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**THE EU AND THE US:
DIFFERENCES IN IDEOLOGIES OF POLITICAL
ECONOMY AND ECONOMIC STRUCTURES**

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INTRODUCTION

STRONG SIMILARITIES

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Introduction

There are many different ways that countries may organize their political and economic institutions. Here, we compare and contrast the European Union and its constituent countries with the United States. One of the key structural differences between the two entities (the EU and the USA) is that the EU is not officially and fully a federation. So, it may seem unfair to compare the two entities in a sense, as one is a federation that is over two hundred years old and the other is a more recent entity that is not a fully developed federation.

There are many other features that make the two entities difficult to compare. For example, the Byzantine decision-making in the codecision legislative procedure of the EU makes the making of policy in the USA seem simplistic. There are other features that are present in the EU that compare to the USA quite starkly, such as the presence of monarchies and aristocracies in some EU member states and multi-party systems in the EU, while the USA had intentionally eliminated vestiges of feudalism although its public has a very limited realistic choice in parties on election day. The level of centralization of spending is very different as well. For example, in the USA, federal government expenditures account for about 58 percent of all governmental spending (US Government Spending 2014). The EU analog to that is much lower (about 2 percent) (European Commission 2014), largely due to the fact that entitlements (pensions, healthcare...) and many other non-agricultural expenditures are the responsibility of the governments of the member states of the EU. Despite these differences, there are some comparisons that can be made in regard to the differences and similarities regarding economic structures and the prevailing economic philosophies of elites and populations in the EU and USA and their constituent states.

Here we investigate the economic differences and similarities between the two units (the USA and the EU). First, we delve into the similarities of the two entities in terms of economic outcomes and structural similarities in the economies. Then, we look into the differences between the two entities, first based upon the style and structures of economic governance and management and then upon the prevailing economic ideology underpinning their different visions of economic governance. Finally, we conclude with some comments upon how the prevailing ideology of political economy seems to play a role in the forms of economic management used and the trajectory and success of each particular approach to the management of a political economy.

Strong Similarities

Despite the cultural and political similarities between the two groupings (the USA and the EU) there are also noteworthy economic similarities. First, both the USA and EU illustrate high levels of human development, although there is a great deal of geographical variation within the USA and EU. In addition, both the USA and EU have a major economic feature which means that much of agriculture is effectively off the market mechanism. So, although the populations of the USA and EU are generally richer than the rest of the world's population, they also have a feature in that agriculture operates within a highly distorted agricultural market.

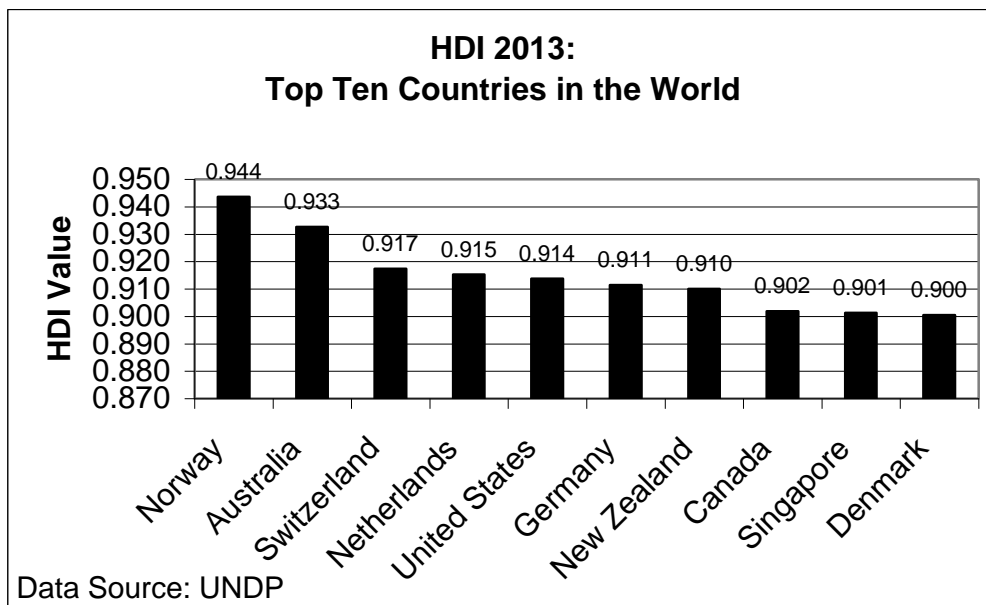
High Levels of Development

The USA and EU have many similarities relative to much of the rest of the world. Indeed, as members of the West, they both express similar Western value systems that include references to the legacy of Greek and Roman thought, the separation between secular and spiritual hierarchies, rule of law, and a stress on importance of the individual, among other things (Huntington 2011, pp 69-70). So, there is reason to believe that there would be economic similarities based upon common civilizational

understandings. Apart from that, one of the major things that make the EU and USA similar to each other in an economic sense is the high standard of living achieved and some other economic similarities that make them quite different from many countries in the rest of the world.

To begin with, the USA and EU have populations that generally experience a higher level of human development than most of the rest of the world, although there is variation within the units in terms of the level of development achieved. The high level of development can be measured and contrasted with the vast majority of the rest of the world's population in many ways. Virtually every aggregate descriptor of the EU and USA will put the populations in these countries/entities at the top of the list of developed populations.

One popular way that is used to measure the level of development of a country is the UN's Human Development Index (HDI). The HDI is an index developed to measure the level of development for all the countries of the world. The data below illustrates that while the top ten countries in terms of human development, according to this particular measure are not entirely EU countries and the USA, the USA and the major economic powerhouse of the EU (Germany), as well as two of its EU neighbors, make the top ten list. So three of the ten most developed countries in the world, according to this measure, are EU member states and one is the USA. Although all of the variation in terms of economic development within the USA is lost, as the data are reported by country, a great deal can be shown from the data. What is additionally interesting about these data is that three of these countries in the top ten list are linked closely with the EU and USA via free trade areas.



Many other indicators of economic development would show much of the same, as would many political indicators. For example, a ranking of the most democratic countries in the world which is done by the Economist Intelligence Unit typically features many of the same states in the top ten as in the figure above. Variations in the EU and US are not shown by the data as there is significant variation in the constituent political entities with Bulgaria (HDI=.777) as the poorest of the EU member states and Mississippi the poorest state in the USA.

Subsidized Agriculture

Highly subsidized agriculture is a standard in all developed countries. What this means, to a great extent, is that much of the food and foodstuffs that are produced are effectively shielded from market forces. While much the same can be said about many developed countries (Norway, Australia, New Zealand, and others), the EU and USA remain major supporters of subsidized agriculture. There are many reasons to subsidize agriculture (whether out of ideology, the need to preserve a certain type of agriculture, or the desire to have some level of agricultural self-sufficiency) but the effective outcome is that agriculture remains largely off the market mechanism, especially for such critical sub-sectors

of agriculture as grains (wheat and maize), dairy, and meat. For the EU, this is a critical problem and issue, as about 40-45% of the EU budget is designated for the Common Agricultural Policy. It is such a problem for the EU that the problem of what to do with lakes of wine and mountains of butter is problematic, as Kennedy (1993) pointed out. It remains a major problem, especially for the EU (Fagge 2009) but other developed countries have many of the same issues.

Startling Differences

Despite the fact that there are these very general economic similarities between the USA and EU, there are also major differences. Here, we discuss the very real differences, some of which are more obvious than others. We begin by looking into the basic aspects of economic structures in the EU and USA, illustrating that public ownership and control are far more commonplace in the EU than in the USA. Then, we look into military spending, showing that the USA is in a league of its own. We then look into economic inequality in the USA and the differences in the welfare state types. Finally, we investigate the underlying differences in the prevailing understanding of how a political economy should function.

Economic Ownership Structures

To begin with, Europeans generally face economic structures that were developed in ways to make sure that the state plays a leading role in the economy and society. For example, while in the USA the company running the railroads is Amtrak, a private entity, the trains carrying passengers in EU countries are typically owned by the state. Part of the paradox that is not missed by many is that Amtrak and many other privately-owned things in the USA run on subsidies from the government. However, the prevailing philosophy of the government and society works in ways to ensure that these types of habitual economic losers on the free market (including car manufacturers and some other businesses) work in

ways that ensure that the government will continuously support them despite losses. This is sometimes pejoratively referred to as “lemon socialism,” where losses are socialized and profits are privatized.

For Europeans, such thinking would be generally unacceptable, as many of the industries that are habitual losers have the government as an owner. Instead, in the EU public ownership of many enterprises is a given, even if there is a movement towards privatization of many services, meaning that riders on state-owned railroads in the EU may face some advertising in the trains and will have privatized businesses functioning in the train stations. The movement toward privatization in recent decades was most notable in the UK and met with a great deal of public resistance. But then, the state in the UK, relative to the USA, had a great deal that it could privatize, as public ownership was so widespread.

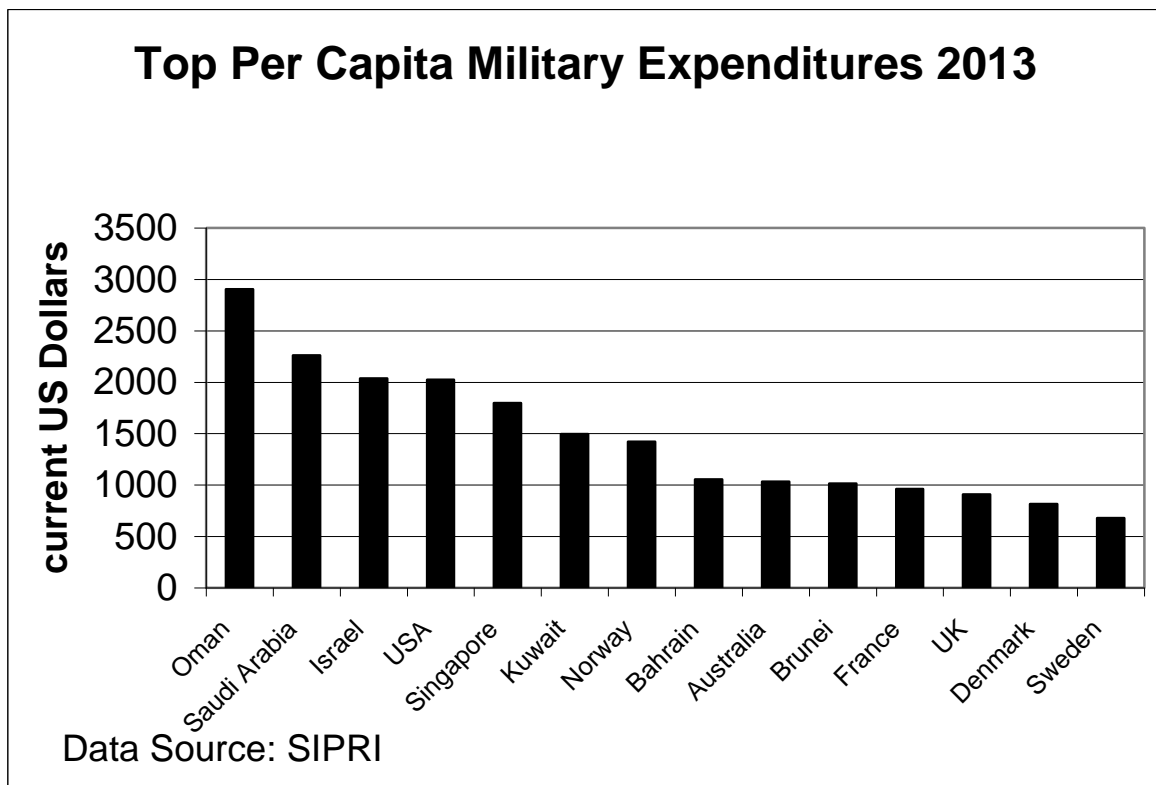
To illustrate that economic structures in the USA and the EU differ so much, it should be noted that the military in the USA is relatively privatized. There has been a long history of privatizing governmental services in the USA since the 1990s, with one of the interesting trends being the privatization of the military. In the course of fighting wars in Afghanistan and Iraq, the USA’s military became increasingly privatized (Walker 2008). While this has caused a great deal of confusion and legal complications/difficulties in some instances, the privatization seems to be something that the political establishment does not want to backtrack on. Some EU member states have outsourced some of their military services and such but it is unlikely that any measure would indicate such a privatized military as the US’s. For example, for US forces in Afghanistan in 2010, there were 94,413 contractors and 91,600 troops (Dunigan 2013). It is unlikely that many EU militaries would have such extensive privatization that private human resources would outnumber government forces on the ground in a warzone. Privatization of prisons in the USA is

also quite advanced, with about 19% of the federal prisoners being held in private prisons (Carson 2014).

One thing that surprises many in the USA and the rest of the world is that the Federal Reserve Bank is a private thing. It was brought into being in the early part of the 20th century. While the Federal Reserve Bank (“the Fed”) is sometime described as just as “federal” and “Federal Express,” it plays a major role in regulating the economy, despite its questionable constitutionality. Its independence and private ownership make it seem odd to many citizens, as it looks and sounds like a federal agency, but it is not. Central Banks in the EU tend to have more public involvement and are mostly less independent than the Federal Reserve, although Austria and Germany’s central banks are generally thought to be independent much like the Fed, although with the advent of the euro, they may not be as relevant as the Fed in the USA.

US: Massive Military Expenditures

One thing that diverts a great deal of public spending on welfare goods and investments in such things as education and infrastructure in the USA is the massive amount of public funding that is earmarked for military purposes. The USA is responsible for about a third or more of global spending on the military for a population comprising a little less than 5% of the global population. What is also interesting is the per capita expenditures, relative to the EU and its member states. The figure below illustrates the per capita figures in current US dollars for military spending in 2013, as reported by the Stockholm International Peace Research Institute.



The data show that the countries that spend the most on the military per capita are Oman, Saudi Arabia, and Israel. So, the top spenders per capita are two oil-rich rentier economies in the Middle East. For these petroleum exporters, the state is presumably paying for its military via the sale of petroleum. The third biggest spender, Israel, is a state with a very precarious strategic position.

This makes the USA the biggest spender per capita on a military in the West.

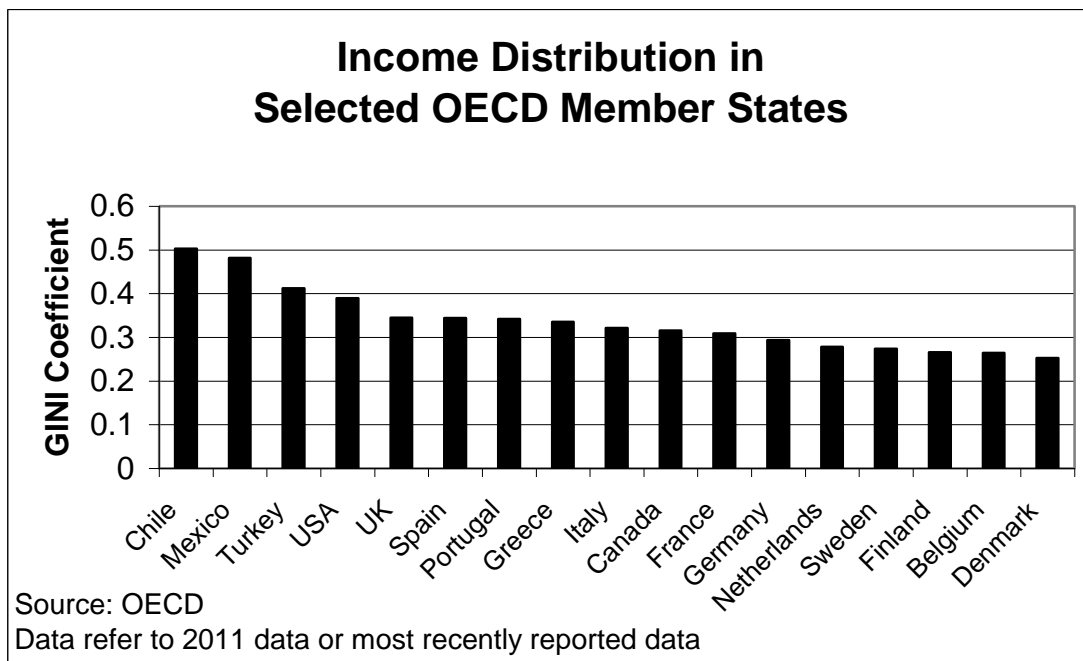
In comparison, EU member states are nowhere near as generous in terms of military spending, as the figure shows. So, European governments spend half or less per capita on military expenditures as their counterparts in the USA, meaning that US military spending is in a different league from that of EU member states. Economically, this means that the massive military spending of the USA makes the US economy qualitatively different and to a large extent creates a system of "military

Keynesianism,” as Chalmers Johnson (2008) referred to it. It is a system in which the economy builds up great amounts of debt and distorts the economy into a permanent wartime economy. The USA has this feature in its economy, in contrast to its counterparts in the EU.

The military expenditures of the USA obviously squeeze out funds for civilian purposes. According to SIPRI, the USA spent 10% of government expenditure on the military in 2013. Corresponding figures in the EU are much lower, with the largest EU equivalent being the UK and Greece, spending 5.2% of government expenditures on the military. Other EU member states spend much less, presumably, as they invest in other types of spending (welfare, education, and infrastructure).

Inequalities and Welfare States

The outcomes of the economic situation in the USA and EU member states are different in terms of the distribution of wealth. Below, the graph shows that the only countries that are more unequal than the USA, in the OECD are Chile, Mexico, and Turkey. While some member states of the EU are not far from the inequalities of the least developed members of the OECD in an ordinal measure of the inequalities of OECD member states, the drop off is quite significant between the USA's .389 and the most unequal EU member state the UK (with .344). What is interesting and paradoxical about this figure is that the UK with a monarchy and sizable landed aristocracy has more equality than the USA, a republic with no recognized aristocracy. What is also noteworthy is that levels of development seem to be linked with less equality, as Spain, Portugal, and Greece show levels of inequality that the wealthier and Scandinavian states of the EU do not exhibit.



What underlines the interesting data on inequalities between the USA and the EU is that in the USA, it seems that inequalities are tolerated. While the level of inequality of the USA may seem rather mild relative to Latin American countries, but in comparison to other developed countries, the inequalities are rather large. There seem to be cultural reasons for the permissiveness of this (Porter 2012) and there are scholars who investigate this phenomenon and try to understand why this occurs in the USA (see, for example; McCall 2013; Massey 2007). The ultimate reason that the citizenry and political elites are permissive of the inequalities in the USA may be disputed and will likely be researched for many years to come but the fact remains is that this seems to be a feature of the USA's polity and society that will not go away any time soon. An interesting note to this is that President Obama in 2011 asked a gathering of historians to find a phrase that he could use to discuss inequalities without being accused of inciting "class warfare" Zelizer (2012), showing that such discussions by many in the USA are deemed unacceptable in public debate.

Another key difference between the US and EU is the size and scope of the welfare state, as there is a link between inequalities and the size and model of the welfare state. While the US has gone through periods in which its welfare state has been bigger and is currently operation on a much leaner welfare state than was the case in the 1970s, it was always working under a different logic than the prevailing welfare state structures of the EU countries.

According to the leading scholar in the welfare state Esping-Andersen (1990), there are three prevailing styles of the welfare state (the liberal, the socialist, and the conservative). The intents and structures of the welfare state are generally based upon one particular philosophy. The conservative welfare state and the policies emanating from it at designed to reinforce and guarantee the general stratification of the society and maintain the economic, social, and political *status quo*. This is very different from the socialist approach which creates a regime and programs with the intention of creating a more equal society. However, the liberal approach generally builds a regime that places the market in the limelight, assisting it in providing welfare solutions, correcting market failures, and providing welfare goods, when all else fails.

What is noteworthy is that Anglophone countries seem to have an attachment to liberal approaches in terms of providing welfare solutions. While many predominantly Anglophone countries have welfare states that usually prefer to feature markets as solution to welfare problems, there are other logics that may interfere in the functioning of a welfare state that works purely on the logic of liberalism. For example, the prevailing logic of the Canadian welfare state is liberal but the way that healthcare is supplied to its citizens is clearly socialist in nature. It is not coincidental that it was incorporated into the Canadian welfare system by the social democratic politician Tommy Douglas.

The welfare system in the USA is clearly liberal in nature, focussing upon the market as the source for the solutions, correcting markets to enable solutions to be made, and with the state providing the good, if all else fails. For example, the federal government encourages citizens to be generous by offering tax relief for giving money to charities. The logic is that the government gives an incentive so that citizens will therefore give to charities, so that the government will not have to supply welfare goods, as charities fuelled by the charity of citizens will do the job that the government may otherwise have to do.

There are other market failures that in the USA are fixed with market-oriented solutions. While the private sector generally fails to supply unemployment insurance, the federal government in the USA forces employees to pay into an insurance fund. Thus, while such insurance may not exist without the government forcing it to happen, there is forced savings into a fund to enable payouts when a person is unemployed. In addition, although markets may not be very good at supplying educational loans to teenagers with no collateral or housing loans to the poor, institutions were created in the USA such as Fannie Mae and Freddie Mac to alleviate some of these concerns.

In contrast, countries in the EU have institutions that were largely developed in ways to ensure that either the society remained stratified the way some desired it (conservative regimes and programs) or in ways to ensure equality (socialist regimes and programs). It is no coincidence, then, that Scandinavian countries have high levels of equality relative to much of the rest of the world, as the welfare state there was developed in ways to ensure a certain level of equality. It is no accident of history that equality of the population in the EU is more equal than in the USA, as social democratic parties have been influential in the Western portions of the EU following the Second World War. They have influenced the welfare state in many countries to ensure more equal outcomes and many of the

same core values of economic equality were consistent with many of the programs and welfare regimes championed by the other influential Marxists in Europe, the Communists.

So, much of the inequality of the USA is attributable to not only the size of the welfare state, which is much less massive and inclusive as the typical welfare regime in the EU but also to the underlying philosophies involved in the welfare state. For example, while in the Netherlands disabled citizens get subsidies to visit brothels up to twelve times a year, such a policy in the USA would be unthinkable or laughable. But it is not just in the Netherlands where there is such an anomaly. Government funds are used to send disabled people in the UK to enable them to have a sex life (Sims 2009) and Scandinavian governments regularly offer orthodontic treatment to its citizens at state expense. The difference is that in many EU countries, welfare states are so large, well-funded, and work on the intent that equality should be the outcome, or part of the outcome. Perhaps, if the USA had a strong and influential social democratic party, its welfare state would change and there would be further redistribution of wealth to the poorer segments of the society.

Underlying Philosophy of Political Economy

What really makes the USA and the EU different is a difference in the underlying faith in markets and market solutions to social, political, and economic problems. While the EU's political elites have to a large extent placed their fate at the mercy of markets, they have not done so with the vigor and devotion of their counterparts in the USA. In the USA, the ideology of liberalism is very powerful, probably because of an Anglo-Saxon predilection to markets as well as a lack of a strong and influential social democratic party. While in the USA there had been a period in which socialists made inroads and were influential in the political arena, they never quite bounced back from the period during World War One when they were arrested and intimidated out of the public discussion. The

anti-Communist fervor and the intimidation by the political authorities following World War Two played a large role in terms of limiting public discussion regarding political solutions and made anything that seemed socialist or Communist to be discounted from viable political discussions. Unsurprisingly, the orientation of the public and the elites in the USA was largely centered upon liberal solutions to political and economic problems, with some room for maneuver via Keynesian solutions. Occasionally, programs were developed to deal with emerging problems and this has resulted in state subsidized healthcare for the very poor and the elderly, as well as a bunch of other "New Deal" programs.

The outcome of the devotion of the USA's population and elite to the wisdom of the market comes out sometimes in interesting ways. For one thing, the federal government in the USA does not stipulate how long employees should have for yearly vacations. Europeans, on the other hand, often have government regulations that stipulate how long each employee is guaranteed to have in terms of vacation. This is an indicator of the faith that the authorities have in the USA for the liberal system in which each employee makes a contract with an employer in a free labor market. What is interesting too is that this is reflective of the belief that the government should not be unduly involved in the affairs of employers. This system is unthinkable to most Europeans who would expect authorities either at the EU or country-level to implement regulations that ensure a certain base amount of holiday time per year. But then, these countries have had a long tradition in terms of non-market thinking with socialist and communist parties working in conjunction with trade unions to ensure regulations to give the working population a desired quality of life. Such thinking is very foreign to the population in the USA, for the most part, as the organization and impact of trade unions and political parties were not aligned as they were in Europe following World War Two.

Because of their faith in the importance of the market, the US population works much longer working hours than the population of Europe. Labor productivity in the USA is higher and has increased in recent decades but EU productivity has dropped (van Ark *et al* 2008). But that should not be a surprise, as workers in the USA work more days a year, in accordance to the demands of the market.

Conclusion

When the surface structures of the economy are stripped away, we see that the basic differences between the EU and USA are largely ideological. While in the USA, the political establishment and public demands and expects market-based solution to problems, Europeans are more willing to look at political solutions. There is a massive blind spot in the US in terms of markets, as in the USA military expenditures and agricultural subsidies are largely expected to be independent of markets. However, for everything else, it seems, the population and political establishment in the USA expects to use market-based solutions to economic, social, and political problems.

There are benefits to market thinking, as the USA shows. While the EU's populations are largely expecting the state to do the job of caring for the society, the USA's population is expected to do its share. So, it is unsurprising that in the USA there are high levels of volunteering and charity, not just because the governments support it but also because it is part of the ethic of the population. The data on public employment illustrate, generally, the USA's dedication to smaller government. The OECD (2013) reports that in 2011, about 14.4% of the USA's population works for government or a public enterprise. In comparison, the corresponding figure for Denmark is 29.9%, for France 21.9%, and the UK 18.3%. The lowest figure in terms of public employment is Greece, with only 7.9% of the population working for the government. One thing that

probably inflates this figure for the USA a great deal is its large military (about 1,400,000 in active service) and multiple levels of government (federal, state, country, and others). In addition, the USA's figure is also somewhat inflated since it has the highest incarceration rate in the world. Although a large minority of prisoners are held in private prisons in the USA, a sizable public workforce is needed to guard the more than 700,000 people in prisons throughout the USA's federal, state, and other detention facilities.

Much of the differences are not just dependent upon the desire for the EU's population to seek statist solutions to solve problems, but also the alienation of statist thinking from the political arena in the USA. While in the EU, Marxist parties over the decades have offered various solutions that include public ownership and redistribution of wealth to the poorer segments of the population to social and economic problems, such an ideological approach has been forbidden in the USA. For the most part, the population in the USA is faced with two liberal parties in a two-party system, one the radical liberals (the Republicans) and one the moderate liberals (the Democrats), as other political parties have been marginalized. In comparison, Europeans have a wider political spectrum represented in the public debate regarding how to solve social and economic problems.

Future research should look into the benefits of economic centralization, as this is a major feature that the US has in comparison to the EU. While the USA may benefit from an economy of scale with one pension scheme (Social Security), the EU member states deal with multiple different pension schemes and other entitlements for their populations. While much of the EU is integrated into one currency, it is rather interesting that many of the entitlements and elements of the security net remain solely in the hands of member state governments.

There may be times when market thinking is helpful. For example, the political leadership in the USA regularly speaks of lowering taxes or rebates in order to sustain a moderate boost in the economy to increase tax revenues. Such thinking would be alien to many Europeans who would rather simply increase taxes to increase state revenues. There are other things that are largely alien to the statist approach that most Europeans accept, such as the concept of school vouchers (the notion that parents should decide which school their children should attend and the government subsidies to the schools they choose follow the child) and the privatization of pensions.

In reality, different types of solutions are needed for different economic problems. One interesting difference between Anglophone and eurozone solutions to the current financial crisis is rather telling. While the UK and USA simply print more money (quantitative easing) the eurozone response imposes austerity in an effort to oppose inflation. The eurozone's approach seems to be reflective of a German mentality that is historically anti-inflationary while the Anglo-American approach seems to recognize that money is really only a reflection of the imagination of value. The main lesson, really, is that responses to economic issues and the institutions that are built to respond to them are at least a partial reflection of ideological approaches to political economy but also a reflection of historical experiences, including the constellation of political parties and labor unions.

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