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Shareholder protection, income inequality and social health: A proposed research agenda

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ABSTRACT

This paper develops a proposed research agenda in order to highlight how corporate governance, accounting and company law are relevant to the consideration of income inequality and wider social health. To illustrate this proposed research agenda, this paper draws on corporate governance research in the law and finance tradition, as well as macro-level studies in accounting concerned with the wider corporate governance context, in order to consider the association between shareholder protection, income inequality and child mortality. Under 5 child mortality is an objective indication of a country's ability to nurture its children. In an influential body of work, La Porta et al. (1997a, 1997b, 1998, 2008) concluded that a common law legal system which protected the interests of shareholders gave rise to better economic and social outcomes. However, drawing on corporate governance and accounting literature we contend that such a conclusion is flawed. The findings of this paper suggest that common law countries (i.e. those with the greater legal protection for investors) have worse social outcomes in terms of under-5 child mortality.

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1. Introduction

In the past 40 years, there has been a strong increase in income inequality within OECD countries – a trend which is much more striking in the Anglo-Saxon economies (Alvarez, 2016; Atkinson and Piketty, 2007; Dore, 2008; Dünhaupt, 2013; Lapavitsas, 2013; Stockhammer, 2012). For example, the OECD (2011) reports that the average income of the richest 10% of the population in the US is around 14 times more than that of the poorest 10%; the equivalent figure is 10–1 for the UK. In a somewhat more striking account of income inequality in the US, Stiglitz (2012) states:

“[B]y 2007 the average after-tax income of the top 1 percent had reached \$1.3 million, but that of the bottom 20 percent amounted to only \$17,800. The top 1 percent get in one week 40 percent more than the bottom fifth receive in a year; the top 0.1 percent received in a day and a half about what the bottom 90 percent received in a year; and the richest 20 percent of income earners earn in total after tax more than the bottom 80 percent combined” (see also, Piketty and Saez, 2003 and Atkinson and Piketty, 2007).

This scale of economic inequality has prompted concern across the disciplinary spectrum – with political philosophers highlighting worries about the corruption of the political process (Sandel, 2012; Scanlon, unpublished); economists noting an

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increase in unemployment as the result of decreased demand (Stiglitz, 2012); epidemiologists and public health researchers pointing to the link between inequality and poor health outcomes – including increased child mortality rates, reduced life expectancy, drug and alcohol addiction, depression and obesity (Kahn et al., 2000; Subramanian, Belli, & Kawachi, 2002; Wilkinson, 2005; Wilkinson and Pickett, 2009). In the accounting domain scholars have noted that “everyday accounting practices are deeply implicated in the inequitable distribution of income and wealth” (Sikka, 2015; see also, Froud, Sukhdev, & Leaver Williams, 2012; Hopper, Lassou, & Soobaroyen, in press; Palea, 2015). In recognition of the role of accounting within the wider institutional context, a number of accounting studies have undertaken macro-level analyses to problematize the Anglo-American capitalist model (Collison, Dey, Hannah, & Stevenson, 2010; Froud, Leaver, Williams, & Johal, 2006) and neoliberalism (Guénin-Paracini, Gendron, & Morales, 2014). For instance, in Erturk, Froud, Johal, Leaver, & Williams, 2012 analysis of the post financial crash period, the authors highlight the failure of GDP as an indicator of success and call for accountants to join efforts to create “new measures and concepts of success” (p. 5).

The present paper makes an explicit link to the epidemiological literature concerned with the social determinants of health (Marmot, Bell, Houweling, & Taylor, 2008), by considering how certain corporate governance mechanisms (in particular, the protection of shareholders in company law), may have a bearing on income inequality and health outcomes. In doing so, the paper makes a contribution to the accounting literature in two ways. Firstly, the paper specifically addresses Merino, Mayer, & Tolleson, 2010 call for accounting academics to “examine the socioeconomic impact of. . . the traditional [Anglo-Saxon] corporate governance model on the lives of ordinary people” (p775). In this respect, the paper contributes to extant macro-level studies in accounting that explore the wider institutional governance context and call for corporate governance and related accounting policies to “be judged against HDI [Human Development Index] goals” which are more adequately equipped “for the realms of civil society, ecology, politics, inequality, gender, health and education” (Hopper et al., in press; see also, Collison et al., 2010; Collison, Cross, Ferguson, Power, & Stevenson, 2012; Erturk et al., 2012; Froud et al., 2006; Guénin-Paracini et al., 2014; Morales, Gendron, & Guénin-Paracini, 2014).

Secondly, this study also contributes to the accounting literature on “silent/shadow” accounts (Collison et al., 2010; “counter accounts” (Gallhofer, Haslam, Roberts, & Monk, 2006) and “macro” social accounts (Cooper, Taylor, Smith, & Catchpole, 2005). This literature provides examples of, and a theoretical basis for, alternative accounts that offer new insights into various aspects of an entity’s performance. As Collison et al. (2010) note, at a more ‘macro’ level, the ‘entity’ could be defined in a range of ways, including, for example, the level of the state. In this respect, an alternative social account may draw on social indicators (such as the HDI or sustainable development indicators) to problematize the performance of the state or governance regime”

It is generally agreed that a clear link exists between a person’s socio-economic background and their health (Lynch et al., 2004; Marmot, 2010). For example, Lynch et al. (2004) note that “at the individual level, higher incomes – and other markers of socioeconomic circumstances – are associated with better health”, including life expectancy, infant mortality and mental well-being. As Rowlingson (2011) highlights, the link between income and health at the individual level (within societies) would suggest that there is also “a link between average income and average health at the societal level (that is, when comparing data between societies)”. However, in developed countries with an average income above a certain level – the epidemiological divide – variations in a population’s health are “not as tightly linked to average income” (Lynch et al., 2004; see also Rowlingson, 2011). It is this “unexplained variation” in average levels of health across richer countries which led to the suggestion that the distribution of income, or income inequality, could help explain why some countries have, in aggregate, poorer health outcomes than others (Lynch et al., 2004; Rowlingson, 2011; Wilkinson, 1992). Put simply, what has become known as the “income inequality hypothesis” argues that the more that the distribution of wealth is skewed in a society, the poorer the average health of individuals will be.

As Coburn (2004) points out, while there is a burgeoning literature on the consequences of income distributions for health, there tends to be less concern within the epidemiology literature on the “production of inequalities”; this difference in concern is somewhat puzzling, given that “the extent of unequal distribution comes from somewhere” (Lynch, 2000). In attempting to identify the “somewhere”, Coburn (2004) presents a class-based model, indicating that “neo-liberalism is associated with greater poverty and income inequalities, and greater health inequalities within nations”. In his analysis, Coburn (2004) suggests that “many other material factors. . . rather than simply income inequality, are central determinants of health inequalities”. Our study complements Coburn, 2004 analysis, by considering the association between legal origin (which is associated with specific approaches to corporate governance) and income inequality, and one specific measure of social health – child mortality.

We believe there is good reason to postulate that legal origin and the legal protection of shareholders has a bearing on both income and health inequalities. As Burris, Kawachi, and Sarat (2002) note:

“law is implicated both as a shaper of society as it exists and as a means of reforming it. . . law operates through norms, attitudes, and beliefs to shape social relations, expectations, and behaviour”.

In this respect, it is conceivable that “law contributes to the creation, maintenance, and reproduction of social status” and this implies that the legal system (and more specifically, its origin) has a bearing on health at a “structural” level (Burris et al., 2002). Further, corporate law and the assemblage of corporate governance rules, regulations and procedures is variously concerned with establishing the purpose of companies, whose interests they should serve, and the duties and rights of various stakeholders (Tricker, 2000; Sjöberg, 2009). How such issues are resolved has arguably a tremendous impact upon

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