

Chapter 2

Social Models for Dealing with Inequalities



Antonio Martín-Artiles, Eduardo Chávez-Molina, and Renata Semenza

Abstract This chapter compares social models in Europe and Latin America. The goal is to study the interaction between two institutions: on the one hand, pre-distributive (ex ante) institutions, such as the structure and coverage of collective bargaining and, on the other hand, post-distributive (ex post) institutions, such as unemployment protection and social policy. Pre-distributive institutions are important for correcting inequalities in the labour market, because they introduce guidelines for egalitarian wage structures. Post-distributive institutions help to mitigate inequalities generated in the labour market.

The methodology is based on statistical analysis of a series of indicators related to pre and post-distributive policies. The results present three types of model: (1) coordinated economies, typical of neo-corporatist Scandinavian countries; (2) mixed economies, typical of Mediterranean systems, and (3) uncoordinated economies, which equate to liberalism and the Latin American ‘structural heterogeneity’ model. It is neo-corporatist coordinated economies that generate the most pre and post-distributive equality. In turn, uncoordinated economies, and Latin American ones in particular, generate more inequalities due to highly informal employment and the weakness of their post-distributive institutions.

Keywords Collective bargaining · Centralisation · Wage coordination · Inequalities · Employment · Unemployment · Informality · Segmentation, neo-corporatism

A. Martín-Artiles (✉)

Centro de Estudios Sociológicos sobre la Vida Cotidiana y el Trabajo – Instituto de Estudios del Trabajo, Universidad Autónoma de Barcelona, Barcelona, Spain
e-mail: Antonio.Martin@uab.cat

E. Chávez-Molina

Instituto de Investigaciones Gino Germani, Universidad de Buenos Aires,
Buenos Aires, Argentina
e-mail: echavez@retina.ar

R. Semenza

Dipartimento di Scienze Sociali e Politiche, Università degli Studi di Milano, Milano, Italy
e-mail: renata.semenza@unimi.it

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2.1 Introduction

The aim of this chapter is to define the institutional characteristics of the coordination of social models to explain pre and post-distributive inequalities. The purpose is to offer a conceptual framework for comparison between the institutions and inequalities in the member countries of the INCASI project, both in Europe and Latin America.

Regulatory institutions that work to correct inequalities can be divided into two groups depending on when they operate: (1) those that are designed to directly act *ex ante* upon the source of inequalities in the labour market, and which we call pre-distributive, and (2) those that do so *ex post*, i.e. that act to mitigate inequalities that have already been generated in the labour market, and which we call post-distributive (Hacker 2011; Zalakain and Barragué 2017). In other words, we seek to observe the interaction between labour relations and welfare systems. By doing so, we hope to get closer to finding an explanation for social inequalities and the ways they can be mitigated (Esping-Andersen 1990, 2000). In a way, this chapter compares different kinds of capitalism by comparing their social institutions (Menz 2008; Burroni 2016), although different kinds of capitalism are not only explained by their institutions, but also by their historical and cultural characteristics, their financial structures and their ties to the world economy (Schneider 2009).

This study is guided by two questions: (1) What are the institutional mechanisms for coordination between the labour market and social protection? (2) How were inequalities managed between 2007 and 2017 in the European and Latin American countries that have been participating in the INCASI project?

In the late nineteenth century, social inequality was such a big issue in the west that it gave rise to the so-called “*social question*” (Castel 1997). In the twentieth century, the bulk of European and Latin American states built institutional architectures that were designed to mitigate social inequalities and which (albeit modified) still exist today. Historically, this architecture has been designed from two perspectives.

First, the labour movement and trade unionism have sought to find a response to inequalities through the institutional recognition of individual and collective labour rights (Barragué 2017). The institutionalisation of labour relations (which before then had been managed on an individual basis) has therefore played a fundamental role in improving the bargaining power of trade unions (Hyman 2000). This institutionalisation played a historically important role (after World War II) by establishing strong opposition to business organisations and the state. The institutionalised involvement of social actors paved the way for political exchange and the social pact between capital and labour in order to reduce pre-distributive inequalities in the labour market.

Secondly, political parties and parliaments have sought to respond to post-distributive inequalities through social protection institutions (unemployment benefits, pensions, sick pay, etc.) whose goal, put briefly, has been to mitigate the social inequalities that are generated by a market economy (Barragué 2017; Ferdosi 2019).

After this introduction, the chapter is divided into four sections. The first deals with the conceptualisation of pre and post-distributive institutions. In the second section, we propose a model for comparative analysis between 26 countries that are part of the context to which the INCASI members belong, and which is built around the chosen set of indicators that are detailed in this section. The third part presents the results of the comparative study and the formalisation of models that reflect the institutional architecture used to manage inequality. Finally, the fourth section offers some conclusions.

2.2 Conceptualisation

The concept of pre-distribution has a long history linked to the development of the labour and trade union movement. One of the biggest milestones for improving the social status of workers concerned labour contracts. The shift from labour contracts governed by Civil or Commercial Law to labour contracts regulated by Labour Law in the nineteenth century and the early decades of the twentieth century was one of the greatest achievements of the trade union movement (Herpple 1994). This social advance came together with union rights, such as the right to representation, collective bargaining and participation of workers' representatives in socio-economic institutions. In short, those historical achievements helped to boost the influence of workers on the labour market and pre-distributive policy.

The inter-classist alliance between trade unions (working classes) and political parties (middle classes) has played a fundamental role in the development of pre-distributive policies, and in both Europe and Latin America has marked different political movements, such as social democracy, Christian democracy, communism, developmentalism and even other historic national movements such as Peronism and Vargism, to name but a few (Horowitz 2011). There have been two particularly important milestones for progress in the rights of representation, participation, information, consultation and collective bargaining: the Treaty of Versailles in 1919 and the ILO Declaration in Philadelphia in 1944. Both events led to the expansion of pre-distributive institutions in European and some Latin American countries. In other words, they led to the social integration of the market (Polanyi 1989) and the subordination of the labour market to politics (Hyman 2018). One result of this process is that trade unions have specialised in action on pre-distributive policies and political parties have specialised in post-distributive action. However, both kinds of action are nevertheless complementary. The mechanism for coordination in the labour market is collective bargaining, which can serve to reduce inequalities (Molina and Rhodes 2007).

The current debate is polarised. On the one hand, the liberal movement has emphasised the role of pre-distributive strategies, while the social-democratic and left-wing spheres have emphasised articulation between the classes in order to coordinate pre and post-distributive policies. Today, the need to coordinate pre and post distributive policies is especially topical due to the extent of austerity policies in

Europe. Three factors explain the difficulties faced by post-distributive policies: (1) globalisation, which makes capital and consequently the application of the right tax redistribution policy hard to control; (2) unstable jobs and subsequent wage devaluation; (3) digitalisation and technological innovations that are changing occupational structures (Hacker 2011). The response to these difficulties with post-distributive policies involves examining pre-distributive policies in order to correct inequalities *ex ante*, whereby “*it is better to prevent than to cure*” (Barragué 2017).

In short, in this conceptualisation we shall analyse two dimensions (Fig. 2.1): (1) *pre-distributive* institutions, which include the labour market and collective bargaining, and which may or may not help to reduce inequalities; and (2) *post-distributive* institutions, which refer to the functions of the Welfare State in European countries or otherwise the application by the state of social policies in Latin America. The concept of pre and post-distribution has been taken up once again since the study by Hacker (2011), and is featuring ever more prominently in the literature (Barragué 2013, 2017). These concepts are relevant to comparative studies because they can be used to explain the current reforms and trends in social policies (Zalakain and Barragué 2017).

2.2.1 Pre-distributive Institutions

As already mentioned, the pre-distributive dimension refers to the institutions, standards and procedures that aim to correct inequalities in the labour market (Hacker 2011). The labour market is one of the sources of income inequality as a result of

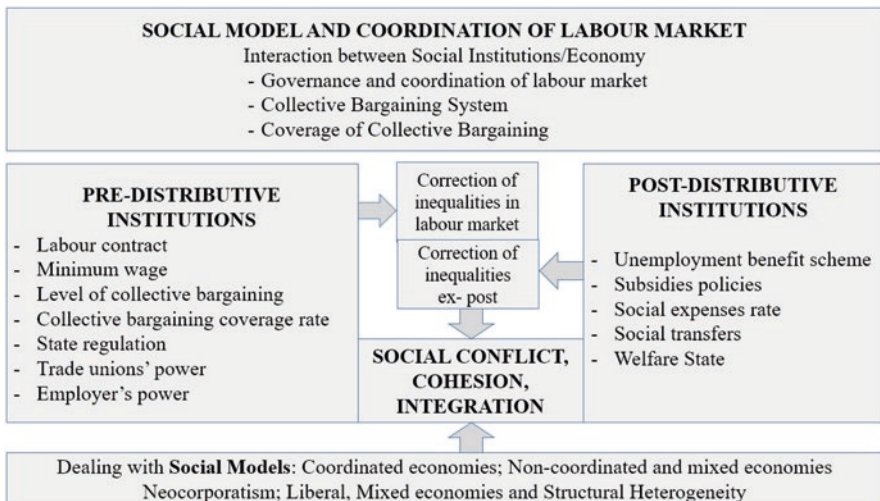


Fig. 2.1 Social model. Analytical conceptualization. Source: own elaboration

formal or informal employment, as well as job quality. The market generates potentially huge wage differences, with a greater or lesser risk of poverty. In particular, formal or informal employment is related to differences in people's economic uncertainty in terms of income and professional careers. We therefore assume that there are countries with labour markets that generate more inequalities than others in terms of opportunities for employment and job quality, informality, stability or instability, as we shall see later in the comparison between countries.

The main pre-distributive institution in our societies is collective bargaining between employers and unions, which helps to improve wages and labour conditions. According to Piketty (2014: 392) an understanding of the history of the reduction of inequalities needs to consider developments in the minimum wage, labour standards, collective bargaining, professional qualifications, technological innovation and increased productivity. In short, the labour market is a “*social construct based on specific rules and compromises*” of a political and unionist nature.

Another institution involved in the coordination between the labour market and social protection policy is *tripartism* (employers' organizations, trade unions and governments),¹ which in many countries takes the form of Economic and Social Councils, or Wage Councils, which frequently adopt a typically neo-corporatist institutional structure, which is important for the coordination of economic policy (Menz 2008; Burroni 2016). In other words, neo-corporatism is a form of institutionalisation of social consensus that involves the government, businesses, unions and even consumer organisations. Hence, countries with neo-corporatist structures are known as *coordinated economies* (Hall and Soskice 2001). In short, we could say that institutions such as social consensus, collective bargaining and social distribution systems, can be used to achieve *relative decommodification of labour* (Esping-Andersen 2000).

2.2.2 *Post-distributive Institutions*

The post-distributive dimension refers to ex post policies aimed at mitigating inequalities that were generated in society beforehand, such as unemployment benefit, health and maternity insurance and benefits, pensions, and disability benefits, as well as subsidies that seek to correct and mitigate financial inequalities and the risk of poverty. The institutions involved in the post-distributive dimension are social security, public employment services, vocational training and retraining centres, etc. In short, what is defined as the Welfare State in Europe, or ‘State Action’ in terms of the implementation of social policies in Latin America.

The austerity programmes that have been promoted in Europe since 2007 have led to post-distributive policy characterised by the overburdening of unemployment

¹Tripartism is a concept used by the ILO to refer to the Social Dialogue between government, employers and trade unions and their participation in certain institutions. The term is sometimes used to illustrate the inexistence of neo-corporatist structures.

benefit systems due to such high unemployment rates (Hacker 2011), as well as temporary work contracts causing people to continually register and unregister for benefits. The Great Recession has led to more social expenditure and high public debts derived from the payment of pensions and subsidies to prevent severe poverty (Ferdosi 2019). In this context it can reasonably be imagined that national governments and the European Union would encourage pre-distributive policies rather than post-distributive ones. Examples of this are so-called *private occupational pension schemes* (Natali et al. 2018a, b), i.e. retirement pensions and the provision of health, educational and professional retraining services through capitalisation while people are in active employment (Martín Artiles and Molina 2015).

2.2.3 *Coordinated and Uncoordinated Economies*

As part of the debate on the varieties of capitalism and from the concept of coordinated-uncoordinated economies, we differentiate between four models in our analysis.

2.2.3.1 **Strong Neo-Corporatism**

Coordinated economies typically have institutions for bilateral (employers-unions) or tripartite (including the government) collective bargaining in which labour and pay conditions are negotiated in a centralised manner (Molina and Rhodes 2007; Menz 2008, among others). Coordinated economies are better equipped to coordinate macroeconomic policy and to control the behaviour of wages and inflation, but also to link such policy with the goals of redistributive social policy. Burroni (2016: 55) summarises the *strong neo-corporatism* of northern Europe in terms of the following characteristics: (1) existence of a strong workers' movement organised through coordinated and representative unions; (2) unions supported by high membership rates and that are well-established in the public sector (education, health and public administration); (3) trade unions and employers' organisations with major institutional involvement in the formal and informal regulation of the labour market; (4) relations between social actors that are predominantly centralised at the national level, generating an umbrella to protect collective bargaining at lower levels, such as the activity sector and company levels.

This model represents strong institutionalisation of trade unions, and their high membership rates are related to their co-management of occupational pension funds and unemployment benefits. This model is called the *Ghent System*, after the city where it was first implemented (Ghailini and Peña-Casas 2018). In short, the coordinated economies of strong neo-corporatist countries typically involve agreement between social actors on financial, fiscal and industrial policy in a coordinated manner with the control of inflation and wages. This, in turn is coordinated with welfare measures, social expenditure, public services and active employment policies

(Smith 1999). Therefore, social dialogue between employers, unions and governments plays an important role in macroeconomic governance. This coordinated procedure is still very much alive and well in Scandinavian countries.

In some countries, economic policy is centralised and coordinated at the national level (Scandinavian countries), in others it is done at the mesosocial, sector-national level (for example, in Germanic countries, Spain and Italy). Coordinated economies not only require centralisation of collective bargaining, but also for unions and employers' organisations to be coordinated at different levels, so that decisions can be made and demands can be coordinated from the bottom all the way to the top, which is why we speak of *organised capitalism* or *social integration in the market* (Polanyi 1989; Albert 1991; Hall and Soskice 2001). These countries therefore have high union membership, and the countries of the so-called *Ghent System* or *strong neo-corporatism* (Sweden, Norway, Denmark, Finland and Belgium) are paradigmatic examples of this, where capital and labour have a long-term strategic commitment to certain employment, social protection and labour peace goals (Smith 1999). In short, this is the result of the political exchange between capital and labour. We could therefore deduce, like Calmfors and Driffill (1988), that countries with highly coordinated economies are the ones the lowest wage dispersion.

Other countries like Germany and Austria fit an intermediate model of sector-level neo-corporatism (Menz 2008). These countries typically feature strong institutionalisation of social conflict, which is guided by procedural regulations that tame the ways in which conflict is expressed (Esping-Andersen 2000). However, in opposition to this institutionalisation of conflict, the state and businesses are committed to correcting inequalities (*ex ante*) through collective bargaining and social dialogue. Put briefly, it is a case of correcting inequalities in the labour market itself, either through collective bargaining of a minimum wage or by agreeing with the government to a *minimum inter-professional wage* or through the legal extension of agreements in the form of *Erga Omnes* clauses.

2.2.3.2 Mixed Coordination

Some authors (Schneider 2009) have proposed the idea of hybrid or mixed economies to explain the semi-coordinated and market hierarchy forms of labour markets in Mediterranean countries. In greater detail, Molina and Rhodes (2007) consider the existence in Spain and Italy of a third type of mixed economy, with systems for coordinating wage policy through collective bargaining at the macroeconomic level, but with major incoordination and disorganisation in certain segments of the microeconomic level, such as small businesses, although the government tends to correct dysfunctions in the coordination between the macro and micro levels with such instruments as the regulation of the minimum wage and the *general efficacy* of collective agreements that acquire the *force of law*. Unions and employers' associations hold major political influence, but in these countries the volume of informal employment is a certain burden that hinders the coordination of collective bargaining, the treatment of wages and the taxation of labour.

2.2.3.3 Uncoordinated Economies

In contrast to the aforesaid coordinated neo-corporatist economies, there are other liberal countries (United Kingdom, Ireland and the United States, from the central countries, Chile, Peru, Mexico and Colombia, from Latin American countries, among others) that are considered uncoordinated market economies (Hall and Soskice 2001). In these, the labour conditions are mainly set on the basis of the free interplay between supply and demand in the labour market. The market is viewed as a principle of social and self-regulated order that by its own internal logic leans towards balance and efficiency. Therefore, any state intervention that is not aimed at ensuring institutional conditions for supposedly fair and healthy competition is seen to be counterproductive because it artificially alters internal market logic.

It is relevant to note that in these liberal societies there are also decentralised collective bargaining institutions at the company level, but this implies greater wage dispersion. The decentralisation of collective bargaining has historically enabled these societies to adjust wages to companies' specific levels of productivity, which also offers the comparative advantage of more flexible labour conditions and more rapid adjustment of the economy (Calmfors and Driffill 1988). On the other hand, as a negative outcome, these countries have greater inequality in the labour market. They typically have weaker unions and employers' organisations in what is known as *unorganised capitalism* (Albert 1991; Hall and Soskice 2001). In short, policies depend more on the labour market and less on social agreements between government, unions and business.

2.2.3.4 Latin America, the Burden of Informality

In Argentina, Brazil and Uruguay there are also institutions of corporatist origin that play a certain role in collective bargaining. Unions have political influence, albeit fragmented. These countries cannot be considered to have coordinated economies because their high volume of informal labour and employment prevents effective coordination of collective bargaining, wage policy and taxation of wages. This hinders pre and post distribution. We are therefore talking about a strong duality between employment and wages in the formal sector, which is relatively negotiated with trade unions, and a high volume of informal labour. This duality is a form of labour market segmentation, which in Latin America is viewed as a kind of *Structural Heterogeneity* (Presbich 1981) or *Hierarchical Market Economy* (Schneider 2009: 555). The concept of structural heterogeneity is more complex and important: it is defined not only by the segmentation of the labour market, but also by the coexistence of vestiges of pre-capitalist economies of an informal and non-mercantile nature in sectors whose productivity is lower than others, which in turn generates major social inequality. The origin of this concept can be found in Presbich (1981), who as early as the 1960s was relating structural heterogeneity to the imbalanced exchange between the developed centre and underdeveloped peripheral economies (Nohlen and Sturm 1982; Cena 2010; Cimoli and Porcile 2019). The

main conditioners of Latin American capitalism are dependence on the foreign export of raw materials, an under-qualified workforce and atomised labour relations (Schneider 2009: 554).

Meanwhile, in the case of Argentina, Brazil and Uruguay, it seems more appropriate to speak of *tripartism*, which expresses the idea of the existence of social dialogue between government, unions and business, with participation in certain social institutions. But we must stress that these are still dualised and hierarchical economies. This model gained importance from the 1940s. Martínez Fronzoni and Sánchez-Ancochea (2018: 204) characterise these countries as *universalist-stratified* or *conservative-informal* regimes. The idea of ‘conservative’ comes from the way they draw on the Bismarkian model, based on access to protection via labour status, which is financially tripartite, and grounded on a contributory system, but they are unequal due to the high volume of informal employment, which leaves a large number of people unprotected.

2.3 Analysis Model

Based on the above conceptualisation, we establish a general hypothesis where we understand that liberal regimes, with a decentralised bargaining system and no wage coordination, are more unequal than countries with centralised neo-corporatist regimes. On the contrary, neo-corporatist regimes, with centralised collective bargaining and high coverage rates tend to reduce inequalities in terms of wages and working conditions.

Moreover, countries with a high volume of informal employment, as is the case of those in Latin America, are expected to lack the capacity to govern wage behaviour, and neither do their workers have sufficient capacity to contribute to social protection systems that offer coverage for unemployment or retirement.

To test this general hypothesis, we constructed an analysis model based on four dimensions: institutional coordination mechanisms, pre-distributive indicators, post-distributive indicators and income inequalities, as shown in Table 2.1.

The institutional dimension includes two indicators:

1. Wage coordination. This variable is divided into five categories, following the database produced by Visser (2018). Countries that have a stable centralised framework at the national level to fix the rise in wages in a certain range, or otherwise where wages are imposed by government decision, have been given a score of 5, which indicates high centralisation of collective bargaining. Meanwhile, 1 equates to decentralisation of collective bargaining at the company level. The other values indicate intermediate positions in the scale. The value 4 category indicates the existence of bipartite negotiation between employers and unions and sets standard wages for collective bargaining at the sector and company level. This group includes the countries grouped under the neo-corporatist model, such as Austria and Germany, which has been characterised by a form of

Table 2.1 Dimensions, variables and sources

Dimension/Variables	Sources
Institutional mechanism	
1. Level of coordination of Collective Bargaining (1 = company versus 5 = pick level)	Institutional Characteristics of Trade Unions, Wages setting, State Intervention and Social Pacts (ICTWSS) 2018 (Visser 2018)
2. Coverage rate of collective bargaining	
Pre-distributive	
3. Occupied rate	ILOSTAT (2018)
4. Informal occupational rate	ILOSTAT (2018); CEDLAS L.A. American Bank U
Post-distributive	
5. Social expenses in % of GDP	Eurostat 2018 y Cedlas World Bank L.A. 2018 OCDE Outlook 2018
6. Coverage rate of Unemployment protection	
Inequality of income	
7. Labour Gini Laboral, pre-distribution	Eurostat 2018 and Cedlas World Bank, L.A. 2018
8. Gini Post-distribution	

Social Partnership consisting of a tradition of sector-level agreement between Chambers of Commerce, business organisations and unions (Menz 2008). At level 3 we have countries that agree on the coordination of wages in an irregular manner, depending on the economic circumstances or crisis situations. Centralised coordination is limited, but the wage decisions at the company level are also limited, as is the case, for example, in Spain, Italy, Argentina, Uruguay and Brazil, among others. Level 2 equates to weak wage coordination, which is based on activity sector agreements in coordination with company agreements, or sometimes both levels, as is the case in France. And finally, at level 1 we have liberal countries (such as the United Kingdom, Ireland, the United States, Chile and Mexico), which only set wages at the company level, according to their level of productivity, which is viewed as the flexible model (Calmfors and Driffill 1988). In short, these five categories involve measurement of strongly coordinated neo-corporatist economies versus liberal uncoordinated economies.

- The coverage rate of collective bargaining. The considered variable refers to the percentage of workers covered by collective bargaining agreements. This indicator shows the degree of application of agreements and reveals the monitoring, discipline and efficacy of organisations when it comes to applying wage agreements and labour conditions. It is a relatively important indicator, and is justified here because it indicates an aspect of the influence and power of trade unions, as well as their degree of unification and coordination of levels of negotiation between company, sector and state (Esping-Andersen 2000).

The pre-distributive dimension considers employment to be the main component, as it is the principal means of social integration and access to social rights

(Esping-Andersen 2000). Employment can also be a source of social inequality, which is why we take two variables:

3. The employment rate. Indicates how employable a society is.
4. The informal employment rate. Informal employment is an obstacle to redistribution because it excludes tax payments as required to fund certain contributory welfare state systems.

The post-distributive dimension includes the following two indicators:

5. Expenditure on social policies. Variable that includes spending on subsidies and transfers to families. The level of social expenditure over GDP indicates the capacity of Welfare States to correct or mitigate the inequalities generated by the labour market (Esping-Andersen 2000; Del Pino and Rubio 2016).
6. The unemployment benefit coverage rate, which is an indicator of correction of the inequalities generated by the loss of employment and which is an important policy for combatting severe poverty.

Finally, the income inequality dimension involves two indicators:

7. The labour, or pre-distributive, Gini Index, to show inequalities in income from labour before transfers.
8. The post-labour, or post-distributive Gini Index, after transfers, which shows the inequalities in the labour market and how effective post-distributive policies are at correcting them.

This set of indicators has been analysed using a selection of 26 countries as shown in the data in Table 2.2.

2.4 Results: A Comparative Study

2.4.1 *Context and Trends of Inequalities 2007–2017*

A first contrast between Latin American and European countries that have participated in the INCASI project is the context and the different impact of the financial crisis, known as the Great Recession in European countries, but not in Latin America. The differences in impact can be seen through changes in the indicator of gross domestic product per capita, measured in constant euros in purchasing power parity (see Table 2.3) and which also shows the differences in the levels of wealth between countries. In European countries the recession is reflected by the drop in gross domestic product per capita between 2007 and 2013, the lowest point of the recession. As shown in said Table 2.3, Spain, Italy, France, Finland and the United Kingdom recessed in that period. But from 2013 to 2018 the GDP per capita slowly started to rise again in those European countries.

In contrast, Latin American countries witnessed growth in GDP per capita between 2007 and 2013, except Mexico, which was stagnant. From 2013 to 2018,

Table 2.2 Institutional indicators

Countries	Institutional coordination indicators			Pre-distributions indicators		Post-distribution indicators			Inequalities indicators	
	Wage coordination: level of collective bargaining	Coverage rate of collective bargaining %	Employment to population ratio %	Informal employment rate %	Social expenses (in % GDP)	Unemployment protection coverage rate %	Gini Pre	Gini Post		
Argentina	3	63.4	54.8	47.1	4.9	14.3	45.7	41.3		
Austria	4	98.0	57.3	10.0	90.5	26.6	33.8	28.0		
Belgium	5	96.0	65.6	13.5	80.2	28.9	33.6	26.0		
Brazil	3	65.0	55.9	46.8	8.0	15.1	54.4	53.0		
Bulgaria	2	29.0	52.4	15.9	25.6	16.0	43.4	40.0		
Chile	1	18.1	57.9	22.2	29.9	16.1	50.1	43.1		
Czech Republic	2	47.0	58.8	9.2	21.2	18.7	28.2	24.0		
Denmark	4	84.0	58.9	11.2	77.2	28.0	36.7	28.0		
Finland	5	93.0	54.0	6.3	59.2	28.7	34.3	25.0		
France	2	98.0	50.0	9.8	56.2	31.2	35.7	29.0		
Germany	4	57.6	58.5	10.2	88.0	25.1	35.0	29.0		
Greece	2	42.0	42.7	32.8	43.1	23.5	36.0	33.0		
Hungary	1	23.0	54.1	12.2	31.4	19.4	33.9	28.0		
Ireland	1	40.5	58.0	13.5	21.6	14.4	41.6	31.0		
Italy	3	80.0	43.9	19.0	56.8	27.9	34.9	33.0		
Netherlands	4	84.8	60.9	9.4	61.9	16.7	32.6	27.0		
Norway	4	67.0	61.0	7.3	61.8	25.0	35.0	26.0		
Poland	1	14.0	54.8	38.0	16.8	21.1	33.6	29.0		
Portugal	2	67.0	54.7	12.1	42.1	22.6	36.9	34.0		
Slovakia	3	25.0	55.7	16.7	11.2	17.0	38.1	24.0		
Slovenia	3	65.0	54.8	5.0	30.8	21.2	38.1	23.0		
Spain	3	77.6	48.5	27.3	46.9	23.7	38.1	34.0		
Sweden	4	89.0	60.2	8.2	28.0	26.1	38.1	28.0		
United Kingdom	1	29.5	59.9	13.3	62.6	20.6	40.9	33.0		
Uruguay	3	60.0	59.2	44.3	27.9	16.0	45.3	35.7		
USA	1	11.9	62.8	36.0	26.5	18.7	45.2	41.5		

Sources: Visser (2018), ILOSTAT (2018), OECD (2018)

Table 2.3 Gross domestic product/Total population in average constant income in euros PPP constant (2018)

Country	2007	2013	2018	Difference 2007–2018 (%)
Argentina	21.858	26.848	24.775	13.30
Brazil	17.583	19.475	17.199	−2.20
Chile	23.497	26.537	26.872	14.30
Uruguay	18.311	24.113	25.661	40.10
Mexico	23.540	23.270	24.059	2.20
Spain	36.634	32.710	37.839	3.20
Italy	39.644	34.908	35.916	−10.50
France	41.444	40.906	42.808	3.20
United Kingdom	43.205	41.652	44.479	2.90
Finland	46.208	42.333	44.471	−3.80

Source: World Inequalities data base ([2020](#))

Table 2.4 Comparative inequalities

Continent	Gini	2007	2017
Europe	Pre	0.3608	0.3688
	Post	0.3058	0.3090
Latin America	Pre	0.5204	0.4940
	Post	0.4808	0.4488

Source: Own elaboration with cited data

the economies of Argentina and Brazil seem to recede somewhat, while Chile, Uruguay and Mexico underwent moderate growth. So, the economic cycles were different in the two continents. Throughout the decade, the countries with the greatest growth were Uruguay (40%), Chile (14%) and Argentina (13%), while it was the European countries where there was the least growth. Even in Italy and Finland, GDP per capita fell by −10% and −3% respectively.

2.4.1.1 Changes in Inequalities

Table 2.4 offers a comparative overview of the evolution of the pre-distributive and post-distributive Gini Index. Throughout the studied period, two opposing trends are observed. For the Europe of the Great Recession as a whole, income inequality was practically maintained or slightly increased, while in Latin America there was no talk of a crisis, but instead a period of expansion that led to a moderate reduction in inequalities.

These global results differ somewhat by country (Table 2.5 and 2.6). In Spain, the gap between the labour and post-labour Gini Index was 0.031 in 2009. By 2017, the labour Gini had increased on the 2009 level, which reflects the large amount of unemployment in the period and the country's hard wage devaluation policy. However, social expenditure managed to reduce the gap by 0.040 points. In France,

Table 2.5 Pre and post-distributive Gini Index. European countries

Country	Year	Pre	Post	Difference
Spain	2009	0.360	0.329	0.031
	2017	0.381	0.341	0.040
France	2009	0.356	0.299	0.057
	2017	0.357	0.293	0.064
Italy	2009	0.336	0.318	0.018
	2017	0.349	0.327	0.022
Finland	2009	0.338	0.259	0.079
	2017	0.343	0.253	0.090
UK	2009	0.414	0.324	0.090
	2017	0.414	0.331	0.083

Source: own elaboration based on Eurostat 2019

Table 2.6 Inequalities in Latin America: Gini Index

Country	Year	Pre	Post	Diferencia
Argentina	2007	0.484	0.457	0.027
	2017	0.457	0.413	0.044
Brasil	2007	0.566	0.548	0.018
	2016	0.544	0.530	0.015
Chile	2007	0.513	0.460	0.053
	2015	0.501	0.431	0.069
México	2006	0.510	0.489	0.021
	2014	0.515	0.513	0.002
Uruguay	2007	0.529	0.450	0.079
	2016	0.453	0.357	0.096

Source: SEDLAC (CEDLAS and The World Bank)

the labour Gini Index barely changed between 2009 and 2017, where social expenditure was able to significantly reduce the differences between 2009 and 2017. In Italy, the labour Gini Index rose between 2009 and 2017, which also reflects the high volume of youth unemployment. The difference from the Gini Index after transfers was the lowest of the five countries considered, which is an indicator of the reduction in social expenditure. In Finland, the differences in the labour Gini also increased between 2009 and 2018, but in both years social expenditure achieved a sharp reduction in the post-transfer Gini Index. Finally, in the United Kingdom the labour Gini Index was the highest, both in 2009 and 2017, reflecting greater inequality in the labour market, which correlates with the decentralised collective bargaining system. However, the decrease in the post-labour Gini was considerably large in both years.

All the chosen European countries, through participation in the INCASI project, made an effort to reduce the divide between the two indicators of inequality, with Finland being the country that made the biggest effort, even though it has the least inequality.

In the Latin American countries, the distances between the two types of Gini were also lower thanks to the period of economic expansion. In Argentina, Brazil, Chile and Uruguay, inequalities in both indicators were reduced between 2007 and 2017, boosted by the social policies of progressive governments, as also confirmed in the study by Amarante et al. (2018). However, in Mexico the inequalities reflected in the labour and post-labour Gini Index increased in the same period. In general, we can consider Latin America, in the words of Martínez Fronzoni and Sánchez-Ancochea (2018: 201), “the region of the world with the greatest inequality compared to the world average”, and, in particular, with a huge difference in between urban and rural settings. Uruguay is the country that has made the greatest effort to reduce inequalities, with a social model that is closer to the European one.

The fact that there are such a large number of informal activities in Latin America can be viewed, despite being seemingly contradictory, as the governmental ‘remedy’ to deal with the issue. In a way, there is a kind of formal/informal complementarity, given its historical origin on the overlap between capitalist and non-capitalist practices. However, *Structural Heterogeneity* limits the state’s regulatory strategy, so it seems to have no option but to resort to resignation and functional adaptation of the formal economy to the informal one. Tolerance of informality in a large proportion of economic activity is thus a short-term remedy to combat poverty. But such tolerance limits the coordination of pre and post-distributive policies.

2.4.2 Comparison of Models: Differentiation Factors

The participant countries in the INCASI project have different pre-distributive and post-distributive models. The differences between these countries do not only relate to their different levels of wealth, but also their different *institutional arrangements* of coordinated, semi-coordinated and uncoordinated economies (Hall and Soskice 2001).

To analyse the interrelationship between the eight variables considered in our model, we have applied a Principal Components Analysis to observe the inter-correlations and to reduce the information from the set of variables to two main dimensions or factors. Table 2.7 shows the variables considered and their correlation with each of the two retained factors. The variance explained by both is 69%.

The first dimension is the most decisive, with 51% of the variance explained. It is especially defined by the unemployment coverage rate, social expenditure, and the collective bargaining coverage rate, on the one hand, as opposed to the informal employment rate along with indicators of income inequality, on the other. This shows that the greater the number of workers protected by collective bargaining and social protection, the lower the inequalities.

A second dimension of less weight, 17%, highlights the higher levels of income inequality associated to institutional coordination, opposing features in the first factor and that here tend to generate specific features that shift slightly away from the other indicators.

Table 2.7 Component matrix

	Component	
	1	2
Unemployment protection coverage rate	0.827	0.150
Social expenses (in % GDP)	0.803	0.183
Gini pre-distributive	-0.786	0.482
Gini post-distributive	-0.782	0.513
Informal employment rate	-0.751	0.398
Coverage rate of collective bargaining	0.721	0.581
Wage coordination: level of collective bargaining	0.684	0.564
Employment to population ratio	0.079	0.036

Source: Own elaboration

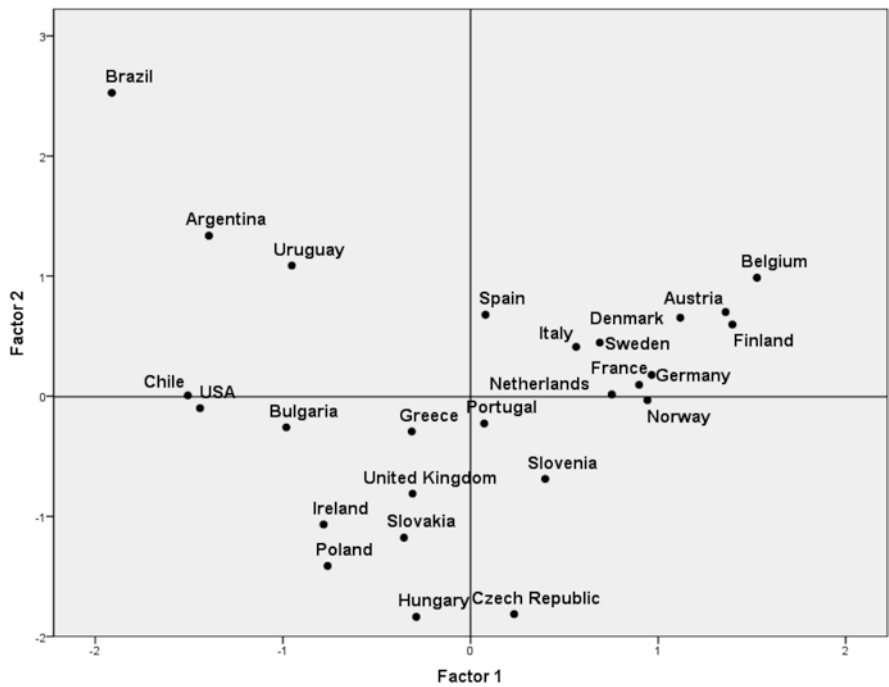


Fig. 2.2 Positioning of the countries. Source: Own elaboration

The crossover of these two dimensions with the position of the studied countries is shown in Fig. 2.2, where four quadrants can be distinguished.

The first quadrant is made up of the countries with the highest informal employment, high inequalities in the pre and post-distributive Gini Indexes and a low unemployment coverage rate, such as Brazil, Argentina and Uruguay. The second quadrant is features countries that have high centralised coordination of collective bargaining and a high volume of social expenditure, such as Belgium, Finland,

Denmark and Sweden, countries that are representative of the Ghent System, neo-corporatism and coordinated economies (Hall and Soskice 2001), as well as others that are considered to be ‘medium’ neo-corporatist countries (Menz 2008). The third quadrant includes countries that share a decentralised collective bargaining system and therefore have large wage differences that are reflected in the pre-distributive Gini Index (Chile, USA, Ireland, United Kingdom, Bulgaria and Poland, among others). Finally, the fourth quadrant is made up of countries whose main characteristic is high coverage of the number of workers protected by collective bargaining, such as Norway, Holland and Slovenia, among others, and which are also considered neo-corporatist.

2.4.3 Similarities and Dissimilarities Between Social Models

Using hierarchical cluster analysis, we can now observe the distances, similarities and differences between the different analysed countries, taking into account the eight selected variables, and in order to group them into a typology of models. Standardising these variables, cluster analysis was performed by Ward’s hierarchical method. This analysis offers an integrated view of clusters of the most similar countries, with which the derived social models can be typified. Figure 2.3 and Table 2.8 present the formation of four clusters of countries as described hereinafter.

2.4.3.1 Cluster of Latin American Countries: Uncoordinated Informal Economies

Cluster 3 includes three Latin American countries: Argentina, Uruguay and Brazil, which share the phenomenon of Structural Heterogeneity. Four factors explain why they are located here: (1) they have a low, below average, level of social expenditure; (2) the number of workers with unemployment benefits is very low; (3) the inequality rates in the pre-distributive and post-distributive Gini Indexes are much higher than the average; and, (4) a high rate of informal employment, which hinders coordination between pre and post-distributive policies. Informal employment makes it difficult to govern wages through collective bargaining, as shown earlier, so Structural Heterogeneity (Presbich 1981) leads to inequality in Latin American countries acting in a similar way to the way it does in liberal countries, despite the fact that these three countries have intermediate systems between coordinating wages at the sector level and collective bargaining.

In fact, Argentina, Uruguay and Brazil form a group with certain sector-type neo-corporatist elements (Marticorena 2014), with a system of collective bargaining at the sector level combined with a large amount of informal employment and very low coverage of unemployment. In all three countries, there are major labour inequalities between the formal and informal sectors.

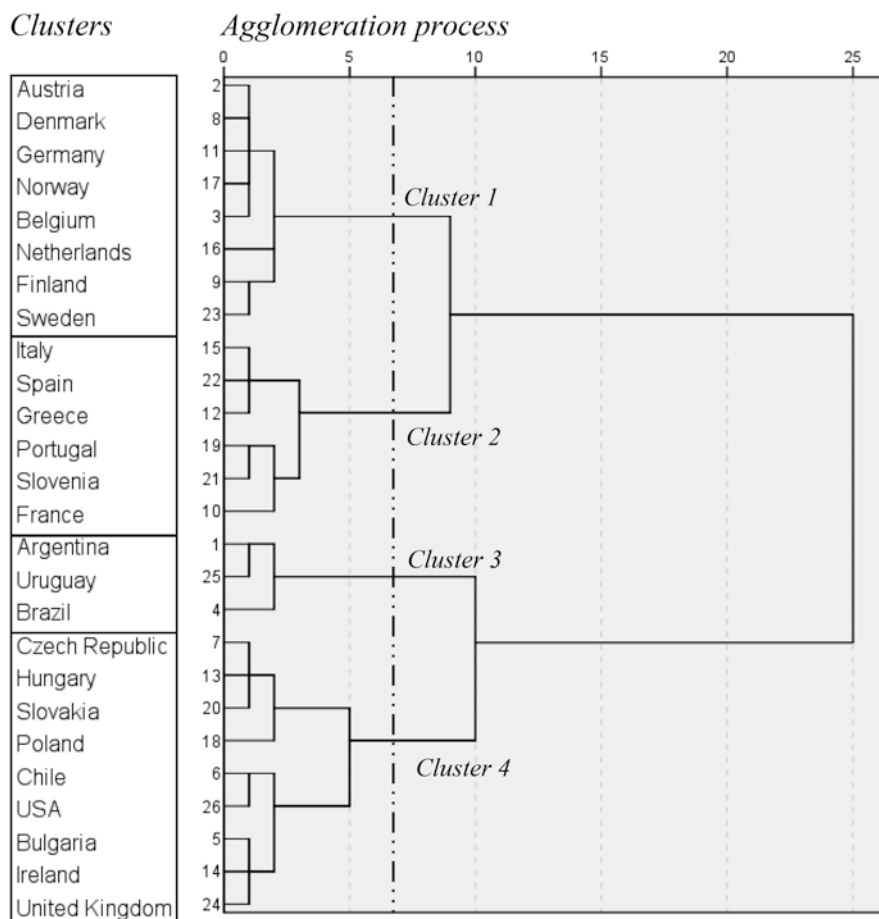


Fig. 2.3 Cluster analysis. Dendrogram. Source: Own elaboration from ILO & OCDE data

However, in Uruguay, the tradition leans more towards European social-democratic regimes. Meanwhile, neo-corporatism in Argentina dates back to the forties, and is associated with Peronism (Horowitz 2011), as in Brazil with the Getulio Vargas era. Chile is a peculiar case, because it has gone from a state protection model to the radically liberal capitalisation regime that was instated in 1980 (Castiglioni 2005). Mexico is another country where the state has retracted in terms of social protection.² In turn, the reforms introduced during the last decade in Brazil have been gradual, although it is also a segmented model.

But the Latin American model, conditioned by the large amount of informal employment, has led to the construction of fragmented, stratified protection systems (OIT 2018), features major obstacles to guaranteeing social agreement and the

²Not included in the data analysis discussed herein due to the difficulties to find information.

Table 2.8 Description of clusters obtained

Cluster	Institutional coordination indicators			Pre-distributions indicators		Post-distribution indicators		Inequalities indicators	
	Wage coordination: level of collective bargaining	Coverage rate of collective bargaining %	Employment to population ratio %	Informal employment rate %	Social expenses (in % GDP)	Unemployment protection coverage rate %	Gini Pre	Gini Post	
1	Average (N = 3)	62.8	56.6	46.0	15.1	13.6	0.484	0.433	
2	Average (N = 8)	83.6	59.5	9.5	25.6	68.3	0.348	0.271	
3	Average (N = 9)	26.4	57.1	19.6	18.0	27.4	0.394	0.326	
4	Average (N = 6)	71.6	49.1	17.6	25.0	45.9	0.366	0.310	
Total	Average (N = 26)	58.6	55.9	19.1	21.6	42.7	0.384	0.317	

Source: Own elaboration from ILO & OCDE data

efficacy of wage coordination mechanisms, and means that its social contribution schemes are insufficient as unemployment benefits cannot be extended to a greater number of workers due to the difficulties with tax contributions and the aging of the population. For these reasons, these countries are classed as uncoordinated economies. Some analysts (Martinez Fronzoni and Sánchez-Ancochea 2018) define the trend among Latin American regimes as a struggle between universalisation and segmentation: universalisation due to the increase in welfare policies and segmentation because of the formal/informal (and therefore protected and unprotected) dualisation of the labour market.

In short, the theory of Latin American Structural Heterogeneity is based on the characteristics of the state model, one of whose features is the coexistence of formal and informal economic sectors, where the most protected activities at first tended to be prolonged, only to then stagnate. And the participation of low productivity activities in production and employment tended to increase (Del Valle 2010). We are talking about an organic cohabitation process in which protected, high productivity activities tend to resemble European activities in the same conditions. On the other hand, there is another important low productivity sector, in many cases with subsistence activity, which tends to increase economic and, therefore, social divides. This process heightened the process of structural heterogeneity.

Given the Latin American case, it is worth asking whether the same is the case in Europe, with the segmentation of the labour market and a certain volume of informal employment in some countries.³ In short, it is worth asking how different social models have responded to the inequality that has been generated by the financial crisis.

2.4.3.2 Cluster of Neo-Corporatist Coordinated Economies

Cluster 1 differs considerably from the previous one, and is made of the countries with strong and medium neo-corporatist models, i.e. with centralised collective bargaining at the national level and also at the national-sector level, as well as a high number of workers protected by collective bargaining (83.6%); a high rate of unemployment benefit (68%); little informal employment (9%); high social expenditure (25%) and low inequality in the post-distributive Gini Index (0.271). Here we find the countries of the so-called Ghent System (Belgium, Sweden, Norway, Denmark and Finland), and also the Germanic countries (Germany, Austria and the Netherlands). All of these are classed as countries with coordinated economies, with institutionalised social agreements and centralised collective bargaining where macroeconomic policy has a 'bottom-up' influence from social agreements and

³According to Del Valle (2010) in Latin America neither is stratification an independent phenomenon from the forms of state intervention, for it responds to organised patterns, given how the State intervenes in stratification processes due to its role as an allocator of resources. In this regard, "the state defines the levels of commodification that operate in society since the practices of resource allocation reproduce, extend or reduce stratification processes".

negotiation. They have strong business and union organisations, mechanisms for monitoring and controlling wages to prevent dispersion, as well as policies aimed at mitigating the risk of considerable inequality in terms of income (Menz 2008). This data therefore agrees with the expected hypothesis: centralised neo-corporatist coordination reduces inequalities and promotes coordination between pre- and post-distributive policies. In this model, the inequalities expressed by the Gini Index are small because of the high amount of unemployment benefits and social expenditure.

2.4.3.3 Liberal Cluster: Uncoordinated Economies

Third, we consider the cluster formed by the countries with uncoordinated economies (cluster 4), with liberal labour relations (United Kingdom, United States and Chile, among others), with a decentralised collective bargaining system at the company level and low coverage of collective bargaining (26%), which influences inequality in the labour (0.394) and post-distributive (0.326) Gini Indexes. The unemployment protection rate is also low (27%), and the moderate volume of informal employment (19%) is below the average. These countries also have low social expenditure (18%). These are liberal countries that usually have micro-economic type policies, and have weak unions with little political influence for pre and post-distributive coordination (which is limited to the few companies where they are represented, and with low coverage of the number of workers, Molina and Rhodes 2007).

In short, both the decentralisation of collective bargaining at the company level (typical of uncoordinated economies), and informal employment (widespread in Latin America) generate strong dualized segmentation of labour relations, with a clear difference between protected (insiders) and unprotected (outsiders) workers. In conclusion, we could say that the results agree with the expected general hypothesis with regard to liberal countries. The unexpected finding is that Latin American countries have very similar results to liberal ones due to the large amount of informal employment and weak institution of social protection; such Unemployment Benefit Schemes and Pensions System (see Chaps. 13 and 14).

2.4.3.4 Cluster of Mixed or Semi-Coordinated Economies

Cluster 2 is formed by Spain, Italy, France, Greece, Portugal and Slovenia. These are countries with collective bargaining systems that mix centralisation at the sector level, semi-decentralisation at the territorial or regional level, and bargaining at the company level. In these countries, trade unions hold political influence and capacity for mobilisation, and although this representation is fragmented it does help to obtain better results and to generate mechanisms of state 'complementarity' (Molina and Rhodes 2007). In these countries, business organisations are fragmented, although the coverage rate of collective bargaining is nevertheless high (71%) because collective agreements have an *Erga Omnes* effect in France and Spain, and

are extended in Italy, where unemployment benefits (46%) and social expenditure (25%) are slightly higher than the mean, although informal employment is also above average. In mixed coordination economies, the state plays an important role in correcting the dysfunctions of coordination mechanisms, unemployment protection is fragmented, and economic inequalities are greater than in the corporatist system.

Finally, Table 2.9 presents a comparative summary of the four social models found. In short, we can say that the more centralised the models are, the less inequality, which demonstrates the greater egalitarianism among neo-corporatist regimes and reaffirms the general hypothesis. Neo-corporatist countries have centralised coordination and bargaining systems, which act like umbrellas to protect the weakest sectors during negotiation. We can conclude that countries with a high volume of informal employment are the most unequal, followed by liberal countries. Latin American countries appear in the clusters with the greatest inequality, while the countries with neo-corporatist labour relations are the most egalitarian, which confirms the general hypothesis.

2.5 Conclusions

Based on the above, we can offer three main conclusions: (1) a high coverage rate of collective bargaining helps to reduce inequalities; (2) the employment rate alone does not reduce inequalities, since jobs can be unstable, temporary, part-time, informal and poorly paid; and, (3) a high rate of informal employment conditions pre and post-distributive policy.

2.5.1 European Trends in Pre-distributive Policies

In Europe, the tendency in recent decades to make institutional pre-distributive reforms has been characterised by a series of changes of a liberal nature, which are leading to an increase in social inequalities in the labour market. Pre-distributive inequalities are reflected by the increase in the labour Gini Index. The trend can be summarised as a transition from *the socialisation of protection towards the individualisation of risk*. This implies a change in the principles on which the socialisation of risk has been upheld, whereby we could be witnessing a paradigm shift towards pre-distributive policies, rather than post-distributive ones: in short, a shift from the benefactor-protector paradigm to the Active Social State paradigm (Vielle et al. 2006; Boyer 2005; Cassier and Lebeau 2005).

Regarding the first question asked at the beginning (*What are the institutional mechanisms for coordination between the labour market and social protection?*), we can conclude that the coordination mechanisms are the level of collective bargaining and its degree of centralisation, as well as state regulation. We conclude that

Table 2.9 Comparative overview

Social model	Dominant form of coordination of micro-interactions	Source of complementarities	Re-enforcing mechanism of stability	Organizational	Collective bargaining System	Coverage of collective bargaining	Unemployment protection	Social expenses	Informal employment	Gini index
Coordinated market economies	Autonomous coordination among social actors	Bottom-up induced; top-down	High permeability of political system to domestic coalitions	Employers: strong and well-organised in sectors. Unions politically strong and well-articulated organisation	Centralised at pick level	High	High	High	Very low	Low inequalities
Liberal market economies	Market Segmentation of labour market	Market-induced coherence across policy arenas	High penetration of policymaking by exogenous economic forces	Employers fragmented; Unions strong at firm-level, but fragmented and politically weak	Decentralised at company and grant level.	Low	Low	Low	Medium	High inequalities
Mixed market economies	Mixed (autonomous coordination) with higher impact of regulation and state mediation	State regulatory changes aimed at correcting coordination failures and dysfunctional	Gate-keeping role of the state: veto power of domestic actors	Employers fragmented. Unions politically strong but fragmented and weakly articulated	Centralised and sectorial level	High	Medium	High	Medium	High inequalities
Structural heterogeneity	Autonomous coordination, but low impact in economy. High informal and fragmented markets; individualization. Atomisation of industrial relations	State regulatory with low capacity of control	Strong instability; complex governance	Strong Dualization: Regulated and informal employment. Employers fragmented. Unions fragmented. But politically strong (Argentina, Uruguay; Brazil). Chile: weak unions at peak level; strong at firm-level	Heterogeneity sectorial level (Argentina, Uruguay). Company level (Chile, México)	Low	Low	Very low	Very high	Very high inequalities

a social model is defined by the way it coordinates between pre-distributive and post-distributive policies, which has led us to view collective bargaining systems as important for reducing inequalities in the labour Gini. Wage coordination through collective bargaining (and extensive coverage in terms of the number of protected workers) introduces egalitarian wage patterns, as has been demonstrated in Scandinavian countries, which have been classed as strong neo-corporatism. The virtuous circle in these countries consists of a high volume of public employment (derived from the Welfare State), which in turn leads to high rates of union membership, which then puts political pressure on redistributive institutions. The experience of these countries shows that the centralisation of collective bargaining has an effect on redistribution and the coordinated economy model (Hall and Soskice 2001; Molina and Rhodes 2007).

The state's role is also important in the absence of a Neo-corporatist Social Partnership. In Spain and France the state plays an important role by granting *Erga Omnes* status (general effect) to collective agreements with the force of law, which is a way to influence wage behaviour and to align and coordinate salaries with the goals of economic policy.

Regarding the second question (*How have inequalities been managed between 2007 and 2017 in the European and Latin American countries that participated in the INCASI project?*), we have shown that liberal regimes are more unequal. But we have also found that informality contributes to inequality, without countries like Argentina, Uruguay and Brazil necessarily being classed as ultra-liberal. But there is no doubt that informality is also a form of *disorganised capitalism*, where market logic and the subsistence economy prevail. Disorganisation and non-coordination of wages has similar effects to those in certain liberal regimes. The effort to reduce inequalities not only depends on 'institutional arrangements' (Hall and Soskice 2001), but also on the economic cycle, as has clearly been demonstrated. On the one hand, inequalities in European countries increased during the Great Recession while, on the other, economic growth in Latin America has helped to reduce both types of Gini Index, although major inequalities continue to exist. However, the inequality problem is structural. We note that Piketty (2014) pointed out the existence of structural factors that generate inequality when considering the influence of such variables as education, vocational qualifications, technological innovation, segmentation, (weak) redistributive institutions, collective bargaining, labour contract regulation and the minimum wage, among others.

By way of contrast between Europe and Latin America, it is Europeans (Schwartz 2007) who have historically accepted the state's role as a corrector of the inequalities and imbalances generated by the market. This is an important point of difference with respect to the United States and Latin America, although in Argentina and Uruguay the state does still seem to be an important factor for regulating the economy and welfare (Del Valle 2010).

2.5.2 Discussion

The debate on the mechanisms for coordinating the labour market also touches on the varieties of capitalism and particularly two opposing models: that of Germanic neo-corporatism and that of Anglo-Saxon capitalism. Germanic capitalism is based on the idea of ‘*social market economy*’ that is included in the constitution of several European countries. Meanwhile, Anglo-Saxon liberal capitalism takes its inspiration from the politics of ‘*market discipline*’. The debate is not only economic between coordinated and uncoordinated economies, but also a political and moral one. These two orientations also lie behind the policies being discussed today in Latin America.

The divides between formal and informal employment are huge in Latin America, which weakens the pre-distributive process itself, as a huge contingent of workers are left out of the protection system, which must then be compensated in post-distributive processes. The informal economy weakens the capacity to fill the coffers of social protection. The neo-corporatist coordination model cannot be exported as the ‘*ideal type*’ to other countries because coordination requires connected and coordinated social agents (unions, employers), with the capacity to be representative of their social masses. Coordination can also be exercised by the state, but this requires the means and mechanisms for the control and inspection of labour.

The different models are not static. They are dynamic and are gradually changing as a result of liberal, neo-liberal or social-democratically inclined reforms, depending on the countries and their current situations. The trend is marked by a micro-economic orientation (Pedersini and Leonardi 2018), towards the decentralisation of collective bargaining, towards workfare and towards active policies. In short, towards the so-called Active Social State (Vielle et al. 2006; Boyer 2005). But there are also other trends that are headed towards the introduction of guaranteed universal income, conditioned income and raising the minimum wage. These political dilemmas are not isolated from the degree of potential social conflict, which is the other side of the coin. Consensus on order depends on balances that are closely related to cohesion and social integration. Consensus on social order depends on social institutions and not the market.

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