of tax policies are clearly understood when compared to the United Kingdom and the United States.

Thus, even within the global economy and the free market conditions, it should be ensured that disadvantaged groups receive more shares from the cake by reducing income inequality and redistribution policies. In order to minimize social segregation, a set of agreed consociational policies should be put forward. Partisan conflict aside, a broadconsensus has formed around these social systems, particularly in Europe, which remains deeplyattached to what is seen as a "European social model"(Piketty, 2014, pp. 325). The central theme of this model is the idea of a social market; that is, an attempt to marry the disciplines of market competition withthe need for social cohesion and solidarity. As it seen, it differs from American capitalism which could be called as 'shareholder capitalism' (Hutton, 1995 cited by Heywood, 2013, p. 133).

As we look out at the world, the United States not only has the highest level of inequality among the advanced industrial countries, but the level of its inequality is increasing in absolute terms relative to that in other countries. The United States was the most unequal of the advanced industrial countries in the mid-1980s, and it has maintained that position. (Stiglitz 2012, pp.37-38; OECD, 2011). In fact, the gap between US and other countries has increased.

Despite all this, the hegemonic rhetoric, which has given rise to hopes for the future in the United States, dominates public debate with its extraordinary weight and majesty. It is one of the common discourses in the US that collecting the taxes necessary to meet public services such as education, health, etc. will hinder growth. Far from it,over the period 2000 to 2010, high-taxing Sweden, for

example, grew far faster than the United States (Stiglitz 2012, p.38).As a result, globalization and Anglo-American individualist capitalism have created a distinct situation among developed countries with low tax and limited social policy.

Contrarily, pro-public tax policy is the basis of the social state. It is a fact that higher tax policy in Europe -compared to the US- does not hinder growth. As Stiglitz points out, this reality is evidenced by examples in European countries where rapid growth and public policies can be realized through high tax rates: the taxes financed public expenditures -investments in education, technology, and infrastructure- and the public expenditures were what had sustained the high growth- more than offsetting any adverse effects from the higher taxation (2012, p. 38).Therefore, it is seen that income inequality and the political-social problems caused by this can be overcome by public policies and this will not have negative consequences on economic growth.The neo-liberal experiment -lower taxes on the rich, deregulation of labor and product markets, financialization, and gloablization- has been a spactacular failure (Stiglitz, 2019b).In essence, neo-liberal discourses and clichés, which are circulated uncritically, are not only hollow molds, but also serve to hinder and postpone the solution of destructive socio-political problems.

However, when it comes to combating income inequality, the reality of a global economy must be kept in mind at all times. Capitalism has long existed as a global economic system (Wallerstein, 1989), and this is decisive in the case of social functions and roles imposed on the state. In other words, although states are active subjects, there is a need for a global social policy (George & Wilding, 2002, p. 174). As David Held's proposes (2004), a global social democratic agreement or compromise is needed to overcome the economic inequalities created by the neo-liberal capitalism based on the Washington Accord and the social, political and global problems caused by it.

In the new capitalist reality of the dialectic between the state and the global context, Atkinson reminds us that increasing global inequality cannot be explained entirely by general reference to rapid globalization, as national taxation and other economic policies continue to play an important role. For example, in Scandinavian countries like Sweden, whrere the welfare state operates in a redistributive way, global trends towards the widening of social inequality have been more effectively prevented than in other countries, such as the United Kingdom, which have adopted a more right-of-centre approach to welfare reform(Giddens, 2009, p.531).

Gøsta Esping-Andersen's (1990) comparison of the famous tripartite welfare state

reflects the difference in approaches and policies on the issue of inequality between the US and Europe and sheds light on the current situation in general. In his study of welfare regimes, Esping-Andersen refers the United States as the most important example of the regime he defines as the Liberal Welfare Regime. Like many things in liberal welfare regimes, welfare is highly commodified and sold in the market. However, "the modernization of the social state", referring to Piketty (2018), is the consolidation or even extended and deepened form(s) of the "Social Democratic Welfare Regime" which is practiced in Europe, especially in Scandinavian countries such as Sweden and Norway. In the welfare regime, welfare services have been largely excluded from being commodities and are subsidized by the state and made available to all citizens. Nevertheless, it should be noted that past welfare regimes were positioned and structured within the nation-state paradigm. Today's welfare regime has to be envisaged and designed largely in global paradigm.

Recently, in the long crisis of capitalism, which has been going on since 2008, the bill of the crisis has been raised again to the poor and the national income inequality has increased compared to the past. Against this situation, socio-political reactions have become widespread all over the world and the concept of 'welfare state' has been frequently used in public debates. This is also an imposition of historical and objective conditions. The concept of the ‘welfare state’ conveys the idea that it is the duty and the obligation of the state to guarantee the ‘welfare’ (that is, something more than sheer survival: survival with dignity, as understood in a given society at a given time) of all its subjects (Bauman,2005, p. 45).

As specified, the welfare state, which was occurred by certain conditions favorable, has been transformed since its emergence. This transformation (of welfare state)which was characterized by enlargement and deepening from the beginning of World War II until the end of the 1970s. Then, the process of shrinkage and marketization was experienced from the late 1970s to the 2008 crisis. After the '2008 Great Financial Crisis', a consensus was reached on the necessity of the welfare state, but there was a great increase in the questions and inquiries about how the welfare state should acquire form and content. Shortly, today, the first what to do is, as pointed out by Stiglitz (2019b), to restore the balance between markets, the state, and civil society.

On the other hand, the tense and dialectical relationship between national (political-social) and global (economic) needs to reduce inequality and achieve social cohesion has been evolving rapidly. It is difficult to predict where these contingencies, which Piketty (2018, p. 25) called convergence and divergence

forces, will lead. Even so (...) it is possible to imagine public institutions and policies that would counter the effects of thisimplacable logic: for instance, a progressive global tax on capital. But establishing such institutionsand policies would require a considerable degree of international coordination. It is unfortunatelylikely that actual responses to the problem -including various nationalist responses- will in practicebe far more modest and less effective(Milanovic,2016, p. 189).Obviously, the state's redistribution of income and the design of tax with a pro-public understanding will not be effective without global consensus and coordination. Worse still, protectionist policies that are not based on international consensus create conflict and instability are among the options.

All these dangers or risks do not change the fact that politics should be involved in economics to protect or realize the public interest. In the neo-liberal process in which politics became inactive or unsuccessful after 1980, this deficiency or failure was in favor of the rich against the poor. All statistics clearly indicate this situation. In other words, as Stiglitzs pecifies (2012, p. 14), the failures in politics and economics are related, and they reinforce each other.

In fact, as Milanovic argues (2016, p. 189), to believe that the rich do not use their money to buy influence and promote policies they like is not simply to be naïve. Such a stance contradicts the key principles of economics as well as the ways in which the rich people have amassed their wealth- surely not by throwing it around while expecting no return on it. At this point, the issue is tied to the point of building counter-hegemony which Gramsci (1995) describes as ideological collision. In other words, as Milanovic (2016, p. 217) points out by using Marxist literature; (...) if the losers remain disorganized andsubject to false consciousness, not much will change.

5.CONCLUSION

Income inequality is not a simple economic problem, it is produced and maintained by the social-political system. Economic and political elite manipulates political decisions and public debates to prevent discussion of income inequality or discuss it in a meaningful and realistic way. Moreover, the relationship between income inequality and social-political problems is left in the dark. There is a direct relationship between the development of democracy and the level of political participation of the lower classes and inequality.

Obviously, the shrinking of the state and its de-socialization is the political choice of the socio-economic elite and they present it as a requirement of global

competition and market relations. The opposite is also possible; if states can enable inequality to deepen, and prosperity in the hands of a small minority at the expense of the vast majority of society, by implementing policies in favor of capital and the rich on a national and global scale, or by doing nothing for social solidarity and prosperity. The consensus that emerged after the World War II on the necessity of the welfare state and the statistics about that time clearly indicates this situation.

Besides, the comparing of the USA and Europe cases is another proof that the social state is necessary and functional for reducing inequality, social solidarity and healthy democracy. Governments play an active role in reducing income inequality and stimulating economic growth through redistribution policies by implementing high-income tax practices, pro-labor policies and transfer expenditures. Today, it is clear that there is a need for a global consensus on the universality of social rights and state's role for securing these rights. Otherwise, the social state practices in Europe that need to be globalized (by becoming more competent) will remain partial and regional.

In order to truly solve the problem of income inequality, public policies need to be established on the basis of "sustainable equality". It is a matter of fact that it is not easy to tax capital revenues in today's global conditions. However, the state's role in redistribution through transfer expenditures and taxes has limited impact on the fight against income inequality. Therefore, it is essential that the state equips the individual with the rights and abilities that can make the individual strong against the market. State-financed quality education, which is accessible to everyone regardless of their income, is very important in this regard.

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