

Dieter Eißel · Ewa Rokicka
Jeremy Leaman *Editors*

Welfare State at Risk

Rising Inequality in Europe

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Chapter 1

Introduction

Dieter Eißel, Jeremy Leaman, and Ewa Rokicka

Abstract The role of welfare states in the European Union is under threat mainly by an ageing society, the harder global economic competition and the economic crisis, which is met by neoliberal strategies. The following introduction provides an overview of the main functions of the welfare state: fighting inequality and social exclusion, guaranteeing social peace, and contributing to economic development. Furthermore, we like to show, that these traditional functions of the welfare state are currently discussed by alternating new concepts aiming at the well-being of the people and the quality of life. In addition, the introduction gives an overview on the different chapters of the book and their specific topics.

Social protection is one of the greatest achievements of human development. However, the universality of social protection and a decisive role of the welfare state in its implementation is threatened. In the era of globalization processes, social modernization and ageing society welfare states are under pressure of transformation. In addition, the economic crisis poses new constraints on social expenditures. Under these circumstances, it is worth discussing about the future of the welfare state, especially about its fundamental institution of social security.

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The universal objectives of welfare states are to prevent extreme poverty and hunger, guarantee social security when there is no market income (unemployment, sickness, old age, accident) by providing substantial welfare support, and also preventing social exclusion, mainly by free access to schools and by eliminating educational disparities; further, the aims are to promote gender equality and empower women, and to reduce the gap between rich and poor people as well as wealthier and poorer regions, and also to ensure fair taxation.

In general, the attempt to alleviate the market impacts resulting from insufficient income positions (see Bismarckian social policy) through welfare state intervention seeks not only to improve the lot of poorer workers but it also guarantees social peace and higher acceptance of the capitalist state by a potentially revolutionary labour movement. The social security system which combats the unwanted effects of the market economy may help reduce opposition or even prevent revolt against the system. It aims to support those who are not able to earn their own living – mainly as a result of ill-health, accident, unemployment and old age. Thus, in many European countries, the major pillars of the social security system have been established. In addition, there is also individual support for people excluded from the labour market and without sufficient income, as a result of the societal goals of the welfare state which are to guarantee social peace in capitalist society. It can be maintained that strong labour movements which have been successful in fighting for better living and working conditions for the working class have at the same time helped to stabilize capitalist society, and they may have done this better than in countries where the labour movement has been oppressed or where it had little influence.

It can be seen that, even without the threat of a strong labour movement, welfare states which fight insufficiently against inequality and social exclusion, may contribute to declining satisfaction and identification with the system and thus have negative impacts on productivity. Conversely, in societies where the workforce feels fairly treated, the percentage of those who identify with their working conditions is higher than in societies where the workforce are treated as mere cost factors. The specific effects of welfare state intervention on productivity should be acknowledged.

The third function of welfare states refers to economic benefits – in contrast to market dogmatism which believes in the passive role of a limited state, i.e. that the absence of welfare states is conducive to economic growth. This neoliberal view neglects the effects of welfare states which engage in sectors more or less neglected by market forces, such as the education of all, whether rich or poor, improved opportunities to combine domestic work and paid work, and a more equal distribution of wealth and income. These welfare state policies aim to create a larger and more skilled workforce and thus increase productivity and, therefore, to improve the demand-side. From a purely economic perspective, as suggested by Keynes, societies with a high degree of inequality have less domestic demand when the rich have higher savings, while poor households do not have enough income for their everyday needs. In contrast, domestic demand would increase through state redistribution, i.e. by taxing the rich and increasing the purchasing power of the poor. However, this strategy based on Keynes' theory was abandoned during the 1980s, and instead, the theories of the so-called Chicago school (Milton Friedman, von

Hayek) were adopted as the dominant economic creed. Since then, the ideological slogan “the market is better than the state” has become the ruling concept in nearly every western economy. According to this neo-liberal concept, social policy and the welfare state is an obstacle to economic progress.

Of course, the economic sphere is of significant importance for the maintenance of welfare. Increasing GDP growth rates make it easier to redistribute market incomes to the poorer households and may guarantee comprehensive social services meeting the demand to fight against social exclusion. Even if the welfare state is more and more addressed to social and cultural factors of wellbeing of citizens, this should not suspend the importance of economic aspects influencing the development of modern social capitalism.

This book will concentrate on the objective of welfare states to mitigate inequality and additionally examine their positive function on economic and social progress. So far we neglect the broad discussion about new role of social security in an ageing society facing relatively high social contributions and expenditures for healthcare and pensions. It will focus on the role of young people and the working generation, while showing that social exclusion and inequality are the main obstacles to better economic development. Thus, it is not only necessary to describe the structures and development of social inequalities, but one must on the one hand discuss the forces which obstruct the performance of the welfare state, while on the other outline the supportive welfare policies in order to respond adequately to the demands of the future.

Thus, the authors of this book recognize social policy not only as demand for solidarity with the poor, but also as an investment in individual and social capital, which will improve economic growth and stability, productivity, international competitiveness and employment. These effects of comprehensive welfare states can be clearly observed by the successful examples of the traditional Nordic model being superior to the British market model. The Nordic welfare states are a powerful denial of the neo-liberal myth that high taxes inhibit economic growth and employment. Just the opposite, their high taxes allow them to finance social protection at a high level, and at the same time go along with economic growth at a decent level and a stable macroeconomic environment, budget surpluses and low public debt. (Amable 2003; Stiglitz et al. 2009, p.197)

So far one of our hypothesis is that the fight against gender and educational inequality is not only an important social goal, but it also contributes to the creation of a more highly skilled workforce which is necessary in view of the low birth rates in Europe, while also providing for the demands of an increasingly knowledge-based economy. Also, better provision of institutional child care will at the same time allow young mothers to enter the labour market; a comparable goal can be found when the EU urges member states to reduce the number of early school leavers to below 10 %. A better educated young generation would have fewer problems in their efforts to enter the labour market, and at the same time it is clear that the young are needed as the future labour force. Furthermore, fighting the widening gap between rich and poor regions or countries is not only a question of solidarity but also a means to avoid the harmful effects of migration in two ways: the depopulation of poorer regions can be seen as a barrier to their future economic

development, as the better educated young move away. At the same time there is the threat of over-agglomeration in the better-off regions, leading to rising traffic problems and increasing housing costs. So far, EU cohesion policies were able to help avoid these problems through targeted regional funds.

Last but not least, serious research and empirical data show that more equality helps to avoid or minimize social problems and thus cause fewer costs than in societies with high rates of inequality. More equality creates better social relationships and less ill-health, while conversely, poor health and social problems are more prevalent in countries with large income differences (Wilkinson and Pickett 2009, pp. 19, 20). Inequality rather than average living standards are clearly related to health and social problems. These correlations are particularly serious in view of a more recent OECD report which concludes: "Inequality has worsened dramatically in most rich countries in recent years and decades" (OECD 2011).

In the late 1970s, the richest tenth of the population in the United States accounted for about a third of the pre-tax income of households, while today this has reached about 50 %. Also, in the late 1970s the top 1 % accounted for less than a tenth of the total income, while today it is about one-fifth. In the mid-2000s the real wage of a typical employee was, despite three decades of economic growth, lower than in the mid-1970s. But in Europe also, with a long tradition of welfare states, inequality has intensified. This development gives cause for serious concerns, because we can see that in unequal societies, there is a clear increase in social, political, and economic problems.

For a long time, social scientists have argued that higher economic growth will contribute to greater welfare for all. Even if the rich became richer, the middle and lower classes would benefit by the trickle-down effect. However, this belief in progress for all has not been fulfilled. "We have seen that the rich countries have got to the end of the really important contributions which economic growth can make to the quality of life and also that our future lies in improving the quality of the social environment in our societies"(Wilkinson and Pickett 2009, p. 272).

Happiness research argues that in an impoverished society, the search for increasing material gain as conventionally measured typically makes a lot of sense. Higher household income generally signifies an improvement in the life conditions of the poor. As incomes rise from very low levels, human well-being improves. Not surprisingly, the poor report rising satisfaction with their lives as their meagre incomes increase. And yet, the conditions of affluence have created their own set of traps. At some point the amount of income barely correlates with increasing life satisfaction. "Countries achieve great progress in economic development as conventionally measured; yet along the way they succumb to new crises of obesity, smoking, diabetes, depression, and other ills of modern life" (Helliwell et al. 2012, p. 4). For a long time, economic growth was considered an engine of progress, but in the rich countries, this drive has now been largely exhausted. Thus, economic growth has not been accompanied by better quality of life or the population's well-being. Even worse, anxiety, depression and other social problems have increased with growing prosperity. And it should not be ignored that the lifestyles of the rich often imperil the survival of the poor. Sharing wealth within society, therefore, could have positive effects on both the rich and the poor. However, the

reduction of inequality by effective public redistribution of market incomes will not happen without an attitude of solidarity within and between societies and is dependent on the existence and proper functioning of a viable welfare state.

Understanding the causes of inequality is fundamental to devising policy measures that can allow the rising prosperity of recent decades to be shared more broadly than has been evident so far. Reducing inequality remains important not just from the point of view of achieving a more egalitarian distribution of income and addressing the welfare and social concerns that widening disparities in income raise. To the extent that rising inequality may reflect a lack of economic opportunity, it may itself limit the growth potential of economies by not allowing all economic agents to fully exploit new opportunities and limiting the productive capacity of an economy by not matching capital and labour as efficiently as possible. Moreover, to the extent that economies are periodically subject to shocks of various kinds that limit growth in the short term, greater inequality makes a greater proportion of the population vulnerable to poverty. Finally, rising inequality, if not addressed, can also lead to a backlash against economic liberalization and protectionist pressures, limiting the ability of economies to benefit from globalization. (Jaumotte et al. 2008, pp. 3–4)

Reducing inequalities, promoting social inclusion and building of social capital thus should be on the agenda. A universalistic system of solidarity has a positive effect on the level of social trust, which is the main dimension of social capital having a positive impact on economic development. Even if there are difficulties to empirically evaluate this impact of social capital on economy there is some reasonableness. As Putnam has shown in his path-breaking analysis of Italy in his book ‘Making Democracy Work’ (1993), mutual trust, networking, horizontal boundaries, reciprocity, partnership, and empowerment support economic success. Furthermore, regional identity and joint projects can help to minimize conflicts within regional groups and can lead to constructive collaboration aiming at the advantage of the entire region (Keating et al. 2003). Of course, the benefits of social capital are not limited to economic effects but extend the quality of life of individuals and groups.

At least since the report of the French Stiglitz-Sen-Fitoussi Commission (established in 2008 by the French government), GDP as established indicator for economic and social progress underwent heavy critics and initiated the search for more relevant indicators. It is necessary to distinguish between assessing current well-being and assessing sustainability, so the question is whether and to what extent the social relevance of capital (natural, physical, human and social capital) will be passed on to future generations. The current well-being includes both tangible assets such as income, consumption and wealth as well as intangible aspects such as the availability of leisure time, social relations, environmental quality and political participation. The areas of economic performance, quality of life and sustainability are measured by different indicators (Stiglitz et al. 2009). Since the publication of this final report of a French commission, a global movement to re-measure social welfare has begun, carried out by policy makers, statistical offices, international organizations and initiatives arising from academia and civil society. Currently in many countries there are national round tables officially discussing what progress means for us in the twenty-first century and how we can measure it. Such indicators are important because both decision-makers and

citizens need an accurate compass to identify the social challenges of our time and address them constructively. That is one of the reasons why the OECD launched a new agenda on how to measure well-being in a common way that should be used by all member states. The OECD Guidelines will consider three distinct elements of subjective well-being:

- Evaluative measures, regarding assessments of life overall;
- Affective measures, capturing recent experiences of positive and negative feelings and emotions; and
- Eudaimonic measures, linked to the idea of positive psychological functioning and having a sense of meaning or purpose in life.

Only by using such data, we can see whether our policies are successful or if we move in the wrong direction (Helliwell et al. 2012, p. 166).

The search for alternative measures of wealth came into being in several nation states. The small Himalaya state of Bhutan has changed its constitution, to measure happiness annually instead of showing economic growth rates alone as indicator for progress. Since 1996, for example, the Australian statistical office has developed a system of indicators with the participation of the citizens that summarizes the areas of society, economy and environment in 17 dimensions. In Canada, the discussion of the Canadian Index of Well-Being (CIW) 2011 resulted in an index booklet that reflects a highly aggregated composite indicator of the development of 64 single variables of quality of life. In Great Britain the focus of measuring wealth is on the collection of data on individual well-being. A survey was conducted in 2011 by the UK Statistical Office to re-measure national well-being with the leading question: What is subjective wellbeing and why should we measure it? How is subjective wellbeing currently measured in the UK? In more than 34,000 responses, the following was favoured especially: health, good relationships to partner, family and friends, job satisfaction and economic security, the state of the environment and good education (Matheson 2011). In this sense we have to examine the current developments in the European Union and to review policies with the aim of formulating and implementing them in such a way that they can combat the harmful effects of rising inequality in the member states. A further critical priority for civil society, policy-makers and academics is to initiate a debate about social well-being and societal cohesion as *public goods* and why taxpayers, through their state authorities, finance their maintenance and take pride in their realisation. The absence of that debate, or its suppression in the wake of the neoliberal ‘revolution’, is as much an obstacle to the realisation of a truly transformative social agenda as the institutions and processes that neoliberal reforms of the state have established. The important message that neoliberal critics of the Keynesian state stressed, was that it was wasteful and thus inefficient and that, in consequence, the publicly funded management of numerous social services could be replaced by market operations delivered by private enterprises. The demonization of the state was made easier by the evident problems of both OECD societies and the colossal shortcomings of state socialist societies in central and Eastern Europe. The de-commodification of education, health, social security and basic utilities in

most OECD economies with the help of progressive state administrations after the Second World War was put into reverse with the support – tacit or open – of their electorates in the 1980s and beyond; the collapse of COMECON and the Soviet Union’s dysfunctional ‘empire’ amplified the negative perception of ‘the’ state as unresponsive behemoth, while the privatisation of state enterprises in East and West was sweetened by the inducements of ‘popular capitalism’, by workforce voucher and equity schemes, by cleverly advertised sales of electricity, gas and water shares and the discounted sale of social housing units. Additionally, the ideological emphasis on the individual household’s freedom of choice generated a potent mood of real material progress and consumerist gratification. Furthermore the absence of major societal crises in western Europe for the majority of households before 2008 and the absence of critical social conflict in the transition states of central and eastern Europe encouraged either a firm belief in the new, light-touch neoliberal state regimes or a passive acceptance of the new status quo of re-commodified elements of social and infrastructural provision.

The complacency of policy elites, economic elites and electorates towards the new ‘efficiencies’ of privatised monopolies and, even more worryingly, the shadowy operations of ‘casino capitalism’ (Strange 1986; Tett 2009), was shaken in the wake of the 2008 global crisis, but – hitherto at least – not entirely eliminated. There are the beginnings of real debates about the role of the state, unsurprisingly in view of the enormously expensive salvage operations financed by Europe’s major states to prevent a regional banking collapse. However, given the extraordinary severity of the 2008–9 recessions and the region’s continuing struggle against stagnation and chronic levels of joblessness, the debate is being waged predominantly within civil society, the academic community and some elements of the media. Much of this discussion is focused on the issues of taxation and tax justice, namely on the features of statehood that underpin the viability (or not) of welfare regimes (c.f. Leaman and Waris 2013). A key perception in the debate, whether explicit or implicit, reflects the famous dictum of Oliver Wendell Holmes that taxes were the means whereby we ‘pay for civilized society’.¹ In a recent survey of the surprising resilience of ‘failed ideas’, the chapter by Annamaria Simonazzi calls for a revivification of the debate about the value of the state, of taxes and of public goods which are centrally relevant to this volume on the welfare state; Simonazzi describes the challenge as an educational task:

The understanding of taxes has to be linked to the understanding of services: people have to learn again, that it is their health, that it is education, kindergartens and the care of the elderly, that they pay for. (Simonazzi 2012, p. 201f)

Establishing the linkage between the ambitions of decent social welfare, the fiscal means for financing them and the responsibility of all members of society to support the idea as a public good is an important educational task, to which this

¹Holmes’ statement came in a speech in 1904 and is inscribed above the entrance to the headquarters of the United States’ Internal Revenue Service at 1111 Constitution Avenue in Washington.

volume would also wish to contribute. The severe welfare cutbacks that are being demanded as a means to address sovereign debt problems as the perceived core of the current crisis have, above all, to be set in the context of the astonishing avoidance of tax responsibilities by most major corporations in the world and by many so-called 'high net worth individuals'; the EU's current tax commissioner, Algirdas Semeta, EU Commissioner responsible for Taxation and Customs Union, Statistics, Audit and Anti-fraud, has asserted that the Eurozone is cheated of over €1 Trillion worth of tax revenues through evasion.² This scale of loss is confirmed by several other organisations.³ An additional €1,000,000,000,000 in Eurozone tax revenue would obviate the need for any cuts to Europe's welfare states, reduce states' budget deficits and ensure the maintenance of much of its physical and educational infrastructure. While there are signs that European heads of government would wish to halt the programmatic abuse of tax systems by economic elites, resistance to such reforms is likely to be fierce and supported by the persistent belief in the need for 'lean government' and the 'small state'. The challenge for supporters of progressive welfarism is to persuade both ordinary taxpayers *and* corporate elites that the failure to pay taxes and to finance public goods is both hostile to 'civilization' and economically and politically destructive.

The general aspects of the book concern the concepts of wellbeing and quality of life as better indicators for human development than GDP (Chap. 2). The next Chap. 3 describes the development and extent of inequality and the way the widening gap between rich and poor was produced by means of redistribution policies and market ideology. Chapter 4 deals with spheres in which welfare not only is addressed to fight social exclusion but also helps to gain economic goals (qualified workforce and productivity). Chapter 5 provides a specific diagnosis of the British welfare type and the next chapter can show that even the Nordic states were not free from influences of market dogmatism or the recommendations of neoliberal strategies.

The following chapters concern different examples and fields of inequality inclusive its harmful effects and some considerations about what should improve the situation of the socially disadvantaged groups. We discuss the problematic situations of families, especially of single parents and those with many children in Chap. 7. The difficult transition from school to the labour market is the topic of Chap. 8. Chapter 9 discusses the specific difficulties of early school leavers, and Chap. 10 the function of skills with regard to the use of internet. That even law which has a high rank with regard to the guarantee of equal rights has specific deficits is the topic of Chap. 11. Chapter 12 then discusses inequality in the field of culture and the last chapter provides a critical overview on the public debate and opinion. Readers may find broader summaries in the abstracts which are placed at the beginning of each chapter.

² ec.europa.eu/taxation_customs/taxation/tax_fraud_evasion/a_huge_problem/index_en.htm

³ See among others: Dion Dassanayake in: express.co.uk, May 22, 2011.

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Chapter 2

The Concept of ‘Quality of Life’ in the Context of Economic Performance and Social Progress

Ewa Rokicka

Abstract More and more it is accepted that economic growth measured as GDP will not automatically lead to greater satisfaction in people’s lives. Even the Human Development Report which provides a comparative view of life expectancy, schooling and income in different countries, is not comprehensive enough to describe welfare, well-being and quality of life. To design better strategies for fighting social exclusion and dissatisfaction among people we need better empirical data on objective structures and development as well as on their subjective perceptions. However, the broad concepts of welfare, well-being and quality of life do not enjoy common acceptance within the academic community. Nevertheless, there is progress concerning more appropriate measures for receiving enough information for the public and the politicians to improve the overall situation concerning the quality of life.

2.1 GDP as a Measure of Welfare

It is a widely shared view that a country’s success or failure depends on the its rate of economic development. High growth rates mean improvement in the state of economy, growth in industrial production and exports, also affecting the inflow of foreign investment. It is no wonder that raising GDP seems to be appropriate for every government. However, GDP growth is not always experienced by society as improvement of living standards and human security. Not all sections of society and not all regions of a country may enjoy the benefits of GDP growth to the same extent. Social inequalities might grow, and poverty remains at the same level or even increases in a period of prosperity. Some social groups enjoy improvement in their standard of living, while others fall into greater poverty in absolute or relative

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terms, which may lead to social conflicts and other manifestations of societal dysfunction. Despite economic growth, the quality of life might be endangered by the negative side-effects of increased traffic, noise, congestions in urban areas, crime, environmental damage, and increased stress.

The strength of GDP is its simplicity: the value of all goods and services produced in the country, including the balance of exports and imports, is simply calculated. But simplicity is also a source of weakness. GDP promotes production and consumption without considering the negative phenomena associated with them. Growth increases e.g. as a result of a natural disaster (expenses for reconstruction), war (more weapons are produced), terrorism (increased spending on security), and even traffic jams (increased fuel consumption).

GDP calculation methodology was developed after World War II within the United Nations' agenda by Richard Stone and Simon Kuznets. Both were awarded the Nobel Prize. The methodology is described in the document *United Nations System of National Accounts*, published for the first time in 1953 and amended several times (in 1968, 1993 and 2008). The author of the new economic index, Simon Kuznets, himself talked about the advantages and shortcomings of the indicators proposed in the national accounts as early as 1934, presenting before the U.S. Senate the first draft of the national accounts scheme, including the methods of GDP calculation (Kuznets 1934).

A few decades later, under the influence of neoliberalism, GDP was promoted to the rank of oracle of success or failure of a country's economic policies, best described by the statement W. Arthur Lewis: "the object of our interest should be economic growth, not redistribution" (quoted by Nafziger 2006, p. 15). This goal was generally achieved, but the situation in many other respects deteriorated, in particular, unemployment and poverty increased. The weaknesses of GDP as the most important index of growth and development began to be discussed at the beginning of 1970s. This was a reaction to the disappointment brought by the previous decade in the developing countries.

It is important here to summarize the main objections to GDP.

1. It is distorted by exchange rate fluctuations and differences in levels of development, which result in the different composition of the basket of goods and services and their diverse quality, despite the fact that they fulfil comparable needs,
2. It reflects only those economic activities which are the object of recorded market transactions, omitting a fairly significant range of household production. Thus, the population of poorer countries seems even poorer and the quality of their life seems lower than in reality,
3. It does not reflect the production of the so-called grey economy, notably cash transactions not recorded to avoid taxes. Statistics show that the unregistered economy can range from a few per cent to almost half of GDP, depending on the willingness of the citizens of the country to avoid taxes,

4. It is magnified by types of economic activity which do not raise the level and quality of life of people in the country, such as excessively powerful police force, judiciary, military and other services,
5. GDP growth includes the costs of environmental pollution, urbanization costs, costs of travelling and the associated burdens of life that is the scale of so-called negative external effects of production, which reduce quality of life (Woźniak 2004).

Economists try to distinguish between economic growth and development. They stress that development is a broader concept than economic growth. The basis for distinguishing the two aggregate economic categories is assigning economic growth certain characteristics of qualitative change. These are changes in the political and legal system, changes of an immeasurable nature which affect the economic growth but generally refer to the improvement of widely understood quality of life in a given society.

The discussion of whether GDP is an appropriate measure of economic growth has a long tradition (Constanza et al. 2009). For reasons of lack of space, I will focus attention on recent efforts to construct indicators that would go beyond traditional indicators of national income and per capita GDP in the assessment of development, and would reflect the phenomenon of living standards and quality of life. The fact that knowledge of GDP is not sufficient to assess the welfare of societies is proven clearly by the fact that it does not automatically translate into people's greater access to food and clear water, housing, health care, education, and social security, better realization of human rights and individual well-being of members of society. Furthermore, it does not take into account how income is distributed among different population groups.

2.2 Other Measurements of Welfare and Well-Being

In the research literature, we can distinguish three categories of measurement:

1. Economic welfare,
2. Social well-being and
3. Subjective well-being (Diener and Suh 1997).

The first category concerning economic welfare refers to monetary measurements based on GDP calculations. There were attempts to calculate GDP by removing activities that do not contribute to welfare. At the same time it was postulated to include the value of leisure time and of goods and services, unregistered by the market, such as the work of housewives. Examples of such research include *Measure of Economic Welfare (MEW)* by W. Nordhaus and J. Tobin, *Net Economic Welfare (NEW)* by P. A. Samuelson (Hartwick 1990). Daly and Cobb (1989) produce an alternative measure, formulated on the basis of the theory of sustainable development, namely the *Index of Sustainable Economic Welfare*

(*ISEW*) in which consumer spending is balanced by such factors as: distribution of income, the cost of environmental pollution and other economically undetectable costs.

A modification of *ISEW* is the *Genuine Progress Indicator (GPI)* which has both economic and social dimensions (Talberth et al. 2007). It is based on data on private consumption which are used in determining the level of GDP. In addition, it takes into account the distribution of income, the value of domestic work, the value of the work by volunteers, as well as the costs of crime and pollution. The GPI can be divided into two components: the current economic prosperity measure and the sustainable economic development measure.

The second measurement category of well-being is focused on socio-economic development. Social well-being is calculated on quantitative indicators, where the main objective of its authors is to show the degree of needs-satisfaction. For this purpose, on the basis of measurements of particular needs, aggregates of groups of needs are formed, which in turn can be further aggregated into the form of a single synthetic indicator. An important contribution to the development of this field of research has been made by J. Drewnowski (1970), the co-author of the so-called Geneva method of calculating social welfare, on which the work of the United Nations Research Institute for Social Development was based. They take into account the degree of satisfaction of the needs aggregated into seven groups: food, housing, health, education, recreation, social protection and material standard. By adding up the specific indicators, the living standard indicator is obtained. Similar methods were also used in other countries. In the U.S., in 1966 the Social Indicator Committee was formed, chaired by D. Bell. In Japan, the indicator of social welfare was a subject of research by a government commission. In the described approach, the researcher's attention is focused on addressing the basic needs (Basic Needs Approach). One of the most prominent proposals of this kind is the Human Development Index, HDI, used in the global Human Development Reports of the UNDP (United Nations Development Programme). For the calculation of the synthetic index HDI, the following data are used: average life expectancy, literacy, level of education, and standard of living measured by GDP. The rankings also included information on the quality of life, especially of children. This information allows the determination of the degree of development of the country (high, medium or low), and the impact of economic policies on the quality of life. The index was created in 1990 by the Pakistani economist Mahbub ul Haq. According to the assumption of HDI, the HDR 2012 report listed countries in four categories: those that were very highly, highly, medium and weakly developed. The highest HDI is held by Norway, Australia, the United States, the Netherlands and Germany. The last group includes almost exclusively African countries. At the bottom of the list is Niger, followed by Congo, Democratic Republic of the Congo, Mozambique, Chad, Burkina Faso and Mali.

The reports about the development of the social world supplement the HDI with the Multidimensional Poverty Index (MPI), Gender Inequality Index (GII) and Inequality-adjusted Human Development Index (IHDI). The latter is a measure of the level of human development of people in a society that accounts for inequality.

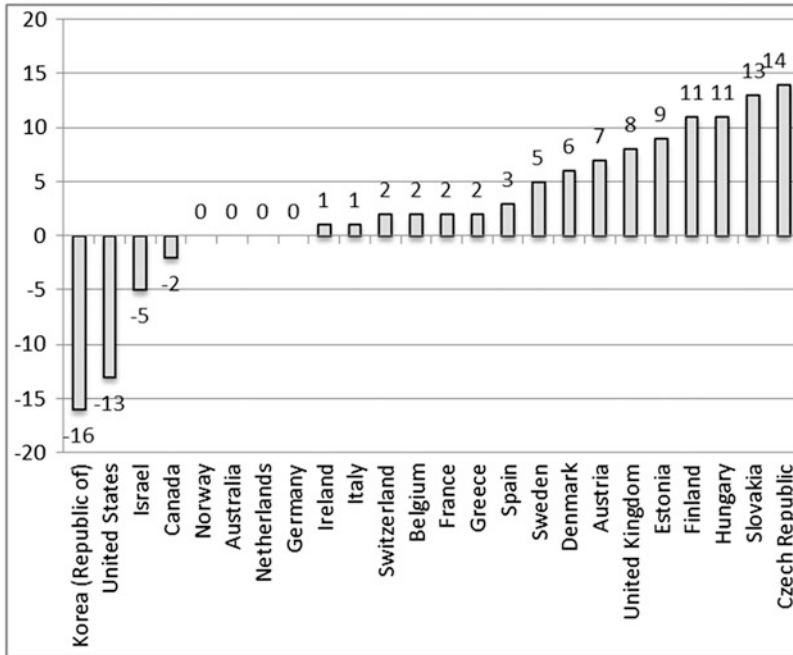


Fig. 2.1 The differences of country rankings HDI adjusted by IHDI (Source: self-reported data based on data from the HDR 2013)

Under perfect equality the IHDI is equal to the HDI, but falls below the HDI when inequality rises. In this sense, the IHDI is the actual level of human development (taking into account inequality), while the HDI can be viewed as an index of the potential human development that could be achieved if there were no inequality. The IHDI accounts for inequality in HDI dimensions by discounting each dimension’s average value according to its level of inequality measured by the ‘Atkinson index.’¹

Figure 2.1 shows that the Inequality Index (IHDI) leads to a lower country ranking than with the simple HDI.

Countries that significantly moved down in the rankings as a result of inequality of income, education and health are the Republic of Korea, the United States and Israel. However, low levels of inequality significantly improve the position of Czech Republic, Slovakia, Hungary and Finland. The lowest levels of inequality are held by Norway, Australia, Germany and the Netherlands.

To help countries build and share solutions to reduce poverty and achieve the Millennium Development Goals (democratic governance, crisis prevention and recovery, environment and energy for sustainable development) the United Nations Development Programme has accumulated a large database for the purpose of

¹ <http://hdr.undp.org/en/statistics/ihdi/>

international comparisons. Knowledge about values of complex indices and their constituent components should help to make use of the specific development potential, which indicates the key issues that need to be supported by the state, that is, living conditions, education levels and health of citizens. It is a tool that increases awareness of social problems and can be used to mobilise support for specific projects and interventions to combat poverty in the least developed countries. The potential of HDI information is immeasurably greater than what we may learn about countries, when we take only the GDP into account. The results of studies using the HDI can encourage governments not only to incorporate non-economic objectives into their policies, but also provide arguments in favour of the development objectives adopted in 2000 by the United Nations Millennium Programme.

HDI as an alternative indicator reflecting the level of welfare in a society was the result of a breakthrough in thinking about development in another way than just in economic terms. It is clear however, that HDI is not a perfect index and needs further research. Criticism of the index can be reduced to the question What lessons can be drawn from the comparison of the index and the analysis of the ranking of countries formed on its basis? (UNDP Report LHDI 2013, summary p. 7). Szarfenberg (2011, p. 7) writing about the weaknesses of the index asks: “Are the achievements in the field of health and educational needs-satisfaction sufficient to determine the situation and development of the country? The high GDP per capita, long life and many years in school do not necessarily mean that we are dealing with a society of happy people. People derive satisfaction from other areas as well. This observation leads to the concept of quality of life with an emphasis on the subjective well-being that does not necessarily correlate well with GDP or even the criteria of the HDR”.

A third research approach for measuring quality of life, beyond the monetary and quantitative measurement of welfare and social well-being, is based on measurement of subjective well-being, which refers to the subjective feelings of the members of a society. An example of the index, which is based on subjective feeling is the Quality of Life Index, sponsored by *The Economist* weekly. The Economist Intelligence Unit’s *Quality-of-Life Index* is based on a method that links the results of subjective life-satisfaction surveys to the objective determinants of quality of life across countries, such as financial situation, health, political stability and security, family life and community, the climate, the threat of unemployment, political freedom, and gender equality. In the ranking, Switzerland was top, followed by Norway, Luxembourg and Sweden. At the bottom were Zimbabwe, Haiti, Tanzania and Nigeria. The index was calculated in 2005 and included data from 111 countries.

Radically different results were produced by the Happy Planet Index, developed in 2006 by the New Economics Foundation (NEF) to measure the level of well-being across countries. The discrepancies in the results explain the different methodology. Constructing the index, the authors took into account the experience of subjective well-being (i.e., whether people feel happy), life expectancy and how great a cost is derived from the achievement of good results in the first two criteria

by impacts on the environment. This approach illustrates a shift of the paradigm from the multiplication of wealth – of which GDP is a symbol – to sustainable maintenance of quality of life and to a responsible consumption of resources with respect to subsequent generations (sustainability). This approach leads to lower positions for industrialized countries in the ranking. According to the latest data in 2012, the highest level of HPI countries were reached by countries such as Costa Rica, Vietnam and Colombia, while at the bottom of the scale were Botswana, Chad and Qatar.²

Another recent research report concerning the measurement of subjective well-being was announced by the UN in 2012 by the 'World Happiness Report', which was created at the Earth Institute at Columbia University. In the introduction to the report Jeffrey Sachs argues that: "A generation of studies by psychologists, economists, pollsters, sociologists, and others has shown that happiness, though indeed a subjective experience, can be objectively measured, assessed, correlated with observable brain functions, and related to the characteristics of an individual and the society. Asking people 'whether they are happy, or satisfied with their lives', offers important information about the society. It can signal underlying crises or hidden strengths. It can suggest the need for change" (World Happiness Report 2012, p. 6). Direct inspiration for the creation of the World Happiness Report was derived from Bhutan. According to its GDP, Bhutan is one of the poorest countries in the world (670 \$ annually per capita). However, the purely economic index of GDP was replaced by the 'Gross National Happiness Index' and its dynamics is a basis to assess the quality of development policy.

The World Happiness Report does not propose its own ranking but refers to the results of existing comparison studies of happiness and quality of life. More extensive studies are led by Gallup. Following its report, the happiest people in the world are the Nordic countries citizens. Even the crisis and the recession have not deprived the Danes and Finns, the leaders in the international ranking, of subjective well-being. Just behind them ranks Norway, the Netherlands and Canada. The United States ranks only 11th. The least happy people live in countries such as Togo, Benin, and the Central African Republic.

Summing up the results of the analyses of the report Sachs writes: "In order to both measure and improve happiness levels, we must understand what influences these levels. (...) Both external and personal features determine well-being. Some of the important external factors include income, work, community and governance, and values and religion. More 'personal' factors include mental and physical health, family experience, education, gender, and age. Many of these factors have a two-way interaction with happiness (...). An analysis of all these factors shows strikingly that while absolute income is important in poor countries, in richer countries comparative income is probably the most important. Many other variables have a more powerful effect on happiness, including social trust, quality of work,

² www.happyplanetindex.org/data/

and freedom of choice and political participation” (World Happiness Report 2012, p. 9).

Bruno Frey and Alois Stutzer (2012), Swiss economists, the pioneers of the economics of happiness, suggest that research on happiness can be a valuable source of guidance for policy. But they warn politicians against the temptation of the politics of happiness and arbitrarily imposed happy projects. They should instead focus on creating solutions that enable people to pursue their own projects of a good life, the basis for which are increasing opportunities to participate in all aspects of social life, from politics, culture, to the economy.

The stimulus to research into the measurement of human development, with man and not income in the centre of attention (human-centred development) in the 90s, was the concept of Amartya Sen. He considered the concept of needs to be related to thinking in terms of what satisfies humans (measured by GDP), rather than what life we can live and actually live (the concept of capabilities and functionings). The key aspect here was linking the idea of development of freedom, understood not only as the freedom of action but as an opportunity to make a genuine and autonomous choice of one’s way of life. Sen’s concept refers to the concept of resources. He states that the quality of life is in being, not in possessing goods. He extends the concept of welfare, arguing that human welfare is not the only, and sometimes even not the main function of his income. “Welfare of a person can be understood as the quality of life (. . .), life is a collection of ‘functionings’, which can be very diverse, ranging from as elementary as proper nutrition, enjoyment of good health (. . .), to more complex achievements – happiness, sense of dignity, participation in society” (Sen 2000, p. 55). Each of the ‘functionings’ constitutes in some way the quality of human life, which is reflected in the well-being of the individual. Both these sets of ‘functionings’ and the importance given to each of them are specific and unique to each person, though they also have common elements. According to Sen, quality of life both in individual and social terms is determined by the following factors: political freedoms, economic opportunity and the free market, as a form of its implementation, social opportunities, overt warranties, and social security. He proposes, therefore, that the basis of the quality of life should consider the opportunity for the individual to use the possessed goods to pursue a dignified ‘functioning’ and existence. Goods should be assessed only in terms of enabling the individual to function. The ability to possess the good or the ability to use it is in fact more important than the good itself (Sen 2000).

The answer to Sen’s theory was the emergence of a number of studies assessing the existing methods for measuring growth and containing proposals for change. The goal was to search for good solutions to measure real progress in the area of long-term socio-economic development, prosperity and the well-being of the population. Following the wave of discussion on the causes of the crisis and the prevention of potential risks the most significant and comprehensive ‘Report by the Commission on the Measurement of Economic Performance and Social Progress’ was published in 2009. The initiative to establish the Commission came from President Nicolas Sarkozy. At the head of 25-member commission stood Nobel laureate of 2001, Joseph Stiglitz, a former White House adviser and chief economist

of the World Bank. His advisor was appointed the Indian economist Amartya Sen, a Nobel Prize winner in 1998, professor at Harvard University. The coordinator of the Commission was Jean-Paul Fitoussi, professor at the Institute of Political Studies in Paris. The main message of the report was to insist less on information systems concerning the development of indicators to measure economic performance but to put emphasis on improved measurement of quality of life (people's well-being), including the rational management of natural and cultural resources, especially those that are non-renewable. The Commission stated that welfare and general well-being of the population encompass multi-dimensional concepts. Therefore, the commission recommended that apart from measuring living standard as expressed in the size of income, consumption and material resources, assessments of non-material needs like health, education, personal activities, political and civic activities, social relations and social, environmental conditions, state of economic and physical security should be carried out. The document indicates the necessity of deepening and specifying a comprehensive measurement by inclusion data relating to the sense of satisfaction and happiness. This requirement means that we need to put more focus on improving the quantitative measures of well-being at the individual level and subjective well-being, intrinsically relating to individuals. A concept that integrates both approaches is the concept of 'quality of life'.

2.3 Quality of Life: Contexts, Concepts, Interpretations

Quality of life has become popular in the 1960s. Previously, it did not frequently appear in public debate, but the problems associated with it, mainly that referring to exploration of determinants of happy and worthwhile life, have accompanied mankind since ancient times. Today the term quality of life entered permanently the terminology of such sciences as sociology, medicine, economics, psychology, and education.

The third European survey on quality of life has developed a broad understanding of the term: Quality of life is shaped by individual preferences and experiences as well as by the quality of the surrounding environment. Many findings are consistent with the previous EQLS and levels of satisfaction with respondents' personal situation remain relatively high across Member States. Subjective well-being depends on factors such as health, income, employment status and family circumstances, but also on where people live and there are clearly large differences in conditions and resources between countries. Satisfaction with standard of living is influenced strongly by income and material deprivation but also depends on other factors – the quality of accommodation and the local environment, for instance, have been highlighted in the report. In general, all three of Eurofound's European Quality of Life surveys show that people tend to be more satisfied with their personal situation than with either their quality of society or their local environment (Eurofound 2012, p. 146).

The Special Eurobarometer 370 on Social Climate (2011a) provides rich information about assessments of European citizens on their social situation, its changes in the last years and their expectations in future. In general, the questionnaire shows that the average in the EU is total satisfied with life by 81 %.

The highest scores were attained in Finland, Sweden and Slovakia with 97 %, followed by Luxembourg and Denmark (96 %). The lowest scores were attained in Bulgaria (48 %), Romania (49 %), Hungary (52 %) and Greece (54 %). The questionnaire encompassed 15 criteria concerning the way people meet their ends (affordable prices for housing, energy) but also asked for the relations of citizens with different cultural and religious backgrounds and the areas people live in. Furthermore, there were questions about how inequality and poverty is addressed and the way the public administration runs. Last but not least, the questionnaire addressed factors such as unemployment benefits and job situation (Eurobarometer 2011a, tables p. 1).

So far in the study of quality of life both objective indicators to measure quality of life and subjective ones, focusing on the measurement of happiness and satisfaction with life, are taken into account. But there is no clarity, where the boundary runs between them, what elements constitute the subjective context, with what indexes to measure them, and what relationships exist between subjective and objective indicators. The objective aspect of quality of life is usually identified with welfare and subjective with well-being. Welfare studies differ from well-being research in the use of survey techniques that allow obtaining the respondents' opinion about their lives. The problem is much more complex. It is worth taking a closer look at it and show that the multi-aspect has to do with the differences that exist within both perspectives, between disparate trends of study on welfare and well-being.

Recently, many authors reflect on the concept of welfare in relation to well-being. Researchers promoting the concept of well-being emphasize that it is connected with social relations, trust and participation, rather than consumption, and they focus on the creation and exchange of social value through relationships in the context of culture, rather than economic value through transaction (Jordan 2008). Wood and Newton (2005), indicate that well-being is of major concern when considering social development and policy, reducing welfare, especially where capacity building is more important than social protection (quoted by Taylor 2011). Dean (2010) believes in the benefit of the concept of well-being and draws attention to the positive aspects of social policy – in contrast to the term social problems. David Taylor (2011) understands the importance of well-being as an objective of social policy, which goes far beyond the realm of redistribution, and he warns that this concept should be treated with caution. It can be used for many purposes. Recently it has been criticized for political associations with individualisation and marketization of social assistance. Edwards and Imrie (2008) show, that it is based on concepts such as self-help and therapy, individual action, and self-responsibility. In addition, it takes the hidden assumptions about human nature and diminishes the sense of collective welfare that provides the material conditions in which we experience well-being. Attempts to integrate subjective and objective

perspectives face many barriers. One of them is differentiation of theoretical and empirical positions on issues relating to well-being.

Deeply rooted in tradition there are two major, clearly distinct approaches to well-being, which, despite attempts at reconciliation, still remain in contradiction. The first is the welfare theories referring to the list of conditions that must be met in order for people to live a good life. Adopted in the model requirements relating to basic human needs and rights are considered universal, applicable to all populations. In one of the most popular versions of this approach, the author, Amartya Sen (1999) argues that meeting these needs helps people create opportunities to flourish as human beings, without hunger, oppression, exploitation, threats, etc. Many researchers, despite criticism indicating limitations of this approach as paternalism – not taking into account cultural differences and differences between people – provided lists of social determinants, values or conditions such as health, employment, environment, regarding them as best indicators of well-being of societies. (inter alia Nussbaum 2000; Doyal and Gough 1991).

The second approach, described as subjective well-being is defined as a multi-dimensional assessment of one's life, including both cognitive and affective reactions to life as a whole or its certain fields (Eid and Diener 2003). To measure well-being assessments, made by autonomous individuals, measurement known as subjective well-being indicators are commonly used.

Ryan and Sapp (2007) argue that subjective well-being refers to the ability to function optimally which depends not only on physical health, but also on interest in one's own environment, self-confidence, motivation to achieve goals and perseverance in their pursuit in face of obstacles. In other words, an essential attribute of the concept of well-being is the sense of empowerment.

Often quoted Stiglitz et al. states that "subjective well-being covers various aspects (cognitive evaluation of one's life, happiness, satisfaction, positive emotions such as joy and pride, and negative emotions such as pain and distress), and each of them should be measured separately for a comprehensive assessment of people's lives" (2009, p. 16).

Paul Dolan and Robert Metcalfe (2012) have taken an attempt to organize the aspects of subjective quality of life by reference to the indicators used in empirical research. They distinguished three broad categories of well-being research: evaluation research, personal experience study and exploration of eudaimonia.

The evaluation approach to subjective well-being needs questionnaires to ask people to evaluate their lives (general satisfaction with life) or areas of life such as health, work, etc. Sometimes, instead of life satisfaction the sense/feeling of happiness is examined. A classic example of a tool used in evaluation research is the Cantril ladder. It is the assessment of one's life on a scale of 0 (worst life) to 10 (best life).

The study of personal experience is an examination of well-being that depends entirely on the feelings of an individual. These may be feelings (e.g. happy, worried, sad, anxious, excited, etc.) measured in a given unit of time (e.g. yesterday, last week, etc.). Well-being is here understood as a balance of pleasure and distress

measured by questions such as: How happy did you feel yesterday? How sad did you feel yesterday? (Diener and Emmons 1984).

Eudaimonia research, in turn, relates to psychological needs, such as recognition, autonomy, control, affiliation, which affect well-being. Operational measurement in this approach is to address the question: ‘Overall, how valuable are the things that you do in life?’ and marking this on 11-point scale, where 0 is not at all valuable, and 10 absolutely valuable.

Like all subjective measurements, well-being indicators depend on the perception and evaluation of individuals, which thus involves the drawbacks typical of qualitative indicators. They are affected by such imperfections as difficulty with verification and interpretation, or lack of compliance with the facts. Sometimes they can represent projections, rather than the actual situation (Diener and Suh 1997).

Controversy is not only caused by the distinction between objective and subjective quality of life. The subject of the dispute is also another distinction referring to the scope of this concept – the global and partial quality of life.

Felce and Perry (1995) argue that the measurement of quality of life cannot focus solely on global quality of life. It should include a set of key areas that make up the global quality. This is due to the fragmentation of modern life, which causes different share of each key area in the global quality of life. This is exemplified in the question raised by Andrews and Whitney in their classic study of quality of life from the 1970s: How do you feel about your life as a whole? – measured by the five-point Likert scale (quoted by Rapley 2003). In the case of the domains of global quality, the literature lists various subsets, more or less complex, to assist in determining the quality of life. The most general approach indicates two sub-global domains of the quality of life of to have and to be. The next approach in terms of the size of domains indicates three dimensions of the quality of life – the social, economic and environmental ones. Proposals of an even greater level of detail, divide the overall quality of life into seven domains of quality of life – in the Geneva method, and 13 in Campbell’s proposal (Campbell et al. 1976).

It should be emphasized that we should not identify domains of quality, such as living conditions, lifestyle with the global quality of life. Simple aggregation in this case is an acceptable simplification that we can analytically separate from overlapping concept ranges. Domains of quality of life can be considered as related spheres, but conceptually they are different and the ideal would be to measure them separately. The obvious difficulty in this approach lies in the fact that the different domains of quality do not have a common unit of measurement, and therefore they are not easy to aggregate. For their measurement, tests can be used to allow ranking of individuals within each category, but it still does not give us the total, aggregate measure. This is a serious problem of comparative studies of the quality of life among individuals and groups in space or time.

It is well known that quality of life is a multi-dimensional concept, without a well-developed theoretical background. Theoretical approaches are distinguished by the concept adopted as the basis for consideration of quality of life. These include: the needs (A. Maslow), happiness (philosophical doctrines) and resources (A. Sen). Consequently, finding a holistic definition of the quality of life is not easy.

Liu in 1976 indicated that there are as many definitions of the quality of life as there are people (quoted in Felce and Perry 1995, p. 52). This diversity of definitions reflects, on the one hand, the differences in of people's views on what is important in life, on the other hand, differences resulting from the application of different theoretical models or academic orientations (Felce and Perry 1995). Imperfection of the definition terms may also be a consequence of the fact that they concern almost all dimensions of human life, and the multitude of indicators and variables that might be included in the operationalization of the concept, depending on the scientific discipline and the theoretical and methodological assumptions that are adopted in the study. The controversy regarding the semantic scope of quality of life intensifies when different definitions are used in different research contexts, closely related to quality of life, such as examination of welfare, happiness and contentment. For the above reasons, there is no shared agreement on the definition, but in many models used in research, there are convergent points and related assumptions. First, there is agreement that the concept includes or may include, several levels of analysis and has different applications, from evaluation of global society or local communities to evaluations of small groups or individuals (Felce and Perry 1995). Second, explaining the concept is the result of a gradual process; it emerges step by step from the discussion on its operationalization.

One of the first definitions was formulated in the 1950s by A. Campbell. Quality of life meant a good life in terms of consumption, depending on the possession of particular material goods (quoted by Garbat and Paszkowicz 2006, p. 261). With the passage of time, the approach to quality of life evolved. In 1973 Terhurne defined quality of life as personal satisfaction (quoted by Veenhoven 2000), in 1975 McCall (1975) as a prerequisite for happiness. In 1986, Landesman (quoted by Felce and Perry 1995) believed that the quality of life is the sum of a number of objectively measurable conditions of life experienced by people“ as opposed to satisfaction, which is defined as a subjective response to such conditions” (Felce and Perry 1995, p. 54). After several meetings in Geneva in 1991, 1992 and in 1993, the World Health Organization provided its own definition of quality of life, which implies the perception of individuals, of their position in life in the context of culture and value systems accepted by the society in which they live and in relation to their life goals, expectations, or interests (WHOQOL Group 1995, p. 1). This definition emphasizes the subjective dimension of quality of life, considering that the individual is a being who is able to determine the quality of his/her own life referring to his/her own assessments. In addition, the second part of the definition draws attention to contextualism and socio-cultural conditioning of the assessments made. The perception and assessment of one's own life is made in the context of socially shared and transmitted values and norms that are rooted in external – for an individual – structures (axiological, normative and cognitive) and the external (social, institutional and cultural) contexts (Jabkowski 2008, p. 82). It is worth noting that the spheres of quality of life specified by the WHOQOL need to be taken into account if we want to capture the essence of the phenomena such as mental and physical health, level of independence from others, social relationships, personal beliefs, and the impact of personal beliefs on the environment in which the

individual lives (WHOQOL Group 1995; Rapley 2003, p. 50). They can be examined using both objective and subjective indicators. Also for Cummins (2000), Diener and Suh (1997) and Felce and Perry (1995) quality of life is an association of objective and subjective components. Another issue is the extent to which researchers share a common view of the dimensions of quality of life to be assessed.

In the studies on quality of life, aside the material sphere, also the emotional, and social spheres, as well as the ones related with human efficiency and activity are taken into account. These results show that an increasing number of authors interpret the term quality of life taking into account such factors as: the use of development potential, matching of people's expectations to the social environment, the possibility of self-development, characteristics of social life organisation. It is assumed that quality of life is associated with both the bio-social and psychosocial characteristics of individuals and the way in which political and social institutions impact on society. However, the individual components must be carefully distinguished, as the quality of life is associated both with people and with social relations, whereas political, institutional and legal conditionings determine the principles and institutions on which the quality of life depends. Hence the conclusion is that 'quality of life' is a very general and internally diverse construct.

From the review of the definition and the difficulties that arise when we use the concept of quality of life research, the authors derive the following conclusion. Even if there is no universally accepted definition of quality of life, covering all aspects of the phenomenon, this should not be an obstacle preventing its measurement. We should always attempt to improve the quality of measurement and we can observe great progress in this area. However, the interpretation of the results will also depend on the applications to which a given measurement is used. There is no single measure of the quality of life that would be adapted to all research questions.

Research on quality of life has become popular in the twentieth century (Sirgy et al. 2006). One of the most important researches includes the study conducted in 1965 by H. Cantril. It covered 13 countries, including the United States. To measure quality of life, a scale was used which is still in use today. Started in the 1960s, research trends gradually gained the status of a separate research approach, filling the gap between the increasing need to diagnose the status quo and the lack of theoretical and conceptual foundations and methodological assumptions to conduct such a measurement (Ferriss 2006; Noll 2004). According to Ferriss (2006), the consolidation of research on quality of life under the rubric of the social indicators movement as a field of research took place in the 1970s. The research led to the development of various quantitative and qualitative measurement scales. Particularly important achievements were attained by the study of the Campbell team on the assessment of quality of life (scales of satisfaction on various aspects of life) and the work of Liu on the objective quality of life-scales (quoted by Ferriss 2006). Subjective indicators focus on individualistic aspects, i.e. individuals' feeling regarding their living conditions, and need to be obtained in survey studies. It is partially the measure of the level of satisfaction with living conditions and partially

of the level of aspiration but primarily of the level of adaptation to current living conditions (Noll 2004).

The relationship between welfare and well-being is described in the literature as the Easterlin paradox. Already in 1974, he had pointed out that the level of prosperity goes hand in hand with a sense of happiness, but only up to a certain degree (Easterlin 1974). The relationship between the two dimensions can be presented in the form of the following typology:

- Dissatisfaction dilemma, occurs when the favourable objective living standards are accompanied by a feeling of its low quality. In this case we talk about *dissonance*,
- Satisfaction paradox occurs when the adverse objective conditions are accompanied by a high sense of satisfaction with one's life. This condition is referred to as *adaptation*,
- Justified satisfaction with favourable objective conditions of life are reflected in positive perceptions and feelings in relation to the quality of life,
- Reasonable dissatisfaction occurs when adverse objective conditions are accompanied by low satisfaction with life. We talk about *deprivation* in this case.

The combination of these sets were tested empirically by asking whether the differences in the objective conditions of life are adequately reflected in perception and feeling, whether a positive assessment of living conditions and the level of satisfaction increase with the improvement of the material conditions of existence.

Demographic data and the results of surveys involving comparisons between countries with different levels of industrialization (from the least to the most developed countries) and the comparison of different social groups within a country, presented by Inkeles as well as by Inglehart already in the 1990s showed that the relationships between welfare and subjective well-being are more complex than it might seem at first glance (Inkeles 1994, p. 59).

Generally it can be stated that these studies confirmed the existence of the relationship between objective and subjective indicators. For example, Inglehart correlated the level of satisfaction with life with GDP per capita in 24 countries, mainly in Europe, for the period of the 1980s. He obtained a level of correlation measured by coefficient of 0.67 (Inglehart 1990). It should be evident that residents of economically less developed countries will declare a higher sense of satisfaction with life than people in more developed countries in the case of rising income. However, some research results did not confirm these findings completely. Scheuch (1994) pointed out, that very poor and very rich countries get lower correlations between objective indicators such as national income per capita and subjective indicators measuring satisfaction with conditions of life than the developing countries.

The research of 'The European Quality of Life Survey (EQLS)', conducted in 2012 in the European Union, confirms this trend. People living in countries with higher GDP per capita declare a higher level of both life satisfaction and happiness (Fig. 2.2).

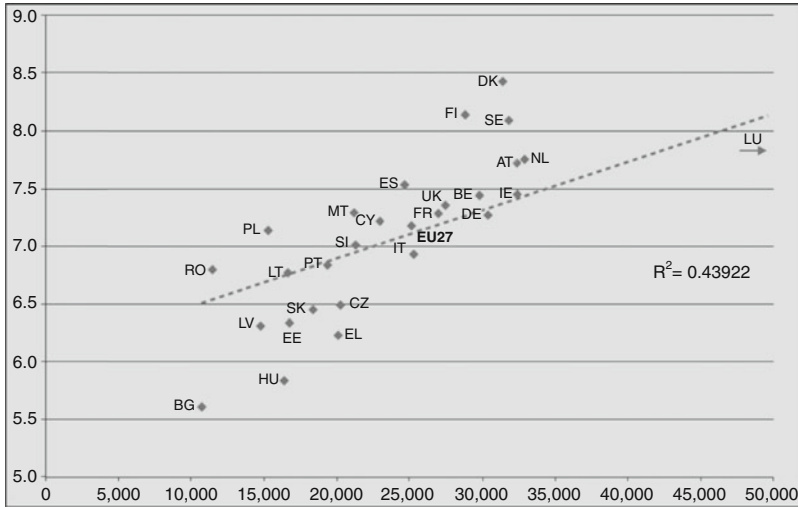


Fig. 2.2 Correlation between life satisfaction (on a scale 1–10) and GDP per capita (Note: for GDP per capita: Eurostat, 2012; all data is from 2011, except for Bulgaria, Poland and Romania (2010 data) The R2 value is the square of the Pearson correlation coefficient. It shows the extent of variation in a dependent variable explained by an independent variable. The value of 0 means that none of the variance is explained, and the value of 1 indicates that 100 % of the variance is explained. Source: Eurofound 2012, p. 18)

The correlation between GDP and subjective well-being is positive, but weak. For example, Poles declare a much higher level of life-satisfaction than Hungarians, despite similar levels of GDP per capita; Romanians declare similar satisfaction levels as Italians, although GDP per capita in Romania is less than half that in Italy. Average satisfaction with life in particular countries shows no correlation with the most commonly used measure of income inequality, the Gini coefficient. Countries with similar levels of inequality, such as Bulgaria and Ireland (each 0.33 on a scale of 0–1) have very different average life satisfaction indicators (Eurofound 2012).

Another confirmation of these dependencies is the data from the World Happiness Report (2012). According to these data, the Easterlin paradox is revealed to be stronger in richer than in poorer countries. In the United States, 11th in the global ranking, the level of happiness in the decade 1960–1970 fell – despite the increase in wealth.

In terms of happiness, Poles rank fifty-three in the world ranking, after the inhabitants of Colombia, Mexico and even Turkmenistan. J. Czapiński, using regular surveys entitled Social Diagnosis state that despite the global financial crisis the mental condition of the Polish people has not been seriously affected. Even contrasting the current crisis, the level of happiness clearly rose. In 2005 and 2007, 75 % declared themselves very happy or happy enough, and today the figure has risen to 80 % (Czapiński 2012). The quoted data show that the relationship between welfare and subjective well-being is not linear and universal. There are

many studies documenting how the increase in welfare depends on income growth, but it is questionable whether there is evidence of an inverse relationship. Does a high level of well-being increase the chances for a higher income? Is it an important resource enabling an improved quality of life?

Longitudinal studies have shown the impact of subjective well-being for career and income (Diener and Biswas-Diener 2002; Graham and Fitzpatrick 2002; Marks and Fleming 1999; Roberts et al. 2003), physical health (Levy et al. 2002), social relationships and intimate relationships (Harker and Keltner 2001; Lucas et al. 2003). Czapiński (2012) after analysing data from several rounds of Social Diagnosis on well-being and income concludes that in all the periods compared, the dependency of change in the level of personal income from well-being is significantly higher than the inverse relationship – changes in well-being from changes in income. Happiness is more often a source of wealth than wealth is the source of happiness (Czapiński 2012). He also argues that in the group of poor Poles income growth is more important for improving the well-being than well-being for the growth of income. Among middle-class and wealthy people it is just the opposite: a change of income has no effect on the change in well-being, and the initial level of well-being determines the subsequent increase in personal income.

As can be seen from the above considerations the objective and subjective quality of life-measurement methods may lead to some interesting conclusions. If once one has reached a certain level of wealth, the sense of happiness stops growing along with the improvement of the standards of living of the whole society.

The above literature review found a consensus view that quality of life is a concept of a complex, multi-dimensional and dynamic nature. Among researchers there is also agreement about understanding the inner meaning of the term. This is the spectrum of living conditions. The differences between the various perspectives result from the dimensions that are taken into account, which in turn is related to the saturation of the concept with higher or lower level of subjectivity. To operationalize the concept of quality of life we should have to combine different perspectives and levels of analysis. Quality of life combines quantitative, qualitative and social aspects covering objective, subjective relational elements. Although the individual perspective is subjective, it reflects the perspective of the community and social values. Individual perception of QL depends on the reference groups from the community to which we belong or wish to belong or with which we identify. This perception is the result of a qualitative, subjective judgment of a set of domains that have an objective, quantitative nature and in modern societies take on a global character.

2.4 Quality of Life and Inequalities

During the past decades the study of the quality of life, both in subjective and objective terms, has grown in importance in relation to monitoring and systematic analysis of the living conditions of the population. Developed over many years, the

system of indicators is used by the European Union to measure objective and subjective quality of life of individual countries, regions and local communities. The constitution of the European Union includes, in addition to economic goals, the goals of improving the social standards of living of citizens of the Member States, with the resulting improvement in quality of life. This objective was outlined in the Treaty on the European Union, signed in Maastricht in 1992, Art. 2. Today, there are three main research programmes concerning quality of life in the European Union: These are the Urban Audit, the European Quality of Life Survey and EU-SILC.

Like the Special Eurobarometer (European Commission 2011) the European Commission's latest survey on the quality of life shows that despite the crisis, Europeans are generally satisfied with their lives. About two thirds of EU citizens evaluate their lives positively. Happiness and life satisfaction vary depending on the country. Furthermore, the citizens of the Scandinavian countries together with Luxembourg and Netherlands assess their lives most positively, although the economies of Denmark and the Netherlands recorded GDP down-turns. However, they are two of the richest countries in Europe with a stable labour market and low unemployment. On the other hand, the citizens who are to a large extent dissatisfied with their lives are the inhabitants of Bulgaria, Hungary, Greece, Latvia and Estonia, countries strongly affected by the crisis and relatively poor (Fig. 2.3).

“Although average life satisfaction has remained stable overall in the EU since before the economic recession, different trends are visible across Member States. In countries with higher initial life satisfaction there has been a decrease, while in countries at the lower end, life satisfaction continued to increase between 2007 and 2011. A notable outlier is Greece, a country that was arguably worst hit by the economic crisis, and this is reflected in a significant deterioration in even the most stable indicators. Unlike life satisfaction, happiness and optimism decreased nearly everywhere” (Eurofound 2012, p. 35).

The report focuses not only on documenting differences between countries, but also distinguishes between social and economic groups. It shows broad analyses indicating dependencies of the general quality of life and domains of the quality of life from socio-demographic characteristics such as age, sex and income groups, and makes several attempts to identify drivers or determinants of some indicators of objective and subjective quality of life. This unique general European study allows multidimensional analyses of the social situation, including a comprehensive assessment of the quality of life, social diversification, with acknowledgement of poverty and social exclusion. The study integrates individual data on all crucial aspects of a broadly understood quality of life, recommended in the report by Stiglitz, among others.

To sum up, the selected conceptual frameworks of the quality of life allow us to look at it through the prism of objective and subjective factors, needs, and individual resources, positive empowerment or negative events affecting the welfare and well-being of an individual. In addition to the structural analysis of the context of quality of life, the concept therefore allows the study of images about the desired quality of life as well as of its determinants. This is strongly correlated with the

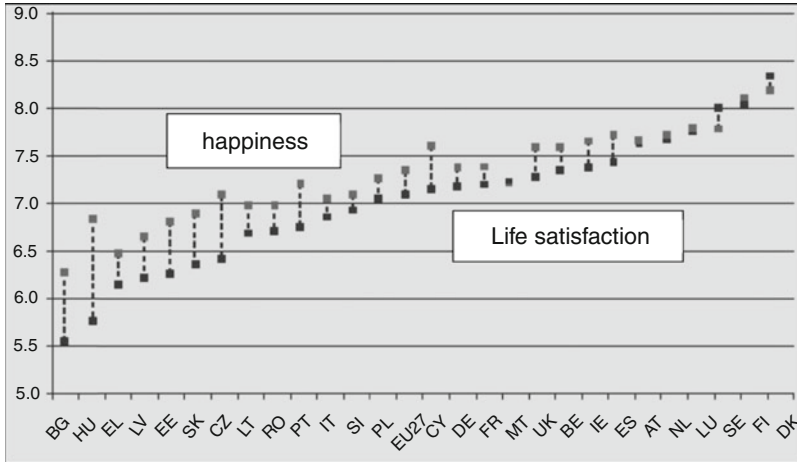


Fig. 2.3 Life satisfaction and happiness, by country (Notes: *dotted lines* show high–low range. Q30 All things being considered, how satisfied would you say you are with your life these days? Please tell me on a scale of 1–10, where 1 means very dissatisfied and 10 means very satisfied. Q41 Taking all things together on a scale of 1–10, how happy would you say you are? Here 1 means you are very unhappy and 10 means you are very happy. Source: Eurofound 2012, p. 17)

changes in consumption patterns both on a micro-, mezzo- and macro- scale. Concepts of quality of life as well as beliefs in the active, reflective role of the individual in its creation are evolving in Europe. However, the perception of what the good life means is changing.

Differences in life quality among people are universal, so they could be considered as something natural, and requiring no change. However, there are areas where there is a diversity that evokes a sense of social injustice, and we call these differences social inequalities. Some types of inequality are structural, such as income, power, prestige, education, related to cultural capital, health and physical ability. They are described unchangeably in the same categories; only their empirical dimension, pointing to changes in the level of inequality among social groups, is subject to change. Inequalities also appear with the new type, as a result of changes in technology, legislation, economies, as well as changes of perception by an individual of his/her relationships with others. Jean-Paul Fitoussi and Pierre Rosanavallon write in their book *Time of New Inequalities* that, contrary to structural inequalities, these new ones are more individualised, dynamic, more difficult to grasp. With regard to the new inequalities they mention their relationship to changes in the model of employment, to access to social benefits (e.g. arbitrary non-egalitarian distribution). Furthermore, geographical aspects also have an impact on these inequalities, not only concerning the natural environment and the effects on health, but also regarding infrastructure or finally inequality in access to bank loans or new technologies (Fitoussi and Rosanavallon 2000, p. 59).

Structural and new inequalities are discussed in subsequent chapters of this book. Their diagnosis should inspire the activities of politicians, social activists

or the citizens concerned with promoting positive changes worldwide. To facilitate this, the diagnosis must reflect the image and the condition of contemporary societies, perceive the new risks, threats, problems, areas threatened by injustice, because only then can one really counteract a negative social reality. The measurement of the quality of life renders such diagnosis feasible.

Thus, as Stiglitz put it: “Inequalities in human conditions are integral to any assessment of quality of life across countries and the way that it is developing over time. Most dimensions of quality-of-life require appropriate separate measures of inequality, but (. . .), taking into account linkages and correlations. Inequalities in quality of life should be assessed across people, socio-economic groups, gender and generations, with special attention to inequalities that have arisen more recently, such as those linked to immigration” (Stiglitz 2009, p. 15).

And further:

“Indicators of quality of life should inform about the inequalities in individual experiences. This is important, as social progress depends not only on the average conditions in each country but also on the inequalities in people’s conditions. Accounting for the diversity of experience (by gender, across groups and generations) is necessary to fill the gap between country-wide estimates and people’s feelings about their own conditions. Inequality in each of the dimensions of quality of life is significant in itself, and this underscores the importance of avoiding the presumption that any single dimension will always encompass all the others. At the same time, because of the links between the dimensions of quality of life, various inequalities may also strengthen each other” (Stiglitz 2009, p. 217).

Results of the 3rd survey on equality of life in Europe show that, apart from differences between Member States, there are also major differences between various population groups (Fig. 2.4).

Particularly high rates of difficulties making ends meet can be observed in (overlapping) groups of low income households, single parent households and households where at least one member is unemployed and nobody else is in employment. Nearly three-quarters (71 %) of households in the lowest income quartile report having difficulties in making ends meet.

Inequality, in terms of difference in proportions between the highest and lowest quartiles, is largest in Portugal, Slovenia and Spain, while it is smallest in Denmark, Greece and Ireland. Among countries with overall high proportions of people reporting difficulties making ends meet, some experience relatively large inequalities (Bulgaria, Romania, Slovakia), while for others inequality is lower (Greece, Hungary, Cyprus). Some countries with relatively low mean proportions of people who report difficulties making ends meet, have relatively low inequality according to this measure (Luxembourg, Denmark, Finland), while others experience relatively large inequalities (Sweden, Austria, Germany).

Of the groups examined, households where at least one person is unemployed, and where none of the other members is in employment are by far the most likely to have difficulties making ends meet. In the EU, 80 % of people living in such households report difficulties making ends meet. Moreover, within this group, for

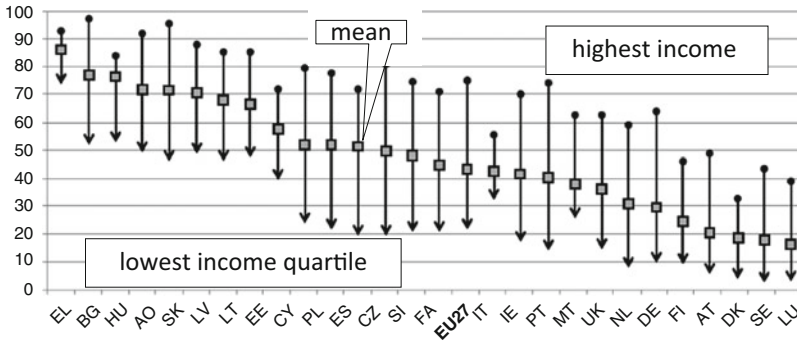


Fig. 2.4 Difficulties making ends meet, by income quartile (%) (The figures are based on the responses 'some' and 'great' difficulty making ends meet. Q58: A household may have different sources of income and more than one household member may contribute to it. Thinking of your household's total monthly income: is your household able to make ends meet. ...? (1) Very easily; (2) Easily; (3) Fairly easily; (4) With some difficulty; (5) With difficulty; (6) With great difficulty. Source: Eurofound 2012, p. 39)

households with someone who is long-term unemployed, the proportion is particularly high (84 %) (Eurofound 2012, p. 39).

2.5 Instead of Conclusions

Quality of life studies conducted at the international, national, regional or local level usually link cognitive and application functions, supplying not only knowledge about the conditions of citizens' lives but also allowing for setting the goals and priorities of broadly understood social policy and monitoring the effects of its implementation. They allow a diagnosis of the situation of groups and are the source of information for the public, the media, NGOs and the government, providing a platform for communication, agreement about goals, courses of action, and the formulation of recommendations.

Adopted in the social policy of the EU, the concept of quality of life firstly is based on sustainable development, which satisfies present needs without threatening the opportunities of future generations, and secondly it seeks to achieve social justice. Meeting these challenges requires integrating environmental, economic and social policies, that is combining economic growth with environmental protection and social responsibility, and fighting poverty, unemployment and social inequalities. Free market institutions cannot solve these difficult problems. However, systematic reflection and research results may influence the achievement of goals, and bring us closer to recognize and change the harmful reality.

Hence, an exact measurement reflecting the quality of life is necessary for politicians, because it will provide the basis for effectively developing and

implementing corrective programmes. Better policies based on accurate measurement encompass the chance for guaranteeing better life (Compendium of OECD Well-Being Indicators 2011). Under such a motto, the OECD World Forum was held in November 2012. The statement ‘better policies for better lives’ meant for participants of the forum:

- Better understanding of the influence of politics on the quality of life;
- Better allocation of limited resources, allowing the reduction of inequalities;
- Making relevant comparisons of quality of life among countries, regions, cities;
- Comparing the quality of life of sub-groups living in different areas;
- Making more conscious decisions referring to the choice of the place of living, choice of professional career, based on information relating to the spatial or organisational diversification of the quality of life;
- Assessment of results of government activities.

GDP measures consumption and production as important indicators of welfare and well-being in society. Nevertheless, it is important to identify what it does not measure: the autotelic values are the aims of life, and not the means of obtaining them. We should attempt to measure them in order to reconstruct the image and condition of contemporary societies, highlighting latest risks, problems, areas suffering from injustice, and then designing social policy that would benefit all citizens, particularly those who remain worse-off than others.

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Chapter 3

Inequality and the Role of Redistributive Policy

Dieter Eißel

Abstract The EU amended social policy tasks in its treaties very late following complaints of citizens that the EU only is responding to capital demands. In addition, facing its ageing society and because of the enlargement with 10 new member states among which are very poor ones, the EU changed its course incorporating social cohesion and fighting poverty and unemployment as new goals. Yet being confronted with a harder global competition the political class in Europe cut social expenditures, deregulated the protection of labour, and reduced the tax load on profits and higher incomes to be an attractive location for the volatile capital. Nevertheless, the results remained poor. Instead of stabilizing economic growth these measures impoverished the states and contributed to a widening gap between rich and poor. Thus, there is a contradiction: on the one side the EU goals are addressed to fight poverty and unemployment but on the other side the political class favoured austerity policies which increased inequality and did not give space to act in the tradition of welfare states.

3.1 Combatting Social Exclusion: A Late Task in the EU

The European Community long time was perceived as a response to capital demands for a larger market. It took some decades to amend its goals toward a social Europe, which has not only follows the interests of the economy but should care for workers' rights and fighting poverty. Complaints about the one-dimensional structure of the European community in the end led to social amendments of the treaty. A breakthrough for EU social policy was the Treaty of Amsterdam. Article 158 states that, in order to strengthen its economic and social cohesion, the Community shall aim at reducing disparities between the levels of

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development of the various regions. The Amsterdam Treaty is also significant in that it has made employment and social policy truly EU-wide. During the 1990s most EU social policy measures were based on the Agreement on Social Policy appended as a protocol to the 1992 EU Treaty and on the Community Charter of Fundamental Social Rights of Workers adopted by the Heads of State or Government in 1989. The fundamental rights for workers proclaimed by the governments included: Safety and health protection at work, training, and equal treatment for men and women. Whereas the Charter was not a legally binding document, the Agreement on Social Policy ensured that the EU was able to take action in the social fields covered by the Charter. However, the United Kingdom signed neither the Charter nor the Agreement on Social Policy. As a result, some EU legislation in the social policy field was applicable in only 14 of the 15 member states. The Amsterdam Treaty ended this split development of EU social policy.

In 2000 the importance of the social exclusion aspect of poverty has been recognised in the European Union's Lisbon strategy. The new EU strategic dimension after Lisbon (2000) stronger combined both, cohesion policy and competitive objectives. In 2003, as part of its information on the Social Inclusion Process, the European Commission stated the following: "Following the introduction under Article 136 and 137 EC by the Amsterdam Treaty of the fight against social exclusion among the social policy provisions, the European Council of Lisbon in March 2000 recognised that the extent of poverty and social exclusion was unacceptable. Building a more inclusive European Union was thus considered as an essential element in achieving the Union's 10 years strategic goal of sustained economic growth, more and better jobs and greater social cohesion" (EU Commission 2003).

Last but not least, the European platform against poverty and social exclusion with the label Europe 2020-strategy insisted on actions to reach the EU target of reducing poverty and social exclusion by at least 20 million by 2020. Launched in 2010, the platform is part of the Europe 2020 strategy for smart, sustainable and inclusive growth. The wanted methods are far reaching: Although combating poverty and social exclusion is mainly the responsibility of national governments, the EU can play a coordinating role by identifying best practices and promoting mutual learning, setting up EU-wide rules, and making funding available. An overview on the development of EU social policy can be seen in Fig. 3.1.

Taking the treaties – latest since the Amsterdam Treaty – into account and acknowledging EU publications which deal with the rising inequality and social exclusion in its member states, we find a remarkable awareness of the economic and social problems which are linked with inequality. Like the Commission put it in late 2011: Inequalities and polarisation of incomes threaten social cohesion and sustainable growth. Rising inequalities and polarisation of incomes were observed before the crisis. This threatened social cohesion and the investments in human capital that are necessary for inclusive and sustainable growth (EU Commission 2012a, p. 29). In addition, we could find numerous statements of EU officials which aim at keeping to the special European heritage of welfare states. Like the Dirk Ahner, EU director general for regional development, emphasized: "The future of our

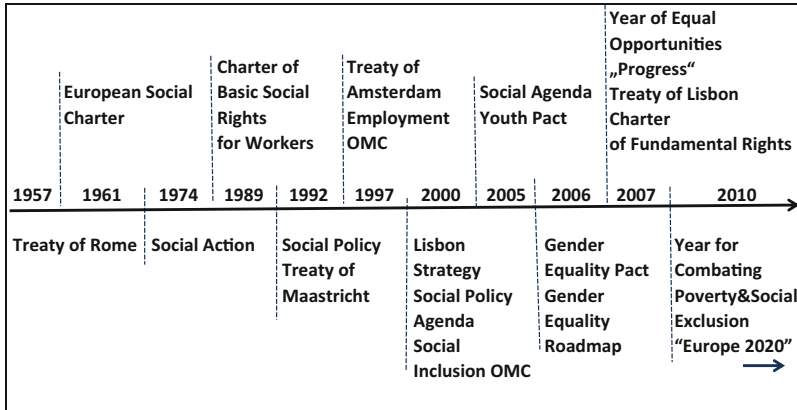


Fig. 3.1 Development of EU social policy

Europe – as a competitive player on the world stage, as a place that is good to live, work and retire in, as a social model emulated as far away as Brazil – depends on our ability to give every one of our citizens the potential to be an active, respected and fulfilled member of our society. 2010 – the European Year for Combating Poverty and Social Exclusion highlights the need to build a more inclusive Europe as a vital element of sustained economic growth, more and better jobs and social cohesion. These goals are supported by action undertaken under the EU’s cohesion policy with financial instruments such as the European Regional Development Fund (ERDF) and the European Social Fund (ESF). These two key instruments target support at diverse programmes, from improved transport infrastructure which opens up underdeveloped areas to new opportunities, to the promotion of lifelong learning” (Ahner 2010).

3.1.1 Rising Inequality

The main indicator of inequality concerns income positions of households. A broader understanding of inequality and social exclusion relates to disparities in both economic and social resources, linked to social class and includes earnings, income, education and health that contribute to a sense of well-being. We will in the following concentrated on income, occupation, education, gender inequality and regional disparities in the EU not dealing with other social problems like the health conditions.

Following “OECD Database on Household Income Distribution and Poverty” from 1985 to 2008 income inequality increased in most OECD countries (OECD 2011). Income inequality here is measured as Gini-coefficient, a standard measure of income inequality that ranges from 0 (when everybody has identical incomes) to 1 (when all income goes to only one person). Facing the development in the EU,

Table 3.1 Income inequality EU-27 – Gini coefficient 2011

| | | | |
|-----------------------|------|-----------------------------|------|
| Slovakia ^a | 25.9 | Ireland ^a | 33.2 |
| Slovenia | 23.8 | Germany | 29.0 |
| Sweden | 24.4 | Estonia | 31.9 |
| Czech Republic | 25.2 | Italy ^a | 31.2 |
| Denmark | 27.8 | Spain | 34.0 |
| Hungary | 26.9 | Poland | 31.1 |
| Austria | 26.3 | Greece | 33.6 |
| Finland | 25.8 | United Kingdom ^a | 33.0 |
| Malta | 27.4 | Lithuania | 32.9 |
| Belgium | 26.3 | Portugal | 34.2 |
| Luxembourg | 27.2 | Bulgaria ^a | 33.2 |
| Netherlands | 25.8 | Romania | 33.2 |
| Cyprus ^a | 29.1 | Latvia | 35.2 |
| France | 30.8 | | |

^a2010; Eurostat: Income and living conditions in Europe Eurostat 2012, last update 5.11.2012

only France, Hungary and Belgium had little changes in inequality since 1985 till 2008, and in Greece there was even a small reduction in inequality. All the other member states were confronted with an up-rise.

Between 2005 and 2008, EU-level income inequality, as measured by the Gini indicator, was rather stable. Nonetheless, in some countries, especially Germany, Sweden, and Finland by tradition having a lower level of initial inequality, there was a considerable increase. That is because of a continuing long-term trend of over-proportionate increases in very high income, whilst the mass income did not adequately participate in rising GDP. The crisis since 2008 does not seem to have increased inequalities, as share-holders and capital income was hit hard. However, across Europe, the crisis has hit some groups that face increased marginalisation harder (migrants, the homeless, Roma). These groups will continue to be most vulnerable in the coming months (EU Commission 2012b, p. 29) (Table 3.1).

Besides Gini-coefficient as a relatively simple way of indicating inequality, very often the gap between the rich and the poor is measured by relations of income quintiles or deciles, which means to express how much the upper income groups had more than the income groups at the bottom. Here we have the overall picture that rising income in nearly all societies concentrated with the rich while the poor even lost income positions. Following OECD publications the development from 2000 to 2011 clearly indicates a remarkable difference.

“Over the two decades prior to the onset of the global economic crisis, real disposable household incomes increased by an average 1.7 % a year in OECD countries. In a large majority of them, however, the household incomes of the richest 10 % grew faster than those of the poorest 10 %, so widening income inequality. Differences in the pace of income growth across household groups were particularly pronounced in some of the English-speaking countries, some Nordic countries, and Israel. In Japan, the real incomes of those at the bottom of the income ladder actually fell compared with the mid-1980s. In OECD countries today, the

Table 3.2 Trends in real household income by income group. Average annual change, in percentages mid-1980s to late 2000s

| | Bottom decile | Top decile |
|----------------|---------------|------------|
| Austria | 0.6 | 1.1 |
| Belgium | 1.7 | 1.2 |
| Czech Republic | 1.8 | 3.0 |
| Denmark | 0.7 | 1.5 |
| Finland | 1.2 | 2.5 |
| France | 1.6 | 1.3 |
| Germany | 0.1 | 1.6 |
| Greece | 3.4 | 1.8 |
| Hungary | 0.4 | 0.6 |
| Ireland | 3.9 | 2.5 |
| Italy | 0.2 | 1.1 |
| Netherlands | 0.5 | 1.6 |
| Luxembourg | 1.5 | 2.9 |
| Portugal | 3.6 | 1.1 |
| Spain | 3.9 | 2.5 |
| Sweden | 0.4 | 2.4 |
| United Kingdom | 0.9 | 2.5 |
| <i>OECD27</i> | <i>1.3</i> | <i>1.9</i> |

Income refers to disposable household income, corrected for household size and deflated by the consumer price index (CPI) OECD (2011)

average income of the richest 10 % of the population is about nine times that of the poorest 10 % – a ratio of 9:1. However, the ratio varies widely from one country to another. It is much lower than the OECD average in the Nordic and many continental European countries, but reaches 10:1 in Italy, Japan, Korea, and the United Kingdom” (OECD 2011, p. 22). The highest inequality was reached in the in the USA with about 14:1 (Table 3.2).

“Increases in household income inequality have been largely driven by changes in the distribution of wages and salaries, which account for 75 % of household incomes among working-age adults. With very few exceptions (France, Japan, and Spain), the wages of the 10 % best-paid workers have risen relative to those of the 10 % lowest paid. This was due to both growing earnings’ shares at the top and declining shares at the bottom although top earners saw their incomes rise particularly rapidly. Earners in the top 10 % have been leaving the middle earners behind more rapidly than the lowest earners have been drifting away from the middle” (OECD 2011, p. 23).

Taking the period from 2000 to 2011 we have to recognize that because of the crisis since 2008 the top earners and capital owners lost income positions, too. Nevertheless, comparing the upper 20 % with the lowest 20 % as income ratio, the difference is still enormous. On the average the factor of what the richest earned more than the poorest quintile was lowest in Czech Republic with 3.4, followed by the Nordic countries (with 3.8–4.3), Germany, Austria, Slovenia and Belgium had a middle position between 4.3 and 4.9; Netherlands, France and Ireland indicated

Table 3.3 Redistribution effects 2009

| Country | Original income | Disposable income | Redistributive effect: reduction in Gini (%) |
|------------|-----------------|-------------------|--|
| Romania | 0.38 | 0.35 | 7 |
| Bulgaria | 0.36 | 0.33 | 7 |
| Spain | 0.35 | 0.32 | 7 |
| Latvia | 0.40 | 0.37 | 7 |
| Lithuania | 0.39 | 0.36 | 9 |
| Cyprus | 0.32 | 0.28 | 11 |
| Poland | 0.36 | 0.31 | 12 |
| Greece | 0.38 | 0.33 | 13 |
| Estonia | 0.36 | 0.31 | 13 |
| Italy | 0.37 | 0.32 | 14 |
| Slovakia | 0.30 | 0.25 | 16 |
| Portugal | 0.42 | 0.35 | 17 |
| UK | 0.40 | 0.32 | 19 |
| France | 0.37 | 0.30 | 19 |
| Germany | 0.37 | 0.29 | 20 |
| Malta | 0.35 | 0.28 | 21 |
| Denmark | 0.34 | 0.27 | 22 |
| Luxembourg | 0.38 | 0.29 | 23 |
| Czech Rep | 0.33 | 0.25 | 23 |
| Austria | 0.34 | 0.26 | 24 |
| Belgium | 0.35 | 0.26 | 24 |
| Sweden | 0.33 | 0.25 | 25 |
| Finland | 0.36 | 0.26 | 28 |
| Slovenia | 0.33 | 0.23 | 30 |
| Ireland | 0.41 | 0.29 | 30 |
| Hungary | 0.36 | 0.25 | 32 |

Source: European Commission: Employment and Social Developments in Europe 2011, Nov. 2011, p. 85

factors between 5.1 and 5.7. Spain, Greece and Italy showed a factor of 6.0–6.5. The worst rise in inequality was seen in Britain with an average growth of 7.2.

Following the goal of the welfare state to reduce inequality by redistribution (via taxation and social transfers) we have to face an opposite tax policy since the late 1980s favouring the rich and companies by enormous tax relief. The different impact of redistribution on the Gini-coefficient is demonstrated in Table 3.3 shown by two recent studies.

Both case studies highlight the likely regressive impacts of cuts in expenditure on social services. Thus the crisis and the general political response in the spirit of austerity policy had a worsening impact on the goal of more equality.

As the data show the redistribution policy aiming at reducing the original income inequality is very different throughout the EU. At the top with about 25–32 % of reduction effects were countries like Hungary, Slovenia, Ireland, Belgium and the Nordic countries. At the end with only 7 % of reduction were Bulgaria, Romania,

Table 3.4 Material deprivation 2010 in %

| | | | |
|----------------|------|----------------------|------|
| Sweden | 3.9 | Italy | 15.9 |
| Luxembourg | 4.1 | Ireland ^a | 17.1 |
| Denmark | 6 | Cyprus ^a | 21.2 |
| Netherlands | 7.2 | Estonia | 22.3 |
| Finland | 8.4 | Portugal | 22.5 |
| Austria | 10.6 | Greece | 24.1 |
| Germany | 11.1 | Slovakia | 24.9 |
| Belgium | 12.3 | Poland | 28.4 |
| France | 12.6 | Lithuania | 36 |
| Spain | 13.2 | Hungary | 39.9 |
| United Kingdom | 13.4 | Latvia | 46.1 |
| Malta | 14.7 | Romania | 49.2 |
| Czech Republic | 15.1 | Bulgaria | 55.6 |
| Slovenia | 15.8 | | |

EU Commission: Employment and social development in Europe 2011, Nov. 2011, p. 29

Latvia and Spain. Nevertheless, despite the redistributive policies the Gini-coefficient of the disposable income remained unacceptable.

A closer view to living conditions of the poor is provided by showing their material deprivation. Measures incorporate such indicators as missing ability to pay their rent, mortgage or utility bills, keep their home adequately warm, face unexpected expenses, eat meat or protein regularly, and go on holiday. In addition, access to the internet and possessing a car is out of reach and thus endangering adequate living conditions. How different this material deprivation throughout the Member states is, can be shown by Table 3.4, indicating that the worst living conditions are in Bulgaria, Romania and Latvia, where nearly half of the population suffers from material deprivation, whilst in the Nordic countries, the Netherlands and Luxembourg this percentage of disadvantaged groups is below 10 %.

Seventeen percent of Europeans suffer from material deprivation, i.e. their living conditions are severely affected by a lack of resources. Thus, even after social transfers the poverty risk and the material deprivation in the EU remained unacceptable high. It is hard to believe, but one in every six Europeans lives below the poverty threshold. As many as seven million people in Europe survive on less than € 5 a day.

Those most at risk of poverty include the elderly, large and single parent families, children and young people, those with disabilities and those from ethnic minorities including Europe's 10 to 12 million Roma communities. Across all these groups women are more exposed to poverty and social exclusion than men.

Eighty million people in the EU – 16 % of the population – live on less than 60 % of their country's average household income. 19 % of children in the EU are also currently in or at risk of poverty (Fig. 3.2).

Welfare systems reduce the risk of poverty by 38 % on average in the EU, but this impact varies from less than 10 % to nearly 60 % across the EU. Before the crisis in 2008 Fig. 3.3 shows the multiple indicators of social exclusion with 49.6

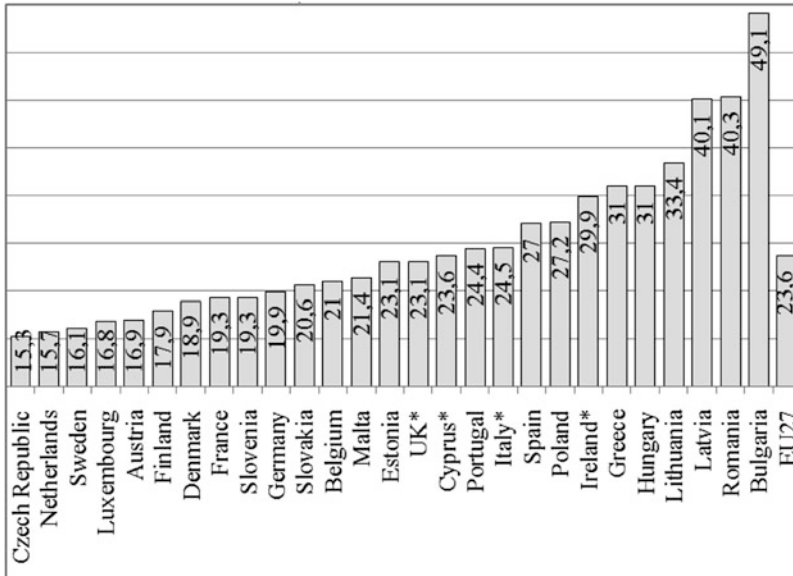


Fig. 3.2 At risk of poverty after social transfers 2011 (http://europa.eu/geninfo/legal_notices_en.htm, last update 14.11.2012. Threshold 60% of median equalised income after social transfers)

million inhabitants at risk of poverty; 17 million jobless and 19 million hit by severe material deprivation. The challenge for adequate responses is enormous, the more because a majority in all member states complain about missing policies to combat inequality.

This rising inequality gave a lot of concern. In a recent Eurobarometer survey, 64 % of EU respondents gave a negative judgement on the way inequalities and poverty are addressed in their countries, with only one country (Luxembourg) having an overall positive opinion. Outside Luxembourg there is no member state where people think that inequalities and poverty are handled better than they were 5 years ago. Unsurprisingly, the share of people who are discontented with the way inequalities and poverty are handled (“total bad”) now is highest in countries that have been strongly affected by the crisis, notably in Greece (90 %), Latvia and Lithuania (89 %), Romania (87 %), and France (81 %) (EU Commission 2012a, p. 29). Dissatisfaction reached very high levels in a majority of countries. A predominantly negative assessment of trends over the last 5 years complements the bleak picture (Table 3.5).

“It should be noted that like certain previous cases cited, the gap between countries at the top and countries at the bottom of the scale has also widened since last year, and ranged from 0.4 in Luxembourg to –5.8 in Romania. The high negative response to this question follows the geographical patterns noted in the ranking for other questions, with the Benelux and Nordic Member States appearing near the top of the list with positive or slightly negative scores” (Special Eurobarometer 2011, p. 93).

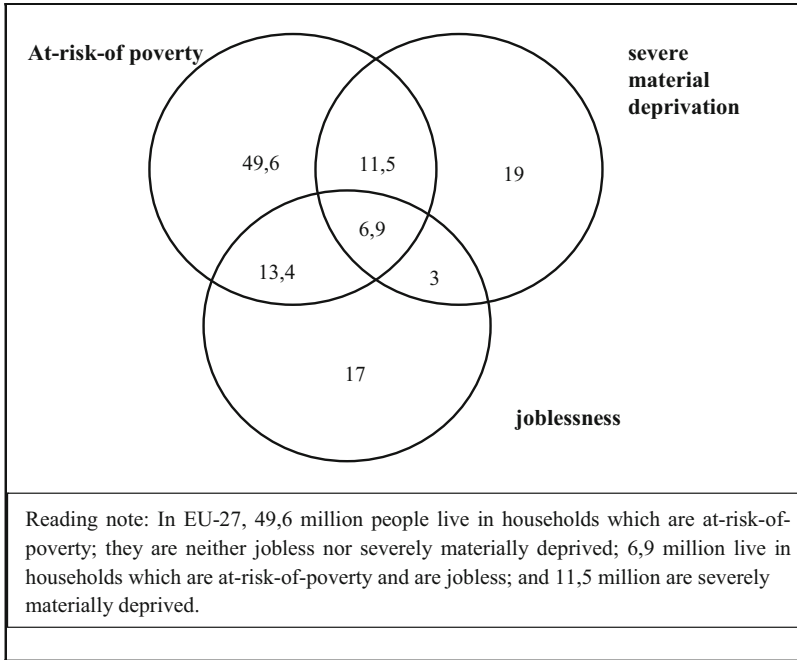


Fig. 3.3 Multiple indicators for social exclusion (Source: Eurostat: Income and living conditions in Europe 2010, p. 127)

In general, the rising inequality is by far the consequence of a shift from a welfare state to a “workfare state” and from a Keynesian strategy of public intervention to market dogmatism. Its impact on the future of the European economy and on the future of well-being of its citizens and public support for a democratic system is harmful. As Joseph Stiglitz put it: “The inequality is cause and consequence of the failure of the political system, and it contributes to the instability of our economic system, which in turn contributes to increased inequality – a vicious downward spiral into which we have descended, and from which we can emerge only through concerted policies. (. . .) The virtue of the market is supposed to be its efficiency. But the market obviously is not efficient. The most basic law of economics – necessary if the economy is to be efficient – is that demand equals supply. But we have a world in which there are huge unmet needs – investments to bring the poor out of poverty, to promote development in less developed countries in Africa and other continents around the world, to retrofit the global economy to face the challenges of global warming” (Stiglitz 2012, pp. xi, xii).

Table 3.5 How would you judge the way inequalities are addressed in %

| | Very good | Rather good | Rather bad | Very bad | <i>Don't know</i> |
|-------------|-----------|-------------|------------|-----------|-------------------|
| Luxembourg | 7 | 51 | 26 | 5 | 11 |
| Austria | 8 | 39 | 40 | 8 | 5 |
| Malta | 6 | 42 | 31 | 9 | 12 |
| Finland | 2 | 33 | 52 | 10 | 3 |
| Sweden | 3 | 39 | 44 | 10 | 4 |
| Germany | 2 | 27 | 51 | 11 | 9 |
| Denmark | 5 | 37 | 44 | 12 | 2 |
| UK | 3 | 38 | 37 | 12 | 10 |
| Netherlands | 4 | 39 | 41 | 13 | 3 |
| Belgium | 4 | 32 | 47 | 15 | 2 |
| Italy | 4 | 29 | 49 | 15 | 3 |
| Portugal | 1 | 15 | 62 | 15 | 7 |
| Spain | 3 | 26 | 51 | 16 | 4 |
| Slovenia | 1 | 25 | 54 | 17 | 3 |
| Slovakia | 2 | 19 | 57 | 18 | 4 |
| Cyprus | 2 | 29 | 46 | 19 | 4 |
| EU27 | 2 | 25 | 48 | 19 | 6 |
| Ireland | 3 | 28 | 38 | 20 | 11 |
| Poland | 1 | 21 | 49 | 20 | 9 |
| Czech Rep. | 1 | 24 | 50 | 23 | 2 |
| Estonia | 0 | 17 | 52 | 26 | 5 |
| Bulgaria | 0 | 11 | 53 | 27 | 9 |
| France | 1 | 15 | 52 | 29 | 3 |
| Lithuania | 0 | 5 | 53 | 36 | 6 |
| Hungary | 0 | 14 | 46 | 37 | 3 |
| Romania | 0 | 8 | 44 | 43 | 5 |
| Greece | 1 | 8 | 46 | 44 | 1 |
| Latvia | 1 | 6 | 42 | 47 | 4 |

Source: Special Eurobarometer No 370 on 'Social climate', data collected June 2011 Annexes, 8

3.1.2 *The Role of Redistributive Policy*

“Redistribution by the welfare state seems, at any rate from the perspective of the social democratic paradigm, to be a matter bringing profit under the fiscal control of the state. This power is currently declining, chiefly because of the growing global mobility of capital and people. In democratically constituted states, the state’s fiscal control dependence on popular consent and practical everyday loyalty, whose legitimation often refers back to solidarity semantics (. . .), so that solidarity become seen as the legitimating foundation of state redistribution” (Kaufmann 2012, p. 317).

Despite the long tradition of protecting the weak, covering everyone’s basic risks, and promoting individual and social development by a welfare state of the European kind which is financed by fair taxation, the political class in Europe pursued its neo-liberal preferences. The majority of governments put priority on reflecting the demands of employers, reduced taxes on income from capital and

helped build an extensive low wage sector whilst the problem of a weak domestic market, stemming from stagnating wages over more than a decade, was neglected.

During the last decades tax relief measures in the spirit of supply-side theories were implemented. The shift to neo-liberalism can be explained by the rising influence of employers' organisations, the right-wing mass media, a majority of economic advisers and political parties making use of the new uncertainties of global competition by urging governments to deregulate the existing labour market arrangements and to minimize the tax burden on profits. Additionally, trade unions were put under pressure to reduce wage costs. The growing dominance of this new economic philosophy was fuelled by a profound economic crisis of so-called Fordism (including mass production by assembly-line technology, high growth rates, rising wages, acceptance of trade unions, development of the welfare state and state interventionism in the spirit of Keynes). This crisis is rooted in the lower GDP growth rates in the early 1970s in most Western countries where record levels of supply in many market segments was confronted with a deceleration in the dynamic of post-war demand. This downward demand-side was worsened in the 1970s by the dramatic upsurge in oil prices in 1973–1974. Nearly everywhere the GDP fell as global demand declined and as the terms of trade deteriorated because of the rise in petroleum prices. This downward economic trend was accompanied by a rise in unemployment. The price increases emanating from OPEC countries led to rapid break-downs in consumption and intensified the so-called stagflation (stagnation with simultaneous inflation). The USA, as “engine of the world economy,” experienced additional inflationary effects through the Vietnam War. This wave of price increases, together with other factors, brought about the end of the so-called “Bretton-Woods-System” of fixed exchange-rates. This in turn caused a change in economic policy, generating the first wave of a world-wide liberalisation of financial markets and confronting the nation states and export-oriented companies with the new situation that exchange-rates were determined by the operations of free capital markets. The reaction of transnational corporations to fiercer global competition after the end of the post-war boom and to the new uncertainties of floating exchange rates, with the assistance of the US government, brought about the end of Fordism.

This economic crisis coincided with the rebirth of market dogmatism or the economic ideology of supply-sidism favoured by its idols like Milton Friedman (1962) and his Chicago school. Market-radical thinkers like Friedman and von Hayek have always either ignored or denied any threat to social cohesion and the resulting consequences for undisturbed economic growth. According to their view, freedom can only be secured through the limitation of the state to merely guaranteeing the free market order and stable prices and the liberation of economic dynamics. As early as 1944 Friedrich August von Hayek warned in his work ‘The Road to Serfdom’ (von Hayek 1944) against redistribution of the social product in the name of equality. Indeed, Hayek and others strictly demand that, in order to promote progress and economic growth, the rich should be treated moderately while the poor should not be supported. For Friedman welfare systems are the worst type of state intervention, being a fraud at the expense of all those who still go

to work and pay taxes. Progressive income taxation with the aim of redistributing income is, according to him, an imposition and diametrically opposed to personal freedom. From this perspective he advocates low proportional income tax (Friedman 1971, p. 207). From the perspective of market dogmatism, union wage demands in addition endanger any improvement in employment opportunities, even if these demands remain within the boundaries of neutral distribution provided by inflation and the development of productivity. Accordingly, Hayek rather sees inequality itself as an incentive for the poor to achieve more, with the luxurious life-style of the rich as a goal to which they can strive. If the rich are visibly better-off than the poor, an 'evolutionary process' is set in motion, since the poor also wish to acquire riches. For this reason, tax burdens imposed on large fortunes are vehemently rejected as economically and socially senseless measures of redistribution. High rates of taxation are adjudged to paralyse the preparedness of individuals and businesses to invest, and hence hinder economic activity; furthermore they would produce a flight from taxation and into the black economy. The freeing of the principle of profit-maximisation as the individual impetus for wealth creation was thus supposed to take priority over any commitment by the state to satisfy the needs of the masses.

This message was received with considerable enthusiasm by governments. The Reagan administration as well as Thatcher in Britain and, in the end, other European administrations, orientated their economic policy according to this supply-side advice, starting in the 1980s with the result that state redistribution, mainly the effect of tax policy, favoured capital and produced a stagnation of wage income positions. Cutting back the welfare state, privatising public enterprises, deregulation and minimising production costs through wage and tax reductions were henceforth considered adequate strategies for surmounting the economic crisis caused by low GDP-rates and high unemployment.

The transnational corporations became the key economic actors after the mid-1980s, as they could obtain substantial cost savings through world-wide outsourcing. This produced a new dimension of globalisation, because TNCs were increasingly able to escape any form of political control. A purely national framework of taxation and also labour market regulation will invariably fail if the players assess the costs and risks as too high and instead take advantage of their exit options. International institutions like the European Union (EU), the Organisation for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), the World Trade Organisation (WTO) were weighty promoters of this process. Their measures have raised globalisation of the economy to new levels, which no nation state can ignore. Increased competition among companies and locations took place, exposing regions and even cities increasingly to the international economy, subjugating governments through the apparently neutral interplay of market forces and limiting increasingly the possibility for countries to develop their national economies independently. On the whole, the new politico-economic strategies since the mid-1970s have spurred world economic integration and the international division of labour. Market opportunities have increased, but competition is also growing. Therefore this form of economic globalisation highlights a

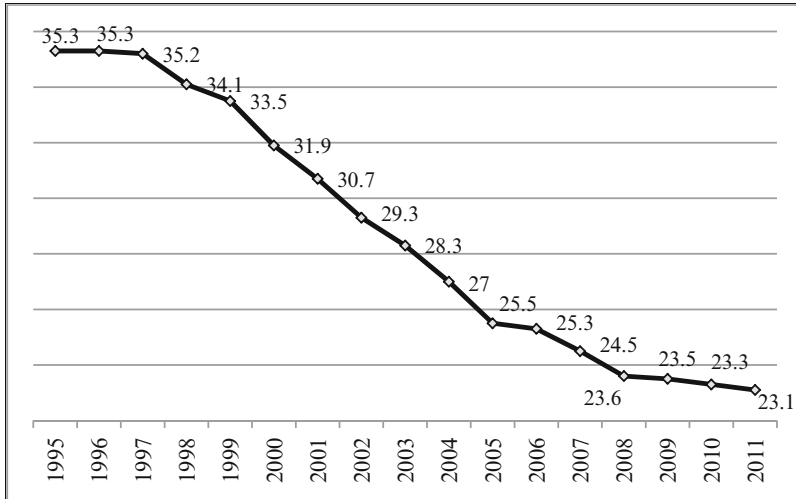


Fig. 3.4 Development of adjusted statutory tax rate on corporate income (Eurostat: Taxation trends in the EU 2013, p. 38)

shift of decision-making power from the state to the market, and from the welfare state to the ‘competition’ state.

Because of the worsening economic conditions the governments proceeded to implement new policies to reduce its role in the economy, following neo-liberal concepts. The broad policy included several main objectives: to reduce the federal deficit by cutting both expenditures and taxes, to reduce government restrictions and regulations, and to improve the flexibility of the labour market.

This race to the bottom of taxation on profits was publicly announced as necessary to protect the competitive position of the country as a location for global capital flows and to guarantee further investments in employment. Examining the results, the effects remained nevertheless poor (Fig. 3.4).

There is empirical evidence that the top-down re-distribution, favouring capital returns, was a flop. The so-called reforms (which is a reinterpretation of the former positive meaning of the word) had no clear positive effect on improving the sluggish economy. Low growth rates and high unemployment persisted, despite massive tax reductions for the better-off and for companies.

From an economic perspective, the poor results are not surprising: faced with the stagnation of domestic private and public demand, entrepreneurs behaved as could have been expected: there was no obvious reason to increase capacity through investments to meet static demand. Furthermore, despite rising rates of return overall, investments in real capital yielded increasingly lower returns than financial investments. The alternative then was to use additional accumulated profits for speculative purposes (qua casino capitalism), which was ultimately one of the factors behind the current finance crisis. So far, tax policy and redistribution favouring top incomes and incorporated businesses has clearly compounded the

crisis. Government's tax gifts helped to increase the net returns of capital, but failed to encourage investments in jobs, favouring capital market investments instead.

With regard to different income groups the benefits of the tax reform in the period since the 1990s clearly indicate that millionaires were the great winners, whereas the mass income groups gained only marginally. Furthermore, redistributive policy did not prevent a widening gap between rich and poor, which would have required more adequate social transfers and a corresponding tax policy. Not only private but additionally public poverty has grown, because the state forewent too much revenue, which enforced further cuts in the social security system, led to increasing privatisation of former publicly run enterprises (like water works, local energy supplies and traffic systems), and worsened the state's ability to invest in future infrastructure (above all in education).

Because of lower state revenues, further state expenditure to safeguard the social net would have led to rising indebtedness, which on the other hand would contravene the Maastricht criteria. Under these conditions the political class looked for ways to cut social expenditure, being additionally under stress because of high unemployment and the exploding costs of the health system. In the face of lower state revenue and driven by the ideology private is better than public, many formerly publicly funded activities were divested through denationalization and privatisation. The sale of public businesses and also the considerable restriction of public investments was a consequence of the financial crisis, essentially caused by the described impacts of tax policy, albeit the ideological effect of market-orthodox ideas should not be overlooked. As a consequence, many areas of provision with necessary goods and services were privatized, like the local provision of affordable accommodation for socially disadvantaged families, of water services, public transportation systems, and waste disposal. In the context of denationalization, the assumption of greater efficiency from competition between private operators has been proven in many cases to be an illusion. Where a local monopoly was replaced by a private monopoly, as happened in many areas, this assumption can be regarded as absolutely questionable. The pressure to generate short-term profitability often encourages private operators to undertake only absolutely necessary investments. The share-holders insist on high profits realized through low costs – often through dismissals, low wages, price increases and the postponement of necessary investments. Altogether, outsourcing to private enterprises or even public-private-partnerships is accompanied by a loss of political and democratic control. Critics therefore demand that local self-administration, with its extensive competencies and responsibilities in relation to the local community, should keep its core functions and handle privatization proposals very cautiously.

Of course, reduced rates of income and profit taxes certainly can have a positive effect on demand and production. However, the resulting additional revenues for treasury and social security cannot necessarily match the original tax receipt losses. Reductions of taxes erode public budgets but hardly stimulate economic growth. These findings are the results of a study of the Institut für Makroökonomie und Konjunkturforschung (Institute for Macro-economics and Economic Research, IMK). IMK tax expert Achim Truger estimates that a lowering of direct taxes is

Table 3.6 Difference in the adjusted top statutory tax rate on corporate income 1995–2013

| | | | |
|-------------|-------|----------------|--------------|
| Hungary | +1.0 | Latvia | −10.0 |
| Malta | 0.0 | Luxembourg | −11.7 |
| Finland | −0.5 | Greece | −14.0 |
| France | −0.6 | Lithuania | −14.0 |
| Spain | −5.0 | Cyprus | −15.0 |
| Estonia | −5.0 | Slovakia | −17.0 |
| Sweden | −6.0 | Poland | −21.0 |
| Belgium | −6.2 | Czech Republic | −22.0 |
| Slovenia | −8.0 | Romania | −22.0 |
| Portugal | −8.1 | Italy | −24.7 |
| Austria | −9.0 | Germany | −27.0 |
| Denmark | −9.0 | Ireland | −27.5 |
| UK | −10.0 | Bulgaria | −30.0 |
| Netherlands | −10.0 | EU-27 | −12.3 |

Source: EU-Commission, Taxation trends in the European Union, edition 2013, p. 38

only 25 % self-financing. No positive effect remains, if the state reduces expenditure at the same time, in order to avoid the higher indebtedness to compensate for tax reductions. If austerity strategies are put into practice, fiscal policy has negative impacts on economic growth, instead of promoting it. As a rule of thumb: If the state reduces wage and income taxes by approximately €10 billion, then economic performance rises by only approximately €5 billion. At the same time the gross domestic product sinks by more than €10 billion, if the state finances the shortfall in revenue by expenditure cuts. The tax reduction thus either intensifies the recession or the pressure for consolidation. From the experience of the past, it is quite clear that the consolidation strategy “failed dramatically”, according to Truger (2010). With respect to this harder regulation it is clear that the government will look for areas in which expenditure cuts will not mobilize strong and powerful opponents or harm the interests of its specific electorate. That is why Liberals demanded further tax rebates for the high performers in businesses, which are identified as their special clients.

In a comparative view we see that only Hungary increased tax rates on corporate income whilst the average in the 27 member states of the EU reduced the tax load on big business by −11.8 % (see following table) (Table 3.6).

Because of the negative results of the one-sided redistribution policy we need a change of the course toward an adequate tax system which is fair and sufficient to cover wanted and needed public expenditures without a permanent increase in debt. Any plan to lower taxes will inevitably raise future consolidation needs. Especially the wealthier income earners and corporations should pay enough with regard to their higher income and returns. Under the current circumstances this restructuring of a sustainable tax system would only minimize the savings of the rich and therefore would have no harmful effects on the demand-side. The neo-liberal counterargument is then that this will be a “punishment” of the rich which would stimulate migration to tax havens. Surely, that might be the consequence in some

cases, however not all capital would and could flee because there are other factors which are positive for Europe as a location, like its well trained workforce, the high level and high quantity of research institutes in many member states all of which are in many cases of higher importance than taxes as a cost factor. Last but not least, all personal services, which need face to face provision can't move without losing their consumers, and the service sector is by far the largest one.

To sum up, in contrast to the social objectives of the EU the welfare states did not keep to their heritage but exercised a redistributive policy which widened the gap between rich and poor. This result in turn is endangering the social cohesion as well as economic goals by not adequately investing in infrastructure and education as necessary precondition for further sustainable development and last but not least being a threat to democracy. From the experience of the past, it is quite clear that the consolidation strategy failed dramatically.

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Chapter 4

Economic Aspects of Fighting Inequality

Dieter Eißel

Abstract Social peace and productivity are dependent to some extent on decent work including among others access to the labour market, fair pay and secure working conditions. States should therefore stop deregulation of the labour market and guarantee minimal wages on which workers, employees and their families could live on. In addition, fighting discrimination of women and better support for children with problems at school, too, is aside its social goal supportive to gain more qualified workforce, necessary facing the ageing society in Europe. Of course, the most challenging development is the high unemployment, mainly in the peripheries of the EU. Therefore, social policy meets at the same time economic goals. Yet they need adequate financing which is endangered by austerity policies. Yet savings by cuts in welfare expenditures will be out-weighted by the negative impacts of wasting talents, of less number of qualified workforces and the economic effects of minor satisfaction in a not well-functioning welfare state.

4.1 Reducing Inequality and Disadvantages to Support Social Peace

In general, to fight the market impacts concerning insufficient income positions by tradition of the welfare state aim not only to help the poor workers but should guarantee social peace and a higher acceptance of the capitalist state by the potentially revolutionary Labour movement. But even without the threat of a strong Labour movement – welfare states which do not fight against inequality may contribute to a declining satisfaction and identification with the system and thus can have negative impacts on productivity. In societies where the workforce feels fairly treated the percentage of those who identify with their working conditions is

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higher than societies where the workforce are only treated as cost factors. Decent work, employee motivation and job satisfaction have remarkable influence on increasing productivity (Vasiliou 2010).

Reducing inequality and poverty thus is not only a social task but will gain economic objectives and in addition helps to reach European cohesion to avoid harmful migration effects for both parts: depopulation in poorer regions as a hindrance for future development of the economy, when the better educated young generation has already left the region. At the same time there is the threat of over-agglomeration in the better-off regions facing rising traffic problems and increasing prices for flats and houses. So far the cohesion policy of the EU could by means of regional funds help to avoid these problems.

Too large a gap between poverty and riches is always a cause of discontent. Improving the living conditions and environment of the disadvantaged ghettos in the towns could contribute to stabilise social peace, being an additional factor in the decision planning of companies for definite locations. Social justice is a key element for mass loyalty, whilst inequality and a widening gap between the rich and the poor is a hindrance for accepting the political system. Thus, fighting poverty may contribute to social peace in the society. This is the rationale behind the concept of John Rawls (1973) on social justice. According to him, those who are favoured by the system must only enjoy their advantages to the extent to which this improves the position of the disadvantaged as well. John Rawls in his (liberal) theory of justice pointed out that inequality is to be tolerated only within specific limits and above all with fairness in social communication and equality of opportunity, if system integration is not to be jeopardized. Furthermore, where there are conflicts between the rich and the poor businesses could be in danger, too. Working on social peace by improving the image of the poor and their living conditions in socially disadvantaged townships (ghettos) therefore will raise at the same time the attractiveness of a city for foreign investors. So far, improving the conditions of the poor and their housing area, respectively reducing the negative image of social hotspots could help avoiding social conflicts and might provide security for those who want to engage economically. Local authorities and NGOs which have the will and the clear target to improve the living conditions and the environment of the disadvantaged citizens furthermore could be more successful in surmounting destructive attitudes of the socially disadvantaged residents if they don't behave in a patriarchal way. When the citizens of the township would have the opportunity to engage into affairs of their own (planning phase and executing, constructing) they could feel as useful members of the local society, and maybe first time in their life find the chance of developing self-trust following the concept of empowerment in the sense of Amartya Sen (1999). Some experiences show that more successful strategies of improving the living conditions of the poor were dependent on their own engagement. At the same time, engaging the better-off citizens and NGOs in projects with the socially excluded citizens will help to create a spirit of solidarity. Networking brings people together and helps to better understand each other. "The maintenance of social cohesion must be our single highest priority in a future of mounting economic and environmental challenges" (Heinberg 2011, p. 269).

4.2 Inequality as a Hindrance to Economic Growth

Mainly Keynes suggested an additional perspective, by drawing attention to the disadvantages for demand-led economic development as a result of a great inequality in distribution. Keynes rejected one-sided redistribution of riches not just for moral but also economic reasons. The view is that a too wide distribution gap results in the rich increasingly saving up their income instead of spending it for investment purposes, while the poor lack sufficient income and thus also purchasing power. In this case the general demand for investment and consumer goods will decline and thus growth will be limited. This is the reason why Keynes had concerns about increasing social inequality, even though he would not have called for a levelling of society. “Yet, whenever ‘over-saving’ by the rich coincided with a lack of mass purchasing power capitalism enters a situation of crisis, as ‘people normally and on average are inclined to increase their consumption with increasing income, but not to the full measure of this increase’” (Keynes 1936, p. 83). In the face of relative declining demand and unfavourable future prospects entrepreneurs will not be willing to invest. Even if the increased sum of savings is offered as credit at very low rates of interest, this will not produce any major changes. According to Keynes the neoclassical assumption of stability based on the assumed mechanism of equilibrium between supply and demand via a flexible price mechanism is blind in the face of reality. In his perspective the crisis can only successful be overcome if drastic steps are taken to “stimulate the inclination for consumption through income redistribution or other measures,” (Keynes 1936, p. 272) thus reviving the prospects for profitable investment. Classical economists considered an increase in production to be the fundamental conditions of wealth and progress, however, for Keynes the question of distribution was central. From his perspective inequality can have two disadvantages for growth rates: if there is too great an imbalance it will endanger the preconditions for higher general prosperity and potentially also risk social harmony as a general condition for the acceptance of the market economic system and thus also its efficiency.

Those, arguing in this demand-led way have to meet hard opposition of so-called neo-liberals, which better should be named market dogmatists, having influenced the majority of the political class in nearly all industrialised countries. The concept of Adam Smith’s ‘invisible hand’ and free market was repackaged as a new American model neglecting Smith’s message in his *Theory of Moral Sentiments*: “Of the corruption of our moral sentiments, which is occasioned by this disposition to admire the rich and the great, and to despise or neglect persons of poor and mean condition.¹” The radicalization of liberal theory wanted to take a market-based approach to all kinds of hitherto untouched policy areas. “What became known as economics imperialism saw methodological individualism, the focus on the rational actor pursuing his self-interest in the marketplace, being applied by scholars like Friedman, Stigler, Buchanan and Gary Becker in the realms of education, public

¹ Adam Smith, *Theory on moral sentiments*, 1759, Part I, Section III, Chapter III, Title.

administration, crime and even the family. This expansion of free market radicalism born in Chicago and Virginia sharpened and clarified the neoliberal political message. But the idea that it rested on classical liberal foundations was a myth. What the Chicagoans and their political followers were engaged in was an entirely new kind of state-sponsored reform of the economy. This reform drew on several further myths. The first of these was the idea that tax cuts would increase wealth that would trickle down into more jobs and rising incomes for all. In fact in both Britain and the United States we saw rising inequality, income stagnation as well as large numbers of unemployed among much of the population. The second was the myth that deregulation would free up important sectors and foster a more dynamic economy. Governing parties of all political stripes followed the deregulatory policies advocated by Stigler and others. The 'dynamism' of self-interest led directly to the catastrophic financial crisis of 2008" (Jones 2013, p. 1).

However, conservative and even parts of social-democratic governments followed the messages of market-radical theoreticians that welfare corrections of property and income relations produced by the market are harmful. "Redistribution is another area in which a series of measures have caused more damage than it could be made good by counter-measures" (Friedman 1971, p. 227). For Friedman the Keynesian message for the state to over-come the endogenous crisis of capitalism through suitable anti-cyclical policies is a fateful error. For Friedman welfare systems are the worst type of state intervention, being a fraud at the expense of all those who still go to work and pay taxes. Progressive income taxation with the aim of redistributing income is, according to him, an imposition and diametrically opposed to personal freedom. From this perspective he advocates low proportional income tax (Friedman 1971, p. 207). Furthermore, from the perspective of market dogmatism, union wage demands in addition endanger any improvement in employment opportunities, even if these demands remain within the boundaries of neutral distribution provided by inflation and the development of productivity. For this reason, tax burdens imposed on large fortunes are vehemently rejected as economically and socially senseless measures of redistribution. High rates of taxation are adjudged to paralyse the preparedness of individuals and businesses to invest, and hence hinder economic activity; furthermore they would produce a flight from taxation and into the black economy. The freeing of the principle of profit-maximisation as the individual impetus for wealth creation was thus supposed to take priority over any commitment by the state to satisfy the needs of the masses. According to the neoliberal view, freedom can only be secured through the limitation of the state to merely guaranteeing the free market order and stable prices and the liberation of economic dynamics. As early as 1944 Friedrich August von Hayek warned in his work "The Road to Serfdom" (1944) against redistribution of the social product in the name of equality. Friedman and von Hayek have always ignored any threat to social cohesion and the resulting consequences for undisturbed economic growth. Indeed, they strictly demand, in the name of freedom and prosperity for all, that the rich should be treated moderately while the poor should not be supported, as this would contribute more to progress and economic growth. If the rich are visibly better off than the masses it should spark off a 'process of evolution', because poor people also want to gain wealth. The poor are driven by relative

poverty to the economic improvement of their life, while the rich as the elite have to demonstrate their prosperity to spur on the poor. Greater equality is, therefore, according to von Hayek not only robbing the rich but will also hit the poor.

This message has been received with considerable enthusiasm by the US-government under Reagan, whose response to the economic crisis in the US like recommended by the Chicago school of Friedman and von Hayek was: “government is not the solution to our problems – it is the problem.” To re-establish a sound economy the Reagan administration was slashing taxes, reducing government programs like energy research and social insurance with general adherence to a free-market course through deregulation. Both Bush governments continued this course with the result of growing inequality with income growth primarily occurred at the top 1 % of the income distribution whilst those at the “bottom and in the middle are actually worse-off today than they were at the beginning of the century” (Stiglitz 2012, p. 25).

Also the Thatcher government in Britain and, last but not least, the Pinochet dictatorship in Chile has applied these theories in their economic policies. In the end the World Bank and the International Monetary Fund (IMF) have also followed these supply-side theoretical goals by their Washington Consensus of 1990. Their principles encompassed liberalization of foreign trade and finances (market-opening), price-regulation of the market (deregulation of the national economy), reduction of social subsidies, fighting inflation, and privatizing of public companies (Williamson 2003, pp. 10–13).

However, with growing poverty, especially in developing countries, and a global division between the rich and poor, such market-dogmatic positions have increasingly been exposed to criticism (Eissel 2008). Despite these critics with regard to the debt crisis in numerous countries of the Eurozone and the dominating strategies to surmount the crisis again austerity policy following the neoliberal spirit is perceived by conservative governments and the Troika (IMF, European Central Bank, EU-Commission) as the relevant tool. Yet examining the short-term effects of fiscal consolidation on economic activity researchers of the IMF (Guajardo et al. 2011) could show that the changes in fiscal policy motivated by a desire to reduce the budget deficit and not by responding to prospective economic conditions had negative results. They suggest that fiscal consolidation has contradictory effects on private domestic demand and GDP. By contrast, estimates based on conventional measures of the fiscal policy stance used in the literature support the expansionary fiscal contractions hypothesis but appear to be biased toward overstating expansionary effects. The conventional wisdom on the neoliberal campaign trail is “that tax cuts can cure economic ill—the lower the tax, the higher the growth rate” (Stiglitz 2010, p. 197). However if a society wants to have good health, education, roads, and social protection, these public services have to be paid for, and that requires high taxes. The case of Sweden clearly indicates – that even having one of the highest per capital incomes – their welfare state supported an ‘innovative society.’ “Better social protection combined with good education and job retraining meant, that their economy could be more flexible and adjust to shocks more quickly, receiving higher levels of employment” (Stiglitz 2010, p. 197).

Social protection and its impacts on social, economic and political issues is different in various countries. It is paid not only by social transfers but in addition by tax allowances. Yet attitudes toward the people in need and the extent of solidarity in a society are important, too. “The maintenance of social cohesion and the challenge of building or maintaining community solidarity must be our single highest priority in a future of mounting economic and environmental challenges with the poor more exposed to it” (Heinberg 2011, p. 267).

“The basic idea, which is common to welfare economics, is that of weighting the various non-monetary dimensions of quality of life (beyond the goods and services that are traded in markets) in a way that respects people’s preferences.” (Stiglitz et al. 2009, 42 nr. 67) The EU, obviously is willing to keep to the welfare heritage of European history and to its citizens’ preferences, nevertheless, concerning the EU strategies we find elements of the neo-liberal dogma, too, indicating contradictions of the general objectives.

4.3 Fighting Unemployment and Gaining Employability

Fighting inequality concerning gender and low educated citizens does not only follow mere social goals but help at the same time, if successful, to gain more qualified workforce which is needed facing low birth rates throughout Europe and following the specific demand of an economy which increasingly based on science. So far providing more places for institutional child care will at the same time allow young mothers to enter the labour market; a comparable goal can be found when the EU urges the member states to drop the line of early school leavers under 10 %. Better educated young generation would have minor problems to enter the labour market and they are needed in future (OECD 2011b).

Although millions of new jobs have been created in the EU, millions of people are still unable to find work. The most dramatic increases of unemployment have taken place in transition countries such as Poland and Slovakia, but still are very high in countries which are seriously hit by the economic crisis. At the dawn of the twenty-first century, high unemployment is still the most serious economic and social problem for nearly all member states. One in every 10 EU citizens is looking for work in vain. The figures of unemployment remain unacceptably high and in a lot of cases it is endemic even throughout increasing growth rates. Unemployment is one of the most harmful problems of social exclusion. We know that currently countries like Spain, the south of Italy (‘mezzogiorno’) and Greece suffer from an unemployment rate of about 25 % (Fig. 4.1).

In most cases women are more affected by unemployment than men. And more than half of all jobseekers have been unemployed for over a year. Some population groups have special difficulties on the labour market: the long-term unemployed, young people, older jobseekers, persons with disabilities, women, and ethnic minorities, like the Turks in Germany or Roma in Romania, Bulgaria, and Hungary. The worst case is youth unemployment with ratios of about 40–50 % in Spain, in parts of Italy, and in Greece. In 2012 youth unemployment reached a historic high

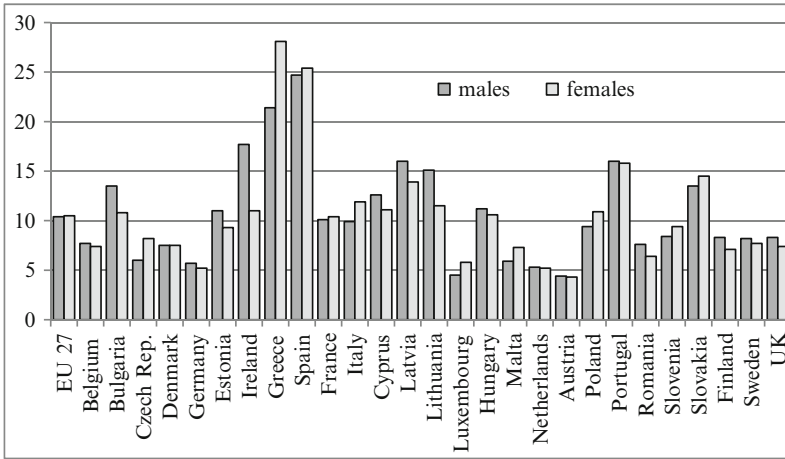


Fig. 4.1 Unemployment rates 2012 in % of active population (Source: Eurostat last update 21.5.2013 <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdec450>)

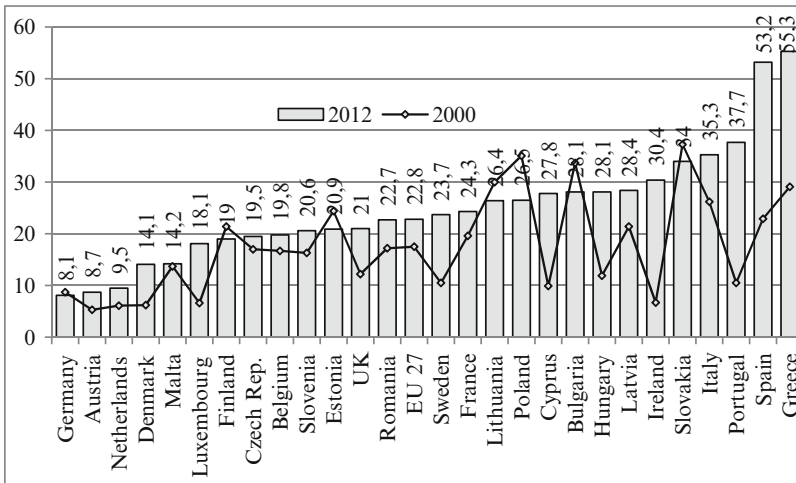


Fig. 4.2 Youth unemployment (less than 25 years) (Source: Eurostat last update 21.5.2013 <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdec460>)

of 5.5 million in the EU. Youth unemployment is even worse than general unemployment before it destroys a positive outlook at the start to a work life, eradicates any hope and leads in some cases to rising criminality and burning suburbs like in Paris. 13.2 % of youth, i.e. 7.5 million was at significant risk of detachment from the labour market. Being neither in education nor in a paid work (NEET) this young people is endangered as a lost generation (Fig. 4.2).

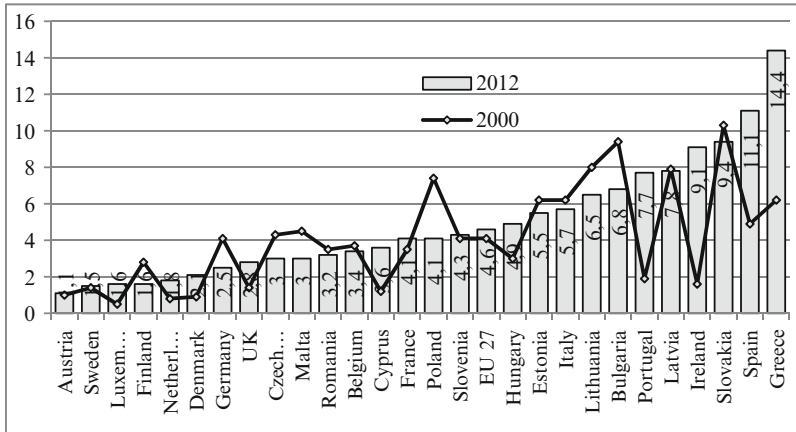


Fig. 4.3 Long term unemployment 2000 and 2012 (% of active population) (Eurostat, <http://epp.eurostat.ec.europa.eu> download 31.5.2013)

Another serious problem is long-term unemployment which is accompanied with rising problems of reintegration to the labour market. “The crisis has led to in-cresed risks of long-term exclusion from the labour market and society. In a number of countries, large unemployment shocks have led to a significant increase in the number of people having to rely on unemployment benefits and social assistance” (EU Commission 2011, pp. 29, 30). The highest increases were observed in Ireland, Spain, Greece and Portugal (see Fig. 4.3), countries which are severely hit by the current economic crisis and the austerity policy.

Globalization and the development toward a science based economy has winners and significant numbers of losers which failed to adequately meet the challenges from technical change, economic reform and global integration, even when overall measured poverty falls. This is harmful for both the individuals and the society. Unemployment is identified as the primary source of poverty and it is waste of talents and relative shortage of production of goods and services.

The EU’s objective is therefore not just to draw attention to the role of safety nets as generalized compensation mechanisms but to ensure that more jobs are created in the EU and to provide better opportunities on the labour market for the population groups which up to now have been at a disadvantage. “Exclusion imposes unjustifiable and avoidable costs on society. The Lisbon strategy’s response – a European social agenda – is to provide basic skills for all, promote employment for those who are able to work and ensure adequate social protection for those who cannot. This approach recognises the role of well-developed social protection systems in reducing poverty and promoting employment and employability, as well as the need for such systems to be modernised to ensure their long-term sustainability in the face of an ageing population” (EU Commission 2003).

Despite relatively high unemployment there is a contrasting fear of not having enough qualified workforces in near future. Facing this threat, the EU and its member states have to undertake all efforts to increase the employment rate of its population, which mainly is addressed to work longer in old age, engage in a better education and life-long learning, and to win more young mothers for the labour market. “At present, Europe finds itself at a crucial crossroads facing both internal and external challenges. On the one hand, Europe must address the challenge of ageing populations which in the long-run will result in a considerable shrinking of the working-age population while increasing the share of retired persons. Unless the decline in the size of the workforce is compensated by increases in labour productivity, potential growth will drop dramatically to around 1 % by 2040, which is only half of the current level. Such a decline in economic performance together with a rise in age-related expenditures would put the European social model under considerable stress. On the other hand, the increased pace of globalization has exposed the EU economy to mounting competition from abroad. The range of economic activities exposed to external competition has widened, now including the production of both high-tech and labour intensive goods and services. (...) Against this background important decisions need to be taken which will determine Europe’s economic and social future.²” To increase the activity rate which is about 10 % below the one in the USA not only is an eminent objective to provide more job opportunities and by it the chance to pace over the poverty line, but is additionally necessary when facing an ageing society. Promoting better entrance to the labour market and supporting equal gainful activity of both men and women – especially for single parents by better institutional child care (all-day kindergartens and all-day schools) to improve the compatibility of family and work-and last but not least active policies for occupation by training courses for long-term-unemployed (mostly low skilled workers) are crucial targets not only to combating income poverty but also to increase the needed skilled workforce. In addition, job creation and support for start-ups, better management for job-seekers is of importance. “Not only do we need more workers to finance pensions and health care, but we also need to avoid wasting the talent and opportunities offered to Europeans – this is damaging both to individuals and society as a whole. We must help young people to get started in working life and older workers to profit from active ageing strategies, in other words measures for enhanced training, vocational retraining and financial incentives to prolong working life. Adequate child-care facilities will help women of child-bearing age to participate in the labour market” (Barroso 2006). So far, Barroso, the head of the EU-Commission put it quite clear: To gain a higher activity rate and better trained workforce in a knowledge based economy, three groups are perceived as additional labour resources, which need to be mobilised: Low educated people, single mothers, and elderly people.

² ec.europa.eu/growthandjobs/pdf/COM2005_330_en.pdf, p. 2

Economic independence is highly reliant on employment. “The Lisbon European Council in 2000 set a target of 70 % for the employment rate that was to be achieved by 2010. In 2009, employment rates above 70 % were recorded in five of the member states (the Netherlands, Denmark, Sweden, Austria and Germany). In contrast, employment rates below 60 % were recorded in Malta, Hungary, Italy, Romania, Poland and Spain. Employment rates vary considerably not only across but also within the Member states according to regional patterns, with a relatively high dispersion (17.4 %) observed across Italy (as measured by the coefficient of variation for regions at the NUTS two level) in 2009. In contrast, there was relatively little divergence in employment rates across the regions of Greece, Austria, Portugal, Sweden, the Netherlands or Denmark (all below 4 %). The dispersion of regional employment across the whole of the EU-27 declined, as the coefficient of variation fell from 12.1 % to 11.8 % between 2004 and 2009” (Eurostat 2011b, p. 228).

Concerning the Europe 2020 headline target even 75 % of the population aged 20–64 and with no difference between men and women should be employed by 2020. “With an employment rate reaching 75.1 % for men and 62.1 % for women, it is broadly agreed that the EU can only reach the goal if there is a clear commitment to gender equality. Twelve EU member states (SE, DK,NL,DE,CZ, CY,LU, MT, AT,PT,UK,EL) have already reached the target which has been set for male employment; however, when it comes to women, the vast majority of member states have still not reached the 75 % target. Moreover, if employment is measured in full-time equivalent, figures show that, in several countries, less than half of the female workforce is employed. The availability of childcare services seems to play an important role in determining these figures” (EU Commission Staff 2011, pp. 3, 4). As Fig. 4.3 clearly shows, employment rates of women are – outside the Baltic States – remarkably below the ones of men. To reduce this lower access of women to the labour market not only is a demand for equal rights for both sexes but in addition helps to increase the supply with well-educated workforce. Mainly in the focus as labour reserve are young mothers, which are on the average better educated than the males but have in a lot of cases no chance to enter the labour market, because of missing institutional child care. Thus, improving compatibility of family and work of parents and above all for single mothers by more and better child care institutions would fight both poverty and gain additional qualified workforce and an increasing activity rate (see Chap. 7 in this book) (Fig. 4.4).

Another group in discussion concerning the threat of missing qualified workforce in near future is the elderly people which should work longer before retirement. At the moment this group is not so much affected by poverty; nevertheless, this may change in near future because of more precarious work conditions (more low wages sectors, long interrupts of activity and phases of unemployment). Concerning the later entrance to pension of the elderly workforce there is a broad discussion about its practical implementation. Of course, in several occupations a longer stay in the labour market could be possible but there are other jobs which can scarcely be executed by elderly people like in hard work (on the roof, in steel production etc.). Thus, some argue that the postponing of entrance to pension would

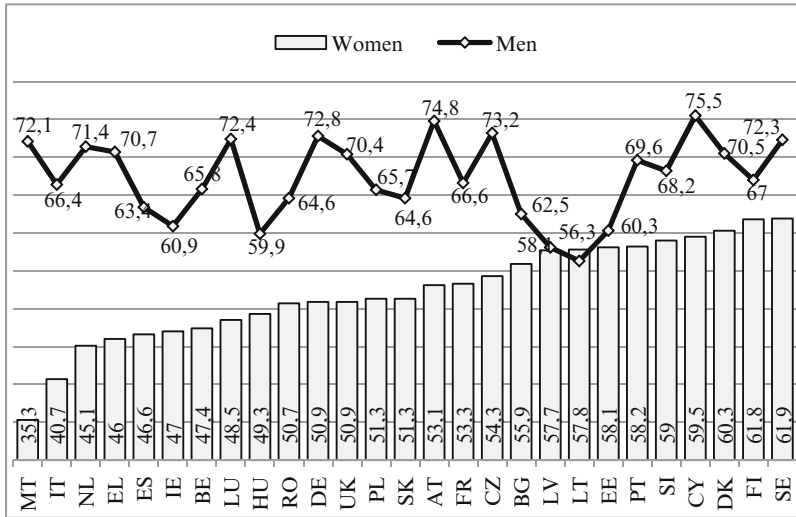


Fig. 4.4 Employment rates (women and men aged 15–64) measured in full-time equivalent rates, in EU Member states – 2010 (EU Commission Staff Working Document: Progress on equality between women and men in 2011, Brussels 16.4.2012, 40)

only lead to a shortening of pensions when not reaching the necessary years of work-life.

The third category of how to enlarge the number of workforce – outside immigration, which is not tolerated in most of the countries – concerns those young people with very low school levels and therefore do not meet the demand in an economy being more and more based on science.

Most of the EU states suffer from a high number of early school leavers which are at high risk of poverty, because they hardly can enter vocational training and therefore fail to find a well-paid job but are threatened by long-term unemployment. Because of a narrow link between income poverty and low educational performance, success concerning minimizing the drop-out rates would help both the individuals and the society, respectively the future labour market demand. Providing more and better educational support and training opportunities (aiming at employability), thus could enlarge the number of qualified workforce.

4.4 Reducing the Number of Early School Leavers

The EU clearly had noticed that the trend of opportunities to find a job for low educated people will be increasingly negative. That’s why the Commission decided a benchmark of 10 % of early school leavers which every member state should reach. The rates of early school leavers vary considerably across the member states with proportions above 30 % in Malta, Spain and Portugal contrasting good scores

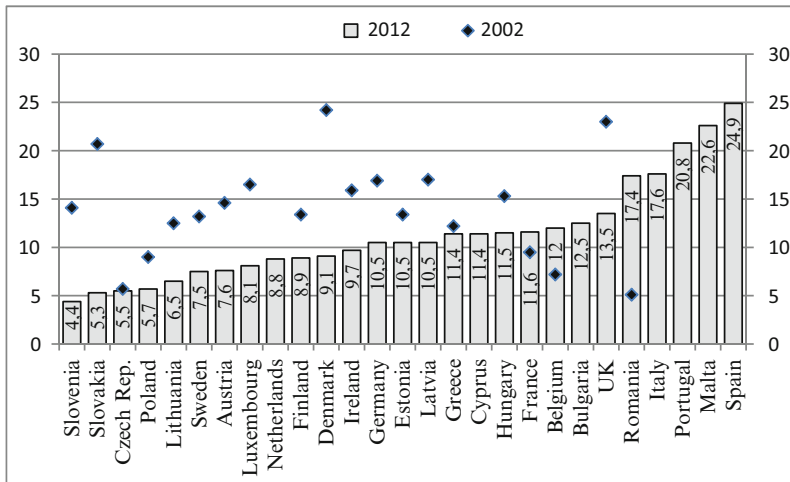


Fig. 4.5 Early school leavers 2002–2012 in der EU. Percentage of the population aged 18–24 with less than upper secondary education and not in education or training (http://ec.europa.eu/education/school-education/leaving_en.htm)

in former socialist countries such as Slovakia, Poland, Slovenia and Czech Republic of about 5 %. Nevertheless, it is crucial for EU’s social heritage and the future competition to realise higher education of all (Fig. 4.5).

Following the publications of CEDEFOP on skills supply and demand in Europe low-skilled people will be the losers in the trend towards a knowledge-based society.³

“The labour market is undergoing significant structural shifts in occupations and skills needs, both in the short term as a result of sector shifts during the recession, and due to the trend towards high and medium-level qualifications, driven by the growth in knowledge and skill-intensive occupations. (...) At the same time, the technological upgrading of occupations may reduce the employment opportunities of low-qualified people who have lost their jobs” (EU Commission 2011, p. 31). In general, in a dynamic economy, educational services may be especially important. “To be able to function in a complex society requires a minimum level of education, better education may enhance technological advancement and it may also facilitate adaptation to rapidly changing environments” (Schettkat 2012, p. 291).

Yet to reach the goal of better education the member states with bad school success of their young generation should enlarge their expenditure on education, which is in danger concerning the current finance crisis and its impacts on public budgets following the Maastricht criteria.

³ http://www.cedefop.europa.eu/EN/Files/9059_en.pdf

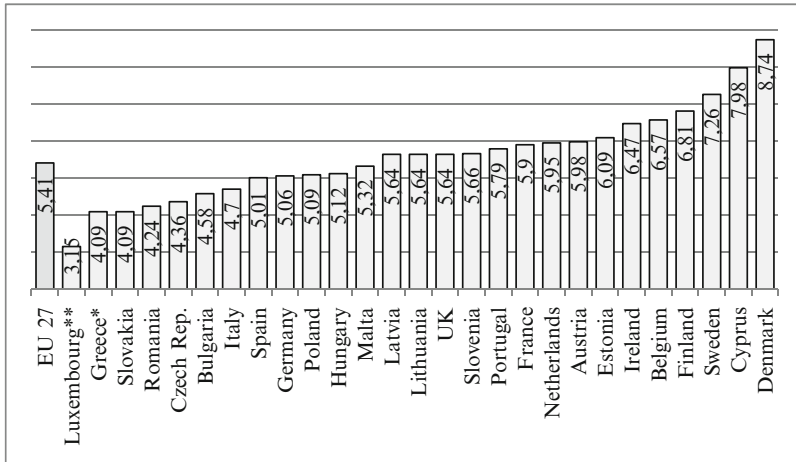


Fig. 4.6 Total public expenditure on education as % of GDP 2009 (*2005; **2007; Source: <http://epp.eurostat.ec.europa.eu>, last update 24.5.2013)

“High quality education and training are essential if Europe is to make a speedy recovery from the most severe economic and financial crisis for 50 years. Qualified people with the right skills can boost the European Union’s economy by leading innovation and improving competitiveness. However, as a result of the financial and economic crisis, public finances in all Member States are under great pressure. Governments are seeking ways to reduce budget deficits and manage public debt without dismantling the foundations of sustainable growth. While no direct link can be established between the level of funding of the education systems and student’s learning outcomes, there is a general understanding that investing in high quality education and training should continue to be a priority. Nevertheless, the sector is not immune to austerity measures, particularly in countries where the need for short-term fiscal consolidation is greatest” (Fig. 4.6).⁴

4.5 The Challenge of Working Poor

Access to the labour market is the main tool to step out of the poverty line. Nevertheless, we have to face the fact that a rising number of workers do not gain enough wage to pay for their living. They have to receive in addition social aid by the state and face poverty after retirement (Table 4.1).

⁴European Commission/EACEA/Eurydice, 2013. Funding of Education in Europe 2000–2012: The Impact of the Economic Crisis. Eurydice Report. Luxembourg: Publications Office of the European Union, p. 7.

Table 4.1 In-work-poverty 2010 as % of workforce

| | | | |
|-----------------|------|-----|-----|
| RO | 17.3 | DK | 6.6 |
| EL | 13.8 | IT | 6.6 |
| ES | 12.7 | SE | 6.5 |
| FR | 12.7 | EE | 6.4 |
| LT | 12.3 | MT | 5.9 |
| PL | 11.4 | SK | 5.6 |
| LU | 10.6 | IE* | 5.4 |
| LV | 9.7 | HU | 5.3 |
| PT | 9.7 | SI | 5.3 |
| EU 27 | 8.5 | NL | 5.1 |
| BG | 7.6 | AT | 4.9 |
| DE | 7.2 | BE | 4.5 |
| CY ^a | 7 | CZ | 3.7 |
| UK ^a | 6.7 | FI | 3.6 |

^a2009; EU Commission: Employment and social development in Europe 2011, Nov. 2011, p. 27

Furthermore, we witness very different wages throughout the EU, leading to migration of the better trained and flexible workforce to countries or regions with higher wages. Last but not least, to be paid far below the average might lead to decreasing interest in work and thus reduce productivity. As key drivers of changes in wage inequality we can outline the following impact on overall earnings inequality, which was identified by a regression analysis in 22 OECD countries (OECD 2011a) (Fig. 4.7).

“Globalization has been much debated as the main cause of widening inequality. From a political point of view, protectionist sentiments have been fuelled by the observation that the benefits of productivity gains in the past two decades accrued mainly – in some cases, exclusively – to highly skilled, highly educated workers in OECD countries, leaving people with lower skills straggling. From a conceptual point of view, the standard reading of traditional international trade theory is that increased trade integration is associated with higher relative wages of skilled workers in richer countries, thus contributing to greater inequality in those countries. However, evidence as to the role of globalization in growing inequality is mixed” (OECD 2011a).

A number of international cross-country studies find trade integration to have increased inequality in both high-wage and low-wage countries, which is at odds with traditional trade theory. Other studies, by contrast, suggest that rising imports from developing countries are actually associated with declining income inequality in advanced countries.

Recently, some leading trade economists, such as Krugman and Helpman (1989) have changed judgment from their earlier views that the effect of trade on inequality was modest at best: they now consider that globalization may have had a more significant impact on the income distribution in the United States through trade and other channels, such as foreign direct investment (FDI) and offshore activities.

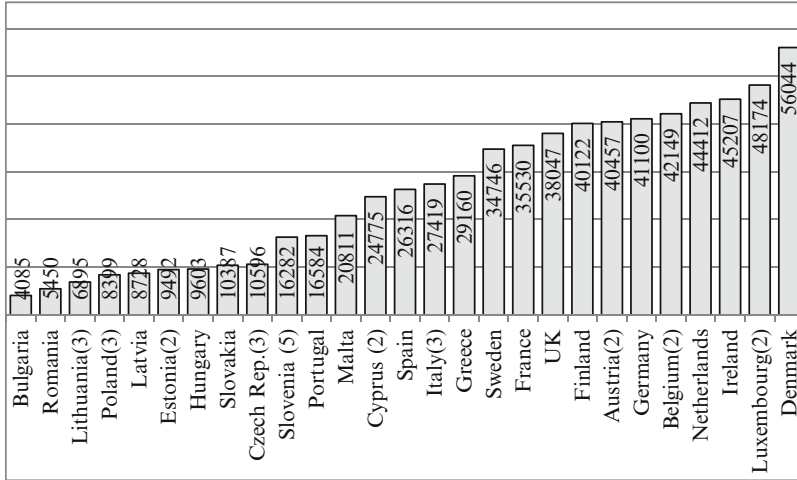


Fig. 4.7 Average gross annual earnings of full-time employees in enterprises with ten and more employees 2009 ((2) all enterprises; (3) all enterprises; full-time units; (5) with more than 10 employees, full-time units; Source: epp.eurostat.ec.europa.eu)

Next to globalization, there are, however, other equally plausible explanations for the growing inequality in the distribution of market income. Technological progress in particular is often cited. For example, advances in information and communication technology (ICT) are often considered to be skill-biased and, therefore, an inequality-increasing factor. Some studies put the ICT revolution at the forefront of their explanation of inequality: A research working paper of IMF for example, found that technological progress had a greater impact than globalization on inequality within countries: “Technological progress alone explains nearly 0.35 % of the 0.45 % annual average increase in the Gini-coefficient from the early 1980s (...). Globalization and financial deepening together contributed another 0.1 % a year” (Jaumotte et al. 2008, p. 13).

Others underline the effect of technical change: “But as best we can tell, the increase in inequality probably is due to a number of factors, notably including technological change that seems to have favoured higher-skilled workers more than lower-skilled ones” (Bernanke 2008). In practice, however, it is very difficult to separate technological change from globalization patterns that also increase the value of skills. “Finally, policy choices, regulations, and institutions can have a crucial impact. They can shape how globalization and technological changes affect the distribution of income. They can also influence income distribution directly, e.g. through deregulation in product markets, changes in social transfers, wage-setting mechanisms, or workers’ bargaining power. However, connecting these factors with overall earnings inequality and household income inequality is not straightforward, as regulatory and policy reforms may have counteracting effects on employment and wage inequality among workers” (OECD 2011a, pp. 23, 24, 26).

To sum up, technological progress and less strict employment protection legislation increased the inequality of earnings, whilst an increased educational level reduced it. Other factors like trade integration, foreign direct investments and deregulation indicate an insignificant effect. Declining union coverage, product market deregulation and declining unemployment benefit replacement rates had both decreasing and increasing effects in different countries and thus indicate different assumptions.

The EU slogan of ‘more and better work’ is the right vision to fight poverty and secure the inherited European welfare system. Better work is aimed at equal pay for women, acceptable and healthy working conditions and a pay on which the employees and workers can live on without further welfare support. Additionally, a better pay not only enlarges the general demand side through increasing purchasing power of the lower income groups and by it has positive effects on the economic growth but, in addition, fair and acceptable wages are supportive to gain higher identification with the company and with the work and is stimulating by it more productivity.

Economic activity is therefore seen in the context of economic motivation, which is endangered with the development of a share-holder society. Shareholders define labour as a cost factor and have the intention to depress wages in favour of profits. This disregard of the innovative forces of employees and their stimulation and identity as good workers can develop decline concerning productivity and product quality. Despite the economic literature hardly discusses the possibility of the reduction in wage levels causing a lower willingness and/or opportunity for economic performance, it is evident that there is a relationship between the workers’ willingness to perform and the degree to which they consider the conditions of work and pay to be adequate. However, the conditions of ‘corporate identity’ and of pride in one’s work as well as its product which can act to increase productivity can be undermined by wage pressure and the permanent threat of dismissal (Vasiliou 2010).

The enforced situation of having to accept any work at any wage level and under any working conditions is, nonetheless, considered in workfare models as the decisive instrument encouraging individuals to escape the poverty trap through their own effort. In this view reductions in income are, therefore, seen as a means to force individuals to take up work to make their living without having to rely on the support of the welfare state. This view dominates the debate on the motivation for taking up work. The poor, according to this view, can only be driven to adequate economic activity as a result of material pressure, while the rich will only exert themselves for economic growth and general prosperity if they have sufficient expectations of profits. Increased inequality is thus not only taken into the bargain as a way out of economic crisis, but it is also presented as the only alternative. The widespread argument is that increased global competition to attract the inflow of capital increases the pressure for supply-side policies, i.e. policies which are driven by profit interests. So far this market-radical position sees in material risk the sole and sufficient motivation for economic activity of the disadvantaged unemployed and poor. However, this fails to take into consideration the fact that the disadvantaged poor are not able to improve their destiny by themselves. Public support for

Table 4.2 Minimum wage – EUR per month 2012

| | | | |
|------------|---------|----------------|---------|
| Belgium | 1443.54 | Luxembourg | 1801.49 |
| Bulgaria | 138.05 | Hungary | 295.63 |
| Czech Rep. | 310.23 | Malta | 679.87 |
| Denmark | No | Netherlands | 1446.6 |
| Germany | No | Austria | No |
| Estonia | 290 | Poland | 336.47 |
| Ireland | 1462.85 | Portugal | 565.83 |
| Greece | 876.62 | Romania | 161.91 |
| Spain | 748.3 | Slovenia | 763.06 |
| France | 1398.37 | Slovakia | 327 |
| Italy | No | Finland | No |
| Cyprus | No | Sweden | No |
| Latvia | 285.92 | United Kingdom | 1201.96 |
| Lithuania | 231.7 | | |

Eurostat: http://eurostat.ec.europa.eu/portal/page/portal/statistics/search_database, last update 25.9.2012

employability through promoting more and better educational and vocational training is a precondition for entering the labour market.

In cases, where the states provide insufficient work protection and deficient welfare, the legislation should stop the wage race to the bottom and introduce minimum wages. This would help to end social dumping and competition with lowest pay and stop the necessity of additional subsidies for the working poor by the welfare system (Table 4.2).

Those countries having not introduced minimum wage schemes – like the Nordic states, Germany and Austria – may in part claim for a well-functioning welfare system which protects against poverty, but the reality for example in Germany shows that the welfare state does not longer meet this challenge with millions of full-time workers being dependent on additional social aid to cover their minimum living standards. That's why in some occupations minimum wages are already introduced but not on a general level.

Furthermore, the ending downfall of wages will contribute to more income for both the individual worker and the state because of higher receipts in form of more taxes and social contributions. Last but not least it would be a contribution to stabilize the demand side. Because of widespread disadvantage of female workers their situation is of special interest. "Women's economic opportunities and empowerment remain severely constrained" (HDR 2011, p. 61).

4.6 Gender Inequality

United Nations Development Programme (UNDP) designed the Gender Inequality Index to show the loss in human development due to inequality between women and men. It measures women's disadvantages in three dimensions: reproductive

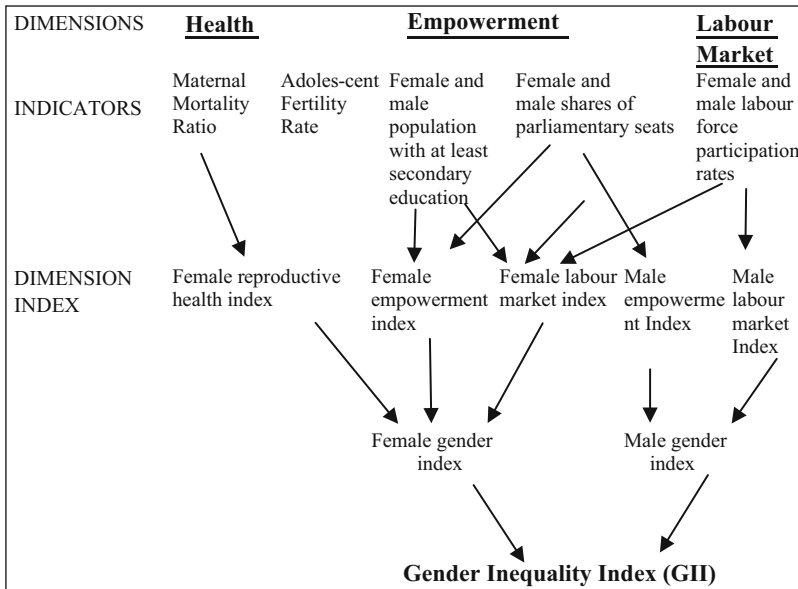


Fig. 4.8 Gender inequality index (GII) (Source: Human Development Report 2011, p. 166)

health, empowerment and the labour market. “The index shows the loss in potential human development due to inequality between female and male achievements in these dimensions. It varies between 0 – when women and men fare equally – and 1, where one gender fares as poorly as possible in all measured dimensions” (HDR 2011, p. 171) (Fig. 4.8).

The data shows that Ireland, The Netherlands, Sweden and Germany are among the 10 countries that score highest in the world. Indeed, the EU has been at the forefront of gender equality policy and has also contributed to promoting gender equality beyond its borders (Table 4.3).

The low index in the Nordic countries, Netherlands, and Germany goes along with a relatively high employment status of women in these countries, whilst the high rank of France is due to its better coverage of childcare services (Table 4.4).

On the whole, reconciling work, family and private life is still a great challenge for many European women, here again showing Denmark, Sweden, Netherlands, and France at the top. Mainly young mothers need institutional child care to have the chance for entering the labour market. The labour market participation of mothers is 12.1 % points lower than that of women without children, while the rate for fathers is 8.7 % points higher than that for men without children. Because of a negative outlook concerning the need for qualified work forces in an ageing society with low birth rates this situation has to be changed (Fig. 4.9).

A further problem of gender inequality is the pay gap. There are a number of complex and often interrelated factors that explain the existence of the gender pay gap (EU Commission Staff 2011, p. 15):

Table 4.3 Gender inequality index 2011

| | | | |
|----|-------|----|-------|
| SE | 0.049 | PL | 0.164 |
| NL | 0.052 | LU | 0.169 |
| DK | 0.06 | SI | 0.175 |
| FI | 0.075 | LT | 0.192 |
| DE | 0.085 | SK | 0.194 |
| FR | 0.106 | EE | 0.194 |
| BE | 0.114 | IE | 0.203 |
| ES | 0.117 | UK | 0.209 |
| IT | 0.124 | LV | 0.216 |
| AT | 0.131 | HU | 0.237 |
| CZ | 0.136 | BG | 0.245 |
| PT | 0.14 | MT | 0.272 |
| CY | 0.141 | RO | 0.333 |
| EL | 0.162 | | |

Source: Human Development Report 2011, p. 139

Table 4.4 Activity rates of men and women 2011 (20–64 years)

| | Women | Men | | Women | Men |
|------------|-------|-----|--------------|-----------|-----------|
| Malta | 43 | 79 | <i>EU 27</i> | 62 | 75 |
| Greece | 49 | 71 | Portugal | 65 | 73 |
| Italy | 50 | 73 | France | 65 | 74 |
| Hungary | 55 | 67 | Slovenia | 65 | 72 |
| Spain | 56 | 68 | Latvia | 66 | 69 |
| Romania | 56 | 70 | Lithuania | 67 | 68 |
| Slovakia | 58 | 73 | Cyprus | 67 | 80 |
| Poland | 58 | 72 | Estonia | 68 | 74 |
| Ireland | 60 | 69 | UK | 68 | 79 |
| Bulgaria | 61 | 67 | Austria | 70 | 81 |
| Czech Rep. | 62 | 80 | Germany | 71 | 81 |
| Luxembourg | 62 | 78 | Netherlands | 71 | 83 |
| Belgium | 62 | 73 | Finland | 72 | 76 |
| Malta | 43 | 79 | Denmark | 72 | 79 |

Source: Statistisches Bundesamt Deutschland 2012, p. 9

The path to equal pay therefore is strewn with many obstacles. The EU Commission is on the right way to meet the problems for it tries to raise the public awareness of the pay discrimination of women by introducing a European Equal Pay Day. The first day took place on 5 March 2011 and marked the 64 days women had to work more in 2010 to earn a man's average annual pay. The 'European Equal Pay Day' will be held each year and the date will change according to the latest GPG figure. In 2012, Equal Pay Day fell on 2 March.

There are a number of complex and often interrelated factors that explain the existence of the gender pay gap (EU Commission Staff 2011, p. 15):

1. Direct discrimination: Some women are paid less than men for doing the same job. This factor only explains a small part of the gender pay gap, due to the effectiveness of the European Union and national legislation.

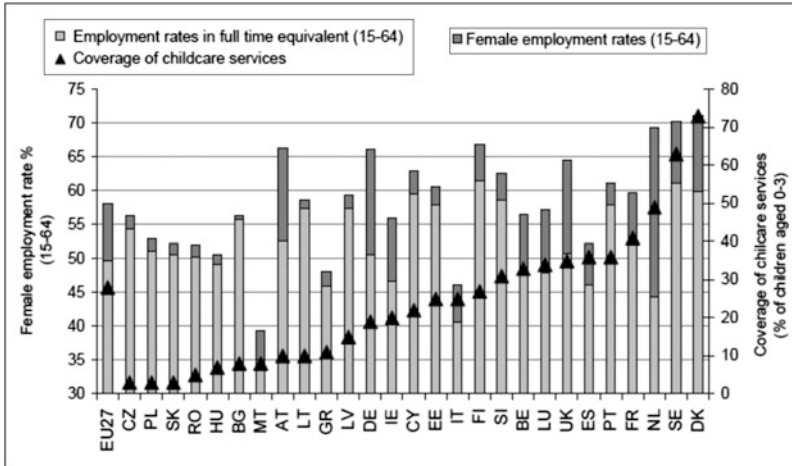


Fig. 4.9 Female employment and coverage of childcare services (Source: Commission Staff Working Document, Progress on equality between women and men in 2011, Brussels 16.4.2012, p. 5)

2. The undervaluing of women's work: More frequently women earn less than men for doing jobs of equal value. One of the main causes is the way women's competences are valued compared to men's. Jobs requiring similar skills, qualifications or experience tend to be poorly paid and undervalued when they are dominated by women rather than by men. For example, the (mainly female) cashiers in a supermarket usually earn less than the (mainly male) employees involved in stacking shelves and other more physical tasks. In addition the evaluation of performance, and hence pay level and career progression, may also be biased in favour of men. For example, where women and men are equally well qualified, more value can be attached to responsibility for capital than to responsibility for people (Fig. 4.10).
3. Segregation in the labour market: The gender pay gap is also reinforced by the segregation in the labour market. Women and men still tend to work in different jobs. On the one hand, women and men often predominate in different sectors. On the other hand, within the same sector or company women predominate in lower valued and lower paid occupations. Women often work in sectors where their work is lower valued and lower paid than those dominated by men. More than 40 % of women work in health, education and public administration. This is twice as much as the share of men in the same sectors. When we look at the health and social work sector alone, 80 % of those working in this sector are women. Moreover, women are frequently employed as administrative assistants, shop assistants or low skilled or unskilled workers – these occupations accounting for almost half of the female workforce. Many women work in low-paying occupations, for example, cleaning and care work. Women are under-represented in managerial and senior positions. For example, women represent

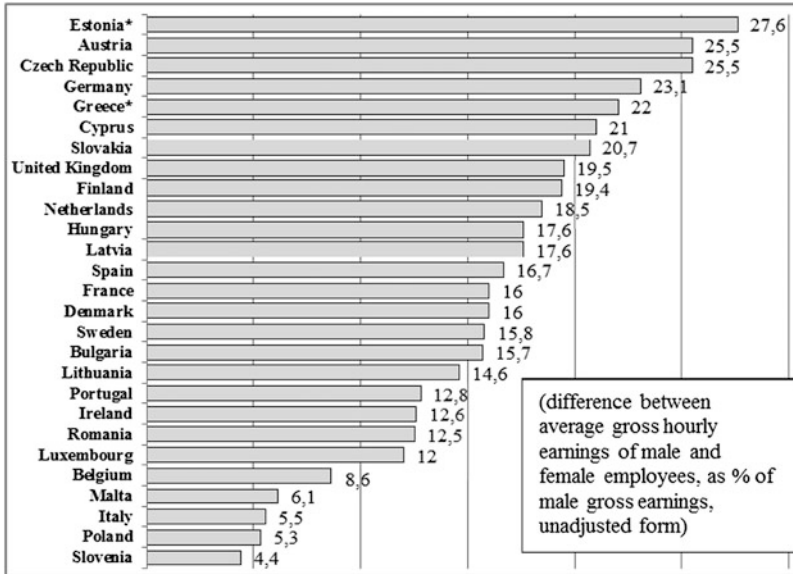


Fig. 4.10 The gender pay gap 2010 (*2009 Eurostat, Last update: 25.06.2012; http://europa.eu/geninfo/legal_notices_en.htm)

only 32 % of managers in companies within the EU, 10 % of members of management boards of the largest companies, and 29 % of scientists and engineers across Europe.

4. Traditions and stereotypes: Segregation is frequently linked to traditions and stereotypes. Whilst in some cases this may reflect personal choices, traditions and stereotypes may influence, for example, the choice of educational paths and, consequently, professional careers that girls and women make. While 55 % of university students are women, they are a minority in fields like mathematics, computing and engineering. Only 8.4 in 1.000 women aged 20–29 are graduates in mathematics, science and technology compared to 17.6 men. Consequently, there are fewer women working in scientific and technical jobs. In many cases this results in women working in lower valued and lower paid sectors of the economy. Because of these traditions and stereotypes, women are expected to reduce their working hours or exit the labour market to carry out child or elder care.
5. Balancing work and private life: Women experience greater difficulties than men when it comes to balancing work and private life. Family and care responsibilities are still not equally shared. The task of looking after dependent family members is largely borne by women. Far more women than men choose to take parental leave. This fact, together with the lack of facilities for child care and elder care, means that women are often forced to exit the labour market: the employment rate for women with dependent children is only 62.4 % compared with 91.4 % for men with dependent children. Although part-time work may be a

personal choice, women have greater recourse to part-time work in order to combine work and family responsibilities. There is evidence of pay gap when looked at from the differences in hourly earnings of part-time and full-time workers. Across Europe over one-third of women work part-time, compared to only 8 % of men. More than three-quarters of the total of part-time workers are women. Consequently, women have more career interruptions or work shorter hours than men. This can impact negatively on their career development and promotion prospects. It also means less financially rewarding careers.

The European Commission is planning a 2-year communication campaign aimed at attracting and retaining more women in scientific careers, at showing them that they can have a successful career and that science can benefit from a higher participation of women.

“The equal participation of women and men in decision-making processes and positions is a prerequisite for the advancement of women and the achievement of substantive gender equality. It is recognised as a necessary basis for effective democracy and good governance in all fields. Even though progress has been made, the underrepresentation of women continues to be an area of concern in many EU member states. The situation varies between them and is very often worse in the corporate world (EU Commission Staff 2011, pp. 9, 10). The underrepresentation of women in leadership positions constitutes an untapped potential source of highly qualified human resources as evidenced by the discrepancy between the high number of female graduates and their absence from top-level positions. The Europe 2020 Strategy for smart, sustainable and inclusive growth leans on knowledge, competences and innovations, i.e. human capital. One of the ways of improving Europe’s competitiveness is the equal representation of women and men in economic decision-making positions, which contribute to a more productive and innovative working environment and help improve performance. In addition, there is an increasing body of research showing that gender diversity pays off and that there is a positive correlation between women in leadership and business performance. Moreover, a large majority of European citizens (88 %) believe that, given that women are equally competent, they should be equally represented in positions of leadership and 75 % are in favour of legislation that would ensure a more balanced representation between women and men (under the condition that qualification is taken into account without automatically favouring one of either gender)” (EU Commission Staff 2011, p. 10) (Fig. 4.11).

Gender inequalities are also reflected in women’s low participation in national and local political fora. This has ramifications for sustainability if, as some research suggests, women express more concern for the environment, support more pro-environmental policy and vote for pro-environmental leaders. Countries with higher female parliamentary representation are more likely to set aside protected land areas, as a study of 25 developed and 65 developing countries reveals. Countries with higher female parliamentary representation are more likely to ratify international environmental treaties, according to a study of 130 countries with about 92 % of the world’s people. But women continue to be underrepresented in

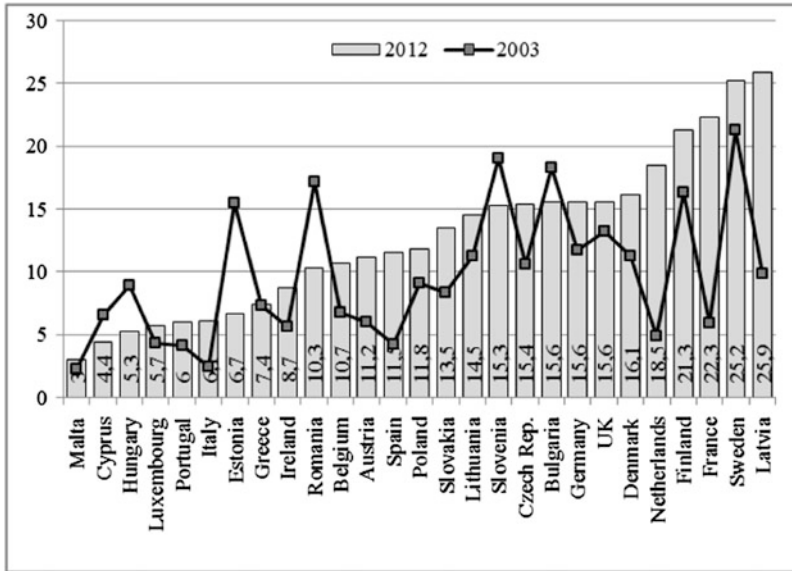


Fig. 4.11 Members of boards of the largest publicly listed companies, 2003 and 2012 (% of total board members) (Source: European Commission, Database on women and men in decision-making. Data were collected in January 2012. The list of the largest publicly quoted companies is based for each country on current membership of blue-chip index. In countries for which the blue-chip index includes a small number of companies (for instance LU, SK), at least the 10 largest companies were covered. (EU Commission Staff 2011, p. 49))

national parliaments, on average occupying only 19 % of seats and accounting for just 18 % of ministers. Higher positions are even more elusive: only 7 of 150 elected heads of state and only 11 of 192 heads of government are women. The situation is similar in local government (HDR 2011, p. 639) (Table 4.5).

“From 2005 to 2011, the proportion of women members in the Lower/Single houses of national parliaments around the EU has risen steadily, albeit slowly, from 22 % to just under 25 %. Only Belgium, the Netherlands, Finland and Sweden have more than 40 % of women in their parliaments and 19 Member states still have less than the critical mass of 30 % of women in their parliaments. Positive developments in 2011 include the great progress made in Slovenia, where women’s representation doubled from around 16 % to 32 % and in Poland where women now account for around 24 % of parliamentarians (+ 4 % points). Part of the progress can be pointed to quota legislation adopted in both countries and strong campaigning from women’s organisations”.

“There has been an improvement in the gender composition of EU Member states governments over time, but the pace of change remains slow in many countries. On average, the share of women senior ministers is only around 24 %. Inside the EU, only Sweden achieved parity in government. Austria and Finland have more than 40 % women senior ministers. By contrast, the figure is under 10 % in the

Table 4.5 Seats in national parliaments 2011-% female

| | | | |
|----|------|----|------|
| MT | 8.7 | IT | 20.3 |
| HU | 9.1 | BG | 20.8 |
| RO | 9.8 | CZ | 21 |
| SI | 10.8 | UK | 21 |
| IE | 11.1 | PT | 27.4 |
| CY | 12.5 | AT | 28.3 |
| SK | 16 | DE | 31.7 |
| EL | 17.3 | ES | 34.7 |
| PL | 17.9 | NL | 37.8 |
| LT | 19.1 | DK | 38 |
| EE | 19.8 | BE | 38.5 |
| FR | 20 | FI | 42.5 |
| LU | 20 | SE | 45 |
| LV | 20 | | |

HDR 2011, p. 139

governments of Estonia, Slovenia, Czech Republic and Greece. In Hungary, there are no female senior ministers in the government” (EU Commission Staff 2011, p. 12).

The European network of women in decision-making positions in politics and economy has been inaugurated in June 2008. The network is designed to create a European platform for the exchange of best practices and successful strategies to improve equality between women and men in decision-making. The ‘Advisory Committee on Equal Opportunities between Women and Men’ assist the Commission in formulating and implementing its policies to promote equal opportunities. The Committee encourages the exchange of information on lessons learned, actions taken and procedures between member states and other interested parties. In this context, the Committee shall provide the Commission with opinions on questions of equality between women and men in the EU. The committee includes representatives of the member states, social partners at Community level and various NGOs. The committee set up in 1981 by Decision 82/43/EEC of the Commission.

To fight gender inequality not only within the EU but worldwide, in January 2011 the Human Rights and Democracy Department of the European External Action Service (EEAS) was established striving for consistency between internal and external policies. This is of particular relevance in the field of human rights and as regards the promotion of gender equality and the empowerment of women. It shows how EU achievements related to gender equality and women’s empowerment have a global dimension. Specific gender focus points have been selected in more than 70 EU delegations around the world and a growing number of delegations in partner countries are engaging in dialogue with a strong gender equality component. For instance, in India, 40 % of the Multiannual Indicative Programme is allocated to education with a strong gender equality component. The EU continues to actively promote women’s human rights through human rights dialogues and consultations with partner countries, such as the African Union, the EU candidate countries, Canada, China, Indonesia, Japan, the Republic of Moldova, New Zealand, South Africa, Turkmenistan and Uzbekistan (EU Commission Staff 2011, p. 15).

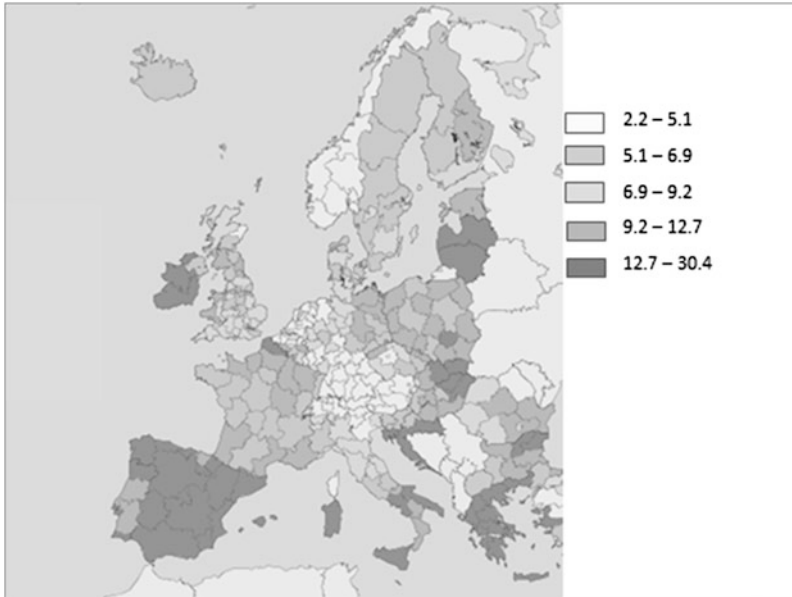
Of course, all these efforts might be perceived as aiming at equal rights for women and a broad debate will be supportive for adequate strategies in different countries. Nevertheless, positive results will not only increase equal rights, but in addition will gain more women as work force which will be more difficult without reducing their discrimination.

4.7 Reducing Regional Disparities

The regional policy of the European Union aims at overcoming the economic and social disparities between regions in order to promote the harmonious, balanced and sustainable development of the European Community. Latest since the Treaty of Amsterdam and strongly supported by the 2000 Lisbon conference important EU objectives were addressed at reducing disparities between the levels of development of the various regions. Building a more inclusive European Union was thus considered as an essential element in achieving a sustained economic growth, more and better jobs and greater social cohesion in the EU (European Commission 2003). Fighting unemployment and poverty were and are still of high concern. Before the crisis unemployment was concentrated mainly in the former socialist countries, but additionally in southern parts of Europe (Map 4.1).

The data of 2011 indicate that for example Spain was hit by a downward trend of its economy leaving of fourth of the Spanish workforce without a job. Among the young generation the rate is currently even at 50 %. In nearly every member state the young generation suffers the most of unemployment. Additionally, in most member states, women are more affected by unemployment than men. Unemployment is of the highest risk to be poor. Thus social transfers play an important role in reducing at-risk of poverty rates: in the absence of social transfers excluding pensions, the poverty risk for the EU population would be 26 % instead of 16 % in 2005 (Eurostat 2004, p. 168). Mainly the European regional funds and the social fund aim at supporting economic growth in those countries which suffer from very low economic capability and high unemployment. The empirical data on unemployment and low income per head clearly indicate that the most serious problems are located in the peripheries of the EU and demand the need for financial support by the EU funding. The most important tool here is the regional funding of Objective 1, addressed to those regions, in which the GDP per head is less than 75 % of the EU average. However, till now the positive effects of the fund on employment remained low and could not prevent on-going emigration pushed by a negative future outlook to find a job in their home country (Table 4.6).

Of course, funds being eligible for the poorer regions are welcomed as financial support and might help to develop better infrastructure and living conditions in the backward regions. Moreover, there is the hope of avoiding or minimizing unwanted migration effects with harmful effects on both the poor regions by de-population and the better-off regions by costs of high agglomeration at the same time. On the one side de-population could leave the backward regions without any medical care



Map 4.1 Unemployment in the EU – NUTS 2 Regions 2011 in % (<http://eppeurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tps00010>)

Table 4.6 GDP per capita EU 27 = 100

| | 1995 | 2000 | 2010 | | 1995 | 2000 | 2010 |
|------------|------|------|------|-------------|------|------|------|
| Bulgaria | 32 | 28 | 44 | Spain | 91 | 97 | 100 |
| Romania | 33 | 26 | 46 | Italy | 121 | 118 | 101 |
| Latvia | 31 | 36 | 51 | France | 116 | 115 | 108 |
| Lithuania | 35 | 40 | 57 | UK | 113 | 119 | 112 |
| Poland | 43 | 48 | 63 | Finland | 107 | 117 | 115 |
| Estonia | 36 | 45 | 64 | Germany | 129 | 118 | 118 |
| Hungary | 51 | 54 | 65 | Belgium | 128 | 126 | 119 |
| Slovakia | 47 | 50 | 74 | Sweden | 125 | 128 | 123 |
| Czech Rep. | 77 | 71 | 80 | Austria | 134 | 132 | 126 |
| Portugal | 77 | 81 | 80 | Denmark | 131 | 132 | 127 |
| Malta | 86 | 85 | 83 | Ireland | 103 | 132 | 128 |
| Slovenia | 74 | 80 | 85 | Netherlands | 123 | 134 | 133 |
| Greece | 84 | 84 | 90 | Luxembourg | 223 | 245 | 127 |
| Cyprus | 87 | 88 | 99 | | | | |

Source: <http://epp.eurostat.ec.europa.eu>

and skilled workforce. Because the young, mobile and better trained workforces leave their country, a mezzogiorno-effect could happen with a hindrance for future development as consequence of this brain drain. Lacking skilled workforce, companies are not willing to locate their production in these regions. That is was

Table 4.7 Structural funds budget 2000–2006 in billions Euros commitments at 1999 prices
 objective 1: areas where GDP is less than 75 % of EU average
 objective 2: areas undergoing economic and social conversion
 objective 3: adaptation and modernisation of systems of education, training and employment

| | Objective 1 | Objective 2 | Objective 3 | Total |
|-------|-------------|-------------|-------------|---------|
| EU 15 | 137.800 | 22.040 | 24.050 | 213.441 |
| EU 10 | 13.230 | 0.120 | 0.110 | 21.693 |
| EU 25 | 151.030 | 22.160 | 24.160 | 235.134 |

www.eapn.org/code/en/publ_detail.asp?pk_id_content=461

happened in the south of Italy (mezzogiorno) and since the re-unification in a lot of districts in East-Germany. In addition, even the centres could experience unwanted developments because of an over-agglomeration with unbearable traffic, problems of supply (with drinking water etc.), and increasing prices for land and houses. Thus, EU funding and support for sustainable development in the backward regions could contribute to social coherence and to avoid harmful effects of migration. The question is whether the funds and support could really compensate for negative effects (Table 4.7).

For 2007–2013, cohesion policy focuses on three main objectives: convergence – solidarity among regions, regional competitiveness and employment, and European territorial cooperation. With the challenges that face us – climate change, the EU’s demographic profile to name but two – and the recent economic crisis still very much in evidence, it is clear that Europe by harnessing its principles of partnership and solidarity cannot afford a society which leaves able and willing people by the wayside. The ‘principle of partnership,’ was introduced in the funding period after 1988 and obliging the relevant social groups in the region – which is eligible to claim for financial support – to collaborate on development strategies for their disadvantaged region. Partnership as a key organising principle for local and regional actions has been based on three related dimensions: First, it has been recognised that the socio-economic problems facing deprived areas are too complex and difficult to be solved by any one organization or group working on their own. Second, the increasing number of agencies and bodies involved in it has increased the need for different actors to work together and to co-ordinate their actions to avoid conflicts or doubling one another’s work. Third, the emphasis is on social inclusion as a key goal development policy, which implies that bodies representing different groups and interests participate in the planning and implementation of local initiatives.⁵

⁵ EU Commission 2010, ec.europa.eu/regional_policy/sources/docgener/panorama_en.htm

4.8 Contradictions of EU Objectives

On the one hand there is the clear will for more state intervention to support the poor and to engage for more and better jobs through more educational efforts and an increased public budget for R&D. On the other hand there is the ongoing request for less state receipts (taxes and social contributions) and reducing public expenditures which would attract foreign investments and maintain working-places in Europe. However, this fails to take into consideration the fact that the disadvantaged poor are not able to improve their conditions without having sufficient opportunities from the start to become the masters of their own destiny. Additional child care, all day schools, smaller classes and extra supportive courses for the disadvantaged children (many with migration background) need more public activity and finance. Above all, the neo-liberal dogma which stands behind the demand for less state and more market is empirically not evident. In case the message would be true that less state receipts would enhance private economic activity and growth rates, the Nordic countries would have suffered from lower economic progress than for example Germany. The reality shows another picture. Obviously, the Nordic Member states – despite or because of more public investments have had higher growth rates. There is neither theoretically nor empirically a close link between state shares of GDP and growth rates.

So far, fighting poverty, gaining more and better trained workforce by measures of education and employability, and ensuring social peace are dependent on an adequate level of public actions and finance. These social and economic objectives cannot be attained by a neo-liberal “‘meagre state’”.

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Chapter 5

Market Distribution, Fiscal Distribution and Inequality: A Case Study of Britain

Jeremy Leaman

Abstract Widening social disparities represent a fundamental danger to the viability of civilized societies. They are corrosive of social solidarity and economically dysfunctional. Combatting such disparities should be a primary function of modern democratic states. The task is multi-faceted, however, and not simply confined to the optimal use of state transfers to increase the household income of the poorest sections of society. This chapter focuses, in particular, on the need to reverse the widening of market income disparities typical of the neoliberal era, as well as the priority of guaranteeing sufficient tax revenues for states to eradicate the evils of poverty and social deprivation. This would require an end to tax competition between European and other states, the elimination of tax and regulatory arbitrage by transnational corporations and the restoration of viable systems of progressive income tax in all European countries.

5.1 Introduction

The primary focus of this chapter is the macro-economic dimension of social welfare in general and the particular challenges of redistribution in societies marked by significant inequalities of income, wealth and life chances (Table 5.1).

It takes as its point of departure the conviction, based on a strong body of persuasive evidence (Wilkinson and Pickett 2010; Dorling 2010; Galbraith 2012) that social inequality is a core determinant of social and economic dysfunction and that the reduction in distributional disparities is a central function of a progressive welfare state, as well as a precondition for ensuring social cohesion.

It is not necessary to rehearse the equality/inequality narratives in detail. The evidence of Fig. 5.1 and associated accounts of the correlation between inequality

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Table 5.1 Inequality and social dysfunction: the correlation

| | <i>Best</i> | | | | <i>Worst</i> | |
|---|----------------------------|---------------|------------------|---------------|----------------|----------------|
| World bank inequality ranking | <u>25JP</u> 25SE | 28 DE | 33 FR | 36 UK | | 41 US |
| Social mobility | 0.27 SE | 0.32 DE | <u>0.34 JP</u> | 0.41 FR | 0.47 UK | 0.5 US |
| Life expectancy | <u>83.5 JP</u> | 81.5 FR | <i>81.4 SE</i> | 80.4 DE | 80.2 UK | 78.5 US |
| Teenage pregnancy (number of 15–19 births per 1,000) | <u>6 JP</u> 6 SE 6FR | 7 DE | | | 30 UK | 33 US |
| Obese and overweight adult males (% of 15+ population) | <u>29.8 JP</u> | 48 FR | <i>57 SE</i> | 67.2 DE | 67.8 UK | 80.5 US |
| Infant mortality (deaths per 1,000) | 2.3SE | <u>2.4 JP</u> | 3.4 DE 3.4 FR | 4.6 UK | | 6.5 US |
| Murder rate (per 100,000 pop.) | <u>0.4 JP</u> | 0.9 DE | <i>1 SE</i> | 1.1 FR | 1.2 UK | 4.2 US |
| Prison population (prisoners per 100,000 pop.) | <u>58 JP</u> | <i>78 SE</i> | 85 DE | 96 FR | 15.3 UK | 743 US |
| Poverty rate (% living with less than 50 % median income) | 7.2 FR | <i>8.4 SE</i> | 8.9 DE | 11.3UK | <u>15.7 JP</u> | 17.3US |
| Final ranking | SE | JP | DE | FR | UK | US |

Source: Equality Trust Website: <http://www.equalitytrust.org.uk/resources/infographic-adam-frost-and-rosie-roche>

and dysfunctional societies suffices for the purposes of this introduction. Historians of European social and economic development, writing from the perspective of the 1960s might have described an uninterrupted trend towards higher levels of social equality as a natural companion of affluence and technological progress, albeit within the framework of contrasting varieties of European capitalism. The sense of progression towards an increasingly broad provision of welfare, social security and other public goods as a feature of advanced capitalism, in line with Wagner’s Law of the state and modernisation,¹ seemed to match the conviction that capitalism could and should be ordered, be it through the new orthodoxy of Keynesianism or (west) Germany’s preference for ordo-liberalism. The post-war optimism of an ordered capitalism then suffered the shock of a dramatic counter-revolution in the late 1970s, triggered by the perceived ‘fiscal crisis of the state’ – a perception shared by Marxist and Neo-Liberal critics of Keynesian welfarism – and entailing a programme of reversal and, above all, fiscal retrenchment in core states of the European Community.

¹ Adolph Wagner (1835–1917), the German political economist and ‘Kathedersozialist’ (academic socialist) postulated a correlation between the state ratio (the proportion of GDP deployed or channelled through the state) and the level of development of the national economy, determined by the need to fund an increasingly refined infrastructure for promoting technological development and social welfare and addressing economic contingencies.

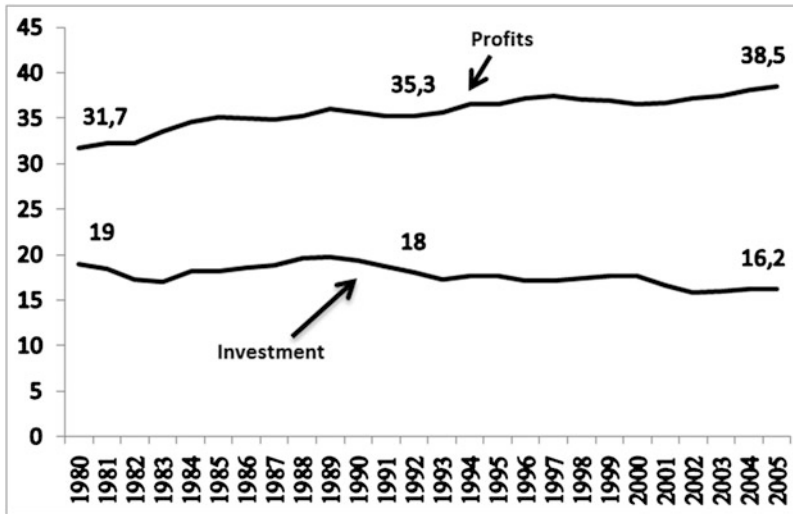


Fig. 5.1 Profits ratio and investment ratio in advanced economies 1980–2005 (Source: IMF World Economic Outlook, April 2007, data from Figs. 1.15 and 5.7; profits ratio defined as the share of income from capital in national income before tax and transfers; investment ratio is the proportion of gross fixed capital formation to GDP in any given year)

It is important at this stage to record that, while the assault on Welfare Keynesianism in Europe was triggered/accelerated by key exogenous factors (weakening of global growth and of US economic performance, the end of fixed exchange rates, oil crises and stagflation), the internal contradictions of many of the national systems of social security had already become apparent:

- The assumption of the political manageability of both capitalist growth cycles and socio-demographic change was already in doubt with the deceleration of rates of growth, with sectoral/structural changes in production and employment, the fiscal effects of the post-war baby-boom, falling rates of return on capital and rising wage ratios; the loyalty of capital to the ‘Keynesian compromise’ was no longer assured.
- The assumption of the inexhaustibility of nature and the rightness of industrialism and the associated human domination of natural processes was already being questioned by environmentalists and exponents of the ‘limits of growth’ and by Europe’s radicalised youth.
- The frequently paternalist features of bureaucratic welfarism may have contributed to the successful resolution of ‘first order’ problems after World War Two – in housing, health, education and employment – but they were often unreflective and neglectful of people’s actual preferences. Tony Judt’s assessment of this feature of social democratic arrogance in the 1950s and 1960s is a useful antidote to the convenient myths of the *trentes glorieuses* or the ‘golden age’:

The social democratic consensus and the welfare institutions of the postwar decades coincided with some of the worst town planning and public housing of modern times. From Communist Poland through social democratic Sweden and Labour Britain into Gaullist France and the South Bronx, overconfident and insensitive planners plastered cities and suburbs with unlivable and unsightly housing estates. (Judt 2010, p. 81)

- The modernist construction of Wagner's Law as a kind of enlightenment project with its implied *inevitability* of progress was thus an easy victim of the contradictions of late capitalism, inasmuch as the Keynesian consensus was never going to be a kind of Hegelian apogee of the perfect state but would be subject to distributional conflicts between capital and labour, the limits of growth and demographic 'externalities' as well as the fiscal temptations of the political business cycle.

The 'revolution' of disciplinary neoliberalism was thus pushing at a partially open door, in the shape of public/electoral discontent over the deficiencies of welfarism *and* the apparent failure of the active state to cope with stagflation and mass unemployment. The relative success of German 'ordo-liberalism' and disciplinary monetarism in the 1970s also contributed to the astonishing paradigm shift that enveloped Europe's capitalist states and the rest of the OECD in the late 1970s and early 1980s. The Thatcherite demonization of the state, of public ownership and of interventionist Keynesianism was nevertheless as dishonest as it was politically effective. The 'market radical' solutions served up in the 1980s and 1990s under the banner of freedom and choice wilfully discarded the pragmatism of post-1930s economics with its hypostasis of the 'efficient market' and – in the short term – captured the imagination of academic elites and electorates alike, whose hostility to bureaucrats, the taxman and town halls was systematically nurtured by right-leaning media corporations.

However, what neoliberalism put in the place of Keynesian organised capitalism bore little resemblance to the mythological and ahistorical constructs of freedom, choice, competition and market efficiency, invoked by its proponents. The *real existing capitalism* of the following three decades released processes that subverted the essential functions of investment, production, consumption and distribution as well as the balancing functions of democratic answerability. Use-value, as a measure of human and social welfare, gave way increasingly to exchange value as the vehicle of what Altvater (1992) describes as monetary accumulation. Nowhere was this more marked in Europe than in the evolution of the UK economy.

5.2 The Changed Context of Welfare in the UK: Privatisation and Deregulation

The liberalisation of the Thatcher 'revolution' promised the freeing of innovative animal spirits from the 'dead hand' of the state and of trade unions, which would reinvigorate the sclerotic structures of an economy dominated by public monopolies and restrictive labour law. The popularisation of privatisation through

the invocation of a 'share-owning democracy' and the discounted sale of council houses was a tactical masterstroke. It above all implied a broadening of the ownership of strategic economic assets and a fairer distribution of wealth.

The reality of the 'liberalised' British economy bore little resemblance to the paradise of pioneering, innovative enterprises invoked by the marketing hype. The privatisation of state utilities – predominantly natural monopolies (gas, water, electricity, telecommunications, transport hubs) generated unique opportunities for domestic and, increasingly, foreign corporations to tap into lucrative and contractually guaranteed *monopoly income streams* with rates of return that dwarfed those attainable in the UK's ailing manufacturing and export industries; while telecommunications became increasingly subject to the competitive influence of cable and satellite technologies, most utilities remained natural monopolies, inaccessible to genuine market competition and its associated price efficiencies. The most popular solution to the problem of the potential abuse of monopoly pricing in such utilities was the political regulation of rates of return with regular adjustments according to set formulae. Such regulatory systems operated on the assumption that there must be continuity of supply, provision for modernisation and long-term investment *and* a guaranteed return on capital. It is unsurprising that the performance of such regulated monopolies has ensured higher returns on capital than applies to the SME sector (Candeias 2009); their revenues represent monopoly rents guaranteed for fixed contractual periods. Such privatisation programmes became core elements of state policy in many advanced states and, importantly, of the development policy of advanced states, administered by institutions like the World Bank and the European Union.

An extension of straightforward privatisation of state-owned assets was the introduction of '*public-private-partnerships*', involving the private financing of public building and civil engineering projects and medium- to long-term leases granted to the companies with guaranteed income streams from the public institutions (in education, health, transport etc.) operating their services from the facilities. A strong determinant motive in such schemes, particularly popular in the UK, was the desire by state authorities to minimise the effect of such public sector projects on the state's borrowing requirements in a period (1990 to date) dominated by the monetarist strictures of deflation and debt-consolidation. Such projects nevertheless also involved guaranteed monopoly rents within contracts that have been frequently criticized for their generosity towards the private partners. Recent official UK studies of the efficacy of the 700 or so PFI projects also cast serious doubt on the both their underlying principles and their viability (e.g. House of Commons 2011).

Against this background of state policies helping to engineer higher than average rates of return on capital through guaranteed monopoly income streams, the investment options open to companies with growing capital reserves already militated against the risk of simply expanding and modernising capacity in traditional commercial sectors; more significantly the privatisation programmes raised *expectations of rates of return* that would become increasingly difficult for such traditional sectors to deliver (c.f. Haldane 2010, p. 13). What then emerges from the parallel accumulation of corporate reserves in the MNCs of Britain and other

advanced states and the transfer of ‘petro-dollars’ from rich oil-producing states to the financial institutions of the North is a highly liquid global market for finance capital in search, not of secure but modest long-term returns on invested capital, but of increasingly high returns on capital that is committed for ever shorter periods of time (Huffschnid 2002).

In addition to these determinants of rising ROR expectations, in the early 1980s the monetary authorities of the advanced economies – led by the Federal Reserve – presided over a sudden *increase in real interest rates* which increased bond yields to historic highs, including notably in the UK; this was driven both by orthodox monetarist deflationary policies via higher central bank base rates, but also by the fairly unorthodox strategic military programmes of the Reagan administration and their heavy reliance on deficit-spending. Accordingly, US 10-Year real bond yields reached 14 % in 1982. One commentator describes returns on bonds in recent decades as ‘super-sized’, noting that ‘real bond returns after inflation in both the US and UK have been on average 5.9 % compound per annum – some three to four times the long term average respectively’ (Gillen 2012). Such returns on state guaranteed financial assets contributed to increasingly high expectations on the part of major investors, particularly in a period of low or negative growth, preparing the ground for the wholesale revolution in financial services that ensued (c.f. Huffschnid 2002; Mellor 2010; Phillips 2008; Tett 2009).

The important feature of the paradigm shift to financialised capitalism and monetary accumulation was that it was constructed on the *illusion of enhanced wealth-creation*, of the appreciation of paper assets which of themselves would produce ‘value’ and improve the welfare of citizens on a sustainable basis. Andrew Haldane, executive director for financial stability at the Bank of England, demonstrates rather that the contribution of the financial sector to growth and ‘value’ was in large measure a ‘mirage’ (Haldane 2010); the mirage of seemingly effortless value-appreciation through the operation of financial circuits nevertheless maintained an astonishing level of credibility among policy-elites, credit-rating-agencies and the academic community, defying the warning signs of the East Asian Crisis of 1997, the Enron debacle of 2001 and the ‘dotcom’-crisis of 2001–2002, as well as the intuitive logic of observers who suggested it was difficult to create value out of ‘thin air’ (Mellor 2010 etc.). Nevertheless, the ‘fool’s gold’ paradigm (Tett 2009) was only revealed to be what it was when the affairs of Lehmann brothers, AIG etc. became public in the autumn of 2008. Haldane’s account of the ‘productivity miracle’ of financial services is persuasively simple, inasmuch as he uncovers the basic accountancy tricks of banks and other institutions which allowed them to create vast quantities of liquidity without altering the ‘health’ of their visible balance sheets or increasing their basic (equity) capital. They achieved this through a combination of hyper-leveraging (borrowing) and securitization (converting loans/liabilities into securities/assets based on future income streams). Far from suggesting a dilution of the asset-side of the balance sheet, such operations – often through so-called special-purpose-vehicles (SPVs) belonging to the same bank – the asset-side was seemingly increased by the on-going appreciation of the bonds (CDOs, ABSs etc.) on secondary markets and the persistence of triple-A ratings delivered by compliant credit ratings agencies! The colossal liabilities represented

by leverage ratios of ‘more than 50 times equity at the peak of the boom’ (Haldane 2010, p. 15) were thus spirited off balance sheets in smoke-and-mirrors operations involving multi-layered ownership structures, shell companies and offshore secrecy jurisdictions.

The deployment of so much liquidity in the febrile capital markets of the 1990s and 2000s allowed a corresponding increase in the rate-of-return on equity (ROE): ‘the level of ROEs was consistently at or above 20 % and on a rising trend up until the crisis. This is roughly double ROEs in the non-financial sector over the period’ (Haldane 2010, p. 13). Moreover with the banks ‘engaged in a highly competitive ROE race’ (ibid.), the pressure to continue the leverage/securitization merry-go-round was very high, suppressing what remained of scepticism and prudence at the level of executive boards, investment analysts, credit ratings agencies and institutional investors.

At the level of the macro-economy in Britain and elsewhere, liberalisation – above all financial liberalisation – has thus tended to corrupt the processes of real accumulation in such a way as to *divert capital away from traditional circuits of investment and profits in production and/or service-provision* to new ‘decoupled’ (Altwater 1992) circuits of financial investments with at best tangential links to the real economy (‘asset’ classes like mortgage or commodities derivatives). This decoupling of financial accumulation from real accumulation is best illustrated by the paradox of a strongly rising profits ratio – the share of income from capital as a proportion of GDP – and the declining investment ratio; it is a paradox quite simply because the policy of the supply-side boosting of corporate profits was sold as the primary vehicle for raising investment and wealth creation. Figures 5.1 and 5.2 demonstrate the fallacy underlying neoliberal supply-sidism.

Figure 5.1 uses IMF data to suggest a negative correlation between rising profits and falling gross fixed capital formation (real investments) in advanced states, while Fig. 5.2 – using ECB data for the Eurozone – shows a marked ‘financialisation’ of non-financial institutions (NFEs). The balance sheets of all NFEs show that the ratio of their financial assets to tangible fixed assets more than doubled from an average of 0.53–1.18. Most striking is the transformation of the balance sheets of manufacturing enterprises with financial assets in 2005 totalling 171 % of physical assets (see Fig. 5.2), a virtual doubling in just 10 years. Charts for the individual branches of Germany’s dominant manufacturing sector show a marked trend towards the financialisation of their asset portfolios in the previous decade-and-a-half between 1980 and 1985, with motor manufacturers reaching an average financial asset ratio of 1.57, electro-technical corporations 1.76 and German chemical TNCs a ratio of 2.0 (c.f. Leaman 2009, p. 80f). The not infrequent references to Siemens and Daimler-Benz as banks with manufacturing subsidiaries find strong empirical support from such data.

A closer analysis of the United Kingdom suggests a significant dilution of its economic assets in the period covered by the neoliberal paradigm. Martin Weale’s examination of the decline of the UK’s wealth-to-GDP ratio (Weale 2012, p. 62ff) – where wealth is defined as capital stock plus net foreign assets and net national saving – focuses on the significance of the current wealth ratio for the future sustainability of the macro-economy and in terms of intergenerational equity; he

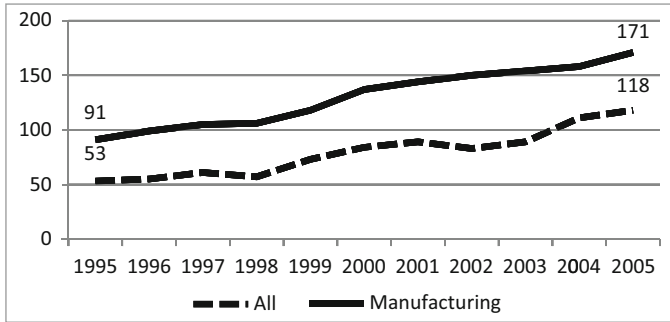


Fig. 5.2 Ratio of financial to fixed assets in Eurozone NFEs 1995–2005 (Source: European Central Bank)

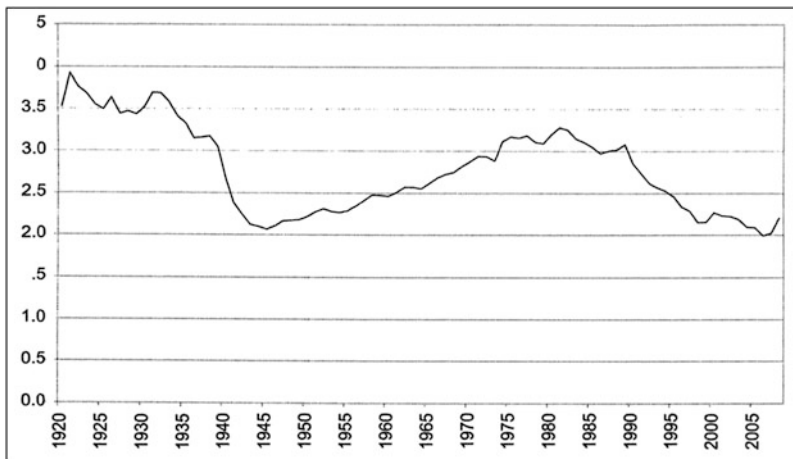


Fig. 5.3 Ratio of produced wealth to GDP in the UK 1920–2005 (Source: Weale 2012, p. 62)

infers significant levels of over-consumption by recent generations which, in his judgement, leaves a less viable foundation for the welfare of future generations. The dilution of the country’s assets after 1980 shows a remarkably similar pattern to that experienced between 1930 and 1945 – i.e. the period of depression and war – while the period covered by the so-called Keynesian Consensus (1945–1975) suggests both a gradual recovery of the wealth ratio and thus an improved foundation for later generations (Fig. 5.3).

However, Weale’s data allow us to draw several conclusions about the allocatory diseconomies of the paradigm of ‘monetary accumulation’ as a function of poorer investment and saving between 1980 and 2005, weakening the resilience of the UK economy, even before the further wealth-destruction during the 2008–2009 crash, conclusions which confirm the primary assumptions of this chapter, that greater inequality is corrosive of overall economic well-being as well as of social justice.

5.3 The Deliberate Promotion of Inequality and the Dilution of Welfare in Britain

The pursuit of the supposed ‘enriching mysteries’ (Gilder 1982, p. 101) or indeed ‘life enhancing ... brilliance’ of inequality (Tamny 2013) by successive UK governments after 1979 took shape indirectly in the strengthening of the bargaining power of employers over trade unions through the deregulation of labour law and the toleration of mass unemployment and, directly, through marked reductions in corporation tax from 52 % in 1980 to 33 % by 1992 and, in 1990, a dramatic drop in the top marginal rate of personal income tax from 60 % to 40 %. Even though these reductions were accompanied by some reductions in allowances, the flattening of the curve of progression signalled an intention to reduce the degree of state redistribution and was matched by significant increases in the standard rate of VAT from 8 % to 15 % in 1979 and to 17.5 % in 1992. As a consequence, the proportion of total government revenue derived from VAT more than doubled from just 7.2 % in 1978/79 to 16.14 % in 1996/97. Given that indirect taxation affects poorer households more significantly than affluent households (which save a much higher proportion of their disposable income), the regressive effects of Conservative tax changes on net income distribution was as predictable as the negative effect of their employment law reforms on market incomes (ONS 2011, p. 5). Figure 5.4 is critical for an understanding of the original marked widening of income disparities in the 1980s and for the on-going problems of the British welfare state.

The steep rise in the Gini coefficient of *market or private incomes* before tax by around 24 % to 0.451 in 1985 was mirrored by similar rises in other OECD states, albeit less markedly. While market distribution was in part mitigated by the tax and benefit system, the net Gini still rose to above 0.3 in 1985 and continued to rise to its current level of around 0.34 by 1990, while market disparities rose less steeply. This reflected again reductions in the UK’s state expenditure ratio during the Thatcher era from 44.6 % of GDP in 1979 to 38.9 % in 1990, the year of her resignation, with significant relative reductions in transfer payments; whereas unemployment benefits had been indexed to the rise in average earnings up until the 1970s, one of the first social reform measures of the Thatcher administration was, in 1980, to index such benefits to the Retail Price Index. The move was based on the acknowledgement that historically prices have risen more slowly than average nominal earnings (TUC 2011, p. 10). In a recent study of Britain’s benefits system, the Trade Union Congress notes pithily:

If Jobseeker’s Allowance² had been increased in line with earnings over the last 30 years, the rate for a single person over twenty-five years of age would have been £113.26 in 2007, as opposed to £59.15. Increasing JSA in line with earnings just since 1997 would have meant JSA would be £75 a week in 2007. The current rate of JSA for an adult is £65.45. When wages rise faster than benefits, the incomes of individuals and families on benefits

²In 1995, Unemployment Benefit was renamed Jobseeker’s Allowance and simultaneously the conditions for the receipt of such benefits were tightened.

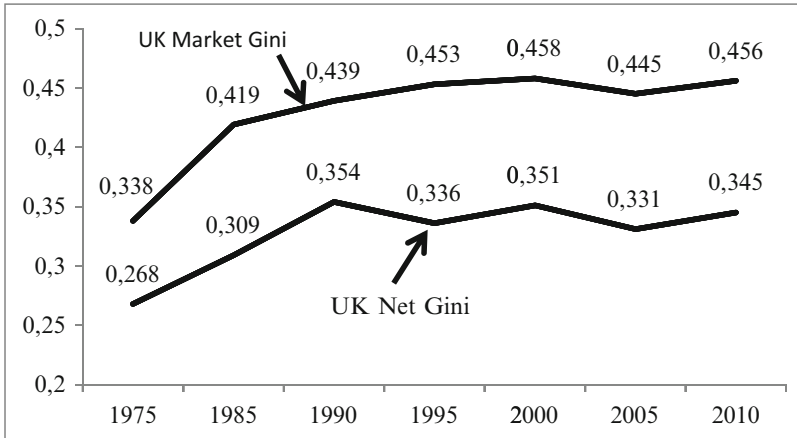


Fig. 5.4 The Gini coefficients of distribution in the UK before (Market) and after (Net) taxation and transfers 1975–2010 (Source: OECD)

will fall further and further behind those in employment. This inevitably contributes to a widening of income inequalities. (TUC 2011, p. 10)

An inevitable consequence of reductions in the disposable income of households hit by unemployment, which more than doubled between 1979 and 1983 (from 5.3 % to 11.7 %), were significant increases in household poverty. The standard indicator for poverty in the EU (percentage of households living on less than 60 % of median income) shows an unsurprising but corresponding rise between 1979 and 1990 (Fig. 5.4); 1 in 7 households (13.4 %) were already living in relative poverty in 1979; as the chart shows, by 1990 more than one in five British households (22 %) were below the poverty threshold (Fig. 5.5).

As has already been noted, the assumed multiplier effects of higher profits on real investment were not realised. Apart from the higher rates of return yielded by the monopoly income streams of privatised utilities, speculative mergers, sovereign bonds and the smoke-and-mirror activities underlying new financial ‘products’, an obvious determinant of the reluctance by businesses to expand real productive capacities for the domestic economy was the weakening of household demand in the fifth of British households afflicted by relative poverty and in receipt of poorer benefits. A number of commentaries note the negative multiplier effect of cuts to welfare benefits: David Hall (2012) cites the IMF, Paul Krugman and Martin Wolf in his survey of the negative multiplier effects of austerity, including cuts to the benefits of poorer households (c.f also Child Poverty Action Group 2012).

The *critical role of housing* in the growth of Britain’s rising levels of inequality and poverty in both the Thatcher/Major and Blair/Brown eras needs to be stressed. In particular, the rapid sell-off of 2.2 million social housing properties in the 1980s and 1990s generated short-term boosts to the revenues of British local authorities, which had built and managed the stock of council-owned properties since the post-war programme of state-sponsored house-building. Most of the privatisations



Fig. 5.5 Percentage of UK households with less than 60 % of median net household income 1976–2009 (Source: Institute for Fiscal Studies)

of UK social housing took place immediately after the passage of the Housing Act in 1980, but sales continued beyond 1997, when Blair took office. The purchase price for sitting tenants was typically discounted by between 33 % and 50 % as an incentive to buy (Fig. 5.6).

Significantly, under the rules of privatisation, ‘councils were prevented from reinvesting most of the proceeds of council house sales in new homes. After 1990, most local authorities were only allowed to spend 25 % of such receipts on building houses’ (Milligan 2013). Thus, while tenants of affordable rented accommodation were converted into (grateful) homeowners, the stock of social housing was significantly depleted; tenants who could either not afford or were not inclined to buy their properties found themselves confined to a much narrower market for rented accommodation and in competition with younger couples forming new households. Private rented housing expanded, in part as a result of average rents rising faster than consumer price inflation. Since responsibility for housing homeless and poorer households remained an obligation of British local authorities, the absence of an adequate public housing stock resulted in many local councils having to provide housing subsidies for private accommodation, in many instances supporting short-term rental arrangements in bed-and-breakfast accommodation. Rent inflation was driven both by the scarcity of affordable rented housing and by marked house-price inflation, which was in turn driven by the expansion of mortgage credit by banks and building societies, allowing levels of leverage (ratio of mortgage credit to annual household income) which far exceeded those of the first three decades after the Second World War; the perceived affordability of housing credit rose from a multiple of approximately 2.5 to 3 times annual household income to 6 times

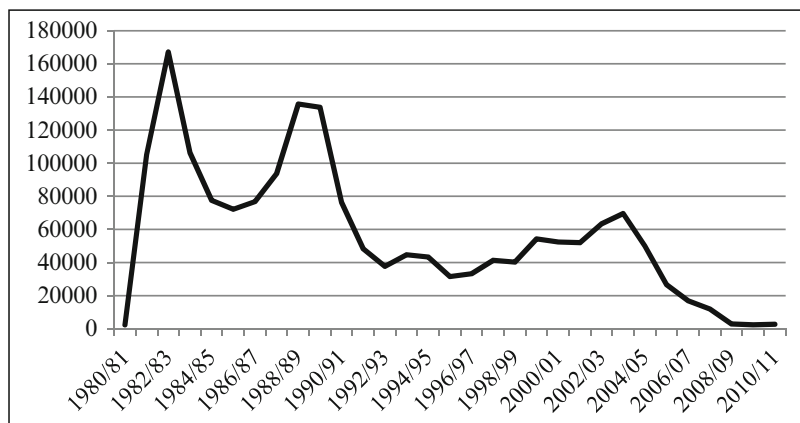


Fig. 5.6 Privatisation of social housing in England 1980–2011; annual dwelling units sold (Source: Office for National Statistics)

income. Furthermore, with the liberalisation of banking and finance in the 1980s, many households were persuaded to take out additional loans on their properties (second mortgages) to finance the purchase of new cars or to pay for family holidays. Such changes helped to generate and sustain the housing bubble that continued until the financial crash of 2008. Of critical importance for this analysis is the effect that this (ultimately unsustainable) process had on the expenditure patterns of poorer households and, by implication, on the public authorities that were responsible for their social security.

By 2001–2002, households earning less than £250 per week, were spending 36 % of their disposable income on housing, if they lived in social housing (council-owned or housing associations) and a full 50 % if they rented privately (see Table 5.2).³ Households earning over £1,000 a week would have spent an average of just 8 % of their budgets on the mortgage, 6 % on rented social housing and 15 % on private rental accommodation. By 2011, the ratio of housing costs to household expenditure had risen in all categories, except the mortgages of high earners. Social housing costs for the poorest section of the population had risen to an average of 47 % of disposable income, but private rental costs represented a notional 96 % of disposable income for this group! Without state assistance, housing for a growing proportion of the population had become unaffordable.

The chronic asymmetries of the UK's housing provision, resulting primarily from the sell-off of social housing in the 1980s, forced Margaret Thatcher's Conservative successor, John Major to institute a major extension of the welfare system in order to stem the upward trend of housing poverty and homelessness: in

³These Charts include net household income after primary transfers (pensions, job seeker's allowance, incapacity benefit); they do not include the additional benefits provided by the state to compensate for the specific problems of housing costs.

Table 5.2 Housing costs as a proportion of disposable income in Britain 2001–2011

| Income | Mortgage | | Rent for social housing | | Rent for private housing | |
|------------|-----------|-----------|-------------------------|-----------|--------------------------|-----------|
| | 2001–2002 | 2010–2011 | 2001–2002 | 2010–2011 | 2001–2002 | 2010–2011 |
| Below £250 | 49 | 67 | 36 | 47 | 50 | 96 |
| £250–399 | 18 | 32 | 23 | 31 | 41 | 47 |
| £400–549 | 14 | 17 | 16 | 23 | 27 | 41 |
| £550–999 | 11 | 12 | 11 | 15 | 23 | 30 |
| £1,000 + | 8 | 7 | 6 | 7 | 15 | 18 |

Source: Office for National Statistics

1992, in the Social Security Contributions and Benefits Act, a new Housing Benefit was introduced which allowed local authorities to provide means-tested subsidies to sustain families threatened with eviction and social deprivation. Local authorities are reimbursed for their HB outlays from central government's social security budget. In the 20 years since its introduction, Housing Benefit has become an indispensable feature of the welfare budget; at an estimated £23.8 billion in 2013, HB accounts for 20.7 % of the total welfare budget or 3.3 % of total government expenditure. Most significantly, Charts for May 2012 showed that 903,440 *working* families were in receipt of HB, with an additional 10,000 households claiming assistance with housing costs every month (*The Guardian*, 22 October 2012). The current Cameron administration has instituted reforms of the benefits system in recent months, including a cap on housing benefit, with the express objective of encouraging non-working recipients to seek work to reduce their benefit dependency, and justified by the assertion that jobless recipients of HB would otherwise be better off than some households in work (*New Statesman*, April 15 2013).

The assertion ignores the fact that almost one million UK households receive HB, even though they are in work; the predicted outcome of the new cap on HB has alarmed even Conservative politicians, invoking the rhetoric of 'social cleansing' to illustrate the possible eviction of thousands of families from expensive rented accommodation in London and the South East of the UK. The real and growing problem of the working poor thus reflects the centrality of market-driven disparities in both household income distribution and in household expenditure patterns. The widening gap between the earnings of the bottom decile and the top decile/top percentile of households pre-programmed a rise in median gross income before taxes and transfers; where 60 % of median net household income is the yardstick for measuring relative poverty, any rise in market disparities will increase levels of compensatory state redistribution. On the other side of the equation, the re-commodification of social housing, combined with scarcity in the stock of lower-end rented accommodation, has generated a disproportionate rise in housing costs through a combination of market forces and financial deregulation which reinforces further still the fiscal burden of preventing a breakdown of the basic human need of shelter and social security (Fig. 5.7).

Housing benefit is, however, only one example of a weaker fiscal state seeking to minimise the malign effects of poverty and social exclusion, while market forces

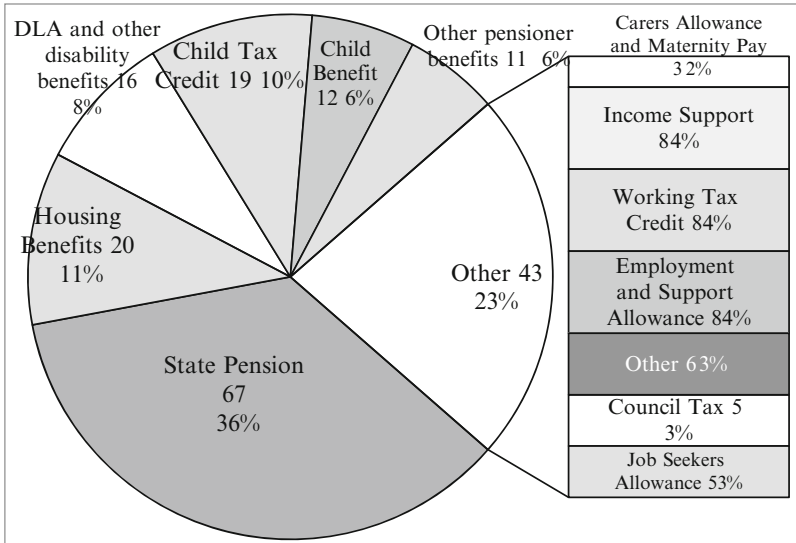


Fig. 5.7 UK welfare budget by category of expenditure 2009–2010 in £bn. and % (Source: UK Treasury)

make its task increasingly intractable. The core contradiction of the neoliberal state, inherited by New Labour from the Thatcher/Major era, gave rise to a wide range of welfare transfers aimed at reducing marginalisation and social exclusion, above all with pledged targets to reduce child poverty and pensioner poverty. As Fig. 5.8 demonstrates, just over one-tenth of welfare spending is absorbed by the direct cost of providing the unemployed with income (Jobseeker’s Allowance, Income Support, Employment and Support Allowance). Over one-third of the budget is devoted to pensions. A very large and increasing proportion of the welfare budget, however, is now devoted to a set of so-called ‘tax credits’ (Working Tax Credit, Child Tax Credit) as well as to housing subsidies directed towards poorer working households (Housing Benefit, Council Tax Benefit); Housing Benefit – at 11 % of total welfare expenditure – has indeed grown to become the second highest category welfare expenditure.

The British welfare state, accorded model status by some observers in the 1950s, has thus undergone very significant changes in recent decades, in part as a result of critical demographic and secular economic changes, but notably as a result of the paradigm shift to ‘disciplinary neoliberalism’, in which the disciplinary dimension was directed towards the interventionist state in general and its welfare functions in particular. The contradictory and dysfunctional nature of the new paradigm was masked ideologically by a very effective rhetoric of freedom, individual choice and the hypostasis of ‘the’ market. The reality of ‘real existing neoliberalism’ in Britain exhibited all the historical distortions of capitalist accumulation (concentration and centralisation of capital and social power), but was reinforced by both a radical privatisation and re-commodification of natural monopolies, with their associated

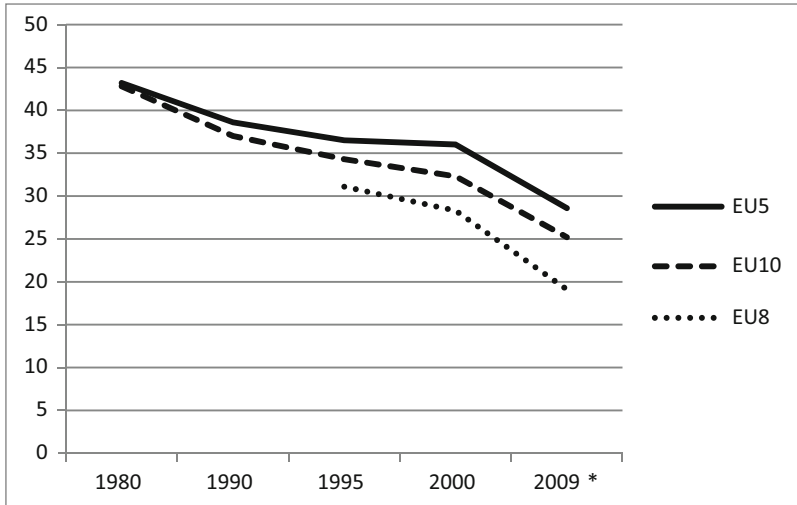


Fig. 5.8 Rates of corporation tax in selected EU countries 1980–2009 (Source: World Taxation Database; **EU 5**: Germany, France, Italy, UK, Spain; **EU10**: Austria, Belgium, Denmark, Finland, Greece, Ireland, Luxembourg, Netherlands, Portugal, Sweden; **EU8**: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania)

rent-seeking behaviour, and by the new disorder of financialised accumulation and de-coupled casino-capitalism. While neoliberal monetarism demonised consumer price inflation as the primary evil to be controlled at any cost, house price ‘appreciation’ was regarded either with benign indifference by policy-elites or as an indication of greater affluence. This was arguably one of the most cynical deceptions of neoliberal ideology.

The contradictions of UK welfare policy under a neoliberal regime came to the fore in the era of New Labour. While the British Labour Party, like most of its social democratic counterparts in Europe, adapted itself to the new paradigm of monetarism, supply-sidism and labour market reform, in particular in its disavowal of Clause 4 of the Party’s constitution (the ‘common ownership of the means of production, distribution and exchange’), it demarcated itself electorally from the Conservative Party through its *pledge to fight social exclusion and poverty*, most notably child poverty. In 1999, 2 years after its return to power, Blair and Brown agreed on a core policy objective of eradicating child poverty by 2020, with interim targets of a reduction of one-quarter by 2004 and one-half by 2010. The poverty definition to be used as the base for policy targets was ultimately fixed at 60 % of median disposable household income *before housing costs* (BHC); this already represented a significant dilution of the target, given the centrality of housing costs to the real disparities in household income; additionally, ‘poverty rates measured after housing costs tend to be higher than those measured before housing costs, because those on low incomes tend to spend a greater proportion of their incomes on housing costs than those on high incomes’ (Brewer et al. 2007, p. 25; see above

Table 5.1). Nevertheless, the policy still identified 3.3 million children living in relative poverty BHC or 26 % of all British children; a one-quarter reduction in 6 years would mean removing 825,000 children from relative poverty by 2003–2004 and a similar number by 2010–2011.

Notwithstanding the dilution of the target, Labour's policy objective to reduce child (and pensioner) poverty did betoken a serious welfarist ambition; the relative success of the policy (child poverty BHC down by 1 million by 2010–2011, pensioner poverty by 0.7 million) must also be acknowledged as the major achievement of New Labour's social policy agenda. The critical problem of the ambition was that it *ignored the relevance of market income distribution and focused entirely on the expenditure dimension of redistribution*. The widening of market income disparities and the associated rise in median income before taxes and transfers made the poverty-reduction strategy simply much more expensive, explaining in large measure why welfare spending rose by 86 % between 2000 and 2010 and overall state expenditure by only 49 %.⁴ Labour's expenditure-driven welfarism succeeded only in preventing a worsening of an already high Gini coefficient of net income distribution. Simulations by Brewer et al. (2007, p. 22) suggest that, without Labour's extensive programme of tax credits, housing benefit and other benefits for both workless and working poor, the net Gini coefficient would have risen to 0.378 by 2006.

5.4 Addressing Market Disparities as a Pre-condition for Progressive Fiscal Redistribution

The above analysis invites a very obvious conclusion about the interdependence of macro-economic trends and macro-political objectives. If government policy seeks to reduce social disparities (of income, wealth, access to education, health, basic resources, work etc.) it has to consider both the secular/market determinants of those disparities as well as the state's fiscal role in mitigating them. The disparities of market distribution arguably require some degree of regulatory control, in particular of top salaries and discretionary bonus payments, but also of employment law to neutralise the factors that contribute to the emergence of the working poor (casual, part-time, short-term contracts, low craft and social skills), to wage

⁴ C.f. <http://www.ukpublicspending.co.uk>; beyond the fundamental contradiction of a redistributive expenditure policy committing increasing resources simply to prevent net distribution getting any worse, the development of core poverty, which factors in the real effects of disproportionately high rises in housing costs, indicates unsurprisingly far less success on the part of New Labour with child poverty after housing costs (AHC) falling by a mere 4.8 % points from 33.3 % of all children in 1998–1999 (4.3 million) to 29.1 % (3.8 million) in 2009–2010 (c.f. Cribb et al. 2012, p. 52).

dumping and regulatory arbitrage by territorially mobile enterprises. The narrower market disparities of Scandinavian economies also indicate a key role for social and cultural capital in cementing attitudes towards wage and salary differentials and the cultural norms of fairness and social cohesion. Market-driven disparities undermine those norms and the political attempt to alter them, be they disparities of income, of housing costs, of regional labour markets, regional infrastructures or local education provision. Fiscally progressive regimes cannot afford to ignore them.

Fiscal redistribution thus needs to be embedded in a harmonised and coordinated policy-mix that assists and does not hinder socially progressive measures of redistribution.

5.5 The Centrality of Progressive Taxation

The principles of progressive taxation represented a clear socio-political norm of the Fordist era and have survived, albeit in modified form, in the older member states of the EU despite the absence of a corresponding formal requirement on the part of member states; whereas the voluminous set of statutory obligations involved in the *acquis*, to which all new member states must sign up, now includes minimum rates of indirect taxation (notably 15 % for standard VAT), along with essential yardsticks for the grading of sugar beet, bananas and biscuits, the *acquis* contain neither the obligation to introduce or maintain a system of progressive income tax, nor to ensure a common standard of what constitutes taxable personal or business income, nor to ensure even minimum rates of either personal income tax or corporation tax, nor to guarantee automatic cross-border exchange of information on the earnings of individuals and firms within the EU. Attempts within the EC/EU to harmonise elements of corporation tax law grew increasingly feeble over the decades since they were first mooted in 1960 by the Neumark Committee; they are currently still stuck in the mire of inter-governmentalism hindered by the persistent culture of tax competition between member states.

Tax competition was a minor feature of globalisation, but has become a more critical feature of European affairs since 1990 and the collapse of state socialism. The process of absorbing former COMECON states into the economic culture of west European capitalism and in particular into the institutional arrangements of the European Union was noteworthy by the complete absence of direct taxation rules within the otherwise strict conditionalities of either the application process or membership of the Union. Whether this was the product of design or default, does not alter the responsibility of the Commission and the EU's leading member states in *failing to achieve at least minimal convergence of aspirant states to the norms of west European direct taxation*. In particular, the universal move by the three Baltic states to systems of flat taxation – the proportionate taxation of all incomes beyond basic allowances, regardless of income levels – in 1994/95 could and should have triggered a response from the Commission as a development which

was inimical to the systemic culture of *all* EU15 member states; it didn't. Nor was any attention given to the issue of optimum taxation levels, national tax ratios and state ratios; the only fiscal harmonisation, beyond the 15 % minimum VAT-rate, involved the strict adherence to the negative fiscal rules set by the Maastricht Treaty (1992) and the Stability and Growth Pact (1997), and dictated by the monetarist strictures of Germany's Federal Bank and Federal Government. The absence of tax harmonisation, along with other omissions, was predicted and subsequently proven to be part of a critical set of 'design faults' inflicted on European Monetary Union (Arestis and Sawyer 2011; Frangakis 2011).

The absence of a critical mass of revenue in almost all Central and East European (CEE) applicants and subsequent member states, combined with chronic current account deficits and weak banking systems, made their economies heavily dependent on imported capital and extremely vulnerable to normal cyclical shocks, and catastrophically exposed to exogenous shocks on the scale of the 2008 disaster.

The effect of non-harmonisation of direct taxation and the toleration of regressive flat-tax regimes is evident from Fig. 5.9, which shows the acceleration of the 'race to the bottom' after 2000 (Genschel et al. 2011) with a series of competitive reductions in the (top) rate of corporation tax in the two groups of EU-15 states in response to the consistent 'underbidding' of CEE states. The process was further boosted by the introduction of regressive flat tax regimes in Slovakia, Bulgaria, Romania and the Czech Republic.

A similar but less dramatic picture can be observed in the development of top rates of Personal Income Tax (PIT). While top PIT rates have fallen in most of the EU15 by 2012, their decline does not match that of corporation tax rates, as clearly demonstrated by Fig. 5.9. Historically, most tax systems manifested a rough correspondence of corporation tax and top rates of income tax, reflecting the need to assess the tax liabilities of both incorporated (CT) and non-incorporated businesses (PIT) fairly. The recent divergence of the two rates in most European states has produced several fiscal anomalies, in particular – but unsurprisingly – a trend on the part of smaller companies to 'incorporate' and thus reduce their tax bills (Leaman 2012, p. 164–168).

These clearly observable trends have prompted no meaningful response from policy-makers, even though the asymmetries within and between states invite all enterprises to explore legal avenues to avoid incurring a higher level of taxation than competitors in the market. The net result for practically all European states has been to shift tax burdens away from relatively mobile and resourceful enterprises to relatively immobile tax bases, notably wage income and consumption. This is furthermore compounded by the extensive use of secrecy jurisdictions (tax havens) in Europe and overseas, where profit income can be registered in shell companies with the help of the financial services sector and its army of 'tax efficiency' specialists.

A key observation for the purposes of this chapter is that the recent shifting of tax burdens – from capital taxes to wage taxes and from direct to indirect taxation

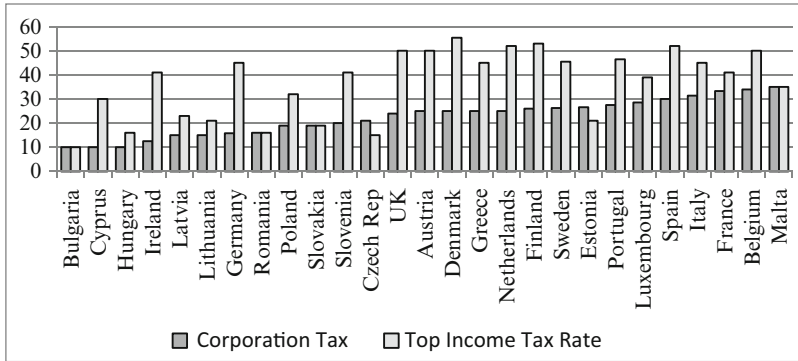


Fig. 5.9 The asymmetry of rates of corporation tax and top income tax in 2012 (Source: Eurostat: Taxation trends in the EU ed. 2012)

(Eurostat 2012) – make it significantly more difficult for states to address the key issues of income inequalities, poverty and social exclusion; they neutralise the ability of fiscal states to redistribute national income and ensure social security.

A second key observation is that the failure of the Commission and leading member states to achieve any significant harmonisation of direct taxation has not simply allowed tax competition to weaken the fiscal robustness of member states, but has exposed the very particular vulnerabilities of states with low tax ratios and chronic external deficits. In the case of the Eurozone, it has revealed the cost of the EU's failure to address the problems of both tax disparities and the divergence of external balances between member states. It is no coincidence that the west European states with the lowest tax ratios (i.e. the lowest critical mass of fiscal potential) and severe external deficits – namely Greece, Ireland and Portugal – were the first to seek assistance from the other members of the currency union. In all three cases, the catastrophic exposure to bank collapse (Ireland) and deep recessions (Greece, Portugal, Spain and Ireland), combined with chronic current account deficits, neutralised any hope of either structural or cyclical crisis being managed through automatic stabiliser mechanisms. All three states were immediately dependent on the import of increasingly expensive capital, in the form of sovereign debt. In the context of the political architecture of the European Monetary Union (EMU) and the dominance of the deflationary imperative, and in the absence of any control of speculative betting on bond-spreads, intra-zone transfers became inevitable. The weakness of the three states was, of course, compounded by the endless dithering of the core states of EMU, most notably Germany, in the establishment of an effective stabilisation mechanism. However, there can be no illusions about the hazardous fiscal stances of the group of three and also of the majority of the new member states of central and eastern Europe, whose similarly low tax ratios and external imbalances ruled out any effective national crisis management and, in the absence of Brussels' assistance, condemned most of them to far deeper cyclical crises than the EU15 (Leaman 2012, p. 175ff).

The last 5 years of crisis-mismanagement has failed both to address the underlying determinants of Europe's multiple crises and to initiate sensible reforms of fiscal policy, either within the Eurozone or in the wider EU. The disaster of the Fiscal Pact repeats the negative dimension of (a failed) fiscal subordination of member states to arbitrary deficit and debt limits, without providing any vision of how to halt and reverse the trend of economic divergence within both EU17 and EU27. Without fiscal convergence and strengthened public finances, the European project is arguably doomed and, along with it, the chance of a genuinely transformative social agenda. The measures that are required to achieve the fiscal foundations of social progress and genuine civilization in Europe can therefore be summarized as follows:

All states of Europe should commit themselves to the principle of progressive taxation as the foundation for an effective Union which seeks the economic convergence of its member states and a fairer distribution of income within states and between states.

There should be an approximate harmonisation of the scales of progression, basic allowances and marginal rates both at the bottom and the top of those scales for personal income tax.

There should be a closer correspondence of rates of corporation tax to the rates applying to assessed income tax for non-incorporated businesses, to avoid income- and profit-shifting and to ensure a fair contribution of capital to the public goods (physical, social and educational infrastructures) which benefit all economic agents.

There should be shared standards for calculating all tax bases, but most notably the mobile tax bases which, through political neglect, have too frequently avoided paying tax in the jurisdiction in which an enterprise's income and profits have been generated.

All member states, without exception, should commit themselves to transparency and automatic information-exchange on both personal and corporate incomes, notably of persons/legal persons whose income is generated in more than one jurisdiction. The legislative initiatives already approved by the European Parliament (on the Savings Tax Directive and a Common Consolidated Corporate Tax Base) should be accelerated; the bi-lateral deals (UK-Switzerland, Germany-Switzerland), which undermine both the spirit and the feasibility of the Savings Tax Directive, should be repealed. The CCCTB should be deployed in conjunction with Country-by-Country-Reporting and, ideally, with Formulary Apportionment, administered by the EU.

The availability of tax-avoidance facilities in European and overseas tax havens must be eliminated, along with the widespread use of 'brass-plate' shell companies by the financial services sector; in this regard the Financial Secrecy Index (<http://www.financialsecrecyindex.com/>) is a considerably more accurate indicator of potential tax haven abuse than the Black/White Lists of the OECD, currently used by the Commission in its (predictably weak) programme against 'harmful tax competition'.

There should be EU-wide harmonisation of wealth-taxation.

There should be an EU-wide introduction of aircraft fuel tax to remove the anomaly which favours air transport against its terrestrial transport competitors, together with a harmonisation and extension of existing carbon taxes.

The trend towards a greater dependence on regressive indirect taxation should be halted and a better balance achieved between progressive direct taxation and taxes on consumption.

The destructive dynamic of European tax competition needs to be eliminated in the interests of solidarity and sustainable frameworks of governance. A community of shared interests and values cannot tolerate the existence of fiscal ‘free riders’ that either poach the tax bases of other jurisdictions or fail to police compliance with agreed standards of taxation; the exceptionally low levels of corporation tax in Ireland, Germany, Latvia, Bulgaria and Romania and in many of the Balkan states and the eastern Neighbourhood, defy the principles of solidarity required of a closely integrated group of nations.

The Stability and Growth Pact and the Fiscal Pact should be reformed to prioritise the economic convergence of member states and the strengthening of states’ revenue potential as vehicle for cyclical and structural adjustment. To this end the statutes of the European Central Bank (ECB) would need to be reformed, rendering it answerable to the European Parliament and committed to an extended set of policy objectives, including employment and qualitative growth.

Within advanced capitalist societies, taxation – most notably progressive income taxation – is a key vehicle for rectifying the disparities of income and wealth distribution and for ensuring the social security of all its citizens. It is also the foundation for a culture of social solidarity, which acknowledges both the need for the collective funding and maintenance of public goods and the desirability of social equity, equality of opportunity, shared burdens and shared rewards as the guarantee of what Wendell-Holmes rightly termed ‘civilization’.⁵ The threat to Europe’s long vaunted institutions of solidarity and welfare, represented by pan-European austerity, is far greater than the current elites of Europe realise.

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⁵ Oliver Wendell-Holmes, erstwhile Associate Justice of the US Supreme Court, is quoted as having said: ‘I like to pay taxes. With them I buy civilization’, cited by Government is Good, <http://www.governmentisgood.com/articles.php?aid=17>

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Chapter 6

The Nordic Model and Social Inequalities

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Abstract In my article I discuss the changing nature of social inequality in the Nordic countries. All Nordic societies are richer than ever. However the distribution of wealth is becoming more and more uneven. In spite of a lot of talk and many policy programmes against poverty, poverty seems to increase. Everywhere in Europe the inheritance of inequalities is increasing too. In the following I shall argue that there are several economic, political and social processes that cause these changes. Neo-liberal economic policy has meant that market-based activities and market competition are replacing public services in many countries. The position of vulnerable social groups is at stake. Social polarization is shaping the continent. In European societies there are parallel processes of a growing middle class and growing social exclusion.

6.1 Introduction

Europe is in the middle of an economic and social crisis. Unemployment has increased around the continent. In Spain almost 30 % of the labour force is without employment. People are marching on the streets to protest against austerity programs and against increasing social inequalities. At the end of May there were several riots in the suburbs of Stockholm. School houses, cars and even police stations were burnt. What is wrong? What is happening?

One important role of sociology is to show that social change is made by social actors. Growing social inequality is caused more or less by conscious economic and political decisions. It is all about interests and struggles. Sociology has always been interested in social divisions and social inequalities. During recent years inequalities have been increasing in Europe. This trend can be seen between the

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nations and within single nation states. The American social scientist Robert B. Reich (2007) noticed that it is not only inequality, but also democracy that is at stake. How do we understand inequality in everyday life, in common talk? Nowadays you ask Google to get an answer to this kind of question and after you have googled, Wikipedia gives you the right answers. The Wikipedia article on inequality begins with mathematics, followed by health care and economics. After that come social sciences.

According to Wikipedia social inequality refers to a situation in which individual groups in a society do not have equal social status, social class, and social circle. Areas of social inequality include voting rights, freedom of speech and assembly, the extent of property rights and access to education, healthcare, quality housing, traveling, transportation, vacationing and other social goods and services. Apart from that it can also be seen in the quality of family and neighbourhood life, occupation, job satisfaction, and access to credit. If these economic divisions harden, they can lead to social divisions (<http://en.wikipedia.org/wiki/Inequality>).

On the one hand we have social inequalities and on the other hand there is social justice. All depend on social actors and social structures. As John Rawls (1971, p. 54) put it, the primary subject of social justice is the basic structure of society, the arrangement of major social institutions into one scheme of cooperation. Social justice is a tricky business. All definitions of justice are always anchored to active social agents. For some groups the same thing may mean justice, to other groups a crying injustice.

Social divisions do not necessarily mean social inequality. Social inequalities are not always considered to be negative phenomena. According to British sociologist Lucinda Platt (2011, p. 9) there are several theses, which say that inequality is actually needed in every society. Firstly some say that inequality enables people to fully realize their potential. Secondly inequality stresses freedom, which is considered to be the most important social value. Thirdly it creates incentives, where people are more motivated to improve their own position. It is also said that the difference between those in good positions and in poor positions is no problem unless the position of the poor does not get worse. Finally to be effective, markets require certain inequalities.

When discussing inequalities we should make a clear distinction between individuals and groups. Differences between individuals are explained by many factors and some of them may be fully acceptable. But all solutions that systematically cause inequality between social groups are unfair and require open discussion about economic and political decisions.

The aim of this chapter is to analyse what kind of changes have occurred in the Nordic welfare state model. I shall first characterize the development and recent changes of the model. Secondly I shall look at two components that have played an important role: social class and trust. My focus is on social inequality. The question is: is the Nordic model still promoting equality?

6.2 The Nordic Model

The Nordic countries of Denmark, Finland, Iceland, Norway and Sweden have about 25 million inhabitants. In the global context Nordic countries are very rich. They are small states, which are heavily dependent on international trade. For decades Nordic countries have been a model of democracy and social justice for many other areas in the world. The key concept has been the Nordic model. What is the Nordic model?

About 100 years ago all five societies could be considered semi-feudal. Compared with Central Europe they were late in their industrialization. The share of the peasantry in the population was much larger than in the most developed European economies. From the beginning of the twentieth century, social democratic parties have played a crucial role in politics. E.g. in Finland the social democratic party was the biggest party in the first modern Parliament in the year 1907. At the same time Finland was part of the Russian empire and the most agricultural of all Nordic countries.

Social security reforms concerning accident, sickness, unemployment or poor reliefs started at the end of the nineteenth century. There are differences between the countries in timing and in policies but the general patterns of political development were quite similar. This applies to Finland also, which at that time was a part of Russia. After the Second World War Sweden became a prototype of a social democratic welfare state. Other Nordic countries followed the Swedish example. Finland was the latecomer, lagging behind the other countries for decades. However, Finland followed the Nordic model.

There are at least three features, which describes the Nordic model. These are:

1. Social policy is comprehensive in its attempt to provide welfare.
2. Nordic welfare states have vested citizens with a basic right to a broad range of benefits and services.
3. Social legislation is solidary and its nature is universal (Erikson et al. 1987, p. 42).

The idea is that the welfare state is meant to integrate and include the entire population. It is not targeted toward particular problem groups.

In his famous book on welfare state models, Danish sociologist Gösta Esping-Andersen (1990) analyses three different models: liberal, conservative and social democratic. The most important criteria to differentiate these three models were how universal they were and what kind of de-commodifying effects they had. Esping-Andersen says that the Nordic countries are all representatives of the social democratic welfare states.

The author describes this model as follows: “The third, and clearly smallest, regime-cluster is composed of those countries in which the principles of universalism and de-commodification of social rights were extended also to the new middle classes. We may call it the ‘social democratic’ regime-type since, in these nations, social democracy was clearly the dominant force behind social reforms. Rather than

tolerate a dualism between state and market, between working class and middle class, the social democrats pursued a welfare state that would promote an equality of the highest standards, not an equality of minimal needs as was pursued elsewhere” (Esping-Andersen 1990, p. 168).

After the Second World War the Nordic countries built up an internationally unique welfare state model. During the golden age of the welfare state – that is during the 1970s and 80s – most important characteristics of the model were as follows: (1) public responsibilities had marginalized and even exceeded private provision and the market mechanism quite extensively. (2) The model’s commitment to universalism and equality of status extended further than in most other countries. The idea of social citizenship was taken seriously. (3) Benefit levels and social service standards were very high by international comparison. (4) The welfare states had a stronger de-commodifying effect than elsewhere (Erikson et al. 1987, pp. 69–70) (Table 6.1).

The Nordic model has also been effective in creating economic growth and economic affluence. Comparative studies have noted some special features of the Nordic countries. They differ from most other countries at least in three respects. They offer their citizens very equal educational opportunities. This means that the labour force is more prepared to handle risks, shifts and changes. Secondly, the state actively shares risks with its citizens. The state supports citizens to be economically active and mobile. Finally the state provides social services that make it possible to live a non-routinized, non-space- and profession-bound life for both females and males (Hull Kristensen 2009, pp. 36–37).

The golden years of the Nordic model lasted in Sweden from the early 1950s to the early 1990s and in Finland from the 70s to economic crisis at the beginning of 1990s. Finnish sociologist Raija Julkunen (2001, p. 11) has written a comprehensive analysis concerning the change of the Nordic model. According to her the change started already in the middle of the 1980s. The basic policy doctrine behind the new orientation was to restrict the growth of public expenditure, especially the growth of social costs. The orientation shifted from growth to restriction and adjustments.

Giuliano Bonoli and his colleagues (2000) find four factors behind the change. The first is globalization. In the condition of economic globalization the cheapest welfare states set the norm, and those states, which are more expensive, must converge towards this norm. Secondly the national consciousness is narrower than earlier. The growing middle class has more economic resources and can cope on its own. It is no longer interested in solidarity and mutual responsibility. Thirdly neo-liberal economic policy has a tendency to minimize the role of state. Market driven social services are deemed to be more effective than public services. Finally there is a growing gap between the growth of social needs and the available economic resources (Tables 6.2 and 6.3).

Julkunen (2001, pp. 291–292) talks about the late expansive welfare state. This means a new mode of governance, which emerges after the expansion of the welfare state. It is not only about cuts in social services. It is about mechanisms of governance and about new mental models, which stress expenditure control. First

Table 6.1 Public expenditure on education as % of GDP

| | 2003 | 2010 |
|-----------------|--------|--------|
| EU 27 countries | 5.15 % | 5.43 % |
| Denmark | 8.33 % | 8.80 % |
| Finland | 6.43 % | 6.84 % |
| Sweden | 7.21 % | 6.98 % |
| Iceland | 7.70 % | 7.60 |
| Norway | 7.55 % | 6.78 |

Source: Eurostat, <http://epp.eurostat.ec.europa.eu>, last update 5.6.2013

Table 6.2 Taxes as % of GDP

| | Total taxes including social contributions | | | Taxes on capital and business income | | Taxes on corporations | |
|----|--|------|-----------|--------------------------------------|------|-----------------------|------|
| | 2000 | 2011 | 2011/2000 | 2000 | 2011 | 2000 | 2011 |
| DK | 49.4 | 47.7 | -1.7 | 4.8 | 5.6 | 3.3 | 2.8 |
| SE | 51.5 | 44.3 | -7.2 | 9.0 | 5.3 | 3.8 | 3.4 |
| FI | 47.2 | 43.4 | -3.8 | 6.3 | 4.5 | 5.9 | 2.5 |
| IS | 37.1 | 35.9 | -1.2 | 7.1 | 7.7 | 1.4 | 1.1 |
| NO | 42.6 | 42.5 | -0.1 | - | - | 5.2 | 5.6 |

Source: Eurostat, taxation trends in the EU, edition 2013, Luxembourg

Table 6.3 Adjusted top statutory tax rate on corporate income

| | 2000 | 2011 |
|---------|------|------|
| Denmark | 32.0 | 25.0 |
| Sweden | 28.0 | 26.3 |
| Finland | 29.0 | 26.0 |
| Iceland | 30.0 | 18.0 |
| Norway | 28.0 | 28.0 |

Source: Eurostat, taxation trends in the EU, edition 2013, Luxembourg

signs of the new way were tax reforms that were implemented at the beginning of the 1990s. Income taxes became lighter and, in particular, different kinds of universal consumer taxes increased. In the state, budgetary power shifted from parliament to the ministry of economics. Especially changes in the economy and the new economic realism put heavy demands on states to adjust public institutions to the new realities.

There has been a lot of talk about the fate of the Nordic model. Some say it is dead, some say it has radically transformed. For sure there have been many changes but the Nordic model has not disappeared. What has happened is increased diversity. There have always been differences between the Nordic countries. The level of different benefits has varied and there have been several national solutions to similar problems. In spite of the differences, the basic solutions and the political reasoning behind national models have been the same. Today Finland is the only Nordic country that belongs to the euro-zone. Denmark, Iceland and Norway are

members of NATO. Norway differs from the others because of its current wealth based on oil. Leading political coalitions differ in many ways. Finland has a rainbow government, in Sweden there is a conservative coalition and in Norway a social democratic coalition.

Welfare states have strong support among citizens. Opinion poll after opinion poll confirms that the majority of respondents are ready to pay more taxes in order to preserve public health or educational systems. In a recent Finnish nationwide survey (EVA 2013, p. 61) 80 % of the respondents indicated that although maintaining good social security and other public services costs a lot, the Finnish welfare state is always worth the expense. Only 10 % disagreed with this statement.

6.3 Social Classes Matter

While there is strong public support for the welfare state, class matters. During past decades different groups in the middle class have distanced themselves from public services. In all Nordic countries the volume of private health care services has grown rapidly. Parents are buying private health insurance for their small kids. Another good indicator of changing practices is the growth of private care services for the elderly. A growing number of affluent pensioners are using market based services instead of public services. It seems that a certain discrepancy between attitudes and actual behaviour is increasing.

Analysing inequality in the framework of changing class structure is important both because of social and scientific needs. The structural changes in the Nordic countries, especially in Finland, have been significant. During recent decades the working class has been declining and the middle class has grown. Relations between social classes have changed, including both the class struggle and class discourse. Analysis of class position and class situation is the basis of the analysis of class structure. The analysis of class positions gives a detailed picture of class structure and its transformation. Comprehensive class analysis needs two further steps, the study of the social composition of classes according to different background indicators, and the analysis of the relation between classes and other social divisions like gender, race and ethnicity (c.f. Blom et al. 1992).

Social differentiation between the class groups and other social categories are shaped by new elements. Uncertainty in labour markets has increased. The number of workers in precarious positions is growing everywhere. In 2011 about 20 % of the workforce in the EU-27 had a part-time job and 14 % had fixed term labour contracts. In Sweden more than a quarter of all waged employees had a part-time job, in Finland less than 15 %.¹ Some say that a new social class has emerged, the precariat. According to Guy Standing the precariat has class characteristics. It consists of people who have minimal trust relationships with capital or the state,

¹ [www.http://epp.eurostat](http://epp.eurostat)



Fig. 6.1 Income quintile share ratio (S80/S20) (Source: Eurostat: <http://epp.eurostat.ec.europa.eu>, last update 27.5.2013)

making it quite unlike the salariat. And it has none of the social contract relationships of the proletariat (Standing 2011, p. 8).

Class is not dead. In the contemporary world, social classes have a strong hold on people's lives. Opportunities are strongly structured by class position. Class determines the general framework for everyday life. The working class world differs in many respects from the middle class world. When we look at social inequalities we should take class seriously into account. The already classical study by Erik Allard (1975) showed that in all Nordic countries upper level salaried employees – the middle class – had the best, and unskilled manual workers the worst standard of living. Recent studies have also confirmed the same result (Blom et al. 2012) (Fig. 6.1).

In the following I take a closer look at the relationship between inequality and social class by looking at the Finnish and Swedish experiences. In Finland the population consists of a few more than 5.3 million inhabitants, in Sweden the figure is a bit more than 9.5 million. Finland has a very homogenous population, most are native Finns. The proportion of immigrants is less than 3 % of the population. Sweden has much bigger immigrant population than Finland. In Sweden about 15 %, that is 1.5 million people were born abroad. It is estimated that by the year 2020 the proportion will be over 20 %.

When we look at social classes in the Nordic countries, our basic conclusion is that during the past 50 years Nordic societies have become middle class societies. In spite of this, the working class still plays a very important role. In Finland the working class makes up about half (52 %) the whole class structure. In Sweden the working class is a bit smaller (46 %) than in Finland (Leiuksrud et al. 2010; Leiuksrud 2004, p. 18). However, the share of the working class has been decreasing for more than 30 years. The Swedish sociologist Göran Ahrne (2010, p. 26) has claimed in a recent article that the working class is still alive. His analysis goes

Table 6.4 Social classes in Denmark, Finland, Norway and Sweden in 2010 (%)^a

| | Denmark | Finland | Norway | Sweden |
|----------------------|---------|---------|--------|--------|
| Self employed | 10 | 14 | 8 | 12 |
| Managers and experts | 33 | 25 | 38 | 29 |
| Working class | 57 | 51 | 54 | 59 |
| Total | 100 | 100 | 100 | 100 |

^aESS2010 data, Wright typology, see Leiufrud et al. 2010

against the popular claim that the working class is vanishing and that almost everybody belongs to the middle class. According to Ahrne, more than half of the economically active population in Sweden is made up of workers (Table 6.4).

Ahrne is interested in why the decline of the working class is so small. What has happened during past 30 years, why is the working class bigger than predicted? It seems strange that, against all odds, the working class has held its position; it should have declined in a much more radical way. Ahrne (2010, p. 29) claims that there are several reasons behind the stability in the class structure. Firstly, the effects of rationalization processes have been overestimated. Secondly, in spite of the improved educational level of the population, the skill requirements at work have not increased so much; worker positions, traditional blue-collar workers are still needed. Thirdly, several lower middle class positions have lost their former status and have become working class positions. In many respects the proletarianization of certain middle class groups has happened that Harry Braverman (1974) estimated already 40 years ago.

The situation in Finland is no different from the Swedish experience. Although we have witnessed deindustrialization and many factory closures, the working class has not disappeared. In Finland the service sector has been growing since the 1960s. The growth of service sector workers has compensated for the decline of the industrial working class. Ahrne's third point is also valid in the Finnish context. In many respects Braverman's prediction (1974) is more than relevant today. Due to technological and managerial change many employees, previously in lower middle class positions, are today in working class positions.

There are three important points to be stressed. The contemporary working class is overwhelmingly female. Because of the growth of services and de-industrialization there are only a few young male workers. The majority of new workers are young women. The working class is older than ever. In Engels' times workers were very often youths, today especially, male workers are older than the average labour force in Finland. Finally, a growing number of the Finnish working class is made up of immigrants. In this respect, too, Finland is today closer to other West European countries. In terms of power resources, the working class is clearly weaker than before. Trade unions are weaker; because of unemployment, wage demands are very modest and globalization is seen as serious general threat. We may say that the modern de-industrialized working class is divided currently, defeated and demoralized (cf. Therborn 2012, p. 20) (Fig. 6.2).

What is the connection between class structure and inequality? Swedish sociologist Göran Therborn (2012, p. 13) has talked about the return of class as an ever-

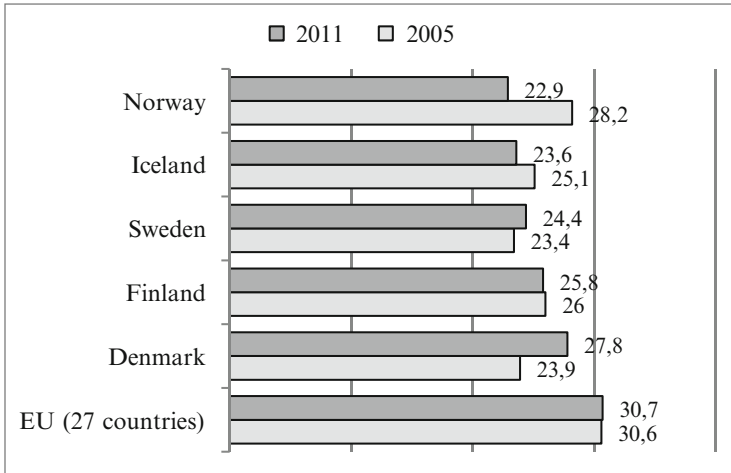


Fig. 6.2 Gini coefficient of equalized disposable income (Source: Eurostat: <http://epp.eurostat.ec.europa.eu>, last update 27.5.2003)

more powerful determinant of inequality. On a global scale the economic resources are distributed more and more unevenly. The Gini coefficient of income inequality among the households of the world is around 0.65, while the same figure in the Nordic countries is below 0.30. According to Therborn, the victory of Western capitalism is not followed by universal prosperity, but by soaring inequality and enduring economic crisis.

Social class acts in the world of work. Several studies since the 1960s (e.g. Goldthorpe et al. 1969; Braverman 1974; Melin 2010) have shown work position, working conditions and work contracts are very important determinants of peoples' everyday life. Class position at work either enables or restricts one's opportunities. Social class has a very strong impact on incomes. According to the ISSP 2009 survey on social inequality more than half of managers in Finland were in the highest income quintile and only seven per cent of unskilled workers. Almost half the unskilled workers belonged to the lowest income quintile and less than 10 % of managers.

My hypothesis concerning future development is that the relative growth of the middle class will continue. However we have to be specific. First the hypothesis concerns only the economically active population. At this moment, only one half of the adult population, aged 16–68, is economically active. The share of nonworking groups has increased, especially the number of students and pensioners. There have been also other meaningful changes like the formation of new types of elite and the growth of the category of knowledge workers during the last 20 years. We have to ask, what is the relationship between the middle class and different elite groups? Changes in the class structure have clear implications for the welfare state. When the Nordic model was built, the middle class supported the project. What the future relationship is, remains an open question?

6.4 Trust in Government

The very idea of citizenship is a product of modern capitalism. The French revolution and the declaration of independence in the USA stressed that all people should have equal political rights and they should be treated equally regardless of their position in society. Since then all capitalist democracies have agreed with this idea. There is a global understanding that government authorities should treat all citizens equally. Universalism is a crucial component of the Nordic welfare states. This means that all citizens have the same rights as regards social services. Universalism means also public transport, public day care, public libraries, public dental services, and public sports facilities and so on. Basically, incomes do not play a role in determining a citizen's needs. We can talk about social citizenship.

Several comparative studies (see Konttinen 2009) have shown that in the Nordic countries both trust and confidence are at very high level. People trust in governmental bodies. This is because the Nordic welfare state has kept its promise. People also think that governmental authorities should treat all citizens equally. Institutional confidence in the Nordic countries is high. Euro barometer data show that approximately 27 % of the respondents had confidence in their national parliament. For the Nordic countries the same figure was about 65 % (Raunio and Saari 2013, p. 33) (Table 6.5).

The ISSP (International Social Survey Programme) study 2004 analysed citizenship. In the survey it was asked what the respondents thought about the statement Government authorities should treat everybody equally, regardless of their position in society. The idea was shared by the vast majority of respondents in all the countries that participated in the ISSP survey. Only three people out of 100 said that this is not important, while three quarters considered it very important. However there is some interesting variation between the countries. The figures are highest in Sweden, where 85 % saw it as very important. The statement received lowest support in Japan where about 60 % saw it as very important. In general the idea of equal treatment is widely accepted in the Nordic countries. Among the Nordic countries, the figures were lowest in Finland.

Political parties transmit the interests of different social forces. Political parties represent their members and supporters in the governmental decision-making processes. In these processes politicians are actors who receive their mandate to act from the citizens. This kind of classical thinking also implies that politicians should consider very carefully the views of their supporters before they make political decisions. Politicians should follow the voice of the citizens. However during the past few decades this line of thinking has been heavily criticized. It is nowadays said that there is a growing distance between the electorate and the decision makers. The political elite is an elite among others and their life experiences are totally different from those of their supporters.

In modern democracies citizens participate in public decision-making by voting. We vote in local and general elections. After the elections city councils and parliaments are then responsible for the actual decision-making. Traditionally the

Table 6.5 Trust in the country's parliament^a

| | Denmark | Finland | Norway | Sweden | Russia | Nordic |
|---------------------|---------|---------|--------|--------|--------|--------|
| Self employed | 5.81 | 5.71 | 6.26 | 6.38 | 3.24 | 6.10 |
| Managers | 6.25 | 6.35 | 6.31 | 7.08 | 3.86 | 6.57 |
| Supervisors | 5.96 | 5.71 | 6.22 | 6.59 | 3.84 | 6.21 |
| Experts | 6.78 | 6.10 | 6.85 | 6.97 | 3.77 | 6.72 |
| Skilled workers | 5.86 | 5.39 | 6.27 | 6.14 | 3.33 | 5.94 |
| Low skilled workers | 5.90 | 5.30 | 5.76 | 6.04 | 3.37 | 5.81 |

^aSource: ESS2010. Scale 1–10, mean value by countries

public sector has had the perspective of a bureaucracy. Almost by definition the public sector has been bureaucratic. Since the doctrine of new public management has been dominating approach during the past 15 years public sector has adopted more and more practices and processes from the private enterprises. New public management thinking has put a lot of emphasis on efficiency and accountability. Public decision-making is becoming more and more professional. It is often said that the problems are so complicated that ordinary people cannot master them. Should politicians take into account the views of ordinary citizens and would ordinary people like to have more opportunities to participate in public decision-making?

More than two thirds of all respondents in the ISSP survey thought it is very important that politicians consider the views of citizens before making decisions. Again, only three per cent say that this is not important. The variation between the countries is small. The figure very important was highest in the USA, 75 % and lowest in Finland, 58 %. In the Finnish political tradition voters have high confidence in political leaders. Voters assume that politicians naturally consider the views of their citizens. We may conclude that all around the world people share the idea that in a democratic society the politicians should consider the views of citizens before making decisions.

According to the ISSP survey, half the respondents saw that it would be important if people had more opportunities to take part in decision-making and only four per cent think that it is unimportant. Also in this respect, there are interesting differences between the countries. In general people in non-EU countries are more in favour of new opportunities than people in EU-countries. In the Nordic countries the support is at the lowest level. The figures were highest in Spain and Portugal (60 % very important) and lowest in Finland (38 %) and in Denmark (40 %).

How can we interpret this result? One line of argument is that in the Nordic countries we have long traditions of political democracy and long traditions of active voluntary associations. People think that the existing systems provide enough means for participation. On the other hand in those countries where democratic traditions are younger, people want more opportunities to participate.

During the past 10 years a new kind of political action has rapidly increased on a global scale, that of civil disobedience. The phenomenon can be seen in connection with huge demonstrations against the IMF, the WTO and similar organizations.

Also in the United States new forms of activism have emerged. Occupy Wall Street is a good example of new social criticism. In the Nordic countries we have not experienced massive popular protests against the social order. However at end of May 2013, there were aggressive riots in several suburbs in Stockholm. Unemployed young people demonstrated on the streets on several nights.

There has been much speculation about the reasons why young immigrants went on the streets in Stockholm. One explanation is that the Nordic welfare state had let these young people down. Confidence has evaporated. The promise of the welfare state stated that there are educational opportunities and employment opportunities for all who are ready for education or for employment. The reality is not as rosy as the promise. The current economic crisis has proven that there seem to be ever fewer opportunities for young adults entering the labour market. Labour markets are cruel, and ethnic segregation is also strong in Nordic countries.

At this moment the welfare state is unable to provide proper opportunities for the young generation. The idea needs to be re-invented for our time. If we wish to create a better society, we need to have a committed social movement to support change. As Wilkinson and Pickett (2009) noted, there must be conscious and sustainable political decisions and a large volume of information to make the change possible.

6.5 Conclusions

The welfare state is always about economics and about politics. The welfare state is not possible without economic resources. The Nordic model has managed to combine sustainable growth with high taxes. Both employers and waged workers have been willing to pay the expense of universal public services. Now the situation has changed. Neoliberal economic thinking means lower taxes and more profits. This means that the welfare state is too expensive. High taxes still have strong support among wage-earners. People see that the welfare state is worth high taxes. And the idea of solidarity is also still alive, although the middle class is silently changing its behaviour. What this means for the future is an open question.

In modern Europe the government makes a suggestion, parliament decides and public authorities implement the laws. Parliamentary decisions and laws reflect the leading political goals. The Nordic welfare states have had high taxes, the share of the public sector in GDP has been high, social services have been produced and distributed by the public sector. Citizens have been entitled to universal services in education, healthcare or in social services. Full employment has been an important political goal. Nordic countries have also been women-friendly; in working life and in politics gender equality has been promoted.

The Nordic model has been based on extensive labour market participation, relatively low levels of unemployment and increasing – universal – social policy. The role of the state has been central. The system has also been very redistributive and inclusive. During the past decades this model has gone through deep

restructuration. It is no longer expanding; the new trend is cooperation between public and private actors (cf. Saari 2010, pp. 42–43).

The Nordic model has been a success story. The Nordic countries have managed to create a growth model, which has proven to be both effective and inclusive. When we look at the development of the Nordic welfare model, clear steps or stages can be identified. The first concerns the scope. The scope of the Nordic model is extensive. It has made a shift from the passive – unemployed, pensioners, housewives – population to economically active, i.e. waged employees. New policy incentives have profoundly changed the ways that younger generations, in particular, behave. Secondly growing economic affluence has created new hopes and demands towards the welfare state.

Structural, political and ideological changes over recent past and the current economic crisis have challenged the Nordic model. One strong principle of the Nordic model has been its preventive approach. A simple fact seems to be that the cheapest way to solve a problem is to prevent it. During recent years this kind of pro-active measure has often been replaced by reactive and specially targeted programmes to solve this or that problem retrospective.

Money is a good tool when we are building a good society but money alone cannot solve inequality. What is needed is social capital, social networks and trust. The Nordic model has been based on these elements. Social capital, social networks and trust have been important building blocks of the welfare state. It is obvious that, in the future, the third sector will play a greater role than before. Already by now civil society organizations have taken on a growing share of many services. Patient organizations, pensioners' associations and similar actors are today elementary parts of the welfare mix. In civil society, social capital and trust are even more important than in the public context.

Nordic countries are societies based on waged labour. The share of wage earners is about 85 % of all those that are gainfully employed. The working class constitutes more than half the class structure, while the middle class is about 40 %. During the past 40 years the share of the middle class has been growing. However, the growth stopped during the crisis at the beginning of the 90s. After that, social divisions have increased. The share of the poor has grown. In Finland the poverty rate of children has increased from 5 % in the year 1994 to 14 % in 2008 (Hiilamo 2010, p. 75). The development of the Nordic model was based on a class compromise between the growing working class and the middle class(es). It seems that this class compromise has to be renegotiated. Contemporary middle class expectations and needs are very different from the needs of young workers in the 1950s and 1960s.

The policies that governments have followed have not managed to reduce growing divisions. On the contrary, austerity policies have meant that those in the weakest position have suffered. Social policy is framed with very tight budgetary requirements. Social policy is also more relativist than earlier. Individual well-being is more dependent on the well-being of reference groups than on the institutional structure of society (cf. Saari 2010, p. 48).

The Nordic model has experienced clear restructuration. The public sector is no longer the only producer of services; market-driven services are more and more

common everywhere. At the same time the level of different benefits is lower and there is more bureaucratic and moral control over the clients. The voice of economic elites is more influential than before. The basic demand of the economic elite is to reduce the welfare state. People should have full responsibility for their lives. The welfare state is seen to be a burden, too massive and too expensive. This is due to many reasons. The interests of the elite are framed in such a way as to represent public interest as a whole, i.e. what is good for the rich is also good for poor people.

If welfare expenditure declines in the future, this means more inequality. Thus far the Nordic model has effectively managed to support those who have the weakest resources. In future those who are at the bottom will stay there. The Nordic experience has shown that the most effective way to enhance equality is preventive and pro-active measures. During recent decades this kind of policy programme has almost disappeared and the nature of policies is increasingly reactive.

It is always difficult to predict the future. We can at least assume that some of the recent events may have an impact for the future. In this respect we can name at least four challenges, requiring solutions: education, health, poverty and social polarization.

1. Education as a challenge. The position of the child population has weakened because of austerity measures in every Nordic country. The resources for education have been reduced. At the local level actors see that there have been too many savings, which have hit school work.
2. Health as a challenge. Life expectancy has increased. The share of the aged population is greater and greater; this means greater needs for health services. Mental problems among all ages and social groups have increased. It is very difficult to predict the consequences of these processes.
3. Poverty as a challenge. All the Nordic countries are among the richest nations in the world, so why do we have poverty? Who needs poverty? According to statistics, poverty has increased in every Nordic country, especially among single parent families. Also the position of the immigrant sections of the population is more difficult than the average.
4. Social polarization as challenge. The distance between elites and ordinary people is growing in all respects. They speak different languages and their everyday experiences are totally different. One important element of the Nordic model has always been solidarity, taking care of those who are in vulnerable position. Now solidarity is weakening.

All the above mentioned challenges are closely connected with inequality. On the other hand, inequality is closely connected with economic growth. American economist Joseph Stiglitz (2012) has stated that “we (the Americans, HM) are paying a high price for the inequality that is increasingly scarring our economy – lower productivity, lower efficiency, lower growth, more instability – and that the benefits of reducing this inequality, at least from the current high levels, far outweigh any costs that might be imposed” (ibid. 117). To promote economic growth means to fight inequality. This is good but the environmental consequences of new growth are an open question, but also another story.

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Chapter 7

Social Inequalities of Families in Europe

Jutta Träger

Abstract Social inequalities and poverty rates of families in Europe differ substantially among the member states. There are known risk factors for poverty, characterizing all states and all groups, such as unemployment or low educational achievements. It is evident that families are at risk of poverty to different degrees and for different reasons in the member states of the EU. This contribution argues that these differences are to a substantial degree attributable to the national differences in the social policies addressing families. These policies are by themselves a result of the different welfare state models, but in particular of the models of families and family life characterizing the welfare states. As these are deeply entrenched in ideology and tradition, they also influence policies, which offer different chances for families to avoid poverty. The empirical data indicate that policies recognizing a more modern model of families and family life in which both sexes are regularly doing paid work in the labour market, are better and more efficient at avoiding poverty of families and children. States such as the Scandinavian ones – by providing the infrastructure for public childcare – enable mothers and women to participate in the labour market, which is a strong factor in combating poverty. Other countries of the continental-conservative welfare state type are still following the male breadwinner model in which women are seen as staying at home and doing household work. Despite spending large proportions of GDP for social transfers, they are less able to avoid family poverty.

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7.1 Introduction: The Europeanization of Social Inequalities of Families?

Social inequalities of families in Europe are, neither a new phenomenon nor is inequality limited to certain countries within the EU. Increasing disparities are found in the standards of living of families within and between countries (European Commission 2004, p. 8). Within societies the gap between lone-parent and large families, work-rich and work-poor families has widened. While the per capita social benefits received by families and children rose during the 1990s across the Union, the proportion of families with a low income or threatened by poverty has increased.

This contribution will examine the level and the reasons of social inequality among families in European countries and will consider institutional explanations of these differences. Notably, the contribution will investigate why specific policies of family support were chosen, and how these policies affect the risk for certain family types to fall into poverty. The hypothesis to be tested is that both the general level of social inequality among families and the poverty risk for certain types of families, are a result of the social policy and the policies to support families being chosen. It is also hypothesized that both social policy in general and policies of family support are strongly influenced by the overall welfare state model. Furthermore, one finding is that the male bread winner family model, in particular promoted by the conservative welfare states, is responsible for the financially precarious situation of many families, because of the lack of a developed childcare system and early support.

The question whether European Integration has led to increased social inequality, or whether it is indeed establishing a new dynamic of social inequality in the EU, is a very important part of social research. Available empirical evidence shows Europeanizing has a stronger and direct effect on personal circumstances and social groups. In general, an important finding is the difference of social structures within the EU. A double cleavage separates Europe in different geographical regions, dividing the wealthy North and the poorer South, and, crosscutting, the more prosperous West and the less prosperous East. The financial crisis of 2008 added another divide, between the severely troubled periphery and the centre of the continent (Bach 2012). The range of economic productivity, and thus, income generated, varies from Europe's richest region, Inner London, with a GDP of 303 % of the European average, down to the North-Eastern part of Romania, with only 24 % of the European average. The same distributions and similar ranges show up in other indicators as well, be it employment, wages or unemployment. Some regions have an unemployment rate as low as 2.5 % in contrast to others with up to 20 %; since the beginning of the financial crisis, some formerly prospering regions now have to cope with unemployment close to a quarter of the workforce, with some groups, such as younger people, particularly at risk. Another divide, within regions, is the urban/country divide in wealth, poverty and factors of poverty, such as unemployment and education (Mau and Verwiebe 2009, p. 266).

The living standard of populations, as measured by the median equivalent disposable income, fell in 15 member states in 2010 compared with a year earlier, after adjusting for inflation (Eurostat 2013a, pp. 1–8). Current statistics of the OECD (2008, 2013) confirm that income inequality as measured by secondary income, the net-equivalent income and the Gini-coefficient increased between 1985 and 2005 in different European countries, for example in Finland, Norway, Sweden, Germany, Italy and Portugal (see Chap. 3 this book). Europe's social space seems to be ever more characterized by deep-running social cleavages which structure the opportunities of large social groups and families, cleavages which are also potentially conflicting and politicized.¹

Families, the focus of this chapter, are a central part of the social structure, and while there are clearly commonalities among European societies regarding families, there are also substantial differences regarding the overall situation of families, the degree of modernization, the degree to which families are part of general societal transformation processes, the persistence of traditional values and family models and the degree to which families are subject to social exclusion and poverty (Mau and Verwiebe 2009, p. 102).

In 2010, around 23 % of the European population (EU-27) was considered to be at risk of poverty or social exclusion (AROPE). As multi-dimensional concepts, poverty and social exclusion cannot easily be measured through statistics.

The AROPE is one indicator to record the income poverty and will be used for this analysis. It is defined as the share of the population in at least one of the following three conditions: (1) at risk of poverty, meaning below the poverty threshold, (2) in a situation of severe material deprivation, (3) living in a household with very low work intensity (Eurostat 2012a, p. 1). In modern societies a higher risk of poverty and social exclusion can be found for unemployed persons, people with migration background, without formal education, older people, homeless persons, but also for families.

As Table 7.1 shows, family structure has a significant effect on the risk of poverty and social exclusion. Different types of households have different risk-of-poverty profiles, reflecting the influence of risk-factors, notably the chance to participate in the labour market and the sheer family size: single-parent families have a much higher risk of living in poverty with 36.6% in EU-27 countries than families consisting of a couple with one child (11.8%) or two children (14.9%). 25.8% of families with three or more dependent children are living in poverty or social exclusion, compared to the base rate for the EU-27 countries, which is just 15.2%.

In general, as a family increases in size, the poverty risk tends to rise too, but this trend is more pronounced in the new member states, where the poverty rate among

¹ Nevertheless, the Europeanization of social inequality is compensated partly by social improvements in other domains which are also consequences of European integration, such as increased overall welfare, European standards in many domains, some of which are hard to quantify but suggest, that on the whole, living conditions have improved substantially for many social groups, also the poorer ones (Mau and Verwiebe 2009, p. 246).

Table 7.1 Percentage of people in poverty in 2010

| | Total | Unemployed | 65 years & more | Single parent | Couple 1 child | Couple 2 children | Couple 3 children |
|------------------------|-------|------------|-----------------|---------------|----------------|-------------------|-------------------|
| EU 27 | 15.2 | 45 | 16 | 36.6 | 11.8 | 14.9 | 25.8 |
| New member states (12) | 15.5 | 45.5 | 14.5 | 34.4 | 13 | 17.9 | 35.5 |
| EU 15 | 15.2 | 44.9 | 16.3 | 36.9 | 11.5 | 14.2 | 23.9 |
| Belgium | 13.3 | 30.4 | 19.4 | 35.3 | n.a. | 10.6 | 16.5 |
| Denmark | 13.8 | 36.3 | 17.7 | 20 | 9.2 | 5.1 | 11.1 |
| Germany | 15 | 70.3 | 14.1 | 43 | 13.7 | 8.8 | 21.6 |
| Ireland | 14.8 | 26.8 | 10.6 | 30.2 | 6 | 15.8 | 20.4 |
| Greece | 19.5 | 38.5 | 21.3 | 33.4 | 9 | 20.3 | 26.7 |
| Spain | 19.7 | 38.7 | 21.7 | 45.5 | 14.1 | 23.3 | 44.2 |
| France | 11.8 | 33.1 | 10.6 | 34.6 | 11.5 | 10.6 | 20.5 |
| Italy | 16.8 | 43.6 | 16.6 | 37.3 | 21.6 | 20.8 | 37.2 |
| Luxembourg | 12.5 | 43.3 | 5.0 | 46.4 | 9.3 | 14.5 | 23.9 |
| Netherlands | 9.1 | 31.8 | 5.9 | 29.1 | 15.9 | 8.7 | 16.6 |
| Austria | 11.6 | 41.2 | 15.2 | 28.2 | 10.5 | 7.8 | 17.9 |
| Portugal | 16.9 | 36.4 | 21 | 37 | 4.2 | 17.1 | 33.2 |
| Finland | 13.7 | 45.3 | 18.3 | 22 | 16.4 | 7.4 | 11.8 |
| Sweden | 12.8 | 36.3 | 15.5 | 33.1 | 8.5 | 6.9 | 12.3 |
| UK | 15.7 | 47.4 | 21.4 | 36.4 | 12 | 12.2 | 27.4 |

Source: Eurostat (2013b); Percentage of persons below 60 % of median income, before transfers

double-parent families with three or more dependent children is higher by about 10% points than in the EU-15 countries.

To summarize, as far as types of households with dependent children are concerned, single parents and large households (two adults with three or more dependent children and three adults or more with dependent children) were at the highest risk of poverty or social exclusion with rates of 49.8%, 30.8% and 28.4% respectively. This finding already hints at the mechanisms underlying family poverty: the lower chance of participating in the labour market in the case of single-parent-families and the increased costs of living in the case of large families.

Apart from family structure, other factors compound the risk of poverty. More than 45.0% of low to very low work intensity households with dependent children were at risk of poverty. Moreover, 49.2% of children whose parents' highest level of education was lower secondary education or lower were at risk of poverty, compared to 7.5% of children with parents on a higher level of education. Furthermore, 18.4% of single parent families were materially deprived compared to 9.6% of families with dependent children (Eurostat 2013c, pp. 1–6).

7.2 Social Welfare State Regimes and Poverty of Families

When considering the structure of families as well as of policies addressing families in European welfare states, the similarities are dominating, in particular compared to other cultures (Mühling and Schwarze 2011, p. 44). The era of industrialization, the development of capitalist economies in Western Europe, secularization and democratization affected family structures in Europe in a most decisive way. The most common characteristic is that the nuclear family became the dominating model of family life. But despite this common feature, the involvement of the families in the system of welfare policies and social policies addressing families developed differently and, as a consequence, has led to differences in Europe (Kaufmann 1995, p. 175; Kaufmann 2002; Gauthier 1996). According to these authors, very different types of welfare states can be found, if one considers how they treat and assist families.

In the beginning of the 1990s, Esping-Andersen developed his framework for classifying welfare states into three basic types, distinguishing the social-democratic type, found in Scandinavia, the conservative-corporatist type (prototypically found in Germany) and the liberal type, found in the Anglo-Saxon countries, like the UK or the US.

The central elements in classifying the types are the systems of social security established, notably the degree of de-commodification, understood by Esping-Andersen as the degree to which people are freed from the need to work by systems of transfer payments, which shield them from the pressures of the labour market, the degree of social stratification, defined by the extent of social inequality and the degree of de-familization, defined as the level to which women are freed from the obligation of performing household-related tasks by the provision of services, such as childcare (Esping-Andersen 1999, 2002).

The rate of de-commodification and stratification is measured using empirical indicators, such as pensions, health and unemployment insurance, where the levels of payments are combined with aspects of access to the transfers, supplemented by the feature of the existence of a system which provides coverage of the basic needs of life, and the access to this system (Esping-Andersen 1990, p. 21).

The establishment of modern welfare states is closely connected with the development of the family model and the structure of the families in the respective countries. Notably the family model, often part of a broader ideological framework, was central for the development of the welfare state and how it assists families. When designing the welfare state, governments had in mind a certain model of the family, and the welfare state was designed to support this model.

Esping-Andersen (1999, pp. 45, 61) distinguishes welfare states by the degree to which they are institutionally oriented on and supportive of the traditional male breadwinner model family, with the father working in paid employment and the mother in charge of the household work and childcare. The three central macro-level indicators of a welfare state's orientation on the male breadwinner model are the degree of labour market participation of mothers, the degree to which

Table 7.2 Types and dimensions of modern welfare states by Esping-Andersen

| | Liberal | Conservative | Social-democratic |
|---|---------|----------------------|-------------------|
| Degree of de-commodification | Minimal | High (for clientele) | Maximal |
| Degree of stratification | Strong | Strong | Weak |
| Privatization (share of private expenditure for old age care and health care) | High | Low | Low |
| Level of corporatism and etatism | Weak | Strong | Weak |
| Residualism (share of protectiveness) | Weak | Weak | Strong |
| Accommodation of full employment | Weak | Weak | Strong |
| Degree of de-familization | Low | Low | High |

Source: Esping-Andersen (1990, 1999)

individuals (such as married women) have access to their own income (which may come in various forms such as transfers, wages and other forms of incomes), and the level to which mothers are freed from the tasks relating to child rearing, for instance, if they decide to return to work (Träger 2009, p. 19) (Table 7.2).

In 1999, Esping-Andersen (1999, pp. 45, 61) expanded his classification of welfare state types into the domain of social policies addressing families. His criterion is the degree to which the state institutionally supports the traditional male breadwinner model family.

In analogy to the classical welfare state typology, three types of family policy regimes emerge, to which the European welfare states and their policies addressing families can be assigned:

- (a) The Nordic regime of family policy is associated with (and an outflow of) the social-democratic welfare state model. The state is the central provider of universal welfare state services for families. These services are oriented at the idea of the equality of the sexes in all regards, in particular employment and participation in the labour market, the welfare of the children, a high participation rate of women in the labour market, and encompassing reconciliation of work and family life. The state's social policies are characterized by a high level of de-familization, allowing a high degree of individual independence, and a low level of de-commodification (Gerlach 2010, p. 366).
- (b) The continental-European regimes of family policy are found in welfare states of the conservative-corporatist type. In line with the conservative creed, the traditional role of women and families is in the centre of the family model underlying the policies relating to families. A central feature is the unequal distribution of work in employment and household-related work between men and women, with the former in charge of earning money and the latter in charge of running the household. Structurally, this feature is accompanied by a high degree of de-commodification and a low level of de-familization (Leitner et al. 2004, p. 17). This regime type emphasizes the role of women as a provider of welfare services. Services and support in the domain of family policy are

predominantly financial transfers to families, while investments in the infrastructure to provide childcare are neglected.

- (c) The Anglo-Saxon regime of family policies is found in the liberal welfare states, and, in line with the underlying philosophy, emphasizes the role of the market and market mechanisms as the central mechanisms to provide welfare services. This type is characterized by the fact that families are supported to a much lower level than in other types. At the same time, they feature a high rate of labour market participation by women. Combined with low levels of support for women in tasks associated with household, notably childcare, this is resulting in a low compatibility between employment and family life. For this reason, in recent years the liberal states have supplemented their policies addressing families, in order to reconcile work and family life. These measures are at times denoted with the label *workfare-philosophy*, i.e. the combination of policies addressing the labour market (work) and the welfare sector (welfare). Their specific thrust is that they grant welfare services and transfers only, if the family applying for them has a certain minimum of work effort to show, i.e. is participating in the labour market (Gerlach 2010, p. 367; see also Leitner 2003).

This typology can be supplemented by the so called rudimentary welfare state regime found in Southern European states with an important role of the family as nucleus for care and subsidies. As a rule, most countries of Southern Europe (excluding South Eastern Europe) are characterized by extreme low levels of public support for the needy and means-testing as a condition for accessing them. At the same time, they show high rates of poverty and low levels of birth rates. Post-communist states are only to a limited degree compatible with these typologies, as the development of welfare states were hindered by the more fundamental changes in the political and economic systems (Mühling and Schwarze 2011, p. 52).

Turning to families, the group central to this chapter, poverty rates among families correspond to the type of family policy regime. In general, it can be said that the risk of poverty for this group is lower in countries which are characterized by a higher degree of de-familization.

7.3 Causes and Effects of Poverty of Families

In general, the central causes of poverty are a) long-time unemployment, b) low levels of employment-related income and c) part time employment with a very low number of hours worked. For the different constellations of family poverty, access to qualified, and thus well-paid, work is an important way to escape and avoid poverty. This holds true in particular for mothers in a relationship as well as for singles with children, which are prohibited by their household and child-rearing related workload to enter the labour market. One essential finding is that the male bread winner model family, in particular characterizing the conservative welfare states, is responsible for the financially precarious situation of many families with

children. The male breadwinner model family is characterized by an unequal distribution of work in paid employment and homework related work among both sexes. Typical for this model is the constellation where the man is in paid employment, assuring the economic security of the family, while the woman remains at home, engaged in work related to the household, i.e. unpaid work, creating neither income nor entitlements. An improvement of the economic situation, but also the economic security of families via a higher labour market participation of mothers is blocked by two features which are characteristic of the conservative welfare states: first, even in the EU member states with a harmonized regulatory setting, there is still a persisting gender wage gap, between men and women (see Chap. 4 of this book). Despite some progress, in 2011 women's gross hourly earnings were on average 16% below those of men in the EU-27 (Eurostat 2012b, p. 76). The highest gender wage gaps can be found in Estonia (27%), Germany (22%) and Austria (24%), the latter two being the prototypical conservative welfare states. Second, the lack of a well-developed infrastructure to provide childcare prohibits mothers to enter the workforce, and to contribute to the family income, thus avoiding poverty. The constellation of a low labour force participation rate of mothers and a little developed childcare infrastructure characterizes most of conservative welfare states, with the exception of France.

In addition, the rise of female employment in the conservative welfare states was mainly in the part-time sector.

A mother-friendly childcare system can be seen as an important indicator for the integration of women and in particular mothers into the labour market. It is also a feature which is strongly affected by the family model underlying the welfare state regime. In other regime types, notably the social democratic one, oriented at a different family model, childcare is more seen as a public function, and is provided by the state. Welfare states of the social-democratic model (Denmark, Sweden, Finland, and the Netherlands), but also of the liberal model (Great Britain) share the feature of a well-developed public provision of childcare, and, as a consequence, have a substantially higher labour force participation rate of women and mothers compared to the conservative welfare states which see childcare as a private function to be provided by the family (Table 7.3; see also European Commission 2009).

International comparisons show that a well-developed infrastructure to provide childcare is associated with lower levels of poverty. Data from the OECD for 2005 indicate that the countries with the highest level of childcare for children up to 3 years of age not only have the highest levels of labour force participation rates for mothers, but also the lowest poverty rates among children (OECD 2007).

Compared with the Scandinavian states, which achieve a level childcare provision of up to 34.2% for children up to 3 years of age, states of the conservative regime type, such as Germany, only provide 9% of the children in this age group with publicly supplied childcare. As a result, the labour force participation rate of mothers with children below 3 years of age is only 36.1% in Germany, compared to a rate of 63% in social democratic welfare states. This lack of chances to contribute to family income, or to make a living when being a lone parent, has consequences: while the rate of poverty among children is at 7.2% in Scandinavia, it is almost

Table 7.3 Employment rates – total, male, female 2010

| | Total | Male | Female |
|------------------------|-------|------|--------|
| EU 27 | 64.1 | 70.1 | 58.2 |
| New member states (12) | 65.4 | 71.3 | 59.4 |
| EU (15 countries) | 64.3 | 70.5 | 58.0 |
| Belgium | 62.0 | 67.4 | 56.5 |
| Denmark | 73.3 | 75.6 | 71.1 |
| Germany | 71.1 | 76.0 | 66.1 |
| Ireland | 59.6 | 63.5 | 55.8 |
| Greece | 59.6 | 70.9 | 48.1 |
| Spain | 58.6 | 64.7 | 52.3 |
| France | 63.9 | 68.2 | 59.7 |
| Italy | 56.9 | 67.7 | 46.1 |
| Luxembourg | 65.2 | 73.1 | 57.2 |
| Netherlands | 74.7 | 80.0 | 69.3 |
| Austria | 71.7 | 77.1 | 66.4 |
| Portugal | 65.6 | 70.1 | 61.1 |
| Finland | 68.1 | 69.4 | 66.9 |
| Sweden | 72.1 | 74.6 | 69.6 |
| United Kingdom | 69.5 | 74.5 | 64.6 |

Source: Eurostat (2013d); Employment (main characteristics and rates, *lfsi_emp_a*); annual averages; concerning full-time equivalent see Chap. 4 Fig. 4.4 in this book

twice as high, namely 12.8%, in Germany. Further, the OECD study provided evidence that the rate of poverty among single-parent households is much lower, 26.6%, among single-parents who are working than among single parents who are not working, 56%, (OECD 2008, 2013). While there are other relevant factors, the chance of single parents to enter the labour market depends crucially on the question of how children are taken care of while parents are working.

Recognizing this fact, member states of the EU have for some time been revising the family models underlying their welfare state policies. The normative basis of the new adult worker model family is that both men and women should be able to participate in the labour market, earning an income and also incurring welfare state entitlements, and in particular entitlements related to employment. Parents should be equally able to be in full- and part-time employment (Lewis 2004, p. 63).

A problematic aspect of the adult worker model family model is the underlying assumption made by the policy makers that societies are characterized by a high level of economic individualization, a level, which is not actually achieved in the majority of European societies. On the one hand, the contribution of men and woman to family-related work (work done in the household) has changed and converged to some degree, notably by more women entering the labour market and men engaging in more household-related work. But even so, the idea that both sexes contribute to the same degree to both types of work (paid work and household work) is clearly illusory. The European situation is still characterized by women working in part time-jobs, although to different degrees in the different European societies (Rüling and Kassner 2007, pp. 62–73, 41).

Summarizing the main results, it appears that there are substantial differences across countries in the (female) employment rate. The presence of children has a small impact on male employment, but affects female employment rather heavily in conservative welfare states. Child development and social inclusion receive increasing priority in the public policies of most countries. The risk of child poverty appears to be connected with low work intensity, living with lone parents or in large families. There is strong evidence that the sufficient supply of childcare services has a positive impact on (female) labour force participation, the fertility level² as well as social inclusion (Plantenga and Remery 2009, pp. 27–28).

Welfare states have a range of different measures and policies to improve the socio-economic situation of families. A comparison of these policies is complex, as national family policies have developed in highly different historical and cultural contexts, and the targets of the policies differ among states. Up to date, there are only few detailed comparative studies of social policies addressing families (Gerlach 2010, p. 373). Furthermore, systematic impact analyses of policy-fields impose high methodological demands. When analysing the impact of an intervention, the main task consists of proving the actual effect of the intervention on the situation addressed by the policy, in our example poverty among families (Träger 2009, p. 57). Classifications of welfare state regimes, such as provided by Esping-Andersen, can yield some insight at the macro-level, but the empirical evidence of the impact of policies and measures is determined at the micro-level, and here the evidence is rather scarce. Nevertheless, classifications and assignments of states to types of welfare state and family policy regimes is relevant, in that the family policy and the situation in which individual actors and individual families are making their choices, are at least framed by these policies, which are in turn affected by the underlying model of welfare and family (Lengerer 2004; Strohmeier 2002). Some individual level choices are made more or less probable and frequent, by setting a framework which is by itself oriented at a concept of family and welfare.

7.4 Policy Arrangements Combating Poverty of Families

Family policy consists of interventions, i.e. measures aiming at changing the social situation of families. At a general level, one can distinguish interventions into four major groups:

1. Financial measures,
2. Measures addressing the infrastructure,
3. Measures which allow the recipients to have more time,
4. Regulations.

²Total fertility rates are below replacement level in all EU Member States, but prove to be especially low in countries with low female participation levels.

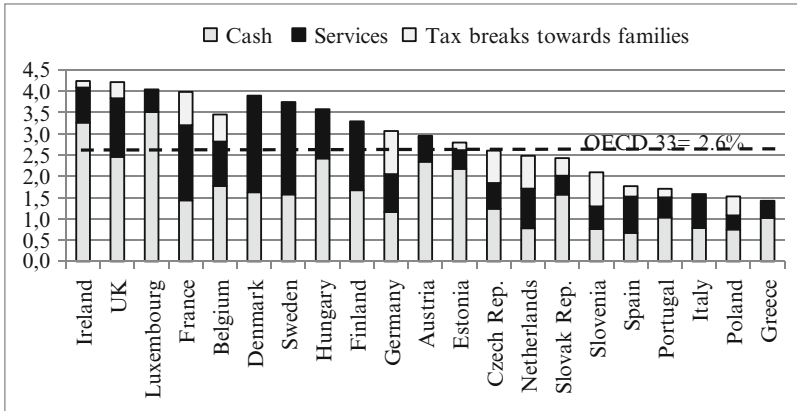


Fig. 7.1 Public spending on family benefits in cash, services and tax in % 2009 (Source: OECD 2012: Family Database (Notes: Public support accounted here only concerns public support that is exclusively for families (e.g. child payments and allowances, parental leave benefits and childcare support)); <http://www.oecd.org/social/family/oecdfamilydatabase.htm>)

With these measures and their more specific forms, EU member states have a versatile set of instruments of policies to improve the situation of families in very different situations and with very different needs. In practice, the differences are evident, for instance in the level and the structure of payments for families (Träger 2009, p. 39) (Fig. 7.1).

OECD countries spend on average 2.6% of their GDP on family benefits, with large variations across countries. But the level and the types of benefits differ substantially among the states, as does the usage. Whilst public spending on family benefits is above 4% of GDP in Ireland, Luxembourg and the United Kingdom, public support for families in Southern Europe (Greece, Italy and Spain) is around 1.5% of GDP. The proportion of the total amount spent in cash, services and tax measures is variable. The majority of countries spend a higher proportion on cash benefits than on services or tax benefits. Exceptions include Denmark, France, Netherlands, Norway and Sweden where spending on services is the same or higher than spending on cash benefits.

The share of childcare and early education services in total public spending may be relatively small, but it is not negligible. With special regard to children living in poor families and those with migration background, it is meanwhile an accepted goal to provide cultural and social skills and language competences as early as possible, to improve the starting conditions available for them in their later school life as much as possible. With close to 1% or more of GDP, services provided for children below 6 years of age are important in most Nordic countries. In countries with high enrolment rates in formal care for children under 3 years, public spending on childcare is accordingly high. This is notably the case in the Nordic countries, France and the United Kingdom (OECD 2012, pp. 16–17) (Fig. 7.2).

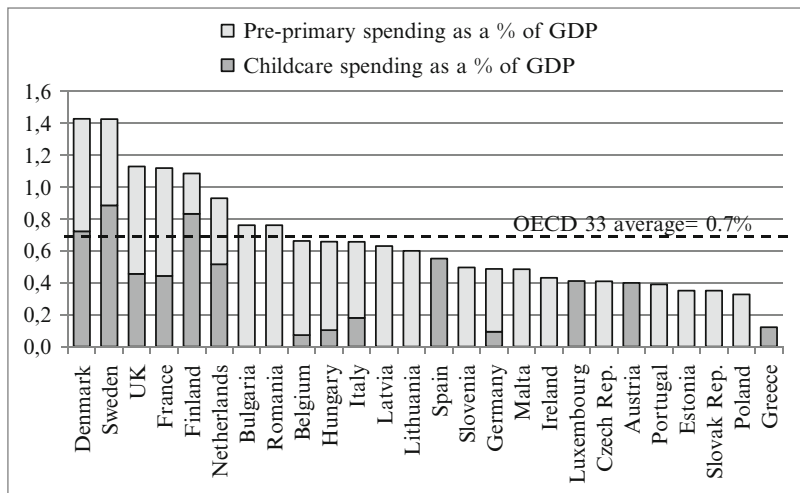


Fig. 7.2 Public expenditure on child care and pre-primary 2009 as % GDP (Source: OECD 2012; http://www.oecd.org/social/family/oecdfamilydatabase.htm#public_policy)

Scandinavian countries are seen as the leaders in the field of organizing and providing public childcare, and the employment rate of mothers as well as the rate of poverty for this group is lower than for instance in Germany. However, France which has one of the best scores concerning expenditure in this area, does not experience comparable high female employment rates due to a specific family culture. This difference may be attributed to the fact that in these countries, the share of public expenditure invested in the provision of services and infrastructures for childcare is very high. In Denmark, Finland and Sweden, this strategy is implemented in a setting where there are no distributive benefits associated with taxation, as in all three countries, taxation is based on a system of individual tax rates, which do not take the family situation nor the number of children into account (Mühling and Schwarze 2011, p. 53).

Impact research on family policies has shown convincingly that the social situation of families is positively influenced by the labour market participation of mothers, as the risk of poverty is substantially lowered with access to a second income. This strategy – allowing for gaining a second income by providing the infrastructure which allows mothers to work – outperforms other strategies, such as direct financial transfers, e.g. the German child allowance, as this does as a rule not allow families/mothers to cover the actual costs of organizing childcare (Eichhorst et al. 2007, 48, 50). Looking at the strategies – financial transfers as opposed to the provision of childcare infrastructure – from the perspective of a state's fiscal situation, the investment in providing childcare is the better investment, if the aim is to reduce poverty. Better infrastructure provision for childcare allows for the better integration of mothers in the labour market, which in turn is the better way to reduce poverty.

Table 7.4 Share of young child cash transfers in disposable household income of families with young children, by income quintile in 2007

| | Q1 | Q2 | Q3 | Q4 | Q5 | Total |
|-------------|------|------|------|-----|-----|-------|
| Belgium | 14.7 | 8.5 | 6.3 | 5.6 | 3.5 | 6.5 |
| Denmark | 10.2 | 6.1 | 4.4 | 3.4 | 2.3 | 4.3 |
| Germany | 19.5 | 11.4 | 8.1 | 5.3 | 2.9 | 7.8 |
| Ireland | 29.5 | 16.3 | 10.3 | 8.1 | 4.1 | 10.2 |
| Greece | 2.0 | 1.9 | 1.0 | 1.6 | 1.1 | 1.4 |
| Spain | 1.2 | 0.9 | 1.4 | 1.7 | 1.6 | 1.5 |
| France | 12.4 | 10.2 | 6.9 | 6.7 | 3.0 | 7.0 |
| Italy | 4.2 | 4.0 | 1.9 | 1.2 | 1.0 | 2.0 |
| Luxembourg | 15.3 | 12.0 | 10.8 | 8.8 | 4.4 | 9.6 |
| Netherlands | 4.7 | 3.0 | 2.1 | 1.6 | 1.1 | 2.1 |
| Austria | 20.3 | 15.6 | 12.2 | 9.1 | 5.8 | 12.1 |
| Portugal | 6.0 | 4.4 | 3.0 | 3.4 | 1.0 | 2.7 |
| Finland | 25.2 | 16.8 | 12.8 | 9.7 | 5.1 | 12.1 |
| Sweden | 16.4 | 13.5 | 12.0 | 8.4 | 6.7 | 10.8 |
| UK | 17.4 | 9.5 | 5.3 | 3.8 | 2.0 | 5.7 |

Source: Förster and Verbist (2012, p. 21)

A recent OECD study – aptly titled *Money or Kindergarten* – of 2012 about the distributive effects of cash versus in-kind family transfers for young children has reviewed extensively the different ways in which governments support families and how policies impact on family incomes. The study provides additional evidence by looking at the effectiveness of family cash and in-kind support, both of which may reduce income poverty of families. Consistent with related earlier studies, cash benefits to families and children reduce inequality and poverty.

Of course, the effect of the subsidizing transfers depends on the level of the benefits and the position of families in the income distribution of the prevailing countries. In general, family cash benefits account for about 7% of the income of families (15% for the poorest quintile of the population and only 3% for the richest quintile). To some degree, cash transfers are reducing social inequality, as the groups with lower income benefit relatively more (Förster and Verbist 2012, pp. 21 and 46) (Table 7.4).

Despite these effects, in-kind benefits in form of Early Childhood Education and Childcare services (ECEC) also reduce inequality and poverty. Since they represent some value which otherwise would have to be bought, they can also be counted as a share of household income. On average, ECEC services account for 8% of family income (17% for the lowest quintile, 5% for the richest quintile). In one third of the countries in the OECD study, in-kind benefits are more effective in reducing poverty (e.g. Denmark, Netherlands, Sweden) (Förster and Verbist 2012, pp. 27 and 46–47).

Thus, cash-transfers are contributing somewhat more to the reduction of inequality as the poorer income groups are profiting more of them. However, the upper quintiles of the income hierarchy may profit more from in-kind services, notably the provision of childcare, as their opportunity costs of providing this service on their own are higher. Particularly with regard to social inequality, a further effect arises

due to the progressive tax system: in systems where cash-benefits take the form of tax-exemptions, such as the German system of allowance for dependent children, high income households profit more, as their tax reduction is higher.

Of course, in-kind benefits and cash transfers to families are only two of the multiple objectives that governments pursue in the context of combating inequality and poverty. The countries' specific forms of current policy mix (benefits as well as coverage and distributive features) play a key role and need to be taken in the policy context (Förster and Verbist 2012, p. 47).

Nonetheless, more opportunities for childcare and a higher household income will be achieved by participating in the labour market. Well-paid work is still the essential strategy to avoid poverty and to combat social exclusion of families. Given the data presented, what is relevant is not only the level of financial support for families and children in whatever form. Rather, the best option to prevent poverty is to enable mothers to participate in the labour market, a finding presented also in a comparative study on European family policies (Rüling and Kassner 2007). Publicly provided childcare, offered at a price which makes it accessible for most, leads to substantially lower levels of children and families living in poverty. By way of an illustrative example, poverty rates of children are lowest in Sweden, regardless of the form of household (whether single parent or couples with children etc.). What is characteristic of the Swedish welfare state model in general and the Swedish policy aiming at a reconciliation of work and family is the broad provision of childcare for all age groups, with flexible times during which the children are taken care of and a system of payment where contributions are oriented at the family income. On the whole, 41% of children below 3 years of age profit from the publicly provided childcare system.

7.5 Conclusion

Poverty is a multi-dimensional concept, including primary features such as low or lack of income, but also secondary aspects like reduced access to basic services available in society, healthcare, housing and education. Just as complex as the concept itself are its causes, and in particular the mechanisms in the economic and social domain leading to poverty. Social policy-makers, European or national ones, have a hard time to ameliorate the problem using macro-level-policies (European Commission 2010, p. 6). While there are known causes and groups which are in all countries at an increased risk of poverty, there are also substantial differences between these groups in particular countries. This contribution has focused specifically on families, investigating the causes for poverty among families and children, and considering which policies may be successful in counter-acting the problem.

Using macro data on the provision of childcare and labour market participation of women in countries with different welfare state models in general and different models of families in particular, we find that the basic framework underlying social policies which address families with the aim of improving their living conditions

vary among the classic types of welfare states. Some states are oriented in their policies at a model which is factually outdated, and, because of this orientation, pursue policies which are, despite consuming substantial financial resources, unable to reduce poverty among families and children. States which follow the continental conservative model of family life, i.e. the male breadwinner model, offer cash benefits, but factually prohibit women to enter the labour market by undersupplying childcare. They are characterized by low levels of employment of women and high levels of child and family poverty.

Scandinavian states provide childcare and, in doing this, are increasing maternal employment. Entering paid work relationships is an effective way for women and mothers, but also for single-parents, to improve family income and to avoid poverty, also in the long run. In fact, women's labour market participation is the best and most effective protection against poverty in a family with children (Esping-Andersen 2002). Improving the reconciliation of work and family by investing in mother-friendly childcare systems may therefore prove to be an effective strategy in fostering social inclusion and reducing poverty rates of families.

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Chapter 8

Transition into Adulthood, Life Course, Inequalities and Social Change

Magdalena Rek-Woźniak

Abstract The article tracks the existing body of research on transition into adulthood as a life stage key for attaining socio-economic position. It begins with a brief introduction into theoretical foundations of life course approach with the focus on the concept of institutionalized life course and the debate on deconstruction of normal biography. The core part of the text is divided into three subchapters focused on different aspects of intersection of life course and inequality. Firstly, so far the analyses of patterns of transitions into adulthood across Europe have been focusing mostly on various mechanisms of social reproduction, mainly within disadvantaged segments of the social structure, whereas transitions leading to changes still remain understudied. Secondly, the comparative studies on life course policies seem to confirm that the construction of patterns of transition into adulthood through public policies reflects principles behind country-specific social policy regimes, even if observable trends towards welfare state retrenchment fuelled by neoliberal rhetoric could be seen as crucial for reinforcing existing inequalities among young adults across Europe. The summary indicates gaps in knowledge about the intersection of life course, inequality and public policy which deserve a deeper empirical insight.

8.1 Theoretical Frameworks for Studying the Intersections of Life Course and Inequality

The life course perspective, developed since the mid-1970s, mostly in Germany and the United States (Evans and Heinz 1994; Heinz and Marshall 2003; Du Bois Reymond 1998; Kohli 1986; Elder 1995; Elder and O’Rand 1995), has not become a widely adopted approach. They share a focus on temporal life patterns (Leisering 2003, p. 205)

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but when studying the interrelations between historical time and various aspects of biographies, they refer either to Mannheim's concept of generation, or to the notion of a cohort (Marshall and Mueller 2003). However, they usually refer to five assumptions (Marshall and Mueller 2003, pp. 9–10). Individual biographies are rooted in time and place, and each phase of life influences the whole life course (life span development). Individuals actively construct their biographies (human agency). Although life events are not strictly predetermined, to some extent they are chronologically ordered (timing of events) and shaped by social relations (linked lives). Theoretically and methodologically, sociological life course research can be rooted both in the interactionist concepts championed by Anselm Strauss, Howard Becker and Everett Hughes, and in the status attainment approach developed by Otis Duncan and Peter Blau.

According to a prominent conceptualisation coined by Martin Kohli in the mid-1980s, life course can be defined as an institutional pattern. The pattern regulates life, understood both as a sequence of events and as a combination of biographical orientations, organising individual activities (Kohli 1986, 2007). It is not just a combination of domain-specific institutions such as those of the family, education, the labour market and retirement, but an articulated institutional complex with its own overarching logic (Kohli 2007, p. 254). The institutionalised life course, as a set of rules increasing predictability of individual biographies, has become a tool for the production and reproduction of the social order in a society organised around paid work (Kohli 1986). The process in question generated problems related to the rationalisation and integration of particular phases and careers (especially within the labour market and family), and the succession of individuals and cohorts on the labour market (Kohli 2007, p.256). The emergence of the normal biography model was connected with diminishing influence of ascription on the course of people's lives. On the other hand, the construction of an industrial society favoured the differentiation of life course patterns for men and women, as well as for specific segments of the social structure.¹ From a macro perspective, standardisation and institutionalisation of transitions (between education levels, from education to labour market and from parental family to the newly formed unit) and pathways are seen as important for shaping social structure and mobility between its segments.

The dusk of Fordism stimulated hopes for increasing social mobility and diminishing the influence of ascription on the life courses of subsequent cohorts. It was frequently discussed using terms like choice biography, reflexive biography or do-it-yourself – biography. The debate about the disintegration of the normal biography, a debate that emerged across the 1990s, was fuelled by discussion about the relative role of reflexivity and structure in shaping people's lives in changing societies (Giddens 1984, 1991; Beck et al. 1994; Beck and Beck-Gernsheim 2002). Controversies also arose around the conceptual framework of risk society

¹ This claim has been supported by in-depth biographical studies on the experience of class (see also: Bertaux 1993; Bertaux-Wiame 1993; Sennett and Cobb 1993).

(Beck 1992), as the environment where dismantling traditional collective patterns of action results in deconstruction of biographical patterns, (Furlong and Cartmel 2007; Woodman 2009). It seems though, as if Kohli is right to assert that (2007, p. 255), individualisation did not lead to a loss of social order, but relied on and even produced new institutional patterns.

8.2 Transition into Adulthood as the Road to Social Reproduction in Changing Societies

Mutual influences of social inequalities, perceived in terms of both structural and cultural limitations on biographical choices, can be studied with reference to various stages of life. However transition into adulthood, defined in terms of getting employment and establishing one's own household and family, embraces processes which are key for the individual's attainment of a certain socio-economic position. Frank Furstenberg (2008, p. 2) reminds us that the lengthening of this stage of the life course in the post-war West was, in fact, rooted in a combination of factors.

The origin of this prolonged transition can essentially be traced back to the widespread democratisation of education that swept American society in the 1960s, following on the heels of the substantial boost given to higher education by the GI bill after World War II. Social surveys on educational aspirations clearly showed the beginnings of an almost universal desire for a college education in the 1970s. Coupled with greater access was a shifting economy that placed higher premiums on education, with the decline of manufacturing and industrial jobs. At the same time, the power of trade unions was fading, foreclosing the possibility of well-paid jobs for unskilled and semiskilled workers. The oil crisis in the 1970s, and the long economic slump that followed, cut deeply into the wages of blue-collar workers. As the demand for education increased, so lengthened the period of schooling required to attain the appropriate credentials, which ultimately postponed this key early marker of adulthood.

Further extension and internal differentiation of transition into adulthood, observed in various countries, found its reflection in the term emerging adulthood coined by American psychologist Jeffrey Arnett (2004). The term refers to persons aged 18–25 who are neither adolescents nor adults. On one hand they do not live separately, they have no children and earn sufficient income. On the other, they are capable of exploring many aspects of life. According to Arnett, core features of the phenomenon in question are observable among young people regardless of class, ethnic origin or gender. This seems questionable in the light of existing data (see the debate between Bynner 2005 and Arnett 2006, but also MacDonald 2011). For example, research has repeatedly revealed large discrepancies in the time taken to reach independence in different countries due to cultural, economic and institutional circumstances. The average age at which young people leave the parental household still varies across Europe, from 20 in Scandinavia to 30 in southern Europe. Biographical discontinuities at the entrance to adulthood are becoming more common, but most of the comparative research (Furlong and Cartmel 2007)

confirms well-known structural mechanisms such as the importance of the first labour market experience for further careers (Blossfeld et al. 2005). This supports the thesis that initial inequalities can be reinforced throughout the life course. The thesis is mostly given further weight by monographic works, which usually concentrate on specific groups (such as teenage mothers, working-class or migrant youth etc.). For example, the study carried out in Bristol (Bradley 2005) revealed that class origin of young people was an important influencing factor upon the risk of unemployment. Many other studies revealed that, despite general tendencies to postpone family formation, relatively early parenthood is still characteristic for young people from lower segments of the society.

The authors of the widely discussed book *The Spirit Level: Why More Equal Societies Almost Always Do Better* (2009) refer to the report *Young People's Changing Routes to Independence*. Published in 2002, it claims the existence of a widening gap between people taking slow and fast lanes to adulthood in the UK. Socio-economic origin would be an important determinant for such a divide. Again, the main correlates for those on the fast track were life events (such as teenage pregnancy) which make young people who are already vulnerable even more prone to drop out from the normal life course.

Within dominant discourses from 1990 and later, individualisation and agency (Brannen and Nilsen 2005) were presented not only as unavoidable, but also desirable consequences of global changes. Manuela Du Bois Reymond (1998, p. 63), who popularised the notion of choice biography, underlined the tension between growing variety of available life concepts and the pressure to adapt to a constantly changing social reality, especially in the labour market. According to Julia Brannen and Ann Nilsen (2005, p. 423), it followed from in-depth studies carried out at the turn of 1990s and 2000s that:

The positive rhetoric of choice has more appeal to, and relevance for, young people whose social background and education provide the resources necessary to think they are the creators of their own destinies without help or hindrance from others, whether from their own resources and/or those of the state and their families. When structural forces and personal resources, such as gender and social class, support one another, there is a tendency for the structural resources to take on an 'invisible' quality (Bertaux 1997). For the less privileged, the choice rhetoric can serve to worsen their situation and create a pessimistic outlook on life, since according to such an ideology there is no one to blame but oneself, that is, if one has not made the 'right' choices or has not succeeded in achieving one's aims.

The results of several in-depth studies, published in the 1990s and throughout the next decade, show that the assets which help one to navigate through life more effectively tend to accumulate in privileged segments of the social structure. They also demonstrate that the positive rhetoric of choice can reinforce the advantages following from good socio-economic origin (Ball 2003; Brannen and Nilsen 2005; Du Bois Reymond 1998). Research into intergenerational poverty in societies experiencing socio-economic transformation highlighted the process of forming and applying biographical strategies which, partly due to the lack of institutional support, could not lead to socio-economic advancement (see e.g. Warzywoda-Kruszyńska 1999; Golczyńska-Grondas 2004; Potoczna, Warzywoda-Kruszyńska 2009; Bunio-Mroczek 2010).

Even if a disadvantaged youth attempts to fit into the socially and economically gratified patterns of educational and labour market careers, the structural constraints usually become impossible to overcome. The body of empirical evidence supporting this thesis is mainly qualitative, with few examples of comparative studies.

It seems that the distinction between the slow and fast tracks into adulthood which would be characteristic for youth within different socio-economic backgrounds can be seen – at least partly – as due to the range of analyses and the choice of populations under study. One can thus repeat, after French historian Georges Duby, that when the public sphere is retrenching, the family sphere grows in importance. Arguments that the rules of modern capitalism are not advantageous for working class youths have been formulated since 1990s (Esping-Andersen et al. 2002), but they also put pressure on the middle class parents to prepare their children for hardening competition in flexible labour markets. However, the body of empirical evidence on the specificities and changes in the middle class life course across various countries seems to be more fragmentary in this respect, both in terms of comparative data and in-depth case studies (Jeffrey and McDowell 2004, p. 134; Ball 2003; Ball et al. 2002).

In turn, if general changes in the social structure are to be understood, there is both the need to reconceptualise class (Savage et al. 2013) – to capture emergent segments fuelled by the expansion of flexible capitalism, with its rules of socio-economic positioning (Sennett 1998, 2003, 2006) – and the need to acknowledge the growing economic gap in many societies, which in itself is a new motivation to study transitions into adulthood across countries. Firstly, increased polarisation in patterns of transition into adulthood may be observed in the future. A trend towards squeezing the middle (Standing 2011) is a consequence of rising polarisation in the labour market. This results in increased risk of being trapped in the low income segment for a (working) lifetime. From a structural perspective, this diminishes upward mobility (Cohen 2009 cit. with Standing 2011, p. 19). Interpreting data from the UK *National Equality Panel*, he indicates that cohorts born in the 1970s have experienced considerably fewer opportunities for upward mobility than the 1958 cohort (Standing 2011, p. 57). Such tendencies are also observable in the USA; this clearly contradicts the mythology of the American dream. Both intra- and intergenerational fluidity varies across the world, but identification of key paths leading to socio-economic deprivation, should be subject to a closer inquiry.

8.3 Paths into Adulthood as Constructed by Public Policies

In the field of polity analysis, discussion about individualisation stimulated theses about deinstitutionalisation or de-standardisation of the life course (Leisering 2003). The socially constructed concept of the normal life course includes definitions of success and failure, images of educational, family, and labour market careers, their relative importance and the right sequence of phases. It is also a key reference point for convictions about who, under what circumstances and to what extent should support people in the course of their biographies.

The influence of public policy on the patterns of transition into adulthood available to young people has been underlined by many researchers and commentators (see eg. Walther et al. 2002). The identification of country-specific patterns is usually combined with analyses of institutional settings, comprising life course regimes (see: Leisering 2003; Mayer 2005).

An example of such an approach in application can be seen in the works of Andreas Walther (2006), who distinguished four basic types of regime across Europe (see Table 8.1). These four types are highly correlated with general constructions of welfare arrangements, as described by Esping-Andersen and his followers: universalistic, represented by Northern countries (here: Denmark and Sweden), employment-centred (Germany, France and Netherlands), liberal (UK, Ireland) and sub-protective (Italy, Spain and Portugal).

When it comes to the range of topics included in analyses of transition regimes, it is clear that transition into adulthood comprises a large set of processes in various dimensions of life. It is also obvious that such elements of the welfare state as family or housing policy play important roles in shaping the paths to independence available for different segments of society. However, the countries are clustered mainly according to key principles and institutional arrangements of education and labour market policies.

Traditionally, such studies were focused on selected sets of cases and excluded Asian, African and Latin-American countries, as well as nations in Central and Eastern Europe. An explanation for the latter could be given, at least partly, in terms of the rapid changes occurring in post-socialist countries. In turn, Walther admits that constructing typologies not only forces some simplifications, but also necessitates placing dynamic reality into static models, which unavoidably leads to 'neglecting universal processes of globalisation and individualisation, the transformative powers of which are especially visible in Central and Eastern Europe' (Walther 2006, p. 125). Literature published in recent years has started to fill the knowledge gap (see for example: Knijn ed. 2012) and look for similarities and differences in the transition patterns across a greater variety of countries, giving the empirical evidence for the existence of meaningful differences within former Soviet Block (ibidem).

Obviously, as the schemes of public policies are rooted in public debates and reflect dominant perceptions of equality, justice and solidarity, the shape of transition regimes can be seen as another manifestation of the social order. In this respect framing the transition from school to work becomes the core element of the gatekeeping system:

Owing to the strategic function of transitions to work in ensuring societal cohesion, state institutions react by attempting to turn them into 'tame zones', channelling young people into systemic trajectories regardless of socioeconomic viability and subjective relevance. Erving Goffman (1952) introduced the concept of 'cooling out', which refers to the fundamental contradiction within democratic market societies: between the principle of equal opportunities, and the scarcity of recognised social positions. This is even more obvious under conditions of decoupled education and employment, wherein uncertain employment prospects demand the accumulation of as much cultural capital as possible. As individual efforts do not pay off for all, mechanisms are needed to 'cool out' the

Table 8.1 Transition regimes

| Regime | Countries | School | Training | Social security | Employment regime |
|--------------------|-----------------------------------|---|--|--|-----------------------------------|
| Universalistic | Denmark Sweden | Not selective | Flexible standards | State | Open, low risks |
| Employment centred | Germany France Netherlands | Selective | Standardised | State/family | Closed, risks at the margins |
| Liberal | UK, Ireland | Not that selective | Flexible, low standards | State/family | Open, high risks |
| Sub-protective | Italy, Spain, Portugal | Not selective | Low standards family and coverage | Family | Closed, high risks, informal work |
| Female employment | Concept of youth | Concept of youth unemployment | Concept of disadvantages | Focus of transition policies | |
| High | Personal development, citizenship | Not foreseen | Mixed (individualised/structure-related) | Education, activation | |
| Medium | Adaption to social positions | Disadvantage (deficit model) | Individualised | (Pre-) vocational training | |
| High | Early economic independence | Culture of dependency | Individualised | Employability | |
| Low | Without distinct status | Segmented labour market, lack of training | Structure related | Some status: work, education or training | |

Source: Walther (2006, p. 126)

aspirations of the losers. This is executed either institutionally, through professional gatekeepers, who persuade them that their failure derives not from the injustice of the system but from their unrealistic aspirations compared to their abilities, or by the unregulated force of labour market competition, which is buffered or reinforced according to differentials in availability of family resources (Walther 2006, p. 122).

The consequences of social differentiation for shaping the set of available life paths is connected with exposure to risks of biographic discontinuities, which can be episodic, but may also lead to permanent marginalisation. To be simplistic, it could be stated that both tendencies towards welfare state retrenchment (observable in some western countries since 1980s), and recently introduced austerity measures, have been connected to a shift in responsibility for securing various life course transitions and continuity of life. This responsibility has been transferred, as a whole, from the collective onto the individual or the family.

The individualisation of risk in modern societies can be seen as a consequence of demographic trends (ageing societies), changes of relations between the state and the market (and on the micro level – an employer-employee relation) and welfare state retrenchment. In this context, the division of responsibilities for securing the continuity of the life course, which can be treated as key element of life course regime (Leisering 2003), is being renegotiated. In turn, in societies which are organised around paid work, the mechanisms of stigmatisation of those who, for various reasons, drop out from the path of the normal life course are still very efficient and, as some researchers underline, reinforced by public policies. Andreas Walther, while explaining the emergence of the phenomenon of yoyo-transitions across the Europe, stated that:

This de-standardization has been neglected by transition policies more orientated towards a standard or normal biography, reducing social integration to labour market integration (one may further argue that referring only to 'youth' is a reduction in itself inasmuch as other life stages and transitions in the life course are being de-standardized as well). A symptom of this mismatch between lived realities and institutional assumptions is the increasing withdrawal and dropping out of young people from schemes and programmes intended to integrate them, initially, into the labour market and then, as a consequence, into society (Walther 2006, p. 122).

These tendencies are accompanied by another tendency: to pedagogise the problems with finding a satisfying position in the labour market, in public discourse. On the other hand, the outcomes of studies tracking public debates around the social categories which are least likely to implement biographical scenarios fitting general images of normal life course (even if those are getting blurred), provoke the statement that public institutions can be very efficient as gatekeepers. This is shown in the works of Loïc Wacquant (2008) investigating the role of the state in criminalising youth from socially disadvantaged districts.

8.4 Transition into Adulthood, Ideology and Social Conflict

The rhetoric employed in youth protests emerging in various countries since 2010² refers clearly to the malfunction of education systems and labour markets. These institutions are perceived both as core instruments of life course policies and, at the same time, key channels for inter- and intragenerational mobility:

youths have always entered the labour force in precarious positions (. . .), but declining probability of moving into a long-term contract builds up resentment (Standing 2011).

The most recent outbursts of anger towards political elites were even seen by some commentators (see eg. Giroux 2013; Judt 2010) as potential for formation of the youth as ‘autonomous social force’ which could be compared to the ‘baby boomers’ generation. Although verification of such statements seems difficult at the moment, the last 3 years provide clear evidence for the thesis that, in contemporary societies, age and economic divisions can be a field of open social conflict, as both social policies and the biographical orientation of individuals are influenced by public debate on social inequalities.

As Martin Kohli reminds us, in the historical origins of most western welfare states, the key social question to be solved was the social and political integration of the newly emerging industrial working class, in other words, the pacification of class conflict. This was achieved by assuring workers with a stable life course, including retirement as a normal life phase funded to a large extent through public pay-as-you-go contribution systems or general taxes (Kohli 2007, p. 268).

The shifts in discourse across the western world, observed since the beginning of 1980s, paved the way to breaking post-war consensus on redistribution and welfare (Harvey 2007), and the restitution of a laissez-faire approach in various spheres of life. Deconstruction of the life course in its Fordist shape was thus not only a consequence of inevitable global processes, but also of ideologically motivated political decisions, following from beliefs that stimulating economic growth and increasing commodification would be the most rational answer for the shortcomings of the state in its post-war shape. Contrary to some predictions, tendencies towards welfare state retrenchment have not resulted in convergence of state policies across the world. However, the influence of ideas which promote radical individualism and superiority of freedom over equality in welfare debates could not be ignored, especially in the context of socio-economic and political transformation in post-socialist countries.

Many critical commentators of current economic turbulences refer specifically to changes in education and labour market policies as triggers for further deepening of socioeconomic divisions. According to Standing, the emergence of the precariat as distinctive segment of social structure can be linked easily with reforms inspired by neoliberal ideas:

² There were also notable examples before the credit crunch in 2008, such as in 2006 in France.

In the end, the precarity traps reflect a discordance between young people's aspirations and the 'human capital' preparation system that sells credentialist qualifications on a false prospectus. Most jobs on offer do not require all those years of schooling, and to present schooling as preparing people for jobs is to set up tensions and frustrations that will give way to disillusion (. . .) The neo-liberal state has been transforming school systems to make them a consistent part of the market society, pushing education in the direction of 'human capital' formation and job preparation. It has been one of the ugliest aspects of globalisation (Standing 2011, see also Giroux 2013).

On the other hand, strong belief in the 'demand-supply' principle made educational institutions offer courses which are far from labour market demands and economic rationality. The costs for individuals participating in commercialised education have been rising, and state funding decreasing. As many commentators emphasise (Standing 2011; Giroux 2013), the international reaction to the credit crunch and financial meltdown has included further cuts to public education, and the shifting of this monetary burden to students and their families.

According to Standing (2011), there are two precarity traps for youths emerging from tertiary schooling. One is a debt trap. Let us assume that they want to build occupational identities and careers, which require a long-term strategy. They emerge from college with their certificates and debts, with state-approved bailiffs waiting ominously to collect once they start earning (or fail to do so). Many find the only jobs they can obtain are temporary, and that the wages are too low to pay off those debts. The jobs are not consistent with their qualifications and aspirations. They see and hear that millions of their peers are stuck in jobs for which their skills are ill-matched. They have had to grab what they can, not what would enable them to build that precious occupational identity. The precarity trap is worsened because potential employers may be aware of their indebtedness and worried about their reliability. Internalisation of 'human capital' discourses combined with limited access to paid work triggers massification of internships. This increases the gap between those who can use family resources while struggling for professional experience, and those who exist under constant economic pressure.

The emergence of NEET (*not in education, in employment, or in training*) category of 16–24 years old, observable since the 1980s, especially in the United Kingdom, has opened a new context for discussion about the patterns of transition from education to employment. Also discussed in this light is the interrelation between youth underemployment, social inequality, social mobility and, as Robert MacDonald (2011, p. 440) claims, *the shape and dynamics of social classes in UK*. Similarly to the statement formulated by Standing on mechanisms pushing young people into precarity in the labour market, MacDonald sees the rise of the NEET category as a consequence of intensive implementation of neoliberal ideas in public policies. Even if the author avoids making generalisations, the quotation below seems relevant for many other countries which, during past decades, have been experiencing economic and political changes: For instance, without doubt the 'massification' of higher education has transformed the pathways to adulthood of many working-class young people. Going to university has become part of their set of normal choices and routes, at least for less disadvantaged sections of the working-class (this may soon need to be stipulated in the past tense as, potentially, current changes to university funding re-introduce 'class closure') (MacDonald 2011, p. 440).

The body of empirical evidence for ideological principles shaping political discourses about young people is not extensive (see eg. Eleveld 2012). In this context, extensive analysis of the EU's political agenda for young people and its interrelations with national strategies and arrangements is summarised in a recently published volume edited by Dutch researcher Trudie Knijn (2012), which seems noteworthy.

According to the authors, the ideological principles of the EU social agenda in this respect reinforce further negligence of the needs of young generation. Knijn (2012, p. 4) summarises:

Thousands of young people from Spain have organized themselves in the indignados movement, which is based on quite a different interpretation of what the official EU programme Youth on the Move intended to reach. The EU programme supports bright young people on their way to the best career opportunities in the open European market. Despite the initiative, tens of thousands of equally bright but less successful young Europeans feel the need to make the statement that their European states have nothing to offer at all.

In her analysis of interrelations between theoretical approaches and social policy paradigms in conceptualising risk, Knijn (2012, p. 18) she points to a connection between the shift in social policy schemes and the application of different scientific approaches: Nowadays, the focus is oriented more towards individual human capital, self-responsibility, free rider's behaviour, and public choice. Hence the use of social-psychological and social-philosophical theories in social policy to explain human risk behaviour as well as provide criteria for justice, redistribution, and the balance between rights and obligations. She claims, after Schmid (2003) that these theoretical frameworks enable more subtle and nuanced legitimizing of social policies compared with macroeconomic perspectives (Knijn 2012, p. 18). The author described three competing paradigms dominating current discourses on young people policies: the social investment approach, the transitional approach and the individualised approach which can be, matching social policy paradigms: social democratic, corporatist and neoliberal. Respectively, these focus on investing in, facilitating and individualising the social risks of newcomers on the labour market (Knijn 2012, p. 21).

The differences in understanding the notion of risk result in diverse ideas about who and under what conditions should deal with it (see Table 8.2).

The review of policy EU strategic documents in the field of labour market policy published between 2005 and 2010 led the authors to the conclusion that two overlapping paradigms seemed to be dominant in the Community recommendations. According to Knijn and Smith, these are the consequence of the long-lasting hierarchy of the social and macroeconomic goals of the EU. As consequence, various problems and constraints experienced by the young people have been noticed only when it got economic justification (Knijn Smith 2012, p. 74). However, the investigate of official strategic documents published by national governments of 27 Member States and their relevance to official discourse

Table 8.2 A model for policy paradigms and the transition to adulthood

| | Social investment paradigm | Transitional labour paradigm | Individual life course paradigm |
|--|---|--|--|
| Leaving parental home | Individualised income support at adult age | None | None |
| Entry on the labour market and earning an independent income | Education, training and active labour market policy (ALMP) | Transition from education to work and from insecure to secure jobs | Promoting multiple forms of employment (including self-employment) |
| Earning an independent income | Social assistance combined with ALMP | Flexicurity | Sanctions on unemployment |
| Entering partnership and having children | Individualised income taxation and care arrangement and provision care services | Leave arrangements and options to request flexible working times | Access to care services via tax incentives and personal savings |

Source: Knijn Smith (2012, p. 49)

of EU pointed at differences in the way ideas dominant on supranational level are adopted or ignored in countries representing various welfare cultures. Even if Member State policy documents on youth employment seemed to focus on social investment approach, these have been mixed with elements of two other paradigms and the detailed analysis of national documents published by subsequent MS governments revealed a considerable diversity confirming.

The analyses conducted by the contributors to the volume voice doubts about generalisations over the convergence of national policies according to neoliberal creed, generalisations which are strong, if not rooted in thorough empirical inquiry. These doubts are formulated by some commentators such as Guy Standing, quoted below (2011):

International financial institutions such as the World Bank demand that ‘inappropriate curricula’ unrelated to the economy should be removed. A report commissioned by French President Nicolas Sarkozy argued that early schooling should focus on employability and that economics should be taught in all primary schools. The UK’s Labour government urged the Financial Services Authority to advise on how ‘to embed an entrepreneurial culture’ in schools. In Italy, Prime Minister Silvio Berlusconi claimed that all that students needed to learn were the ‘three i’s’ – inglese, internet, impresa (English, internet, enterprise). Instead of learning about culture and history, children must be taught how to be efficient consumers and jobholders (Standing 2011).

The analyses of official strategic documents published by national governments of 27 Member States and their relevance to official EU discourse pointed at differences in the way ideas dominant on supranational level are adopted or ignored in countries representing various welfare cultures.

8.5 Conclusions

To study the intersection of inequality and life course is to encompass a great variety of research topics. Above all a constantly changing social, economic and political reality creates new circumstances for status passages, just look at Glenn Elder's classic study *Children of the Great Depression* (1974), and not forgetting the great legacy of biographical studies symbolised by the famous *Polish Peasant in Europe and America* (Thomas and Znaniecki 1918/1958).

Current economic turmoil, as well as socio-economic transformation in post-socialist countries, can be seen as a set of circumstances substantial for shaping life paths. In order to move beyond well-known theses about life course destandardisation and fragmentation, subsequent cohorts should be subjected to further comparative research. As the knowledge about life course regimes and transition patterns characteristic of post-socialist countries remains fragmentary, I shall repeat claims formulated recently by Marlis C. Buchmann and Kriesi (2011) that Central and Eastern Europe should be included more systematically in comparisons.

Although an attempt to conduct comparative studies based on qualitative data is always a challenging task, there is a need for further research into the life strategies of young people. The possible links between their socio-economic situation and potential tracks into adulthood should be considered, as well as the relative importance of various factors (public institutions, family, markets) in shaping their lives. As recent biographical research focuses mostly on various examples and aspects of path dependencies, the evidence of transition patterns leading to status reproduction has been provided (both in intra- and intergenerational perspective, see: Atkinson 2010), mostly with reference to various forms of disadvantage. So far, the record of analyses examining the pathways to adulthood that could also be trajectories towards a change of socio-economic position is very scarce (Wong 2011). This question seems particularly important in the context of the changes taking place within the main channels for social mobility, such as the education system and labour market:

What do the swelling ranks of graduates from 'non-traditional' backgrounds mean for the way that class is composed and experienced? Do such routes signal social mobility or the way that long-standing class inequalities work themselves out in new ways with new forms (Furlong and Cartmel 2007)? Have they led to a shrinking of the working-class and burgeoning of the middle-class as more and more move happily upward through university and the gateway of professional employment to middle-class statuses and identities? Or are 'slow-track transitions' through university to insecure and lower-level 'graduate jobs' a new facet of young working-class adulthood? (MacDonald 2011, p. 440)

A complimentary, yet vast, field of the inquiry concerns interrelations between public debate and social construction of the life course as an important context of public policies. This is especially relevant in the context of an emerging debate about the heritage of neoliberalism and possible fields of social conflict in modern societies. The range of problems that could be given a deeper insight include the

question whether there are any coherent normative models of life course existing in general public and in elite discourses, and if so how they are connected with existing views on social inequalities and divisions. The crucial point would be to identify the knowledge of elites (politicians, policy makers and stakeholders) about the links between life course and inequality, and their perceptions of the relative responsibility for securing different life course transitions based on ideological and ethical presumptions. A growing number of reports and strategic documents referring to young people, published by supranational bodies, governments and local authorities, create an opportunity to gain insight into the rhetoric used in official discourses. However, these should be supplemented by conducting face-to face interviews with people engaged in creating and implementing instruments which shape the range of life course patterns available to young people.

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Chapter 9

Unsuccessful in Education: Early School Leaving

Bartłomiej Kacper Przybylski

Abstract The chapter focuses on the sphere of educational system and one of its main problems – early school leaving. This phenomenon is analysed here in the broader context of educational inequalities and is perceived as an outcome of many particular disparities, such as segregation practices, holding migrant background or low socio-economic status. Latest European Union actions aimed at reducing the level of early school leaving are presented and the data on present numbers concerning this phenomenon are analysed in the following chapter as well.

9.1 Introduction

Education as field of social inequalities is widely present in the academic discourse. Theoreticians and researchers perceive educational system as the social institution that generates various types of inequality. In general, the interest of researchers focus on the causes and factors constituting different paths of educational careers, diverse experiences of pupils and students, as well as differentiated outcomes of education, resulting or not in the further successes of an individual on the labour market. At least three main groups of the causes and factors of inequality in educational system can be mentioned (Farkas 2006; Zawistowska 2012):

1. Socio-economic factors – connected with the socio-economic status of the pupils and their parents. Researchers concentrated on this group of factors state that they have its source in the children's family, such as: the level of education achieved by the parents, the occupation of the parents, the level of economic wealth in the children's household and willingness to participate in the expenditures for a child's education, the fittings of the children's household, especially in a place adjusted for learning and doing homework, home library,

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computer with the access to the Internet, etc., the number of books in the home library, the level of social and cultural capital of the children's parents, the vocabulary used by the parents and other relatives in communication with the child, and many more other factors.

2. Cultural factors – connected with the wider cultural context, and embracing phenomena encountered not only in the sphere of educational system, but also in other social subsystems, such as politics, families, labour market, courts, etc. At this level of analysis, factors like gender, race, ethnicity, sexual identity, disability, and other physical, psychological and interpersonal features of a child would be taken into account.
3. Structural factors – connected with the shape of the educational system and the main assumptions and tools of the educational policy. At this point factors such as the number of selection thresholds in the educational system, accessibility of different school levels, proximity of the school, compatibility of the school network with the aspirations and expectations of their users, the procedure of evaluation used by the teachers, and others would be examined.

The issue of educational inequalities is one of the fundamental problems in the debate on educational policy, and is perceived as a relatively controversial ideological question in the public discourse. Educational policy practice include four the most often encountered responses to the question of inequalities among the pupils and students. They can be characterized as four different philosophical or ideological standpoints (Kwieciński 2007; Dziemianowicz-Bąk 2012):

1. Neo-liberal standpoint: Educational inequalities are treated here as a 'natural' phenomenon, and desirable feature of an educational system. The sphere of education is deemed to be the space for exposing the children's inborn talents. The logic of this standpoint assumes that the talented children will achieve educational success, while the ungifted ones would end their educational careers at the lower levels of the system. Educational policy does not recognize as a crucial task to counteract or reduce the disproportions between children's abilities and their socio-economic statuses. As a result, the educational system consolidates or even deepens the socio-economic inequalities and sharpens the social divisions.
2. Elitist standpoint: Here the educational system is as a vestibule for the entrance to the élite groups in the society. The followers of this standpoint would favour a very strong selective and segregate function of the educational system. The main recommendation for the educational policy would be here to constantly strengthen and meliorate the tools of selection and segregation that are entered in the educational system, and the results of the educational policy shaped in this way would be very similar to those envisaged and desired under the neo-liberal standpoint logic.
3. Equal opportunities standpoint: At this point of view, education is perceived as a very crucial social system, and the common participation in this system is treated as the basic rule of the democratic society. The efforts of the educational policy focus here on ensure the equal start and equal opportunities situation for all

children. This standpoint however ignores the pre-educational handicaps, that restrict chances of some children, for example those originating from the rural areas, coming from the families characterized by low levels of social and cultural capitals, as well as poor vocabulary used in an everyday communication, or belonging to the ethnic or racial minorities. Most often educational systems based on this standpoint bear failures in accomplishing the task of flattening inequalities.

4. Social-democratic standpoint: Here the consideration on the equal opportunities is not restricted only to the moment of starting the career, but is stretched on the whole period of the children's presence in the educational system. Also the concept of equal start is here understood in more sophisticated and subtle way, which is indicated by stating that some children, descending from the socially handicapped communities, have special needs that should be quenched in order to fulfill the situation of equal opportunities for them. Educational policy is here shaped in the way that it expresses constant readiness to counteract against any signs of marginalization or discrimination on every system's level. There is no need to be mentioned, that reducing the level of inequalities is for the followers of this standpoint one of the most crucial tasks of the educational system and educational policy.

The philosophical, ideological and political choice of one of the above explained standpoints effect utmost on the scopes of such phenomena as the influence of selective thresholds, repeating the grade, and early-school leaving, which among others may be perceived as the indicators of the extent in which educational system restores social structure and socio-economic inequalities.

9.2 Why Education Still Matters

In the last years, especially because of the intensification of the economic crisis, more and more present in the public debate were the concepts such as graduate unemployment, educated unemployed, educated under-employed, and even educated poor. Statistical data (Eurostat 2011) showed that since 2008 the level of unemployment in European Union and Eurozone has been significantly increasing, affecting not only the less educated, but also those people who held the secondary and tertiary education diplomas. For example in 2010, there were 15.7 % of unemployed among the category of the people holding pre-elementary, primary and lower secondary level of education, 9.0 % among the category of the people holding upper secondary and post-secondary but non-tertiary level of education, and only 5.4 % among the category of people holding tertiary education, and those figures were significantly higher than in the previous years. Worth mentioning is also the fact, that the ongoing-crisis rising unemployment and underemployment have affected the young people to the largest extent.

On that basis, some of the theorists and researchers started to formulate the thesis that the labour market during the economic crisis is unable to provide workers with a just reward (Harman 2010) for their efforts engaged to achieve their level of education. In the public debate appeared some voices stating that the hypothesis on the very high correlation between the educational success and the further success on the labour market should be refuted nowadays. Especially when analysing not only the situation on the labour market in the European Union but also in the United States, or even global labour market trends, a thesis saying that education is not protecting individuals against the risk of unemployment, not to mention the phenomena such as underemployment, part-time employment, or belongingness to the working poor category (Klein 2011; Mishel 2011), can be well grounded.

However, above mentioned standpoints were meeting in the public debate with the voices stating that such radical hypotheses are unauthorized. Back in 2008 the European Central Bank noticed a relative deterioration of the position of educated people on the labour market in some of the European Union member states. Nevertheless it stated that education still remains the crucial factor for the prevention against unemployment (Gomez-Salvador and Leitner-Killinger 2008). In May 2012 the International Labour Organization stated that education remains the shield against unemployment and other social problems, even despite the fact that during the period of last 3 years the level of unemployed educated youth has risen by three percentage points. In the longer period higher educated people are more secured against unemployment and poverty than the less educated ones (International Labour Office 2012). The same thesis was specified in the 2012 OECD report, which stated that even during the economic crisis better education and higher skills protect people from unemployment (OECD 2012), and by the World Economic Forum, which underlined that in the 25 out of 27 investigated countries, the education is the key to getting a decent job, although there is a rising risk of part-time employment or even unemployment affecting especially young women in some countries (World Economic Forum 2013).

Not only in the documents and analyses of the international organizations we may encounter the conviction that education is still the most fundamental factor determining the position of individuals on the labour market and the socio-economic status. The concept of human capital (Schultz 1961; Becker 1994), assuming – practically unanimously, regardless of the particular definition – that one of the main elements constituting its level is the level of education and skills that an individual holds (Rokicka 2012), is invariably perceived as one of the most crucial feature of the late capitalist economy and the economic growth. Educational success plays the fundamental role also in the theoretical interpretations of the global economy transformations towards the economy and politics based on knowledge (Burton-Jones 2001; Kołodko 2011; Kołodko 2013), or the cognitive capitalism (Husson 2011; Moulrier-Boutang 2012). Although it should be mentioned that nowadays more often not only the level of formal education but more widely understood knowledge, skills and know-how are perceived as the deciding factor for the determination of the chances of an individual on the labour market.

Educational system is perceived as a very crucial sphere not only when concerning its impact on the individual chances on the labour market, but it is noticed that it has wider impact on social life. According to the UNESCO documents, educational system is deemed to be the tool for combatting different types of social exclusion, especially Roma children, street children, indigenous people and people descending from rural areas. Moreover, it may help reducing the scope of the child workers phenomenon, as well as the discrimination of children with disabilities. UNESCO suggests that educational system should be treated as a key to sustainable development, that enables solving such social and economic problems as: health problems, climate changes and their consequences, poverty, war and armed conflicts, gender inequality, as well as helping achieve and fulfill such values like: cultural and biological diversity, human security, sustainable lifestyle and sustainable urbanisation. UNESCO Education for Sustainable Development programmes are based on the principles and values that underlie sustainable development and deal with the well-being of all four dimensions of sustainability – environment, society, culture and economy. They focus on promoting participatory learning, higher-order thinking skills and lifelong learning – both formal and informal. The programmes intent to identify and meet local needs, perceptions and conditions, taking into account also the wider context of global issues. Desirable results of the Education for Sustainable Development include: building civil capacity for community-based decision-making, social tolerance, environmental stewardship, an adaptable workforce, and a good quality of life (UNESCO 2007).

Therefore, concerning the persistently essential role of the educational success for the further achievements on the labour market, as well as its impact on both individual and societal well-being, early school leaving may still be perceived as a very fundamental problem in the sociology of education and the politics of educational policy.

9.3 Early School Leaving in the European Union Perception

Early school leaving is recognized as a serious structural problem because of a few reasons. The European Commission states that in the circumstances of the economic crisis, EU cannot afford wasting the talents of young, potential workers by letting them drop out of the school system (Council of the European Union & European Commission 2012). The EU sees the negative consequences of the early school leaving phenomenon both in the individual and in the broader socio-economic sphere, underlining that it does not only reduce individual well-being and chances on the labour market, but also handicaps economic growth and generates numerous social problems that burden the state social security systems.

Of course, not only European Union recognizes early school leaving as a serious problem that social policy should cope with. In this context, the UNESCO analysis

on the global early school leaving and grade repeating problems are worth mentioning. It was concluded with enumerating the most popular causes of the herein analysed phenomenon. The factors expanding the risk of leaving school system earlier are (UNESCO Institute for Statistics 2012):

- Grade repeating,
- Descending from rural areas,
- Long distance travelling between school and home,
- Sharp inter-urban disparities, especially connected with the presence of slums in the city, household poverty,
- Children's necessity to combine education and work,
- Living in a conflict-affected region;
- Being an over-age pupil,
- Low level of education of the mother.

Not all of the above mentioned factors can be referred to the European Union context, although causes like household poverty or coming from rural areas are the examples of universal factors, determining early school leaving regardless of the region. European Commission points out that early school leaving in the European Union member states is highly correlated with the low socio-economic status of a child or his or her belongingness to one of the vulnerable social groups (such as youth from a public care background, teenage mothers and persons with physical and mental disabilities or other special educational needs), having migrant background or male gender (European Commission 2011). This last feature is also discerned by the UNESCO and both institutions state unanimously that male pupils and students are much more vulnerable to the early school leaving than the female pupils and students.

Having recognized the described problem, European Commission proposed the Council of the European Union adopting the recommendation on policies to reduce early school leaving. The recommendation was implemented on 28 June 2011 (2011/C 191/01). European Council stated that reducing early school leaving is essential for achieving the objectives of the Europe 2020 strategy. Early school leaving reduction is perceived here as the factor allowing fulfilling the aims for 'smart growth' and 'inclusive growth'. Reducing the scope of the herein analysed problem is considered to affect the level of unemployment, poverty and social exclusion risks.

The most particular obligation undertook by the European Council is to reduce early school leaving to less than 10 % by 2020. Member States were obliged to undertake all necessary efforts and to establish national targets for early school leaving reduction. However, yet in 2003 the Council of the European Union undertook the obligation to reduce the level of early school leaving to less than 10 % by 2010. This challenge has not been accomplished. The level of early school leaving in 2003 for the European Union member states amounted 16.5 % and since 2010 was reduced only by 2.5 percentage points and mounted 14.0 %.

The main obligation in the 2011 early school leaving reduction policy has been linked with and supplemented by two other programmes:

1. The flagship initiative ‘A European platform against poverty and social exclusion’ – an action to ensure social and territorial cohesion, which main target is to lift at least 20 million people out of poverty and social exclusion until 2020.
2. The flagship initiative ‘Youth on the move’ – an action aiming to enhance the performance and international attractiveness of Europe’s higher education institutions and raise the overall quality of all levels of education and training in the EU, by promoting student and trainees’ mobility, and improve the employment situation of young people.

Council placed member states under the obligation to accomplish five specific tasks, including the obligations to:

1. Identify the main factors leading to early school leaving and at national, regional and local level in order to elaborate effective policies.
2. Implement the relevant strategies on early school leaving by the end of 2012.
3. Undertake special actions aimed at the groups of increased risk of early school leaving, especially children of low socio-economic status, migrant or Roma background, or having special educational needs.
4. Implement the strategies on combatting early school leaving not only for general education but also for vocational education and training
5. Integrate the strategies on combatting early school leaving with other activities among different social policy sectors.

European Union member states were moreover obliged to establish necessary cooperation and periodical reporting on the progresses in implementing the strategies.

Actions recommended by the Council in order to reduce the scope of early school leaving were catalogued into three different groups:

1. Prevention policies – embrace tools which enable reducing the risk of early school leaving before problems start by implementing policies that would remove obstacles to educational success. This group of instruments include:
 - Providing high-quality early childhood education and care,
 - Increasing the educational offer by providing education and training opportunities beyond the age of compulsory education,
 - Promoting active anti-segregation policies and providing additional support for schools in disadvantaged areas or with high numbers of pupils from socio-economically disadvantaged backgrounds,
 - Emphasizing the value of linguistic diversity and supporting children with a different mother tongue,
 - Enhancing the involvement of parents, reinforcing their cooperation with the school and creating partnerships between schools and parents can increase learning motivation among pupils,
 - Increasing the flexibility and permeability of educational pathways,
 - Strengthening the link between education and training systems and the employment sector.

2. Intervention policies – include instruments that focus on improving the functioning of the educational institutions, by reacting to early warning signs of early school leaving. Particularly they include tools, such as:
 - Transforming schools into inspiring and comfortable environments which would encourage young people to continue education,
 - Developing an early-warning system, giving the effective diagnosis on which pupils and students are highly exposed to the risk of early school leaving,
 - Setting networks embracing parents, local community services, organisations representing migrants or minorities, sports and culture associations, or employers and civil society organisations,
 - Supporting teachers in their work with pupils highly exposed to the risk of early school leaving, especially in tailoring special teaching methods and contents to specific pupils' or students' needs,
 - Providing mentoring support for pupils with special educational needs, and affected with socio-economic problems, especially in the sphere of career choices guidance and counselling, as well as assisting students in the process of transition between school and labour market,
 - Providing financial support and other types of social benefits for the pupils of low socio-economic status.
3. Compensation policies – include mechanisms focusing on those who left school earlier by offering them opportunities to re-start education or provide with other support. Specific instruments envisaged among compensation policies include:
 - Second-chance programmes, enabling return to school after some break, and focusing on supporting youngsters with flexible educational paths, giving chance to combine education with work or family duties,
 - Transition classes, enabling re-entry to school and bridging the gap between previous school experience and the re-started education, as well as protecting pupils returning to school against stigmatization,
 - Acknowledging and validating the non-formal and informal education, acquired in the period of the formal education break,
 - Providing pupils returning to school with social, financial, educational and psychological support (Council of the European Union 2011).

European Union recognizes and supports numerous good practices of fighting with early school leaving phenomenon. They include, among others (European Commission 2012):

- Practices of desegregation policies, especially those adopted by Hungary or Bulgaria against the segregation of Roma children,
- Positive discrimination measures, introduced in order to support children descending from the disadvantaged areas (for example special educational zones in Cyprus, France or Spain),

- Systems focusing on constant monitoring the individual educational cycles, successes and failures of every pupil (for example Individual Pupil Number in the United Kingdom or Drop-Out Explorer Programme in the Netherlands).

In the documents issued by European Union repeatedly underlined is the need to take into account the differences between the member states in the causes, effects and the extent of the early school leaving. That is why some empirical insight is also needed, to present this phenomenon comprehensively.

9.4 The Extent of Early School Leaving in Europe

The concept of early leaving from education and training is understood by the European Union institutions as a situation referring to persons aged 18–24 fulfilling the following two conditions: first, the highest level of education or training attained is ISCED 0, 1, 2 or 3 short, and second, respondents declared not having received any education or training in the 4 weeks preceding the time of the measurement. ISCED stands for International Standard Classification of Education, established by the UNESCO in 1997. It specifies seven levels that are based on the criterion of educational activities linked with each of it:

1. Level ISCED 0 – pre-primary education, concentrated on introducing very young children to school and providing a bridge between the home and a school based atmosphere.
2. Level ISCED 1 – in principle 6 years of primary education or first stage of basic education, focused on basic education in reading, writing and mathematics, as well as elementary understanding of other subjects such as history, geography, natural science, social science, art and music.
3. Level ISCED 2 – lower secondary education or second stage of basic education, concentrating on the full implementation of basic skills and laying the foundation for lifelong learning and human development. The end of this level often coincides with the end of compulsory schooling.
4. Level ISCED 3 – secondary education, started typically at 15 or 16 years, requiring the completion of 9 years of education since the beginning of level 1 or a combination of education and vocational or technical experience.
5. Level ISCED 4 – post-secondary non-tertiary education, typically embracing pre-degree foundation courses, short vocational programmes, or second cycle programmes, that are considered to place a student between upper secondary and post-secondary education.
6. Level ISCED 5 – first stage of tertiary education, not leading directly to an advanced research qualification, being either theoretically-based courses or practically oriented and occupationally specific.
7. Level ISCED 6 – second stage of tertiary education, leading directly to an advanced research qualification (UNESCO 1997).

Presented above classification of the educational levels clearly suggests that when thinking of early school leaving in the meaning accepted by the European Union, we are thinking in fact about the young people who have not finished their compulsory education, and it is highly probable that they have not acquired basic skills and knowledge in reading, writing, mathematics and other subjects. This additionally emphasizes the standing of the problem of early school leaving.

The highest levels of early school leaving are observed outside Europe. In Sub-Saharan Africa 42 % of children drop out of educational system, in South-West Asia this rate is lower and amounts 33 %, and in Latin America and the Caribbean – 17 %. The countries with the highest levels of early school leaving include: Chad (72 %), Uganda (68 %), Angola (68 %), and Nicaragua (52 %) (UNESCO Institute for Statistics 2012).

The level of early school leaving in European Union amounted in 2012 12.8 %. When investigating only the male pupils category, the rate was higher and reached 14.5 %. In the category of female pupils the rate was lower and amounted 11.0 %.

The lowest rates of the early school leaving are recorded in post-communist countries and the new European Union member states: Slovenia (4.4 %), Slovakia (5.3 %), Czech Republic (5.5 %) and Poland (5.7 %). Croatia with 4.2 % and Switzerland with 5.5 % should be mentioned when enumerating the European countries with the lowest early school leaving rates as well. On the other hand, the highest numbers of the pupils not finishing their education were recorded in: Spain (24.9 %), Malta (22.6 %), and Portugal (20.8 %). Rates of early school leaving recorder in 2012 are presented on the Fig. 9.1.

European countries can be categorized into five groups, depending upon the number or early school leaving pupils:

1. Mainly Central European, post-communist countries with the lowest rates of early school leaving (less than 6.5 %), including: Slovenia, Croatia, Czech Republic, Slovakia, Poland, Lithuania, and Switzerland.
2. Mainly Nordic countries, with relatively low rates of early school leaving (rates between 6.5 % and 9.7 %), including: Sweden, Finland, Denmark, the Netherlands, Luxembourg, Ireland, and Austria.
3. Countries of medium rates (9.7–11.6 %) of early school leaving, including both new European member states and old-EU countries: Estonia, Latvia, Hungary, Germany, France, Greece and Cyprus.
4. Countries not sufficiently successfully coping with the problem of early school leaving, with the rates amounting up to 17.6 %, including: the United Kingdom, Belgium, Romania, Bulgaria and Italy.
5. Countries characterized by the highest rates of children and youth dropping out of the educational system, including mainly Southern European countries, such as: Portugal, Spain and Malta.

Such visible and significant differences in the early school leaving rates between not only European countries but also whole regions may suggest that there is need to craft and implement not just one pan-European policy on reducing early school

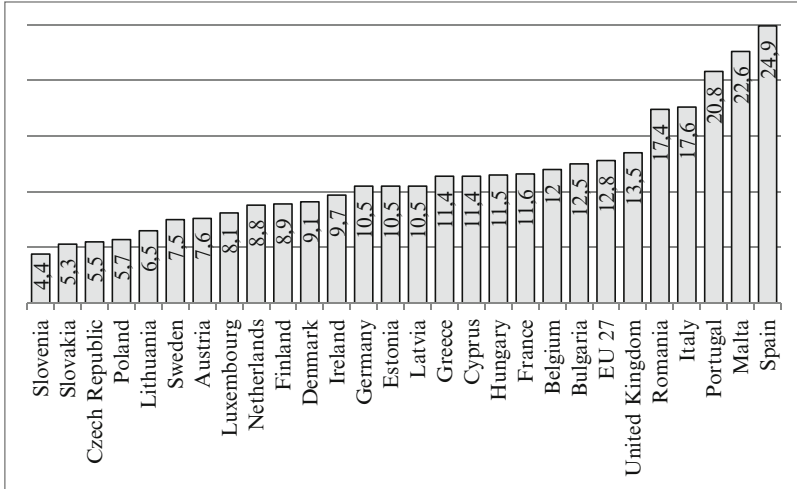


Fig. 9.1 Total early school leaving rates in 2012 (Source: Eurostat <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab = table&init = 1&plugin = 1&language = en&pcode = tsdsc410>; Last update: 21.05.2013)

leaving, but a set of policies taking into account some specific characteristics of each of the above presented five groups of countries.

Analysis of the trends shows that almost everywhere in Europe the number of pupils and students who finish their education prematurely is steadily decreasing. The fastest the reduction follows in the groups included to the fifth group. For example in Portugal there were two-times reduction in the rates of early school leaving recorded, when comparing data from 2002 to 2012. On the other hand, when analysing the countries belonging to the first groups, especially those post-communist ones, some upwards trend can be detected. In Slovakia (from 4.9 % in 2009 to 5.3 % in 2012), Czech Republic (from 4.9 % in 2010 to 5.5 % in 2012), and Poland (from 5.0 % in 2007 to 5.7 % in 2012) the rate of early school leaving has started again to rise in the last few years. This tendency may be connected with the deconstruction of the universal system of compulsory education, being the legacy after communist times, and the rising commodification processes in educational systems.

Regardless of the level of early school leaving, in every European country there is a very strong correlation between finishing education prematurely and the risk of suffering unemployment. In all European Union member states the unemployment rate among early school leavers exceeded 53 % (Council of the European Union and the European Commission 2012). Moreover it is estimated that the unemployment of young, undereducated people costs the European Union more than 100 billion euro per year, which corresponds to the annual EU budget (European Commission 2012).

The exact scale of the correspondence between the ISCED level of education held by a person and the rate of unemployment is presented on the Fig. 9.2. The

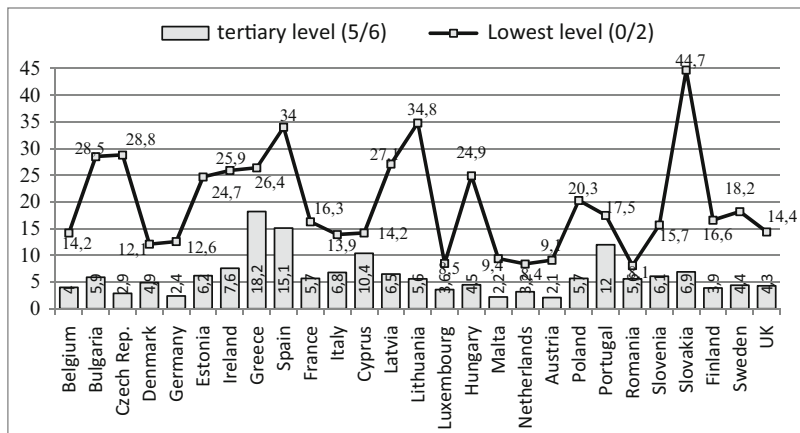


Fig. 9.2 Unemployment rates with regard to lowest and highest level of education 2012 (Source: <http://appsso.eurostat.ec.europa.eu>; download 11.6.2013, level 0–2 = pre-primary, primary and lower secondary education, level 5–6 = first and second tertiary education)

data show that the highest exposure to the risk of unemployment among the early school leaving people is recorded in post-communist countries, especially in Slovakia (over 40 % citizens holding ISCED level 0–2 is unemployed), Former Yugoslav Republic of Macedonia, Lithuania, Czech Republic, and Bulgaria. Early school leavers are relatively highly exposed to unemployment also in Spain, Greece and Ireland (Fig. 9.2).

9.5 Conclusions

Despite the fact that European Union and member states have been combating dropping young people out of educational system for many years, early school leaving remains one of the main challenges of the educational policy in Europe. It would be abuse to state that the former EU programmes have been ineffective in combating early school leaving – data show that the rates of this phenomenon are constantly decreasing, but this process is much slower than assumed and demanded. Hopefully, the new perspective will end up with accomplishing the desirable level of less than 10 % of early school leavers in the European Union.

Maintaining the positive trends is endangered by the two processes that may possibly frustrate European Commission's and Council's of the European Union plans to lower the early school leaving rate. The first one is the economic crisis, which impacts may deter European Union member states from launching new policies focusing on combating the mechanism and factors generating educational inequalities and educational exclusion or developing the existing policies. It seems to be very interesting research field, to show how possibly the crisis impacts the

level of educational inequalities and its different indicators, such as for example early school leaving.

The second process may be even more devastating for the policies aiming at reducing the level of educational inequalities. It is connected with the dissemination of the neo-liberal logic, encouraging an intensified process of commodification of the educational system, and introducing the free-market principle into education. The main anxiety concerns the inversion of the downward trends, which are visible mainly in the post-communist Central European countries, like Poland or Slovakia. This observation may herald the future reversal from the expected and desired state: approaching by the Western and Southern European countries the levels of early school leaving presented by the Central European Countries. Thanks to intensification of the introduction of neo-liberal ideology into educational policies of the Central European states, now there is disturbingly high probability that the levels of early school leaving would rise there and rather approach the numbers of EU average. That shift would very likely yet again make the efforts of European Commission and Council of the European Union, presented in the herein chapter, ineffective or at least less effective than expected.

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Chapter 10

Digital Inequality in Physical and Skills Access Among European Adolescents

Tomasz Drabowicz

Abstract This chapter investigates whether adolescents coming from socio-economically disadvantaged backgrounds lag behind their more socio-economically advantaged peers with respect to physical and skills access to computers and the Internet. The chapter's empirical basis is that of information on ICTs possession and skills collected in the framework of the 2009 wave of the Programme for International Student Assessment (PISA) of 15 year-olds for 28 European Union Member States and countries in one way or another associated with the EU. Logistic multilevel regression and linear multilevel regression are used as the methods of analysis. The results of the analysis reported in this chapter allow concluding that while in the case of skills access the potential sources of social exclusion and marginalization – defined here following the EU's official policy documents dealing with the problem of digital inclusion – have substantively small negative effects on the respondent's score on the index of digital skills, as far as physical access is concerned, the very same potential sources of social exclusion and marginalization still substantively determine the respondent's odds of having the Internet access at home.

10.1 Introduction

The increasing use of computers in the work place has led to computer literacy being a necessity in a large majority of professions. A sound understanding and knowledge of computer applications and programs is becoming more and more important in working life.¹ That is why this chapter studies whether socio-economic

¹ Eurostat: news release, 47/2012–26 March 2012, E-Skills Week 2012, Computer skills in the EU27 in figures.

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disadvantage still determines adolescents' life chances, understood here as physical and skills access to computers and the Internet. The chapter argues, following contributions by Castells (2009) and van Dijk (2005), that having such an access is a source of major advantage in the contemporary world. In fact, given the growing importance of ICTs in education and in the labor market, such aspects of access as physical access or skills can be construed as new forms of what Bourdieu (1986) calls cultural capital. It is therefore interesting to look whether factors identified by the European Union (EU) as potential sources of social exclusion and marginalization decrease the chances of having physical and skills access to Information and Communication Technologies (ICTs) among contemporary young people. As the existing research shows, even within developed societies the access to ICTs remains unequally distributed (van Dijk 2009). This unequal distribution is also found among adolescents, a group supposed to be the first 'digitally native' generation (Tapscott 1998). The existing literature focusing on youth has been based on case-studies (Hargittai 2007; Lee 2008), single-country research (Iske et al. 2007; JIM 2012; Livingstone 2002; Livingstone and Helsper 2007; Peter and Valkenburg 2006), or cross-country comparative research (Basl 2007; EU 2013; Livingstone and Bovill 2001; Livingstone and Haddon 2009; Notten et al. 2009; OECD 2010; Wastiau et al. 2013). The present chapter refers especially to the paper by Notten et al. (2009) in that it uses similar research design and the same, albeit newer, source of data (the PISA 2009 wave instead of the PISA 2003 wave). It focuses, however, on slightly different independent variables as the possible sources of digital inequality among contemporary adolescents.

The chapter is organized as follows. The second section introduces the notion of digital inequality, while Sect. 10.3 presents the place that digital inequality (or digital inclusion, as the official documents put it) has in the EU's policy, especially in the context of the EU's youth policy. Section 10.4 describes the main findings of the recently released report *The Survey of Schools: ICT in Education* (EU 2013; Wastiau et al. 2013) commissioned by the European Commission in 2011. Section 10.5 presents research question and hypotheses. Section 10.6 describes data used in the analysis reported in this chapter and procedures implemented during investigation. Section 10.6 deals with testing research hypotheses. The last section concludes the analysis undertaken and answers the chapter's research question.

10.2 What Is Digital Inequality?

The argument that the Internet is not yet another technological gadget, but the innovation of significant social consequences, relies on Castells's seminal contribution to the recent debate on social transformation and the role that computer-mediated information and communication networks play in this transformation (Castells 2000, 2001a, b, c, d, 2004). Following the American historian of technology Claude S. Fischer (1992, pp. 1–32), Castells points out that the technology,

understood as material culture, is one of the fundamental dimensions of social structure and social change. According to him, it was the gradual development and diffusion of – as he calls them – microelectronics-based information technologies that largely contributed to creating a basis, indeed: an infra-structure, for the new type of social structure: the network society.

Although in Castells's view neither inclusion in nor exclusion from the full and meaningful participation in the network society cannot be reduced to using computers and the Internet; nevertheless, the lack of physical access and inability (or limited ability) to use these digital technologies – could serve as good indicators of deeper structural subordination and irrelevance (Castells 2004, p. 24). This is so, because: "Core economic, social, political, and cultural activities throughout the planet are being structured by and around the Internet, and other computer networks. In fact, exclusion from these networks is one of the most damaging forms of exclusion in our economy and in our culture" (Castells 2001d, p. 3).

Van Dijk, another proponent of the theory of the network society, sees also the possibility of an in-egalitarian development scenario of the new social structure. He writes that increasingly, the participation in all important fields of society (such as labour market and business, education, social relations, public and private space, culture, politics, and the official institutions of society – i.e. citizenship with entitlements) will depend, at least partly, on the type and level of access to the new digital media. As regards the education, he notes that more and more "access to computers and the Internet will be necessary to achieve specific training. (...) Within 10 years, computers and the Internet will have become indispensable in education throughout the developed world. (...) The inescapable result is that people who do not have physical access will be excluded from an increasing number of educational opportunities. Children in families lacking access are strongly disadvantaged compared to children who have computers and Internet connections at home. Access to computers and the Internet at school is only available during particular hours and for a limited number of children. Even in the developed countries, it is fairly common, even in 2005, that only one computer is available for every 10–20 pupils. Those who have the means at home are learning to work with computers much earlier, longer, and faster, even before they reach school years" (van Dijk 2005, pp. 167, 170).

To sum up, both Castells and van Dijk claim that as computer-mediated communication networks increasingly permeate new spheres of social life – thus becoming an indispensable part of the civilizational curriculum – having the physical access to them and being able to use them effectively become conditions *sine qua non* for the full participation in the contemporary society. However, and in this point both authors agree too, both of these resources are distributed unequally – also within the context of advanced societies. Thus, broadly understood access to ICTs retains its structuring power, also in the developed world. Broadly understood access to ICTs, in turn, can be defined following van Dijk's distinction of the four kinds of access to digital technologies that correspond to the four types of digital inequality (van Dijk 2005, p. 20):

1. Motivational or psychological (motivation to use digital technologies, fear – or a lack thereof – of using them);
2. Material or physical (possession of computers and Internet connections or permission to use them and their contents);
3. Skills (possession of digital skills, i.e.: the ability to operate hardware and software, the ability to search for information using them, and the ability to use information retrieved in this way for improving one’s position in society);
4. Usage (number and diversity of computer applications used, usage time etc.).

This multidimensional definition of digital access and digital inequality is used in this chapter as a theoretical framework for the analysis, although the chapter focuses on physical and skills access only, because these two particular aspects of digital inequality are especially important in the EU documents defining its digital inclusion policy.

10.3 Digital Inequality in the Youth Policy of the European Union

The European Union recognized the importance of digital inequality at least since the adoption of its revised Lisbon Strategy. In 2005, the policy framework *i2010: A European Information Society for Growth and Employment* established digital inclusion as an EU strategic policy goal. Digital inclusion, as understood in the EU’s policy documents, means that “Everybody living in Europe, especially disadvantaged people, should have the opportunity to use information and communication technologies (ICT) if they so wish and/or to benefit from ICT use by service providers, intermediaries and other agent addressing their needs” (Haché and Cullen 2010, p. 5). In 2006, the Riga Declaration defined E-Inclusion (digital inclusion) as “both inclusive ICT and the use of ICT to achieve wider inclusion objectives” and identified, as one of its six priorities, “digital literacy and competence actions (. . .) tailored to the needs of groups at risk of exclusion, because of their social circumstances or their capacities and special needs, notably the unemployed, immigrants, people with low education levels, people with disabilities, and elderly, as well as marginalised young people, contributing to their employability and working conditions” (Riga Declaration 2006, pp. 1, 4).

The Renewed and Updated European Youth Pact (EU 2009, p. 21) – one of the instruments supporting the post-crisis EU Youth – Investing and Empowering strategy (EC 2009) – also includes a focus on ICTs, and encourages – among other things – actions to:

- Make new technologies readily available to empower young people’s creativity and capacity for innovation, and attract interest in culture, the arts and science.
- Widen quality access to culture and creative tools, particularly those involving new technologies.

- Promote specialised training in culture, new media and intercultural competences for youth workers.

Young people at risk of social exclusion are a priority target of EU i2010 and eInclusion policies such as i2010 – a European Information Society for Growth and Employment initiative (EC 2005), the Riga Declaration (2006) and the Ministerial Conference conclusions of the E-Inclusion Conference (2008). These, as well as the EU Education and Training policies “recognize that particular action must be taken to make ICT accessible to groups at risk of exclusion from the knowledge based society, and set ambitious targets to ensure that ‘nobody is left behind’. eInclusion policies targeting young people at risk of social exclusion are mostly concerned by two issues. First, there is the worry that socio-economic disadvantage and marginalisation may lead to digital exclusion (lack of ICT access and/or lack of ‘digital competencies’) and the awareness that, in today’s society, this has worse implications for young people, compared to other digitally-excluded segments of society (e.g. older people). Second, disadvantaged young people, besides having to bear the weight of social exclusion on their shoulders are themselves a major source of social problems, economic costs and lost opportunities. Therefore, all means – including ICT – are worth exploring to enable the innovation of services addressing them and to enhance their wellbeing, employability, lifelong learning, active citizenship.” (Haché and Cullen 2010, pp. 9–10).

The Digital Agenda for Europe (EC 2010), one of the seven flagship initiatives of the Europe 2020 Strategy launched in March 2010, recognizes as well that Europe is suffering from a growing professional ICT skills shortage and a digital literacy deficit. These failings are excluding many citizens from the digital society and economy and are holding back the large multiplier effect of ICT take-up to productivity growth. For these reasons: “It is essential to educate European citizens to use ICT and digital media and particularly to attract youngsters to ICT education. The supply of ICT practitioner and e-business skills, i.e. the digital skills necessary for innovation and growth, needs to be increased and upgraded. In addition, given there are 30 million women between the ages of 15–24, it is necessary to improve the attractiveness of the ICT sector for professional use and in particular for the production and design of technology” (EC 2010, p. 25).

However, there is some progress concerning the average access to Internet and the supply with broadband communication in the households since 2006: Internet access and use is widespread amongst the EU population. In the EU27, more than three quarters of households had access to the internet in 2012, compared with just under half in 2006. The proportion of households who have a broadband internet connection has increased more significantly. In 2012, 72 % of EU27 households had access to the Internet via a broadband connection, compared with 30 % in 2006. (Eurostat News release, 185/2012–18 December 2012, p. 1) (Table 10.1)

On the average the Internet was used in the EU Member States for different activities: 61 % for reading online news and newspapers; 54 % for internet banking;

Table 10.1 Households with internet access and broadband connection in % 2012

| | Internet access | Broadband connection | | Internet access | Broadband connection |
|------------|-----------------|----------------------|-------------|-----------------|----------------------|
| Austria | 79 | 77 | Latvia | 69 | 67 |
| Belgium | 78 | 75 | Luxembourg | 93 | 68 |
| Bulgaria | 51 | 51 | Lithuania | 62 | 61 |
| Cyprus | 62 | 62 | Malta | 77 | 77 |
| Czech Rep. | 71 | 68 | Netherlands | 94 | 83 |
| Denmark | 92 | 85 | Poland | 70 | 67 |
| Estonia | 75 | 74 | Portugal | 61 | 60 |
| Finland | 87 | 85 | Romania | 54 | 50 |
| France | 80 | 77 | Slovakia | 75 | 72 |
| Germany | 85 | 82 | Slovenia | 74 | 73 |
| Greece | 54 | 51 | Spain | 68 | 67 |
| Hungary | 69 | 68 | Sweden | 92 | 87 |
| Ireland | 81 | 65 | UK | 83 | 80 |
| Italy | 63 | 55 | EU27 | 76 | 72 |

Source: Eurostat News release, 185/2012–18 December 2012

52 % for posting messages to social media; 50 % for travel and accommodation services and only 9 % for creating a website blog.²

The share of individuals having used a PC varies between 50 % in Romania and 96 % in Sweden. In 2011, more than three quarters of those aged 16–74 in the EU27 had used a computer, while this share was 96 % amongst those aged 16–24. The highest shares of those aged 16–74 having used a computer were observed in Sweden (96 %), Denmark, Luxembourg and the Netherlands (all 94 %), and the lowest in Romania (50 %), Bulgaria (55 %) and Greece (59 %). In most Member States the share of young people who had used a computer was above 95 %. A fifth of those aged 16–24 in the EU27 have written a computer program.

In 2011, almost two thirds of individuals aged 16–74 in the EU27 reported having moved or copied files or folders on a computer, compared with 89 % for those aged 16–24. Of those aged 16–74, 43 % stated they had used basic arithmetic formulas in a spread-sheet, while this share was 67 % among the younger age group. Three out of ten individuals aged 16–74 had created an electronic presentation, compared with six out of ten individuals aged 16–24. The share of individuals in the EU27 having written a computer program was 10 % amongst those aged 16–74 and 20 % amongst the younger age group.³

² Eurostat, Statistics in Focus 50/2012 “Internet use in households and by individuals in 2012”, <http://ec.europa.eu/eurostat/ict> under “Data”.

³ Eurostat: news release, 47/2012–26 March 2012, E-Skills Week 2012, Computer skills in the EU27 in figures.

10.4 ICTs in the European Education

Given a lack of reliable comparative data and indicators to support evidence-based ICT policies in schools (Pelgrum and Doornekamp 2009; Biagi and Loi 2013), the European Commission commissioned in 2011 The Survey of Schools: ICT in Education report (EU 2013) to benchmark access, use of and attitudes to ICT in schools in the EU27, Croatia, Iceland, Norway, and Turkey. The online survey was conducted between September and December 2011 among over 190,000 school heads, teachers, and students at grade 4 (ISCED level 1, primary level of education), grade 8 (ISCED level 2, lower secondary level of education), and grade 11 (ISCED level 3, upper secondary level of education, general and vocational). Due to the low schools participation rate in Germany, Iceland, the Netherlands, and the United Kingdom, data concerning these countries were not considered representative enough to be included in the analysis reported in the paper by Wastiau et al. (2013). This section reports some of the main findings found both in that paper as well as in the study's final report (EU 2013).

With regard to ICTs infrastructure and use in schools, the survey found that there were in 2011 between 3 and 7 students per computer on average in the EU, however, computers (laptops, tablets and netbooks) were becoming pervasive only in Belgium, Cyprus, Denmark, Finland, Norway, Spain, and Sweden (EU 2013, p. 34). More than nine out of ten students were in schools with broadband, at most commonly between 2 and 30 mbps on average in the EU. Most schools were connected at least at basic level (e.g., indicated by having a website, local area network, virtual learning environment). At EU level on average, between 25 % and 35 % of students at grades 4 and 8, and around 50 % of students at grade 11, were in highly equipped schools, i.e. with high equipment level, fast broadband (10 mbps or more) and high connectedness. However, the percentages of such schools differ enormously between countries. Around 50 % of students at grades 8 and 11 in general education used a desktop or a laptop during lessons at school at least weekly, but around 20 % of the students at the same grades never or almost never used a computer during lessons. Around 30 % of students at grade 8 and 20 % at grade 11 in general education used an interactive whiteboard at least weekly. Interestingly, no overall relationship was found between high levels of infrastructure provision and student and teacher use, confidence, and attitudes towards ICTs (EU 2013, p. 9).

As regards ICT-based learning activities and confidence in digital competence, the survey found that on average at EU level, students reported undertaking ICT-based activities between several times a month and never or almost never. Digital resources such as exercise software, online tests and quizzes, data-logging tools, computer simulations, etc. were still very rarely used by students during lessons. Students' ICT-based activities related to learning at home were more frequent compared to ICT activities at school. At EU level on average, students declared a fairly high level of confidence to use the Internet safely and a lower one in their use of social media. (Safe use was defined as students' confidence in their

ability to protect their privacy and online reputation and respect those of others as well as their confidence in their ability to use the Internet to protect themselves against online bullying, spam, and junk mail. Social media skills were defined as the ability: to participate in an online discussion forum, to create and maintain blogs or websites, and to participate in social networks (Wastiau et al. 2013, pp. 17–18). Interestingly, students stating that they have high access to and use of ICT at school and at home also reported higher confidence in their operational ICT skills (comprising production of text using word processing software; editing digital photos, movies or other graphics; editing online text containing Internet links and images; creating a database; using a spread-sheet to plot a graph; downloading and installing software on a computer, etc. (Wastiau et al. 2013, p. 17)), in their use of social media and in their ability to use the Internet safely and responsibly, as well as more positive opinions about ICTs' impact on their learning, compared to students reporting low access and use at school but high access and use at home. In all the above areas, the survey found very large differences between countries (EU 2013, p. 11).

10.5 Research Question and Hypotheses

Because, as mentioned above, the EU's E-Inclusion policies targeting young people at risk of social exclusion are concerned by the worry that socio-economic disadvantage and marginalisation may lead to digital exclusion (lack of ICT access and/or lack of digital competencies), the research question asked in this chapter reads as follows: Do adolescents coming from socio-economically disadvantaged backgrounds lag behind their more socio-economically advantaged peers with respect to physical and skills access to computers and the Internet?

Socio-economical disadvantage is defined for the purpose of the analysis reported in this chapter following the criteria for being at risk of social exclusion laid out in the Riga Declaration: unemployment, immigrant background, low education, and (not mentioned in the Riga Declaration) gender. To answer the research question, the following research hypotheses are examined:

Hypothesis 1: Girls have a lower probability of having the Internet access at home than boys.

Hypothesis 2: Children of immigrant origin have a lower probability of having the Internet access at home than indigenous children.

Hypothesis 3: Children coming from the families excluded from the labour market have a lower probability of having the Internet access at home than children coming from the families not excluded from the labour market.

Hypothesis 4: Children coming from the families of low educational achievement have a lower probability of having the Internet access at home than children coming from the families of high educational achievement.

Hypothesis 5: Girls have lower levels of confidence in doing ICT tasks than boys.

Hypothesis 6: Children of immigrant origin have lower levels of confidence in doing ICT tasks than indigenous children.

Hypothesis 7: Children coming from the families excluded from the labour market have lower levels of confidence in doing ICT tasks than children coming from the families not excluded from the labour market.

Hypothesis 8: Children coming from the families of low educational achievement have lower levels of confidence in doing ICT tasks than children coming from the families of high educational achievement.

Because the PISA data do not contain information about unemployment of the respondents' parents, but provide data about parental non-participation in the active labour force (see below for details), a category that includes also the unemployed as social beneficiaries, the hypotheses stated above use the broader formulation 'excluded from the labour market' rather than the narrower term 'the unemployed'.

10.6 Data and Models Used in the Analysis

Data concerning the dependent variable and independent variables are drawn from the 2009 PISA project. Details about the methodology underlying the PISA 2009 survey, as well as a comprehensive description of the OECD PISA 2009 international database are to be found in OECD (2012b). As part of the survey, an ICTs Familiarity Questionnaire – containing questions relevant for the study of the physical, skills and usage aspects of access to computers and the Internet among 15-year olds – was conducted in 46 countries, among others nearly all EU Member States. Because of incomplete data on skills access the Netherlands are excluded from analysis, whereas 20 other EU Member States that administered the ICTs Familiarity Questionnaire in the PISA 2009 wave as well as Croatia, Iceland, Israel, Norway, the Russian Federation, Serbia, Switzerland, and Turkey are included in the analysis that follows.

Because the PISA data are hierarchical, this chapter uses multilevel modeling, a method in which differences between countries and individual respondents are estimated simultaneously (Gelman and Hill 2007; Goldstein 1999; Hox 2010; Kreft and De Leeuw 1998; Snijders and Bosker 1999). Multilevel analysis enables modeling heterogeneity and obtaining more correct estimations of country effects. Following the research design by Notten et al. (2009, p. 554), this chapter applies multilevel logistic and linear models with a random intercept and fixed slopes, meaning that while the effects of the individual variables (covariates) are fixed among countries, the mean effect of each country is allowed to vary.

With respect to independent variables at the individual level, in all models reported in this chapter the following variables are specified: a dummy for gender (Girl), coded zero for a boy and coded one for a girl; and the respondent's migration background (Immigrant) measured as a dummy variable coded zero if the respondent is an indigenous in a given country and coded one if the respondent is the first- or second-generation immigrant.

There are also four dummy variables indicating respondents who report that either their father or their mother is a home-maker (housewife), a student, or a social beneficiary, as well as those respondents who do not know either their father's or their mother's occupation, who describe their father's or their mother's occupation vaguely (e.g., a good job, a quiet job, a well-paid job), and those missing on their father's or their mother's occupational variable.

The father's level of education is measured by three dummy variables that indicate respondents whose fathers have (the first or the second stage of) tertiary education (which functions as the reference category) and subsequently those having secondary education and those who do not have more than primary education. The same dummy variables are used to measure the mother's level of education.

The reason for controlling for both parents' socio-economic and educational background is the result of following Korupp et al. (2002) recommendation based on their analysis of children's educational success. These authors conclude that within the family, the resources of the lower status parent are important for the educational attainment of children and that if the status of the mother and the father differ, children are not unequivocally pulled towards the higher status parent's platform, but range somewhere between them (Korupp et al. 2002, p. 37). Information on the father's occupation is elicited by two questions asking respondents about their father's main job and what he does in his main job while information on the mother's occupation is elicited by two questions asking respondents about their mother's main job and what she does in her main job. It is worth mentioning that students younger than 15 years of age have been shown to accurately provide their parents' occupation (West et al. 2001).

With respect to independent variables at the country level, the values of the Internet penetration rate among the general population (OECD 2012a; ITU 2012), the level of a country's economic development (measured as the natural logarithm of the Gross Domestic Product per capita (Worldbank 2013)), and a country's educational expansion (measured by the percentage of gross enrolment in tertiary education – ISCED 5 and 6 – which represents the general level of participation in tertiary education in a given country (UNESCO 2009)) are specified in both models reported in this chapter. All three country level variables are centred to the mean.

The multilevel logistic regression model is used for the binary dependent variable coded zero for the respondents who report that they do not have the Internet connection which they can use in their home and coded one for the respondents who report that they have (and can use) the Internet connection in their home. In addition, the multilevel linear regression model is used for the dependent variable that is operationalized as the index of self-reported confidence in doing ICT high-level tasks (HIGHCONF) constructed out of five items: (1) The respondent's confidence in being able to edit digital photographs or other graphic images; (2) The respondent's confidence in being able to create a database; (3) The respondent's confidence in being able to use a spread-sheet to plot a graph; (4) The respondent's confidence in being able to create a PowerPoint presentation; (5) The respondent's confidence in being able to create a multi-media presentation (with sound, pictures, video). For all items, the reversed answer scale ranges from 1 ('I don't know what this means'), to 2 ('I know what this means but I cannot do

it'), to 3 ('I can do this with help from someone'), to 4 ('I can do this very well by myself'). The answers to the five items are added together to form the index of self-reported confidence in doing ICT high-level tasks ranging from 0 (No confidence) to 100 (High confidence). The consistency analysis performed on the five items constituting the HIGHCONF index reveals that they can form a single scale.

10.7 Results

My first four hypotheses state that girls, children of immigrant origin, children coming from the families excluded from the labour market, and children coming from the families of low educational achievement have a lower probability of having the Internet access at home than, respectively, boys, indigenous children, children coming from the families not excluded from the labour market, and children coming from the families of high educational achievement.

The preliminary analysis starts with estimation of the null model with a random intercept and without independent variables to assess the variance component at the country level. The significant country-intercept variance shows that the respondents' probability of having the Internet access at home varies significantly among countries at the 0.001 level. Model 1 in the next step includes the country and individual characteristics. With regard to the individual effects, it shows that in comparison with the adolescents indigenous in a given country, first- or second-generation immigrants have their odds of having the Internet access at home decreased by 28 %. As for labour market status variables, the respondents whose fathers are excluded from the labour market have 49 % lower odds of having the Internet access at home than the respondents whose fathers are not excluded from the labour force, and the respondents who are missing on their father's occupation have 51 % lower odds of having the Internet access at home than the respondents who provided the information about their father's occupation. The respondents whose mothers are excluded from the labour market have 47 % lower odds of having the Internet access at home than the respondents whose mothers are not excluded from the labour force, and the respondents who are missing on their mother's occupation have 62 % lower odds of having the Internet access at home than the respondents who provided the information about their mother's occupation. With regard to educational level, the adolescents whose fathers have secondary education have 17 % lower chances of having the Internet access at home than the children of fathers with higher education, and the adolescents whose fathers have at most primary education have 51 % lower odds of having the Internet access at home than the children of fathers with higher education. In turn, the adolescents whose mothers have secondary education have 20 % lower chances of having the Internet access at home than the children of mothers with higher education, and the adolescents whose mothers have at most primary education have 54 % lower odds of having the Internet access at home than the children of mothers with higher education. All of the above estimates are statistically significant at the 0.001 level.

The only statistically insignificant independent variable at the individual level is gender, with girls having their chances of having the Internet access at home decreased in comparison with boys by 2 % only.

With regard to country-level independent variables, the results indicate that only the Internet penetration rate among the general population positively affects the odds of having the Internet access at home. One unit increase in the Internet penetration rate among the general population in a given country increases the chances of having the Internet access at home by 3 %. As regards two other country-level independent variables, neither a country's educational expansion nor a country's economic development affects the chances of having the Internet access at home at any level of statistical significance. With respect to the latter, however, one should pay attention to the effect size: 1 % increase of national GDP per capita increases the chances of having the Internet access at home by 34 %. The lack of statistical significance with such a strong effect should not be interpreted as the absence of the influence of the level of economic development on physical access to the Internet (cf. Ziliak and McCloskey 2008). In this case, the statistical insignificance of GDP per capita is probably caused by the small number of countries being analysed and would vanish had the number of countries under investigation increased.

My last four hypotheses state that girls, children of immigrant origin, children coming from the families excluded from the labour market, and children coming from the families of low educational achievement have lower levels of confidence in doing ICT tasks than, respectively, boys, indigenous children, children coming from the families not excluded from the labour market, and children coming from the families of high educational achievement.

With regard to the individual effects, it shows that being a girl decreases the level of confidence in one's digital skills by 2.64 points on a 100-point index. As for labour market status variables, the respondents whose fathers are excluded from the labour market assess their level of confidence in their own digital skills by 3.05 points lower than the respondents whose fathers are not excluded from the labour force, and the respondents who are missing on their father's occupation assess their level of confidence in their own digital skills by 1.73 points lower than the respondents who provided the information about their father's occupation. The respondents whose mothers are excluded from the labour market assess their level of confidence in their own digital skills by 2.20 points lower than the respondents whose mothers are not excluded from the labour force, and the respondents who are missing on their mother's occupation assess their level of confidence in their own digital skills by 2.03 points lower than the respondents who provided the information about their mother's occupation. With regard to educational level, the adolescents whose fathers have secondary education score 0.63 points lower on the HIGHCONF index than the children of fathers with higher education, and the adolescents whose fathers have at most primary education score 3.01 points lower on the HIGHCONF index than the children of fathers with higher education. In turn, the adolescents whose mothers have secondary education score 0.86 points lower on the HIGHCONF index than the children of mothers with higher education, and

the adolescents whose mothers have at most primary education score 3.12 points lower on the HIGHCONF index than the children of mothers with higher education.

Neither the internet penetration rate among the general population, nor a country's economic development, nor expansion of higher educational enrolments play important role in increasing the self-reported confidence in doing ICT high-level tasks among the 15 year-olds under investigation.

10.8 Conclusion

This chapter asks whether adolescents coming from socio-economically disadvantaged backgrounds lag behind their more socio-economically advantaged peers with respect to physical and skills access to ICTs. Socio-economic disadvantage is defined following the criteria for potential social exclusion and marginalization spelled out in the official EU documents dealing with the issue of digital inclusion: gender, exclusion from the labour force, immigrant background, and low education. The chapter's empirical basis is that of information on the ICT possession and skills collected for 27 European countries and Israel in the framework of the 2009 wave of the PISA study on 15 year-old students.

The conducted analysis reveals that if it comes to digital skills access, the baseline level of self-reported confidence is quite high – equal to 79.85 points on the 100-point scale, which can be labelled as the moderate level of confidence in doing ICT tasks. Potential sources of social exclusion and marginalization, however, although all but immigrant origin statistically significant at the 0.001 level, have nevertheless substantively small negative effects on the respondent's score on the index of digital skills. With this index scaled from 0 to 100, effect sizes of the magnitude of three points (the largest negative effect associated with having one's father or one's mother educated at most at the primary level) decrease the respondent's self-reported level of confidence in doing ICT high-level tasks only marginally. Additionally, no country-level independent variable influences the respondent's score on the index of digital skills. Before moving to the next issue, however, one has to make one caveat and point out that measures of the respondent's self-perceived ICT ability are not an optimal proxy for actual skills (Hargittai 2005). Thus, the above-presented positive results on the level of digital skills and the sources and extent of digital skills inequality among the European adolescents might be too optimistic.

With regard to physical access, the situation – as revealed by the analysis reported in this chapter – remains a little less rosy. Namely, except for gender, all potential sources of social exclusion and marginalization (parental exclusion from the labour force, parental low education, and the respondent's immigrant background) are not only statistically, but first and foremost substantively significant if it comes to decreasing the respondent's chances of having the Internet access at home. Additionally, in the case of digital physical inequality, one can find contextual (country-level) effects influencing the respondent's odds of having physical

access as well. These two contextual effects are statistically significant at the 0.001 level, but substantively small (3 %) effect of the 2009 Internet penetration rate among the general population, and statistically insignificant but substantively large (34 %) effect of the natural logarithm of the 2009 GDP per capita. It means that there are still substantial differences in the respondent's odds of having the Internet access at home between the countries and that in this respect the EU's aim of achieving full digital inclusion has not yet been reached.

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Chapter 11

The Legal Framework as a Factor Generating Social Inequality: The Case of the Criminal Justice System

Bartłomiej Kacper Przybylski

Abstract This chapter considers the question of possible ways of impacting the level of social inequalities through the shape of the legal system. The main focus is on the mechanism of generating social divisions through the criminal justice system and criminal law. Tools such as racial and ethnic biases of the prison system, populist punitiveness and social panopticism are discussed. The chapter is concluded by discussing the empirical insight in the European differentiation of the models of criminal justice systems.

11.1 Introduction

The correlation between the legal system and the level of social inequality is obvious. The law introduces plenty of regulations indicating the social positions of people and different societal groups. The law can impose obligations, confer rights, establish the positions of citizens in the system of socio-economic redistribution as well as their place in the chain of social transfers, specify individuals' position as members of the advantaged or disadvantaged groups – and all this can be considered as the particular ways of how the law impacts on social equality and inequality.

In the past, this correlation was perhaps even more obvious and visible than today. The institutions of old criminal law are an example of this visibility. For instance, it was normal practice in all feudal legal systems to punish those individuals more severely who belonging to the peasantry or bourgeoisie than members of the nobility or gentry for committing similar crimes. Other examples may be the institutions that excluded people of specific ethnic groups or other social

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categories from work, the right to vote and other civil rights, especially in the authoritarian or totalitarian regimes of the twentieth century.

Today, the legal impact on equality and inequality is clearly more subtle and less visible at first glance. All European and non-Europeans countries' legal systems introduce equality as one of their most fundamental principles. But it would be naive to think that this ensures that equality, as posited, is actually achieved in social reality. We can observe numerous examples of how the law differentiates the legal and also the factual position of individuals, groups and categories, following Niklas Luhmann's view (1985) that legal norms and legal system are no more than a written structure of social expectations.

11.2 The Legal System as a Factor Generating Social Inequalities: Possible Interrelations

The link between the law and equality/inequality may be observed in different parts of the legal system:

1. Constitutional law – the highest legal act in each country – includes the structure of the main principles of the whole legal system. It is crucial whether it establishes equality as the main principle or proclaims some type of fundamental systemic inequality by excluding some group or category of people from citizenship or some of its parts. When analysing the inequalities generating the potential of constitutional law, two types of problems should be taken into account. First, there is the question of the factual definition of equality and the way this concept is understood by the actors engaged in the processes of materialization of the orders of legal norms: is it formal equality (equality before the law) or material equality (equality of living standard). The second question is closely connected to the previous one: if the legislator decides in favour of the principle of material equality, then there is a high possibility of introducing positive discriminatory norms into the system. This way of equalizing opportunities of individuals who belong to disadvantaged categories, groups or regions is known as affirmative action; it is widely used, for example in educational law (Wang 1983; Mabokela and Mawila 2004; Featherman et al. 2010; Boyadjieva 2013) and labour law (Noon 2010). Even if constitutional law does not spell out direct positive discrimination, it may stipulate a special standard of legal protection of individuals or groups. An example of this can be found in the Polish Constitution in its Article 18, envisaging that the marriage of man and woman is under the special protection of the law and state institutions. This article is often used to refuse equal rights in the field of formally registered partnerships for homosexual couples (Łętowska 2013a, b).
2. Labour law – very often this segment of the legal system is based upon two competitive principles: the principle of equality and the principle of inequality. The second one may be visible when analysing legal regulations defining rights

and obligations of the special categories of workers, for example pregnant women, young workers, physically or mentally disabled workers, people working in the especially onerous conditions, or workers belonging to other categories with special needs (see for example International Labour Organization regulations).

3. Labour market/Unemployment law – this part of the legal system may generate some social inequalities by enforcing norms that stipulate who deserves or does not deserve unemployment benefit or other forms of public support.
4. The law on industrial relations and collective bargaining – this part of the legal system may generate inequality by excluding some groups of workers or their organizations from the right to participate in the process of collective negotiations or by introducing some minimal criteria of eligibility to form and register trade union organizations (c.f. Przybylski 2010).
5. Social law – especially in social care law we may find plenty of regulations generating, paradoxically, different kinds of inequalities. This is mainly implemented by the norms establishing the criteria of who deserves support from the social security system, which are always closely linked to public opinion about those who need help (Van Oorschot 2000; Larsen 2005) as well as the opinions of social workers and their actual interventions (Kullberg 2005).
6. Financial law – especially when analysing tax law, we may see the majority of norms that can generate equality or inequality; the shape of the tax system in each country can be seen to be one of the most crucial factors in reducing income inequalities (OECD 2012).
7. Inheritance law – the existence or non-existence of inheritance taxes, the level of restrictions to the freedom of testation, or the catalogue of people admitted to and excluded from inheritance – all these institutions may generate equality or inequality (Strand 2010; Verbeke 2011).
8. Family law – especially marriage law, with the norms stipulating obligations and rights of the spouses, financial relationships between wife and husband or partners, and the regulations establishing criteria of eligibility to enter into a marriage or civil partnership. Family law may generate inequalities specially between heterosexuals and homosexuals, inequalities between men and women and between different religious or ethnic categories (Watson and Ebrey 1991; Ezeanokwasa 2011; NeJaime 2012).

These are clearly only some examples, and other fields of the legal system could be given for analysing the impact of laws on social inequalities, such as administrative law, the law relating to the political system and many others. Apart from this, two other questions should be taken into account here.

Firstly, not only the orders of the legal norms should be analysed when discussing the link between the law and inequality, but also the way in which these norms are implemented by the relevant agencies and actors. It is evident that when investigating laws as they are laid down in written form, the norms do not explicitly differentiate the legal situation of individuals from different categories, but when it comes to the law-in-action analysis, the specific practices of judges,

attorneys, the police, etc. lead to generating inequalities. For example, the police may use different types of interrogation techniques when interrogating suspects or witnesses of different races or genders or simply use the legal norms selectively, thus creating deviance in one case while concealing it in a comparable case, as highlighted by Howard S. Becker (1963) in his fundamental work on the sociology of deviance.

The second problem is connected with the phenomenon of hyper-development of the legal system. The growing complexity of the law generates inequality in the 'field' of the legal system – if one applies Bourdieu's concept of 'fields' (1987), i.e. the juridical or legal field. The figure of the 'Rational Man' – a person who is aware of his or her rights and obligations and able to undertake actions in the juridical field – is in post-modern society insufficiently prepared to submit an indictment or organize his or her defence. Specialized knowledge and a high level of legal awareness is needed to provide effectiveness to the social actors' actions. These two factors: knowledge and legal consciousness, become also the new and additional factors generating new types of inequalities between individuals, groups and even regions (Przybylski 2012).

11.3 The Law and Inequality in Academic Discourse

When reviewing recent issues of journals devoted to the topic of the law and inequality, we may discover that not all of the areas mentioned above are fully represented in academic discourse. There is a particular lack of books and articles concentrating on interdisciplinary questions from the neighbouring disciplines, i.e. sociology and economics.

Journals, such as 'Law & Society' or 'Social and Legal Studies' are mainly dominated by the topics of race or gender. Empirical articles concentrate on topics such as feminist perspectives of tort law, biases of white judges and jurors, legal awareness of Latin-American immigrants, or the unfairness of court actions towards women and minorities. Apart from this, there are specialized journals, such as 'Canadian Journal of Women and Law', concentrating only on one of the topics mentioned above. Of course this should not be seen as an attack on feminist, gender or racial theory of law; such investigations may be intellectually stimulating and interesting in their own right. The reason for this critical literature review is merely to draw attention to the fact that there is still, despite a rapid extension of the academic debate, plenty of space for more analyses of the impact of the legal system on income, quality-of-life, the labour market and other inequalities.

On the other hand, existing empirical analyses very often cover only local or regional issues. The local impact, specific developments and unusual effects of some global trends and processes are investigated, or unique processes are considered. There seems to be a gap in academic discourse, consisting in the relative scarcity of supra-regional and supranational, even global, comparative empirical studies. There is a need for supranational empirical analyses, focusing on the

mechanism of constructing the law in accordance with economic factors, consistency with society's hierarchy of values and the citizens' expectations, as well as contrasting ones, i.e. mechanisms through which the legal system re-shapes social and economic reality; these are especially needed at times of the second phase of the financial and economic crisis in Europe and globally.

To summarize this part of the reflections, there are at least five main types of legal system analyses that can be found in academic journals and books:

1. Theoretical papers, concerning issues such as the semantic boundaries of the concept of law and associated concepts, jurisprudential theories and conceptions, etc.
2. Papers focusing on the perspective of legal realism, investigating the way in which the law is used by the social actors performing in the juridical field (for example biases of judges or jurors, interpretations of the legal norms by their user, such as the police or attorneys, etc.).
3. Articles focusing on the correlation between the legal system and gender, race, ethnicity, religion, sexuality, disability, health and inequalities reproduced or generated by the law in these fields – both empirical and theoretical ones.
4. Analyses of different legal system institutions or processes in the local, regional or national context, fewer analyses focusing on the cultural, societal and economic bases of these institutions and processes, or economic and social effects of their functioning.
5. Empirical papers on the correlations between the economy, public expectations, social culture, the shape of social structure and particular legal institutions, not merely focusing on the local or national state perspective, but globally or at least in supranational perspective.

As mentioned above, at the time of a global economic crisis, the relative lack of analyses of the fifth type can be observed in academic debate on legal systems. One of the reasons for this may be the structural difficulties in establishing interdisciplinary cooperation between scholars and researchers representing different fields of expertise, especially those representing juridical sciences. The second reason for the phenomenon mentioned above may be the difficulties in gaining access to the empirical data relevant for such analyses, without conducting very expensive and logistically complicated types of research.

11.4 The Criminal Justice System as a Field of Inequalities

One of the most interesting concepts analysing the relations between the legal system and the level of inequality in society – and not mentioned so far – is the issue of criminal justice and punitiveness [attitudes to punishment] of society. The field of criminal justice is also one of those in which relevant quantitative data can be found, and this fact makes it possible to conduct international comparative analyses.

The focus on inequalities generated by the criminal law and criminal justice system has been initiated mainly by Loïc Wacquant's work. In his book *Prisons of Poverty* (2009), Wacquant concentrates on the phenomenon of rapid expansion (or inflation) of the prison system. There are at least three symptoms of this process:

1. The rising prison population – Wacquant mainly considers the rising numbers in the United States, but also in some European countries, as he analysed global processes.
2. The rising importance of the role of the prison system, which is indicated for example by the numbers employed in this sector of national economies, as well as the scope of financial subsidies allocated to this system. Wacquant notes that in some of the states in the United States, the prison system is among the three biggest employers in the region.
3. The rising number of prisons in different countries. Wacquant notes that more and more new penal institutions are being established, again especially in the United States, but this is also a global trend. Interestingly, some of these new prisons are operated by private firms, subsidized by the state.

There are also two other characteristic features of this process of rising imprisonment, closely linked to the question of the interrelationship between the legal system and the level of social inequalities. The phenomenon of the inflation of the prison system raises two types of inequality. The first is related to the issue of racial or ethnic origins of the people who are sentenced to prison. The second is connected with 'social panopticism' – a concept introduced by Wacquant, derived from Foucault's (1979) concept of panopticism.

In relation to racial or ethnic issues, Wacquant remarks that the population of prisons in many states of the United States is subject to the process of 'blackening', which means that African Americans are vastly overrepresented in the prison population. According to the data issued by the US Bureau of Justice Statistics (2011), the number of black people in the prison population is more than five times higher than that of whites and more than twice as high as that of Latinos. Also non-governmental organizations, such as Human Rights Watch, point out the racial and ethnic disparities in the US prison system. In 2002 Human Rights Watch reported that in 12 states black men were incarcerated at rates between 12 and 16 times higher than those of white men, in 15 states black women were incarcerated at rates between 10 and 35 times higher than those of white women, and in six states, black juveniles (under 18) were incarcerated in adult facilities at rates between 12 and 25 times higher than those of white juveniles. Also Latino and Hispanic minorities were more exposed to the risk of incarceration: in ten states Latino men were incarcerated at rates between five and nine times higher than those of white men; in eight states, Latino women were between four and seven times more likely to be incarcerated than white women, and in four states Hispanic juveniles were between 7 and 17 times more likely to be incarcerated in adult facilities than white juveniles (Human Rights Watch 2002). As official statistics show, these figures have not significantly changed during the last 10 years, and the

hypothesis of the ‘blackening’ and ‘latinization’ of the prison population in the United States still holds.

The phenomenon of a racial or ethnic bias of the criminal justice system and the consequent overrepresentation of racial or ethnic minorities in the prison population is not solely an American problem. Official statistics in the United Kingdom show that black people are three times more exposed to the risk of incarceration than whites. In Australia, Aboriginal people are even more than 15 times more often sentenced to prison than whites or Asians. The phenomenon of racial and ethnic bias is probably also very closely related to the question of economic inequalities and the issue of social panopticism.

Discussing the concept of social panopticism of the post-modern prison systems, Wacquant points out that not only the racial and ethnic minorities are overrepresented in the prison population, but also the lower classes. Thus Wacquant suggests that in post-modern neo-liberal countries, the process of criminalization of poverty and unemployment can be observed. From the perspective of the neo-liberal state, mass incarceration is a strategy of coping with not only the phenomenon of crime and delinquency, but also other social problems, such as increasing unemployment, poverty or drug abuse. According to Wacquant, a shift from welfare and workfare systems to ‘prisonfare’ can be observed, namely as a result of a social policy system in which each – suspected or real – social disorder caused by a citizen does not deserve help and support from the state and its institutions, but is punished by the measures envisaged in the criminal law and criminal justice system (Wacquant 2010). The system of ‘prisonfare’ and ‘social panopticism’ can function so successfully because of another phenomenon of the post-modern society – a state that Zygmunt Bauman would call ‘liquid surveillance’ times (Bauman and Lyon 2012), which implies a network of numerous institutions monitoring and gathering different types of information on citizens. This information is collected in electronic registers, and records are accessible to the depositories of these registers. For example, information gathered by social workers on alcohol abuse, drug addiction or violent behaviour of their clients may also be used by the police to launch a criminal investigation against the person, which may be seen as a double victimization process, both social and criminal.

The process of expanding the logic of ‘prisonfare’ and ‘social panopticism’ should be analysed in association with yet another characteristic tendency of the post-modern criminal justice systems, which in literature is defined as populist punitiveness (Pratt 2000; Garland 2001), sometimes called also penal populism. The syndrome of populist punitiveness manifests itself in very emotionally and firmly demonstrated expectation that state organs would severely punish each type of social deviance or simply each type of social behaviour that is perceived as dangerous, inappropriate or not following the dominant moral code. Consequently, such punitive expectations lead to calls on the state to build more prisons, allocate more funds to the prison system, the police and criminal courts, and to tighten the criminal code, etc. According to Wilkinson and Pickett (2009), the syndrome of populist punitiveness may arise from the large distances between social groups and the psycho-social anxiety complex towards people who are unknown and

unrecognized, thus reduced in the consciousness to 'criminals'. That is why more equal countries tend to have more liberal criminal codes, lower rates of different types of crimes, lower rates of incarcerated people or lower numbers of people employed in the police, courts and penal system.

11.5 Crime and Criminal Justice in Europe: Empirical Insight

As mentioned earlier, the field of crime and the criminal justice system is the one where a variety of both quantitative and qualitative data can be found. Unfortunately, there are more simple reports by the police or prison system than in-depth quantitative data. Furthermore, even if the data exist and the analysis could be conducted, the chance of comparing the coefficients between different countries is limited. Such international comparisons may be affected by e.g. differences in the point at which crime is measured, differences in the rules by which multiple offences are counted, or differences in the list of offences that are included in the overall crime figures. Even when comparing only the data from the perspective of one country, many difficulties can be faced, for example changes of legal definition of the recorded phenomenon. For that reason, this part of the reflections in this chapter should be considered only as having a purely signaling function.

When analysing the general trends in the number of offences recorded by the police in European Union member states, the main finding is that in recent years the number has been constantly decreasing, declining from more than 16 million offences recorded by the police in the year 2002, to less than 15 million in the year 2009. Exact figures are shown on the Fig. 11.1.

According to Eurostat data, the decrease in the total crime level between 2006 and 2009 was recorded in all European Union member states, but in Romania, Luxembourg, Denmark, Sweden, Portugal and Finland, a slight increase in the total crime level was observed. The most rapid decrease in the number of offences recorded by the police was seen in Malta, the United Kingdom, Greece, Poland and Cyprus.

Not all types of crime were undergoing the same trends. Violent crime, robbery and motor vehicle thefts were decreasing, while drug trafficking and domestic burglary slightly increased in the 2006–2009 period. The most rapid decrease was recorded in the case of the number of motor vehicle thefts. Exact figures are presented in Fig. 11.2.

The number of thefts of motor vehicles has decreased most rapidly in the discussed period, and this constantly declining trend has been observed in all European Union member states, but not in Cyprus, Greece (up to 20 % increases) and Romania. Also the number of robberies has fallen – most rapidly in Estonia, Italy, Latvia, Lithuania, Poland, Romania and in the United Kingdom – while some lower increases were recorded in Bulgaria, Cyprus, Denmark, Greece, Hungary,

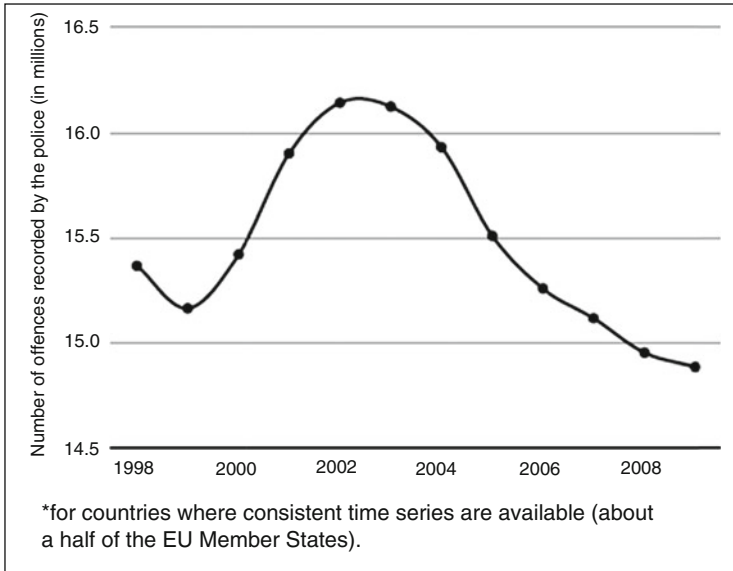


Fig. 11.1 Number of offences recorded by the police in million 1998–2009 in the EU (Source: Eurostat)

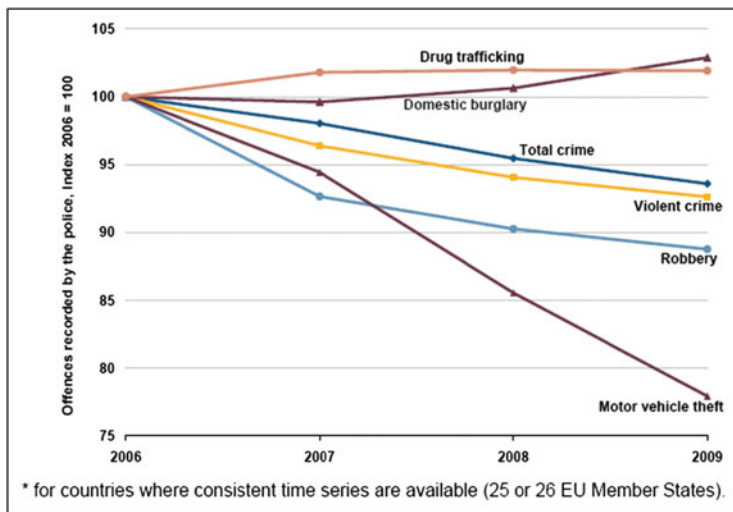


Fig. 11.2 Offences recorded by the police 2006–2009 in the European Union (Source: Eurostat)

Luxembourg, Sweden and the Netherlands. On the other hand, in almost all European Union member states, a rise in domestic burglary was recorded, except in Cyprus, Estonia, Malta and Poland. The upward trend was most explicit in Denmark, Greece, Romania and Sweden. Drug trafficking was, however, the type

Table 11.1 Homicide rate (per 100,000 inhabitants) by country

| | 1995 | 2005 | 2010 |
|-------------|------|------|------------------|
| Austria | 1 | 0.7 | 0.6 |
| Belgium | | 2.1 | 1.7 |
| Bulgaria | 5.9 | 2.6 | 2 |
| Czech Rep. | 1.7 | 1.8 | 0.9 ^a |
| Denmark | 1.1 | 1 | 0.9 ^a |
| Estonia | 17.1 | 8.4 | 5.2 |
| Finland | 2.9 | 2.3 | 2.2 |
| France | | 1.6 | 1.1 ^a |
| Germany | 1.7 | 1.1 | 0.8 |
| Greece | 1.4 | 1.2 | 1.5 |
| Hungary | 2.9 | 1.6 | 1.3 |
| Ireland | 1.2 | 1.3 | 1.2 |
| Italy | 1.8 | 1 | 0.9 |
| Latvia | 14 | 5.5 | 3.1 |
| Lithuania | 13.8 | 10.9 | 6.6 |
| Malta | | 1 | 1 |
| Netherlands | 1.9 | 1.2 | 1.1 ^a |
| Poland | 2.2 | 1.5 | 1.1 |
| Portugal | | 1.3 | 1.2 |
| Romania | 3.3 | 2.1 | 2.0 ^a |
| Slovakia | 2.4 | 2 | 1.5 ^a |
| Slovenia | 2.2 | 1 | 0.7 |
| Spain | 1 | 1.2 | 0.8 |
| Sweden | 0.9 | 0.9 | 1 |
| UK | 1.6 | 1.5 | 1.2 ^a |

^a2009; Source: UNODC

of crime that has remained at almost the same level, and there was no explicit trend either downwards or upwards. The countries in which a decrease of recorded drug offences were noted, included Austria, Germany and Hungary.

Data on homicide rates are considered to be the most representative type of data for estimating the scope of crime. This is justified by the seriousness of this type of crime, its proportion of the breach of personal rights, as well as by social perceptions of homicide, which generates fear of crime and inclination to the penal populist attitudes probably to significantly higher extent than any other type of delinquency. For that reason, many different organizations gather, analyse and publish homicide rates. Table 11.1 presents the numbers of homicides per 100,000 inhabitants in EU countries.

In almost all European countries there have been significant falls in homicide rates. The highest levels of homicide are persistently observed in the post-Soviet Union states, such as the Russian Federation, Ukraine, Moldova, Belarus, Estonia, Latvia and Lithuania. The Baltic States are also those countries among European Union member states that are characterized by the highest homicide rates. At the same time these are also the countries in which the most notable fall of discussed rates can be noticed in the last 15 years. In Estonia the homicide rate decreased from

17.1 in 1995 to 5.2 in 2011, in Latvia – from 14.0 in 1995 to 3.1 in 2011, and in Lithuania – from 13.8 in 1995 to 6.6 in 2011. The lowest homicide rates among the European Union member states are observed in Austria, Denmark, Germany, Slovenia and Spain, and outside EU – in Iceland, Norway and Switzerland.

The Baltic States are also the countries in which the highest incarceration rates are recorded. In 2010 incarceration rates for Latvia amounted to 301 in 100,000, in Estonia – to 253, and in Lithuania – 275. Respectively high numbers of people held in prisons can be noticed in Poland and Czech Republic as well. Of course these figures are relatively low when compared to the incarceration rate in the Russian Federation (573, which makes Russia a European ‘leader’ in this field) or in the United States (730, which makes the USA the most punitive country in the World). The lowest incarceration rate among the European Union member states is recorded in Finland (less than 63). Denmark, Slovenia and Sweden in the EU, and Iceland and Norway from outside the EU are the countries with very low incarceration rates as well. Exact figures are presented in Table 11.2.

Thus, in most European countries there are noticeably significant decreases in the number of people held in prisons, although there are also some exceptions – both in the European Union and outside it. Upward trends in the incarceration rates are recorded for example in the United Kingdom, Spain, Slovakia, Lithuania and Greece, and outside the EU in almost all countries aspiring to the EU membership like Montenegro, Serbia or, not included in the table, Turkey. These figures may suggest that in these countries the level of punitiveness and susceptibility to penal populism is also increasing.

There is one more figure worth mentioning, namely the level of resources for the criminal justice system, understood as the number of police personnel, prison personnel, prison capacity and professional judges. In the majority of European countries these figures have not changed significantly, but there are of course some exceptions, when the number of criminal justice resources has increased in recent years. The number of police personnel has risen in countries such as Spain, Luxembourg, Ireland and Hungary. The most significant increase in the number of prison personnel (from 64.4 in 2003 to 79.4 per 100,000 inhabitants in 2010) and prison capacity (from 183 in 2003 to 222 per 100,000 inhabitants in 2010) was, however, recorded in Poland.

The empirical analysis should take one more potential factor into account, namely the world economic crisis. Quantitative data do not give clear answers whether the crisis affected the system of criminal justice, although some commentators may maintain that the decrease in, for example, the number of police officers, is one of the results of introducing austerity policies in many countries. Others, such as Noam Chomsky, maintain that the criminal justice system is the last to be cut back, because it serves to suppress social dissatisfaction with austerity measures. The United Nations Office on Drugs and Crime has conducted an expert case study, focusing on the influence of the economic crisis on national and local criminal justice systems. Fifteen countries (Argentina, Brazil, Canada, Costa Rica, El Salvador, Italy, Jamaica, Latvia, Mauritius, Mexico, Philippines, Poland, Thailand, Trinidad and Tobago and Uruguay) and 4 agglomerations (Buenos

Table 11.2 Rate of persons held in prison (per 100,000 inhabitants) by country

| | 2003 | 2005 | 2007 | 2010 |
|------------------|-------|-------|-------|-------|
| Austria | | 108.8 | 108.5 | |
| Bulgaria | 128.4 | 147.8 | 134.4 | 125.1 |
| Czech Rep. | | 185.3 | 183.3 | 208.7 |
| Denmark | 67.6 | 74.6 | 66.3 | |
| Estonia | 338.5 | 327.7 | 257.4 | 253 |
| Finland | 69.9 | 73.7 | 68.5 | 62.7 |
| France | | | 98.9 | |
| Germany | 98 | 97.2 | 91.1 | 86.1 |
| Greece | | 88.3 | 100 | 110.8 |
| Hungary | 166.4 | 156.2 | 142.9 | |
| Ireland | 80.6 | 72.7 | 75.8 | 96.6 |
| Italy | 95 | 103 | 83.5 | |
| Latvia | 355.8 | 331.6 | 287 | 301.1 |
| Lithuania | 233.9 | 238.2 | 232.8 | 275 |
| Malta | | 71.8 | 92.6 | |
| Netherlands | 100.3 | 107.7 | 92.1 | 74.5 |
| Poland | 207.6 | 222.4 | 234.7 | 215.2 |
| Portugal | 132.2 | 122.2 | 109.2 | 108.8 |
| Romania | 195.3 | 168.6 | 135.8 | |
| Slovakia | 164 | 164.3 | 147 | 183.6 |
| Slovenia | 53.6 | 56.5 | 66.4 | 66.6 |
| Spain | 133.4 | 140.7 | 150.4 | 160.4 |
| Sweden | 75.6 | 81.7 | 76.2 | 73.5 |
| England, Wales | 139.5 | 140.6 | 145 | 152.1 |
| Northern Ireland | | 75.9 | | |
| Scotland | 129.2 | 134.6 | 143.4 | 150.4 |

Source: UNODC

Aires, Montevideo, Rio de Janeiro and São Paulo) participated in this study. In 12 countries, an impact of the economic crisis on crime and the criminal justice system was recorded. Among the exceptions were Latvia and Poland – in these two of the three European countries participating in the study, no relationship between the crisis and the criminal justice system were noted. In the case of Italy, however, it seems that the economic factor had significant impact on the number of recorded robberies and motor vehicle thefts, and the experts predicted that an increase in homicide rates is highly likely because of decreasing levels of real income in Italian society (UNODC 2012). This study cannot be considered as an exhaustive and sufficiently in-depth and wide analysis, and further studies should be carried out, especially studies considering all European countries or at least countries representing specific different regimes of welfare and social policy.

The analysed empirical data reveal also a very strong correlation between economic inequalities and the level of crime and the conditions of the criminal justice system. As research shows, the group of countries with the lowest Gini coefficient in Europe (Norway, Slovenia, Sweden, Finland and Iceland) are also

characterized by relatively low rates of homicide, incarceration and criminal justice resources.

11.6 Conclusions

The topic of the relationship of the legal system and social inequalities seems to have still great research potential. Many of the specific issues considered here are often treated as marginal in academic discourse or merely dealt with in a theoretical way, and if considered empirically, they are usually conducted at local, regional or national levels, without placing them in the international context.

The field of analyses of criminal justice systems may have provided interesting theoretical work and also a wide range of quantitative data, but there is still a lot that could be done. For example, in relation to incarceration rates, the lack of data characterizing demographic and socio-economic structures of the prison population is striking, and this makes it impossible to carry out in-depth studies which would prove or disprove the hypothesis that the class division function of the prison system is being consolidated.

The reservations expressed earlier are not just personal opinions; similar views are held by researchers for international organizations, such as the United Nations Office on Drugs and Crime cited above, or Eurostat. Some of these suggest in their recommendations that better and more detailed statistical data at national and international levels are needed. It is to be hoped that this topic will gain more space and interest in academic discourse as well as in the work of relevant international organizations.

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Chapter 12

Inequality of Access to Culture

Patrycja Kruczkowska

Abstract ‘Soft’ instruments of combating social inequality are becoming more and more important in post-industrial societies. Access to culture begins to be treated in the same way just as for many years access to education. The review of the EU strategic documents shows a strong tendency to combine culture instrumentally with creativity and innovation, which in turn are essential for European economic growth in competitiveness. The main thesis of this chapter is an assumption that concepts of creativity and creative industries (taken mainly from R. Florida works and so readily applied to European cultural policies) may be the sources of new barriers rather than new opportunities. Creativity – especially understood in economic terms – can create a new field of inequalities and social divisions – rather than chances for social cohesion.

The first part of the chapter reports how culture is perceived in relation to social structure. The second part is based on the analysis of assumptions which are theoretical background for different forms of state support in the cultural field. There is a strong belief that this sector will somehow pay the society back (for ex-ample in the accumulation of other forms of capital). In this approach culture is treated as an instrument of social inclusion and counteracting social inequalities that can be located in welfare policy field.

The chapter’s third part concentrates on the tendency which seems to block the emergence of the idea of cultural diversity and broad cultural participation. This is connected with the concept of creativity and creative industries (CI). It is significant that attention of policymakers has recently shifted from the expensive concept of “culture for all” to the potentially profitable thesis of the “common and innate creativity”.

In the last empirical part of the chapter the analysis of chosen aspects of the European Union (EU) cultural policy is conducted. It constitutes the background to show the situation of the Members States (especially Poland) when two

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tendencies – cultural participation and neoliberal creativity – surprisingly meet in global guidelines and local cultural policies.

12.1 Some Aspects of Culture and Inequality in Sociological Debate

It is unsurprising that the majority of studies is looking at inequality attempt to explain its relation to variables such as income, wealth, or familial education. While these factors certainly drive inequality, they do not form a complete picture of the phenomenon.

The question of what drives the remainder of inequality is related to the observed consistency of the structure of social inequality which makes it clear that something beyond the effects of basic explanatory factors is in play. Following the early work of Pierre Bourdieu and Passeron (1970), this consistent reproduction of socio-economic elites is linked to their specific culture. Bourdieu argues that cultural factors are primary determinants of social class and their inability to be fully taught through the formal educational system that ensures a relatively static and unequal distribution of contested resources across generations. In his conception of cultural capital Bourdieu's portrays the elite values and dispositions as arbitrary, exclusionary, and unrelated to economic productivity. Focusing on the consumption and knowledge pertaining to cultural objects, he works out how differential patterns of consumptions of these goods serve to draw the boundaries of social groups.

However, cultural arguments as cause for inequality are defined broadly un folding at different and sometimes multiple levels of analyses. At the micro level, culture refers to deeply internalized personality traits, attitudes, or values, which are invoked to explain differences in economic or social success (Kohn 1977). An individualized approach may even lead to a moral indictment of the poor i.e., blaming the victims. Following this concept, the higher income is the result of talent, hard work and great efforts, whilst the poor deserve their low income because of failing initiatives and efforts throughout their life. The lower class, then are characterized not by poverty but by withdrawal from core cultural institutions. This perspective disregards the fact that the rich benefited from a system put in place by teachers, technicians, and inventors who have contributed to their high income over the years and that the fiscal state released their tax load. This explanation of the extreme disparities in income and wealth further ignores that no one is extraordinary enough and more talented than anyone else who should more talented to make in one day what a worker would make in 50 years. Furthermore, this approach cannot justify why managers increased their income more often than an average employee?

The other usages refer to broader macro-level phenomena and social processes such as the stratifying or equalizing effects of ideologies and collective representations, which support meritocratic occupational allocation or perpetuate gender- or race-based

distinctions in modern societies (Parsons 1970). Others have described institutionalized repertoires of action and structures of cognition that may differ across social-group categories (Willis 1977; Fenstermaker and West 2002).

Finally, the term culture may refer to specific institutions of knowledge and creativity such as language, science, religion, and literature, which are of concern insofar as their creation, dissemination or usage create symbolic boundaries, mystify inequality, or naturalizes the status quo (Horkheimer and Adorno 1972).

Some of the traditional conceptualizations of culture focusing on the social stratification system have been criticized for presuming a close correspondence between cultural values, economic requirements, and social rewards (Inkeles and Smith 1974). Although citizens of advanced industrial societies are indeed more likely to express egalitarian cultural views and reject the use of ascribed characteristics as direct bases for discrimination (Inglehart and Norris 2003), there is little evidence that class mobility increases continuously with advancement of economic modernization (Erikson and Goldthorpe 1993). Despite the fact that there is a general agreement that middle- and upper-class cultural capital confers competitive advantages, the productivity-enhancing effects of such capital are today less often taken for granted.

Another approach concerns the “(sub)culture of poverty,” which treats cultural norms and values as characteristics of groups rather than individuals, showing cultural mechanisms by which economic inequality and poverty are reproduced, demonstrating important mediating effects of parental expectations and peer-group membership. Of course, family cultural practices give children advantages that other cultural practices do not. Nevertheless, these practices neglect different social values by important social institutions. Last but not least, it has not to be ignored that economic inequality is still related to divisions between classes. So far cultural norms which show discrimination of gender, minorities and race have to take into account that for example working-class women – even if they share goals of the women’s liberation movement – have different lifestyles and suffer from additional inequality more often than middle or upper-class women. The same is true with ethnic minorities or race. The development of upper class with advanced educations, often obtained at elite schools, sharing tastes and preferences set them apart from the mainstream. Class still matters.

The above considerations prove the influence of social structures on culture and also demonstrate that culture, in turn, has its own influences on social structures and inequalities. These interactions are often self-perpetuating and reinforcing.

A discussion on the mutual relationships between culture and social inequalities is multidimensional and there is no enough space in the chapter to show all its aspects. The chapter sets out to evaluate relations between culture, power and its institutions, especially how institutions are creating and satisfying cultural needs of individuals. There is a significant lack of data to answer this question fully, but even examination of the existing documents and strategies shows different approaches to social reality in cultural policies.

12.2 The Goals of Current Culture Policy

There is no doubt that the cultural sector (the field of activities of individuals, social groups and even whole societies) is a subject of interest both to the European Union and other organizations with a global reach such as the United Nations Educational, Cultural and Scientific Organization (UNESCO) or the World Bank. The proof of these interests is to be found in numerous guidelines and reports rich material for social science researchers, especially those interested in discourse analysis. But the direction in which these guidelines have been prepared – both in global and local documents, have changed radically over time.

Today we can see the transformation of two tendencies: the first is the result of the social equality postulate, demanding equal access to culture and wide participation in cultural activities. It is connected with civil society and citizens' participation in creating different social spheres. Participation in culture has become one of the civil and human rights ("Everyone has the right to participate freely in the cultural life of the community, to enjoy the arts and to share in scientific advancement and its benefits"¹) and – at the same time – one of the most important dimensions of social distinctions (e.g.: Bourdieu 1984).

This sphere can be seen as a field of interest for social policy – where social inclusion can be achieved with modest financial expenditure. It can also be seen as a kind of social investment – the state investing in culture to gain increased civic participation. The aim of global actors is to prevent the petrification of inequalities. For example, the UNESCO declarations "In our increasingly diverse societies, it is essential to ensure harmonious interaction among people and groups with plural, varied and dynamic cultural identities as well as their willingness to live together. Policies for the inclusion and participation of all citizens are guarantees of social cohesion, the vitality of civil society and peace. Thus defined, cultural pluralism gives policy expression to the reality of cultural diversity. Inextricably bound to a democratic framework, cultural pluralism is conducive to cultural exchange and to the flourishing of creative capacities that sustain public life".² In addition, in EU reports we can find considerations of the rights of citizens to access and participate in culture (Woods et al. 2004). There are claims about the role of culture in creating an inclusive society by building skills, self-confidence and identity in individuals; in promoting integration (both social and cultural); in increasing access to information and, of course, in creating new job opportunities. The Draft Joint Report on Social Inclusion states "access to and participation in cultural activity is a core part of human existence. Such participation is important for fostering a positive sense of identity

¹ 27th article of The Universal Declaration of Human Rights passed on December 10th 1948 at Paris, France.

² The UNESCO Universal Declaration on Cultural Diversity 2 November 2001; article 2nd and 6th; about "false diversity" and cultural diversity as a kind of promotion of human rights, social cohesion and democratic governance see also: UNESCO World Report Investing in Cultural Diversity and Intercultural Dialogue (Kutukdjian and Corbett 2009).

and encouraging and stimulating creativity, self-expression and self-confidence” (Council of the European Union 2001, p. 47).

This participatory tendency is combined with wider postulates of breaking social barriers and aiming at achieving social cohesion, while at the same time preserving social diversity and respect for different (in later versions: “different but still European”) ways of life (“diversity in unity”). The economic costs are (in the long run) balanced by social benefits. But not only this: the theoretical background of these recommendations is quite simple: the more cultural activities we have, the more social and conscious citizens we are. Culture and cultural capital are here connected with social and human capital. The benefit which communities can gain from cultural fields is the increase of individuals’ cultural capital which in the end may provide the basis for sustainable development and (perhaps a more hidden consequence) to the economic growth of the whole society. In order to implement these and other aims, EU funds are spent to prepare social programmes that would break social barriers and build an enlightened European community.

Another decade has elapsed and with it the enthusiasm for supporting this kind of welfare postulate (and there is still demand for this type of welfare to be implemented). In fact, both UNESCO and EU experts have no illusions and claim that expenditure for increasing cultural participation is the first to be cut when there is lack of funds for public services. But before the new trend in cultural policy gained popularity, the critical phase of welfare cultural policies began. The shift in participatory trends has differed across European countries, depending mostly on the shape of previous policies and forms of cultural support, but also on existing social problems. All these aspects had serious impact on the directions in which the processes of transformation have occurred.

One of the most interesting cases is the United Kingdom (UK), where development of cultural policy has a long and strong tradition. Thus, for instance, Kylie Message (Message 2009) investigates the case of the UK museums. This case is interesting in many ways. Firstly, the UK cultural policy is the model both for the EU strategies and projects in other countries in this field. Secondly, Message explains the mechanism of the “policy in work” where cultural institutions are seen as crucial for the well-being of community life as they provide projects of social and economic regeneration, empowerment and social development. They may also respond to other political goals (as e.g. building a multicultural or national community; institutions “host activities of interest to local groups, provide the opportunity for peer support through networks, or role-model and represent what identity and belonging means in a multicultural postcolonial society from national to local shift”) (Message 2009, p. 260). This is not only aimed at achieving a better future but also at proving their economic potential, as according to Message, it is “fundable” – value for money institutions.

It is relative to define which culture or cultural activities are worth supporting; how diverse the culture may be (especially in countries attractive for immigrants); how the integration of cultural minorities is synonymous with the forced assimilation. Furthermore, the question is how the capital of individuals can influence the growth of whole communities without strengthening class divisions? The role of

defining what exactly ‘participation’ means, i.e. who should be included, in which fields, to what extent, etc., seems to be important in this process.

Nevertheless, not all of these points were experienced by ‘new’ EU members from Eastern European countries which began modernizing their institutions (including cultural institutions) from the early 1990s onwards. This modernization followed the example of Western democratic countries and was based on their experiences or – in the next decades – on the EU recommendations. The research observes the shift from state monopoly to other forms of organization (especially the development and increased impact of NGO’s in the field of culture). This shift was based on decentralization and devolving responsibilities to local authorities. It concerned many sectors of public life in countries such as Poland. Still, culture was not the first field to reform. The lack of citizens’ interest in culture, public expenditure on culture below the EU average, problems with combining effective cultural policy with social policy – all these aspects are seen as a kind of transformation cost (Hesmondhalgh 2013). The current cultural situation in these countries can be described as a hybrid form of not fully reformed post-communist institutions with global participation tendencies since the 1990’s, and new opportunities, connected with creative industries to rebuild the social and economic strength of former Soviet republics.

The new opening for participatory trends was brought by the report of the Platform on Access to Culture (2009), which included guidelines for creating a coherent policy of access to culture at national and European levels and inspiration for a new generation of EU programmes. It postulates the necessity of increasing the awareness of the problems insufficiently stressed in the European Agenda for Culture actions today (new research to understand the needs of citizens, improvement of funds and information about programmes, awareness of the legal frameworks on access to culture, access to culture as an axis of cultural policy-making) and linking education and culture (language education, support for highly qualified professionalism, support for mobility, use of new technologies and synergy between education and culture projects and programmes). Working groups have focused on education and learning, audience participation, cultural production and creativity. This last group of recommendations exemplified the shift in thinking about participation after the financial crisis: “The economic and financial crisis confronts politicians as well as European civil society with the necessity to establish new priorities. In national and European plans the emphasis seems to be on investments in ‘hard’ infrastructure such as roads, buildings and industry. If ‘soft’ infrastructure, such as spatial and architectural design, public art, theatre, dance, music and entertainment, artistic and cultural contributions to social issues and cultural education are considered a luxury rather than an essential part of life, very soon Europe will be an uglier, grimmer place covered only by the ever-emptying shell of materialism. Yet the EU and Member States could attain both economic and humanistic targets with the support they will be making available to confront the financial crisis” (Platform on Access to Culture 2009, p. 35).

12.3 New Old Trend: Creativity

It is interesting how the concept of “creative industries” began and was subsequently developed. The idea emerged widely in the mid-1990s. It became part of cultural policy firstly in Great Britain: the previous concept of cultural industries was now replaced by new demands for creativity in order to justify a new distribution of funds (Hesmondhalgh 2013).

The future-oriented concept brought optimism and the discourse of possibilities. With more local character, broad definitions of culture and creativity and also with vocabulary taken from economics and business (describing the driving force of individuals, their spirit of entrepreneurship and innovation), the concept appeared to contain new promise. If everyone is creative by nature, even previously unprivileged groups have a chance of success both in cultural, social and labour-related fields. It was the illusion of solving problems of social exclusion and to conceal the old structural barriers. The question today is not only how creativity-oriented projects blocked the trend towards participation but also whether and how the new divisions in the field of culture were built.

Having observed how these aporias were constructed, there are some aspects which need to be emphasized. Firstly, we can observe specific urban characteristics of the new interest in the area of culture; smaller cities and rural areas are rather marginalized. This imbalance is connected with the general need for the renewal of big cities (especially those with an industrial heritage). Creative industries are seen as a tempting direction and a chance to build broader strategies for creating comparative advantages in the competition between different urban areas. In this way, creative industries have become part of urban policies (Anheier and Isar 2012; Nylund 2001). The paradox is that the creative cities and clusters are locally and regionally oriented but economic markets and the competition between cities are global. The competing local and regional creative enterprises (or those interested in the creative potential of regions) have to support the development of specific areas which can be seen as a factor of deepening spatial inequalities.

Secondly, we can observe how specific urban-oriented concerns are linked with the revitalization of cities, industries and regions but not with more expensive, long-lasting and more complicated social revitalization processes. However, along with the spirit of renewal, new opportunities and modernization, new demands for new markets, skills, labour and forms of organization came. As the European Commission’s Green Paper on this topic states: “. . . there is a lot of untapped potential in the cultural and creative industries to create growth and jobs. To do so Europe must identify and invest in new sources of smart, sustainable and inclusive growth drivers to take up the baton” (European Commission 2010b, p. 2). These investments also need suitable educational programmes: “through partnerships with education, creative and cultural industries (CCI) can also play a major role in equipping European citizens with the creative, entrepreneurial and intellectual skills they need. In this sense, CCIs can feed into European beacons of excellence and help us to become a knowledge-based society. At the same time, these skills

stimulate demand for more diverse and sophisticated contents and products. This can shape the markets of tomorrow in the way which better fits European assets” (European Commission 2010b, p. 3).

Faith in the dynamism of individuals is the next factor which implies a specific tension in the development of the creative industries. In this case, it is seen as a hidden assumption that access to creative potential is equal. If so, there is no need to increase participation in culture but rather to invest in new skills. And with more and more creative citizens it is logical that local and central authorities are interested in using their creativity for economic growth; that is why the new direction is to provide the diversity of market choice rather than the diversity of cultures. In this vision of European society there is not much place for less creative or less resourceful people. They are marginal because of their lower utility. The general focus concentrates on those who are useful for developing the field of culture in a creative way – in the best neoliberal scenario – without any structural investments.

There is a lack of statistical data about the actual impact and scale of the CI sector in the EU. As researchers claim, there are high hopes in creativity, and one can observe the vicious circle of policy-makers’ statements. A good example of that situation is one described by Monika Mokre (2011) when the creative industries were introduced in Austria: “Morak [secretary for the arts in Austria] told us that everybody is creative, that creativity is part of nearly every form of activity, that creativity is important for the economy. He mentioned the White Paper of the Commission with its impressive figures of economic growth and employment opportunities (. . .), he mentioned the CI programmes of the UK, and he mentioned the one and only extremely successful Austrian enterprise that could be regarded as a part of CI, (. . .). Then come studies providing the excellent conditions for the CI in Austria (. . .). And finally, measures to support the CI were developed by the Republic of Austria (. . .)” (Mokre 2011, pp. 113–114).

It is interesting that even the first wave of crises (in the IT field) did not discourage the authorities from investing in creative industries projects. The main wave simply strengthened this interest from a seemingly low-cost perspective. The tendency and participatory legacy of CIs now coexist in the strategies for culture and development. This participation is defined in terms of the creative and knowledge-based society. As the European Ambassadors for Creativity and Innovation claim: “The economic, environmental and social crises challenge us to find new ways of thinking and acting. Creativity and innovation can move society forward toward prosperity, but society needs to take responsibility for how they are used. Today, they must be mobilised in favour of a fair and green society, based upon intercultural dialogue and with respect for nature and for the health and well-being of people worldwide” (European Ambassadors for Creativity and Innovation 2009, p. 1).

Paradoxically, the claims of the Ambassadors’ manifesto refer to new dimensions of inequality, reinforced by creativity trends.

12.4 Labour Market

The “New Skills for New Jobs” report shows that the service sector will continue to grow (Commission of the European Communities 2008, p. 6)³; the CI are not mentioned in this document, although it states that the future belongs to highly-qualified workers. New jobs will demand more and wider skills and will change the labour market by promoting new forms of employment – like self-employment and green jobs. The CI, connected with the ‘creative economy’ and the formation of clusters correspond to this trend. The Ambassadors’ Manifesto claims that “(p)eople that take new initiatives in business, the public sector and civic society should be rewarded. Social policies can contribute to innovation by sharing risks with citizens who engage in change” (European Ambassadors for Creativity and Innovation 2009, p. 4). The new workers – “entrepreneurial individuals” or “entrepreneurial cultural workers” – do not fit “into previously typical patterns of full time professions” (European Commission 2010b, p. 11). However, new forms of employment arguably mean reduction of the social protection of workers.

The intention is to support the CI and CCI sector by promoting financial support for small and medium-sized enterprises (see Competitiveness and Innovation Programme with a budget of €2.5 billion) and creating new forms of financial instruments delivered by private market players (e.g. venture capital). The new job opportunities will be located in large urban areas (see European Commission 2010b, p. 13). The current analyses show that the CI are developed in cities and urbanized regions – as the Creative and Culture Industries Priority Sector Report shows (Nielsen and Power 2011) that large urban areas and capital city regions dominate (with examples of super-clusters such as London, Paris, Milan, Madrid, Barcelona and Rome).

12.5 Education

As the European Ambassadors state: “In order to strengthen the competitiveness of Europe, new budgetary principles that give high priority to investments in people and knowledge are necessary” (European Ambassadors for Creativity and Innovation 2009, p. 3). New jobs need new skills: in the Green Paper one can find that the right mix of skills includes mainly e-skills, business and financial competences (European Commission 2010b, p. 10). It identifies new forms of education – lifelong education connected to practical training in order to create

³“(. . .) [C]ultural and creative industries (. . .) represent highly innovative companies with a great economic potential and are one of Europe’s most dynamic sectors, contributing around 2 % of the EU GDP, with a high growth potential, and providing quality jobs to around five million people across EU-27”. European Commission 2010b, pp. 2–3.

highly-qualified and adaptable workers. “Everyone is creative in some way or another and we can learn to use his/her creative potential. In our complex and rapidly-changing world, we should therefore strive to foster creative, entrepreneurial and intercultural skills that will help us better respond to new economic and social challenges” (European Commission 2010b, p. 18). Documents are not focused on existing digital inequalities, problems with ageing societies or of the incompatibility of youth education programmes with labour market needs.

12.6 Global Market and Competiveness of Regions

“On a macro-economic level, the links between CCIs and other industries should be strengthened for the benefit of the economy at large” (European Commission 2010b, p. 19). CI has a role in developing innovations (especially in the IT sector), clean technologies and other sectors of economy (“although the specific mechanisms by which this occurs are not well documented”; European Commission 2010b, p. 17). Furthermore: “Europe should be at the world-wide forefront in terms of science, culture and competitiveness. Collaboration within Europe in science, technology, education, design and culture needs to be further opened up to the rest of the world. A competitive Europe should develop economic collaboration both with the strong new emerging economies and with the poor countries most in need of support. Promoting innovation in poor countries is a moral obligation and it reduces the pressure of immigration. Europe should contribute to the establishment of fair rules regarding the protection and sharing of knowledge at the global level” (European Ambassadors for Creativity and Innovation 2009, p. 5). The way to achieve this is to strengthen the mobility of individuals and contribute to diversity, especially in goods and services (European Commission 2010b, p. 16). The different stages of development of the economy at national and local levels were not mentioned in the cited documents. Yet, the CI sector report clearly shows this existing diversity (see Nielsén and Power 2011).

12.7 CCI Sector in the EU

The aim of this section is to briefly compare Poland (seen as a new member of the EU and a country with limited experience in developing the CI sector) and the United Kingdom (seen as country with a well-developed CI sector, described in previous sections of the chapter).

There is a significant lack of data both about the cultural and creative industries sectors and cultural participation at national and European levels. This is about to change due to the ESS-net Culture project which started in 2009 and is preparing the new framework for European statistics in the field of culture. In the face of a lack of any European system focussed on the cultural sector, the ESS-net Culture

report (Bina et al. 2012) also notes problems comparing the existing data produced at the national level due to five reasons:

- Problems with various definitions;
- On-going evolution of the field;
- Different systems of collecting and producing data;
- Different methods and sources used by these systems;
- And last but not least – lack of a central European system of coordination.

These problems have to be taken into consideration also when working with global data sources.

The new framework proposal formulated by ESS-net distinguishes ten cultural domains (Heritage, Archives, Libraries, Book and Press, Visual Arts, Performing Arts, Audio-visual and Multimedia, Architecture, Advertising and Art Craft) and six cultural functions (Creation, Production/Publishing, Dissemination/Trade, Preservation, Education and Management/Regulation) which define cultural activities. For the topic of this chapter it is important that the new guidelines also contain the results of analyses of cultural policies. So future analysis will, to some extent, evaluate the process of increasing cultural participation and refer to the broader background of quality of life measurements. The new measurement will correspond to the EU2020 strategy fields: employment, innovation as a factor of competitiveness, climate change and education and poverty/social exclusion. It is worth mentioning that the working group is aware that creativity is a vague and ill-defined concept, not limited to any cultural field.

When researchers and policy-makers are waiting for suitable statistical data, they have access only to the limited data collections, mainly from Eurostat. Cultural data are limited, but one can still see that the starting points for the CI development in European countries differ.

In 2009 the CCI sector employed a total of 6.4 million people in 30 European countries (Nielsen and Power 2011, p. 5). The CCI sector report states that Europe's Top 25 regions for creative and cultural industry employment clusters are dominated by the former EU15 regions (5 from United Kingdom, 5 from Germany, and 5 from Italy). Authors of the report claim that in the 25 regions with the largest populations the representation of CCI sector is insignificant (including Polish regions: Śląsk with Katowice and Mazowieckie with Warszawa).

Juxtaposition of the average annual employment growth 2003/4-2008/9 in CCI and in all sectors of the economy shows that there is no strong correlation between CCI growth and the whole economy growth (Nielsen and Power 2011, Table 5). As the authors state: "creative and cultural industries cannot be seen simply as cyclically dependent service functions to the rest of the economy. They are not necessarily dependent upon domestic growth or decline. Employment growth or decline in the cultural and creative industries should not be treated as a simple reflection of national economic cycles and as subject to other pressures and stimulants such as industrial restructuring, rates of entrepreneurship and sole-trading, or the extent of freelance working" (Nielsen and Power 2011, p. 17).

Ranked at the top of 15 regions by CCI Focus (share of the region's total employment in the CCI sector) are Stockholm, Inner London and Prague. Bratislava and Budapest Central and Eastern European regions – also figure. But if one looks at the national labour markets and CCI Focus, there are marked disparities between 'new' and 'old' democracies: e.g. the UK is in 6th place while Poland is last (Nielsen and Power 2011, Table 6). The only list on which Poland's regions figure significantly is employment in print media with Mazowieckie in 7th place (Nielsen and Power 2011, Table 9) (Mazowieckie is a poor and rural region outside the capital – Warsaw metropolitan area; the example shows how the regional criteria for CCI evaluation are not precise).

Poland's starting point in developing a CI sector is very low with only 13.4 % of students in the fields of higher education relating to culture (total percentage of all tertiary students in 2007/08, Eurostat 2011, Table 3.6.) and the proportion of employment in cultural sectors at only 1.4 % of total employment in 2009 (Eurostat 2011, Table 4.2.). In comparison to the whole of the EU27, the difference is not so shocking (18 % of students and 1.7 % of employment respectively), but when we compare this with a country that has been investing in the creative sector for decades (in this case the UK) one can see the huge competitive advantage of the latter: 22.1 % of students and 2.1 % of employment.

One can also compare data of some activities of the EU citizens in the field of culture. The situation is mostly the same: high the UK levels of activity, mostly above the European average, and low figures for Poland. For example, the percentage of people who have visited a cultural site at least once in the last 12 months was 57 in the UK, 45 in the EU and only 31 in the Poland (in 2006, Eurostat 2011, Table 8.11). The percentage of people who have attended a live performance at least once in the last 12 months (in 2006, Eurostat 2011, Table 8.8.) was again 54 in the UK, 44 in the EU and only 22 in Poland. The percentage of people who have attended the cinema at least once in the last 12 months (in 2006, Eurostat 2011, Table 8.2.) was 57 in the UK, 48 in the EU, 35 in Poland. The only field where the results are roughly the same is the proportion of average annual expenditure by households on cultural goods and services (figures for 2005, Eurostat 2011).

These are just a few data but they show the general disparity between Poland, the older EU member states and the EU27. The UK situation is exactly the reverse of that of Poland; in the UK, creative industries constitute a well-developed part of the entertainment sector. Therefore, culture plays a significant role in the broader strategy for the economy.

12.8 Future of Culture in the EU

For future trends, or at least those anticipated by policymakers, one can observe the strategies of development, prepared both at European and national levels is culture still self-referential or is it already a part of the broader economic game?

Culture is analysed in many documents in an European circulation. The European Agenda for Culture in a Globalizing World (European Commission 2007), describes relations between the EU and culture and indicates the main goals which should be achieved in the future. The authors of the document try to combine the two tendencies mentioned above. Participation in culture is not considered as a main problem in the Agenda. The document tries to emphasize the unique value of culture in building economic growth, and under the surface one can see that the economic perspective is dominant. Contrary to the issue of participation, the creative industries and their effect on culture and the economy are described considerably in details. Culture is defined as one of the main goals and as a catalyst for creativity in the framework of the Lisbon Strategy for growth and jobs: “Cultural industries and the creative sector are substantially contributing to European GDP, growth and employment. (...) These industries and the creativity, which then generate are, an essential asset for Europe’s economy and competitiveness in a context of globalisation” (European Commission 2007, p. 9).

Furthermore, three objectives which are underlined by the authors of the document:

- Promotion of creativity in education;
- Promotion of capacity building in the cultural sector;
- Developing relationships between the cultural sector and the other sectors.

Generally, while using this document as an example one can observe how culture is being transformed. From this perspective, the process of combining creativity and culture seems an effective way to stimulate economic growth. Culture is not primarily about reflecting and acting – it is rather a way to achieve something else – almost always to do with economic growth.

In Europe 2020 (the main document describing the most important goals and actions which should be taken in current decade to avoid economic and social crisis; see European Commission 2010a) there is no specific section concerned with culture. To identify the goals for this sector we have to turn to the national strategies.

The Strategy of Social Capital Development (was launched by the Polish Ministry of Culture and Cultural Heritage 2012), which states “that the strengthening of social capital is a project of civilization – the quality of life in Poland and the country’s economic development depends on its success” (Zdrojewski 2011, p. 9). The document is a part of a general Polish strategy of development and one of the sector policy documents. The preparatory phase is on-going but the document emerged after several consultations.

It is a great example of the mixture of participatory and CI development tendencies. The neoliberal dimension is evident – culture must be seen in economic terms. But the authors of the document do not ignore low indicators of social cohesion. Fighting inequalities and widening participation are still important. The question is how to do it. How this can be realized is now a matter of question.

The document states that the main mission of Polish public policy focusing on the development of social capital is creating, maintaining and improving conditions

for its development by supporting the activity and creativity of citizens and their cooperation for the common good. It can be achieved by increasing social participation and citizens' activity, and, of course, by "making better use of the potential of cultural and creative industries in building social capital". There is no doubt that the second aim is far more important: "to ensure the competitive position of Poland it should become a creator of creative solutions. From this direction, the development of civilization depends on the position of our country. The development of cultural and creative industries, while diversification of funding sources is increasing, becomes the urgent task of strategic planning" (Polish Ministry of Culture and Cultural Heritage 2012, p. 39).

The document claims that it is also important to strengthen private sponsorship in the field of culture, support the development of partnerships and other forms of cooperation in order to transfer the provision of public services to citizens (as part of improved levels of social participation) and also to prevent social exclusion by supporting the development of social entrepreneurship, including various forms of self-help ("support for self-help"). The state will be developing cooperation between the institutions of culture, education, science, social and private organizations, but also the cultural infrastructure and the efficiency of cultural institutions. Support for the creative sector and business support in culture is also crucial.

The participation in culture can activate citizens' activation in different areas of social life and provide the background for the creativity and innovative potential of individuals, strengthen local bonds and the development of tourism. The main tasks are "aimed at generating the economic potential of culture to reinforce the perception of culture in economic terms, while promoting the development of the cultural industries sector and the creative industries" (Polish Ministry of Culture and Cultural Heritage 2012, p. 93).

12.9 Main Conclusions

It is the sign of the times that culture is being transformed and it is a huge responsibility to know the direction towards which it shifts. The importance of culture is hard to ignore and a broad knowledge of the sector is essential to build effective strategies. Culture is increasingly important as a factor of economic growth. It is no longer seen as a field that still needs financial support. Strategic documents indicate how social aspects of culture are being marginalized, in contrast to its economic function. The key word in this case is creativity – the most acceptable and anticipated activities involve top-down initiatives with the promise of substantial revenues. There is seemingly no primary role for aesthetic criteria in evaluating cultural effort.

This neoliberal turn became dominant in the last two decades. It seems that these two tendencies participation and the CI opportunities – can coexist only in strategies, not in new determinants of competitiveness. An increase in the access

to culture is the aim of the policies only if it is of value for economic development and/or needs little public funding. This would seem to be the main vision, especially in countries like Poland, as a means of escaping from its economical backwardness.

As one can see, culture is also often instrumentalized to justify political actions by proponents of neoliberal reforms but also of welfare culture. It is important to be conscious that culture and cultural policies are part of the wider political arena. The analysis of these aspects of the cultural sector is still not well developed. There is a lack of research both on welfare attitudes to culture and the reasons for the successes and failures of participatory strategies (e.g. cultural policy in countries with large immigrant groups such as in Sweden, France and the United Kingdom and in previous Soviet Republics – such as Poland with their hybrid cultural institutions) as well as the origins and forms of the neoliberal changes in culture. There is also very little known about the *effects* of neoliberal reforms in the field of culture (such as new cultural workers and effectiveness of bottom-up cultural projects). There are not many debates on the advantages and disadvantages of both propositions.

There is no simple answer as to which tendency is better or more effective in building social change. It is a question of whether such a change is possible at all. It is recommended that policy-makers should consider the social cost of new “creative” definitions of participation. The “entrepreneurial” turn to new forms of employment and education should be preceded by an analysis of existing regional and global inequalities. To do so, accurate data is needed – both about the CCI sector and the structure of cultural participation. The programmes of the CCI should be balanced by inclusive projects, especially in the countries with a short tradition of a strong civil society. An access to culture should be restored as an objective of the authorities. Last but not least, funds for increasing participation in culture and building the CCI sector are crucial – both at the national and European levels. Without such funding all postulates of “culture for all” and “everyone is creative” remain empty slogans. But the most important issue is to initiate the debate about culture and its financial future with all involved in cultural activities – policy-makers, researchers, cultural sector workers, artists and participants (both potential and existing).

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Chapter 13

Perception of Inequality by the General Public and Political Elites

Wojciech Woźniak

Abstract The main aim of this chapter is to critically appraise the existing body of research into inequalities, as perceived by the general public as well as by political elites. The chapter starts with a brief introduction into social inequality as one of the main philosophical, ideological and political themes debated throughout history. Two main subchapters discuss contemporary research into general public opinions of inequality, and the scarce research into perceptions of inequality held by political elites. The criticism is concerned in the first place with some existing studies which do not attempt to draw any general conclusions or studies which using the very same datasets point to contradictory findings. Also discussed is the issue of research into attitudes towards inequality which pays no attention to subjects' actual knowledge about the issue. Examples are given of studies which attempt to overcome this weakness. Research into the perception of inequality held by political elites is scarce. The most intriguing recent examples are presented, and emphasis is placed on the need for further study into this area, not only via secondary analysis of existing data (political discourse analysis), but also by producing new data through fieldwork undertaken among policy makers. The chapter concludes with a list of problem questions which could drive further research into certain fields.

13.1 Social Inequality as a Philosophical, Ideological and Political Topic Throughout History

Social justice, patterns of wealth redistribution, and questions about the scope of inequality are all issues belonging to the most important philosophical debates in the history of mankind. Such ideas, as approached by prominent thinkers, were

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crucial for the institutional development at various points in history. Still present in ideological debates, these discussions shaped the way in which the redistribution of wealth was organised across both social and political systems.

A most common assumption throughout much of history was that responsibility for the construction of social reality was connected to some sort of natural power. Entrenched social inequalities were, therefore, explained in terms of a divine plan to organise reality. Those who questioned this were perceived to be opposing the natural order of things. This view, staunchly upheld by the elites, is evident in classic works of Plato, Aristotle and many thinkers throughout history, with the notable exception of representatives of such movements as the British Levellers, John Libourne and John Milton for example (see: Eissel 2008). The natural state of society, divided into groups whose fates are largely determined from birth, becomes an ‘unacceptable state’ in a society where aristocracy of birth still dominates the upper echelons, limiting access to power and resources for the rest.

Przeworski describes the process by which traditional elites were challenged from the beginning of the eighteenth century: at first by the growing political influence of the bourgeoisie, and subsequently by industrial magnates, which proved to be the crucial starting point for new thinking about social divisions. Hereditary privilege was perceived as unjust by those who had all the qualifications (e.g. talents and wealth) necessary for participation in political power, but for the proper surname and coat of arms (Przeworski 2009, pp. 2–3). According to Przeworski, growing pressure from groups subject to these frustrations was fundamental for the democratisation of politics. Since the French Revolution and the birth of modern left-wing politics, with its philosophical foundations in Rousseau and Marx, explicit arguments in favour of aristocracy by birth were rarely used. Instead the ‘natural order’, giving advantage to those at the top of the hierarchy of wealth, became an important *leitmotiv* employed in the justification of growing inequalities. This kind of argument could be found in works of many *laissez-faire* advocates, as ultimately the best way to organise social and economic life. William Graham Sumner, infamous first professor of sociology on American soil drawing upon Herbert Spencer’s arguments for radical social Darwinism, provides a spectacular example of this way of thinking:

‘One thing must be granted to the rich: they are good-natured’ (Sumner 1883, p. 43) and ‘(a) drunkard in the gutter is just where he ought to be, according to the fitness and tendency of things. Nature has set upon him the process of decline and dissolution by which she removes things which have survived their usefulness’ (Sumner 1918, p. 480).

This kind of praise posits indefinite and apparently innate differences in virtues between men rewarded with wealth those at the bottom of the social hierarchy, who are essentially held responsible for their status at birth.

The alleged failure of Keynesian welfare policy, which paved the way for monetarist and neoliberal policies, and made a crucial step towards the redefinition of current equality debate, broke the post-war consensus and ended the golden era of the welfare state. Oil crises and subsequent stagflation in the 70 provided a

platform for the reinstatement of a laissez-faire attitude (Harvey 2007; Saad-Filho and Johnston 2005).

The new order was presented, on one hand, as the result of purely scientific, objective reflection on the organisation of modern economies and monetarist policy. Neo-classical economics was defined as the final stage in the development of economic theory, legitimised by Nobel prizes for its practitioners. On the other hand, many proponents of neoliberalism abstain from elegant equations and mathematical formulae, preferring to justify new policies with purely moral arguments. George Gilder, a leading influential intellectual who served as an advisor and speechwriter for Republican politicians during the Reagan era, wrote of his opponents in his magnum opus *Wealth and Poverty*:

There is something, evidently, in the human mind, even when carefully honed at Oxford or the Sorbonne, that hesitates to believe in capitalism in the enriching mysteries of inequality, the inexhaustible mines of the division of labour, the multiplying miracles of market economies, the compounding gains from trade and prosperity. (Gilder 1981, p. 96f)

Gilder's words, which clearly echo Sumner's views on morality, are typical of neoliberal metaphysics, describing the divine characteristics and reification, if not deification, of the market. However, the majority of evidence demonstrating the inevitability of inequality in the contemporary economy was provided by economists. Two exemplary cases are Kuznets' Curve, proving that inequality follows an inverted U-shape, inevitably rising in times of industrialisation and economic growth, and the Laffer-Curve, which was supposed to prove that growing levels of taxation are counter-productive for governments, hampering rather than increasing tax revenues. The latter concept paved the way for numerous solutions introduced in many countries, such as limits on the top rates of taxation, and the demolition of national budgets in the name of a concept popularly called 'trickle-down theory' (for a concise history of this modern delusion see: When 2004).

Already in the last decade of the twentieth century, researchers from the World Bank falsified the concept described by Kuznets' Curve. Longitudinal analysis of a large set of comparative data, regarding fluctuations in economic growth and levels of inequality, gave empirical confirmation of a supposedly universal law of the economy in just every tenth case (Bruno et al. 1996, pp. 58–61). This kind of evidence, even though presented by scholars from one of the pillars of global neoliberal orthodoxy, has not influenced the widely accepted opinions about the inevitability of great income inequalities, particularly in countries undergoing transition (Woźniak 2012).

Similarly, Arthur Laffer's ideas enjoyed an impressive career in political discourse, though they were later discredited in scientific debate. Marek Belka, a leading Polish economist and politician (former Prime Minister and current President of the National Bank of Poland), himself a supporter of moderate levels of taxation, did not anticipate such longevity for these theories. In his 1991 work on Reaganomics, he wrote about the 'absolute fiasco of the Laffer' Curve' calling it a 'perverse episode in a blend of economic thought and politics', believing that the 'world will soon forget about the supply-side economics of Gilder and Laffer'

(Belka 1991, p. 224). Belka's predictions proved vain, as 15 years later arguments drawing from the falsified theories were still alive and well in public discourse (Woźniak 2012, pp. 162–74).

One of the reasons behind the durability of these concepts is the tremendous work carried out by think-tanks like the Heritage Foundation, the CATO Institute, the Manhattan Institute and the RAND Corporation. These have attempted to open up the possibilities for neoliberal solutions in the spheres of social policy retrenchment, highlighting the inevitable and, in fact, 'enriching' impact of inequalities. Wacquant, who analyses the impact of American elites on beliefs and attitudes regarding poverty and penal policy in the American context, demonstrates the cooperation between political and academic circles. He cites the career of Charles Murray, employed by the Manhattan Institute to write a book, *Losing Ground: American Social Policy, 1950–1980* (Murray 1984), as an example. Afterwards, Murray took part in the huge promotional campaign organised by that foundation, promoting neoconservative and neoliberal solutions in the field of social policy, in accordance with the blame the victim strategies. This and Murray's subsequent works were discredited by the academic community, but this did not undermine his status as international expert on social policy issues who was also highly acclaimed by the European media (Wacquant 2009, p. 22ff). This is an example of the purely political and ideological actions which influenced attitudes of both elites and the general public, questioning post-war welfare consensus. The turn was marked by growing individualisation and the ideology of free choice. Structural conditions for the growth of inequalities were neglected, and discourse turned instead towards responsibility for the miserable lives led by the victims of this inevitably increasing gap.

13.2 Perception of Inequalities by the General Public: A Critical Reappraisal of the Research

The perception of social inequality and the demand for wealth redistribution are often studied, usually from a cross-national perspective. Typically for quantitatively oriented studies of social policy and welfare states, many scholars focus within these projects on the development of methodology, and the mathematical proficiency of statistical models used. The ways in which the questions are formulated, and the particular contexts in which an understanding of inequality could be determined by other, completely neglected factors, are rather left to one side. The most common conclusion of research into the field states that: 'the evidence is mixed' (for an extensive and up-to-date review of the studies see: Toth and Keller 2011; Andersen and Yaish 2012).

One of the most popular theories, developed by Meltzer and Richard (1981), implies that a growing gap in equality leads to a greater demand for redistribution. They argued that even poor persons refuse redistribution if they expect their income

to improve in the future, while the rich, who expect income deteriorations, may insist on keeping redistribution arrangements in place. This concept has been proved in just a few studies, but refuted in others, thus cannot be judged as universal rule. What is even more striking, while reviewing the studies of inequality perceptions, is the fact that researchers using the same datasets can arrive at completely different conclusions. This is exemplified in studies by Lübker (2004) on the one hand, and by Kelley and Zagórski on the other (2004). These authors attempted to track changes in perceptions of inequality among citizens of Eastern European states (with particular reference to Poland) in the initial phases of economic transformation, answering the question: ‘Do people increasingly see inequality as a problem, or has the issue become less pressing for them?’

Analysis of data sourced from various International Social Science Programmes leads authors to diverse conclusions. Lübker concludes: ‘The relatively small change in Poland was not significant and the perception of inequality is therefore considered to be stable’ (Lübker 2004, p. 17).

Using the very same data, Kelley and Zagórski come to different conclusions:

We find that normative support for inequality increased dramatically. In Communist times the Polish and Hungarian publics favoured less inequality than citizens of Western nations thought right; but within a decade after the fall of Communism they favoured much more inequality than Westerners think right. These normative changes did not arise from socioeconomic or demographic change in population structure but in large part from perceived changes in actual income inequality (. . .). Our data suggest that the transition from a Communist command economy led the public abruptly to change its view about inequality, at least in the larger Central-East European nations and most, but not all, of the smaller nations. So far as we can judge from the Polish and Hungarian data, the Central-East European public held strongly egalitarian norms up to the last days of Communism. But within 2 or 3 years of its fall, amidst the first tentative steps toward a market economy, they seem to have shifted far toward the much less egalitarian norms found in the West. (Kelley and Zagórski 2004, pp. 319–320f; 351–352f)

The sentence about the perceived changes in social inequality is implausible, since in ISSP questionnaires no questions were asked about the real level of inequality (there are, however, questions about actual and legitimate earnings for various occupational groups). The differentiation between inequality and socioeconomic change in population also seems doubtful. What else is the massive growth of inequality and pauperisation of the lower echelons in a society, if not significant change in socioeconomic standing of population? It also seems problematic that claims about egalitarian nature of socialist countries in the Soviet bloc, as opposed to the capitalist West, were frequently repeated without real reference to the data. For instance, Grosfeld and Senik claim in an otherwise interesting article:

As one of the central features of former socialist regimes – income equality – was replaced by sharp income differentiation, it is no surprise that the subjective perception of inequality is one of the key elements of the attitudes towards reforms. (Grosfeld and Senik 2010, p. 16)

In another study, Lübker remarks that (r)espondents from transition countries are the least prepared to accept inequality, while those from the Anglo-Saxon world and from the three developing countries in the sample show the greatest tolerance of

inequality. The market economies of continental Europe, Japan and Israel are located between these extremes. Taking the difference between these groups of countries into account, a very regular pattern can be identified, namely that the higher the inequality, the more it is generally condemned (Lübker 2004, p. 54).

Declarations concerning an equal socialist society in Central-Eastern European countries, as opposed to capitalist Western Europe, do not stand up to empirical verification. Data gathered at the end of Polish People's Republic, just before the fall of communism in Poland, proves that income inequality in Poland – measured with the Gini coefficient – was already at a level of 0.28 in 1988 (Domański 2007, p. 312). Thus, income inequality in a theoretically egalitarian and classless state was at the same level as in the capitalist state of Western Germany, and significantly higher than in Nordic capitalist states. Undoubtedly, a significant increase has been observed since the very beginning of the transition period, but the starting point of this process can hardly be understood in terms of fundamental equality. What is often omitted in analysis is the fact that the patterns of inequality have changed substantially, in accordance with the meritocratic principle. Level of education became the main stratifying factor, instead of one's particular branch of the national economy, or one's belonging to the upper management of the communist party (Domański 2003).

In another seemingly persuasive study, Grosfeld and Senik provide evidence that income inequality was initially perceived as a positive signal of increased opportunities. However, after several years, unfulfilled expectations and diminishing patience brought about a change in attitudes, and growing inequality started to undermine satisfaction. Individuals seem to have become disappointed with the country's transformation and sceptical about the legitimacy of the enrichment of reform winners (Grosfeld and Senik 2010, pp. 16f).

Thus, decreasing support for inequalities tends to run parallel to its growth, leading to some general conclusions. One of the few which could be drawn from most of the studies declares that 'countries with a high-level of income inequality tend also to be characterised by public opinion supporting it. In other words, the Marxist notion that economic crisis can turn public opinion against capitalism seems untenable. Instead, our results suggest that people tend to accept the conditions in which they live. That is, inequality perpetuates itself in a continuous cycle through popular support' (Andersen and Yaish 2012, p. 33).

Another kind of criticism could question the adequacy of a standard quantitative survey of attitudes as the most common way to study perceptions of inequalities. There is a great deal of research into what the general public tends to think about inequalities and redistribution of wealth. Most frequently, these are based on quantitative questionnaire surveys containing such questions as: Please tell me whether you agree to the statement that: ...the government should reduce differences between high and low wages; ...inequalities [differences] of income are too large in [given country]; ...economic inequalities are necessary for economic progress; ...government should ensure that the wealth of the country is redistributed in a fair way to all citizens; ... large differences in income are necessary for a [country's] prosperity; What do you think people in these jobs

ought to be paid – how much do you think they should earn each year before taxes, regardless of what they actually get? (Tóth & Keller 2011, p. 19, 246; Grosfeld and Senik 2010, p. 16).

Regardless of the importance of this kind of research, some outcomes raise serious doubts about the far-reaching conclusions which are sometimes drawn by their authors. Attitudes of the public are among the most important factors for study into the legitimisation of inequality, or certain solutions in a sphere of social policy. However, particularly when cross-referenced with objective data concerning the level of income disparities, this could well lead to a ‘fallacy of misplaced concreteness’ stemming from the discrepancy between the perceived level of inequality and the real one. The respondents’ knowledge about the real level of inequality in their country is not verified, nor are they informed of it before responding to the questionnaires. Judging the public acceptance of inequality in a given country could thus be seriously skewed.

According to the research by Eurobarometer into knowledge of European public opinion of official statistics, most of the respondents have none. More than half of the Europeans surveyed did not know the GDP growth rate in their country (just 12 % of respondents proved competent in this respect) and just one in five knew the unemployment rate, while 13 % knew the rate of inflation (European Commission 2008). This includes the 20 % margin for error. There are good reasons to believe that knowledge of inequality measures would be even lower, as these are less often reported by the media. Even without taking this into account, far reaching conclusions drawn from the research seem doubtful.

Transatlantic differences in inequality attitudes are emphasised by Alesina et al. (2004), who found that the happiness of Europeans is reduced by perceived inequalities. They claim that for the US respondents it matters much less, and the relationship between happiness and inequality is insignificant. This underlines the notion that, in the US, inequality is seen as a motivating force in getting to the top of the distribution hierarchy, as well as an enabler of significant success.

Research into the public’s actual knowledge of inequality is scarce, though there are some notable exceptions. A recent, impressive study was conducted in the US by social psychologists and behavioural economists Norton and Ariely on a representative sample of 5,000 respondents (2011, see: Fig. 13.1). It turned out that a large majority underestimated the real scale of social inequality, claiming the richest quintile of the population holds approximately 59 % of the wealth (the richest quintile actually holds 84 %). When asked about an acceptable level of wealth that the richest quintile could hold, they responded that no more than 32 % of wealth should go to the top quintile. When shown a graph presenting perfectly equal income distribution (by quintiles), alongside the distribution graphs for Sweden and the US 92 % of allegedly anti-egalitarian Americans favoured the Swedish pattern of wealth distribution over the American one, and more than half of respondents preferred absolute equality (with every quintile receiving 20 % of the total wealth).

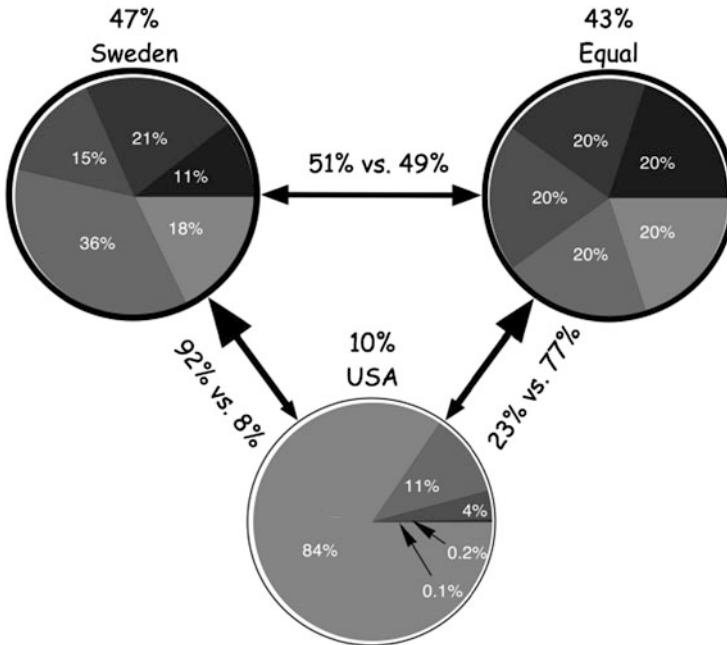


Fig. 13.1 Relative preference among all respondents for three distributions: Sweden (*upper left*), equal (*upper right*) and the US (*bottom*). Pie charts depict percentage of wealth possessed by each quintile (Source: Norton and Ariely 2011, p. 10)

This calls into question previously unchallenged assumptions about acceptance of inequalities in the US, which are prevalent in many of the above quoted studies. When confronted with factual data, the correspondents' opinions differed substantially. This kind of ground-breaking research could falsify some general preconceptions about Americans' acceptance of large-scale social and economic distances. Similar results could be hypothetically achieved when studying relatively lower level of redistribution acceptance among some of the Nordic states. If confronted with various alternatives, Danish citizens would most probably favour their level of redistribution to those of others. At least this kind of hypothesis would seem plausible in the context of Norton and Ariely data. Without confronting respondents with factual data showing relatively large differences between countries in the scale of inequality, the results can hardly be extrapolated as what really people think of inequality and redistribution in a given country.

Another interesting example comes from the smaller scale study of American psychologists, who correlate tendency towards acceptance of inequalities with belief in the discourse of free and individual choice. On basis of six sets of experiment results, authors stated that:

'the concept of choice has significant ramifications for the maintenance of wealth inequality. We found that when the concept of choice was highlighted, people were less disturbed by statistics demonstrating wealth inequality, less likely to believe that societal factors contribute to the success of the wealthy, less willing to endorse redistributing educational

resources more equally between the rich and the poor, and less willing to endorse increasing taxes on the rich to help the country as a whole' (Savani and Rattan 2012, p. 6).

It is undoubtedly important to study what people think about social inequality. It is an important part of normative belief about society at large, and about the notion of fairness in a society which could be influenced by changes in a real level of inequality. This also has relevance to policy, and should be considered during the policy-making process, for instance in a field of taxation policy. However, as shown above, existing studies into these topics seem inconclusive, and in most cases their results do not permit any definite empirical judgments.

Even the most recent pieces by Anderson and Yaish (2012) suffer also from the fact that available relevant data is growing old, and authors again re-use data from 1992 to 1999 waves of the International Social Science Programme. Tóth and Keller on the other hand (2011) utilise data from Eurobarometer, but again no conclusive patterns for international differentiation of attitudes could be drawn. Generally, preferences towards redistribution are more influenced by the judgments of those below median income and higher levels of inequalities correspond with a lower preference for inequality which could be best exemplified by cases of Greece and Netherlands. However, in many other cases these findings do not constitute a clear pattern following clustering typical for well-known welfare regime's typologies (see Figs. 13.2, 13.3 and 13.4 presenting preferences for redistribution across European countries, see also: Svallfors 1997; Bonoli 2000; Jæger Meier, Finseraas 2007, van Oorschot 2006, Albrekt Larsen 2006). There are numerous ways of interpreting this data, however without testing respondents' knowledge of actual inequality, and presenting them with alternatives stemming from various redistribution systems present in countries under scrutiny, it is difficult to come to any far-reaching generalisations.

General perception of inequalities as too large is prevalent in some states with very high level of actual inequality (i.e. Baltic States), but the differences between them and countries with relatively moderate level of income disparities is not very substantial.

The perceptions about the way inequalities are addressed in various countries do not provide any noteworthy explanations either (Fig. 13.4). Citizens of Czech Republic and Sweden rate this problem in a very similar way as those from United Kingdom, even though the income inequality in the latter country is significantly higher.

The Figs. 13.2, 13.3 and 13.4 represent various ways of asking about the perception of inequalities. None of them allows drawing any general conclusions. The relationship between inequality intolerance and income inequalities is weak, regardless which measure of inequality is applied. For some of the countries there is a correlation between poverty rate and inequality intolerance, but again for the others this does not apply (Keller et al. 2010). When studying socio-demographic correlates of attitudes towards inequality, no universal patterns were found. In every correlation there were cases exceptional, which did not allow making strong generalizations.

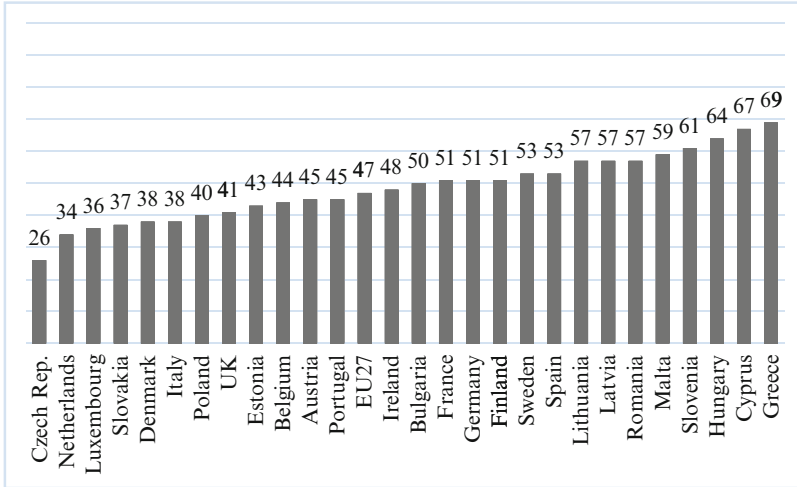


Fig. 13.2 The share of respondents who totally agree with the statement: government ensures that the wealth of the country is redistributed in a fair way (Source: Tóth and Keller 2011, p. 28, based on European Commission 2010)

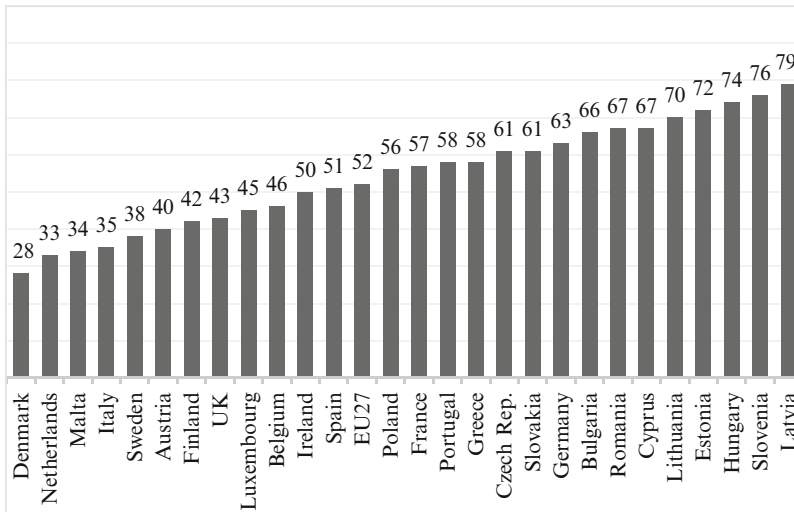


Fig. 13.3 The share of respondents who totally agree with the statement: nowadays in [our country] income differences between people are far too large (Source: Keller et al. 2010: 4 based on: European Commission 2010)

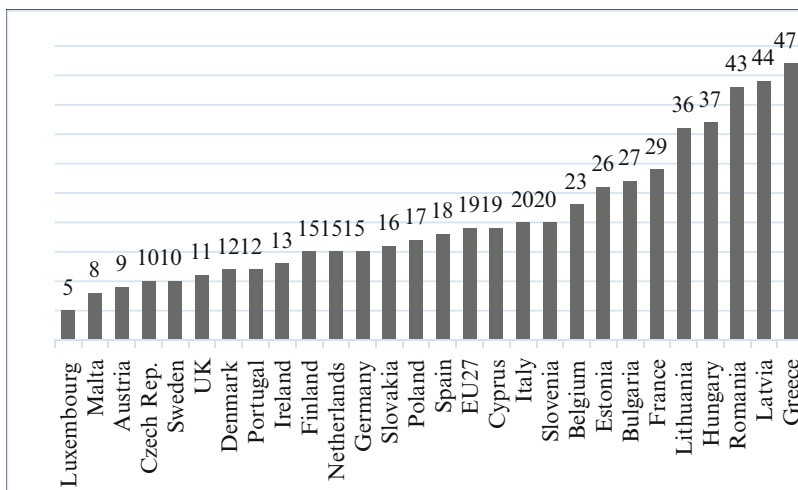


Fig. 13.4 The share of population who judge that Inequalities are addressed in [given country] in a very bad way (Source: European Commission 2011)

As shown above, there are numerous examples of research into perceptions of inequalities among the general public. There has been significantly less research into the way elites perceive inequalities, this being the main theme of inquiry for an extensive and up-to-date review of studies into elites, provided by Bochel and Defty (2007b).

But for the monumental study by Verba et al. (1987), there were very few efforts to produce comparative studies of the ‘views from the top’, to use the title of the earlier research paper by Verba and Owen into the US political circles. Their work illuminated ideas of equality shared by the members of political elites in developed countries with strikingly different profiles (US, Sweden and Japan), and is a rare example of thought-provoking analysis which confronts the struggle for redistribution in culturally diverse environment.

Another remarkable and unique empirical approach was pursued approximately a decade later by a team under Abram de Swaan. This group investigated elitist perceptions of social issues in developing countries (Brazil, Philippines, Republic of South Africa, Bangladesh, Haiti). They introduced the term ‘social consciousness of elites’ (de Swaan et al. 2000, p. 43f; Moore and Hossain 2005, p. 195) which refers to three spheres:

- They are aware of the interdependence between social groups, and of the external effects of poverty upon elites, which may be perceived as either threatening or promising opportunities;
- They realise that, as members of the elite, they bear some responsibility for the condition of the poor;
- They believe that feasible and efficacious means of improving the lot of the poor exist or might be created.

These elements of social consciousness refer to three kinds of thinking prevalent among elites. One concerns proto-sociological knowledge about the society in which they live, the other refers to causal relationships and moral norms, and the third concerns conviction that a joint effort could influence existing status quo (de Swaan 2005, p. 186; see also: Reis & Moore 2005).

To operationalize social consciousness, de Swaan enumerates several fields which shall be studied:

- Identification – how different from themselves do the elites consider the poor to be, and in which areas, if any, do the elites identify with the poor?
- Interdependence – how threatening (or how promising) with respect to their own position do the elites consider the poor to be?
- Generalised Responsibility – do the elites believe that something ought to be done to improve the position of the poor?
- Feasibility – how far do the elites consider that the position of the poor can be improved?
- Policy Action – if the elites believe that the conditions of the poor can be improved, in what ways could this be done?
- Collective Action – how do the elites see effective coordination with their peers being ensured or prevented? (de Swaan 2005, p. 53).

According to this study, three different attitudes of elites towards poverty and inequality can be distinguished. First of all, they are indifferent to the issue; secondly they are concerned with these problems, believing that the poor could either threaten their own well-being or conversely provide them with new opportunities; thirdly, their perception of poverty and inequality may be subject to ethical judgment, but it is combined with a fatalistic conviction that neither individual nor collective action could influence the existence of these phenomena (de Swaan 2005, p. 187f).

The research agenda designed by de Swaan and colleagues undoubtedly deserves similar application in the realm of Western countries and among the political elites of the wealthy North. This is noteworthy, particularly in the context of economic turmoil and financial crises which have proved, if not reinforced the discrepancy in perceptions of inequality between elites and general public.

Some of the conclusions drawn from the aforementioned works inspired a more modest study into the perception of inequalities among political circles in Poland (Woźniak 2012). It was conducted partially within the frame of the comparative research project PROFIT (Policy Responses Overcoming Factors in the Intergenerational Transmission of Inequalities, CIT2-CT-2004-506245) funded under 6th Framework Programme of European Commission, during which an international consortium attempted to approach members of parliamentary committees in eight countries. Inequality and its extent were not the main areas of interest for the researchers, but rather the policy responses orientated towards the reproduction of inequalities, which bring to a grinding halt attempts to overcome the vicious circle of inequality transmission (for an extensive review of these findings see: Woźniak 2007a, 2007b; Longo et al. 2006; Trumm 2006; Naumanen 2006;

Warzywoda-Kruszyńska et al. 2006; Ignatova 2006; Kokoroskou and Leaman 2006; Eissel and Ludwig 2006; Pukelis et al. 2006). It seems that research into the preferences of political elites concerning inequalities and poverty is also scarce because political elites are barely accessible for researchers. In many cases the only way to study their attitudes is to deliver secondary analysis of existing data (political debates, media broadcasts, party manifestos). It turned out that the largest distance between academic circles and political elite appeared in affluent and stable Western democracies (Italy, Germany, United Kingdom). If it weren't for the personal contacts of members of the research teams it would be difficult to pursue such research efforts. A notable exception was observed in Finland, where members of political circles seem to adhere to a rule of leading a transparent political life. It was seen as a regular type of obligation, stemming from their social position, to take part in the research, and researchers had no difficulty approaching politicians even during their scheduled holiday. The PROFIT project did not deal with the scale of inequalities, but rather with the perception of the need, and perhaps the relative responsibility for policies to counteract inherent inequalities. In the aforementioned study (Woźniak 2012) four kinds of data are combined to track attitudes towards inequality among politicians. In-depth, structured interviews have been conducted with members of parliamentary committees working in a field of social policy. Focus group interviews were conducted on a local level as well as secondary analysis of party manifestoes and transcripts of radio debates with members of parliament.

The results were very much in line with those of other qualitative studies, for example those delivered by Bochel and Defty (2007a, b). These concerned the intense convergence of attitudes among members of political parties when it comes to welfare and inequalities. Traditional divisions (left-right, neoliberal-social democratic, liberal-conservative) are insufficient for tracking differences between various figures on the political spectrum in reference to inequality. The unspoken consensus with the neoliberal agenda has been present among both the Polish and British parliamentary elite. The political dispute proves to be highly ritualised, particularly when it comes to economic issues. Whilst in power, most of the parties tended towards neoliberal solutions, with their members declaring belief in objective laws of the economy, in accordance with neoclassical principles of monetarism. One of the striking findings from this research concerned ways of thinking about redistribution and taxation policy. Reductions in levels of taxation were perceived as having autotelic value. Notwithstanding political affiliation, perceptions of inequality and the obligations of the state were quite unanimous, with a decline in public spending perceived as the ultimate goal of political activity. Authoritative and undisputed criticism of the state and its agendas was another typical feature among representatives of the very same state. For the most part, politicians perceived the state as some kind of external being, a bureaucratic leviathan which deserves neither respect, nor positive evaluation. The same politicians, while frequently declaring their patriotism, were positioning themselves outside the political structure of the state. The consensus regarding the inevitability of the neoliberal pathway was clearly marked by the existence, in the language code of the policy-makers, of a plethora of clichés concerning inequalities. These were stemming from the presence in the public, mediated discourse of common truths

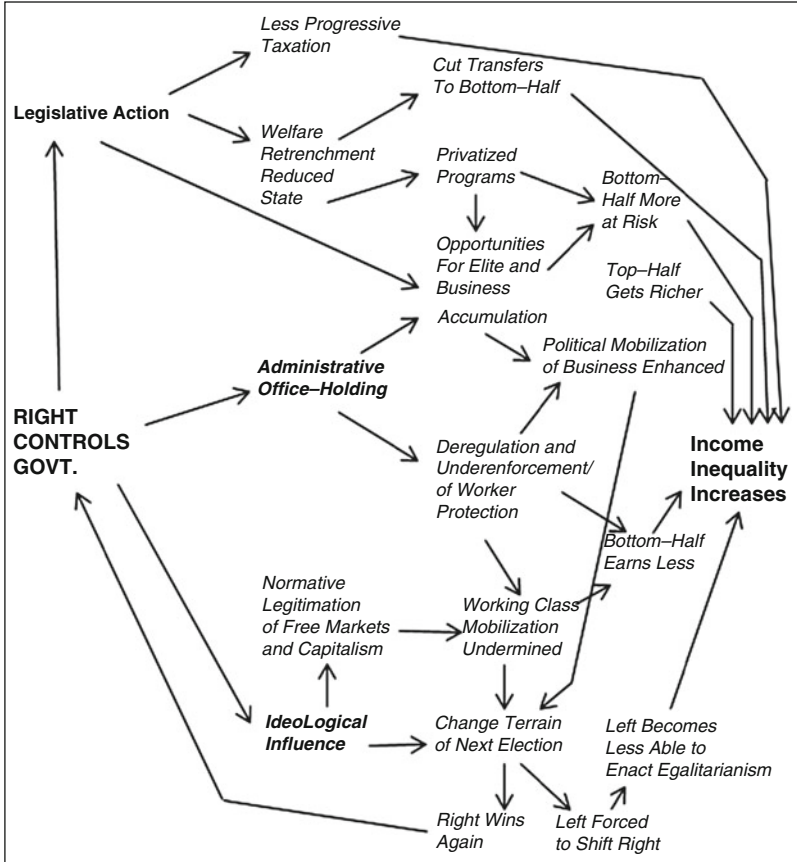


Fig. 13.5 Causal pathways between right party power and greater inequality (Source: Brady and Leicht 2008, p. 81)

like trickle-down theory about the tide that raises all boats. Further liberalisation of economy and state retrenchment were usually defined as the historical necessity in the name of There is No Alternative dogma. Even left-wing politicians claimed that economic laws define the spectrum of possible political actions, perceiving political conflict as universally destructive, openly avoiding any statements which could be stigmatised with the label of populism or simply neglected as incompatible with dominant judgments.

Most of the research efforts into elitist views on inequalities apply a qualitative repertoire of research tools, producing fresh data in the fieldwork, as well as analysing existing secondary data. One very significant piece of research utilising quantitative methodology comes from Brady and Leicht (2008), pertinently entitled: *Party to inequality: Right party power and income inequality in affluent Western democracies*. Testing a plausible model of causal interrelations (see Fig. 13.3) between ‘cumulative right party power and three measures of inequalities

in 16 affluent Western countries' they came out with findings relevant to those mentioned above (Fig. 13.5).

Authors tracked the correlations between the rule of a right-wing party and multiple measures of inequality, controlling various factors (e.g. level of government expenditures or union density) and taking into account some cross-national disparities.

Despite handling and interpreting data with great caution, in the conclusions, authors went so far as to state that:

Right parties are a fundamental cause of income inequality in affluent Western democracies. (...) The effects of right party power are substantial – comparable to or greater than other established sources of inequality. (...) The effects of right party power are partly channeled through, but mostly combine with government expenditures. After 1989, right parties became more consequential while the effects of left parties weakened. We also show that at least some of the effects of right party power on inequality occur in the labour market before taxes and transfers. (...) Ultimately, right parties played a crucial role in the Great U-turn of increasing inequality and were a critical source of the vast cross-national differences in inequality. Our study shows that right parties do not simply undo what the Left has done. Rather, right parties have implemented a neoliberal agenda that results in greater inequality independently of what the Left might do to reduce it. Since right parties became more effective at increasing inequality after 1990 and left parties became less effective at reducing it, it is unlikely that the Left can simply return egalitarianism with an electoral victory or two. The ascendance of right parties over the past few decades has deeply transformed the political economies of affluent Western democracies. (Brady and Leicht 2008, p. 98f)

13.3 Inequalities Are Back in the Headlines. What Now for Politics and Political Research?

The issue of social inequality is back on the political agenda in many European countries. The credit crunch, financial crises and general economic turmoil resulting in recession have returned to the table many topics which in intellectual and political debate are currently disregarded as illegitimate. As Paul Krugman has written, even given the clear signals sent out by Asian economic crises, in 2007 the widespread belief was that the central problem of global economy had been solved (this being the issue of depression-prevention) and that research should focus rather on long-term economic growth and its consequences (Krugman 2009, p. 10f). These views were persistent among most influential, or at least most popular, economists, as well as among politicians and policy-makers. Discussion about how the wealth generated by the never-ending growth should be distributed was very low on the agenda.

Publication of the book *The Spirit Level: Why More Equal Societies Almost Always Do Better* (2009; also: Dorling 2010) by Richard Wilkinson and Kate Pickett, and subsequent debate, could be perceived as a sign of a changing climate

Photo 13.1 One of the election posters of the conservative party for the parliamentary election in United Kingdom in 2010 (Source: <http://www.flickr.com/photos/conservatives/4468842135/> licensed under creative commons, authored by Conservative Party)



around this subject. Authors utilise massive quantities of data showing that, even in rich Western countries, the scale of inequality is unprecedented. Presenting the correlation between income inequalities and a large number of social problems (health of the population, life expectancy, crime, suicide rates, teenage pregnancy), they attempt to highlight the significant influence of the former indicator on the prevalence of the latter problems across rich countries. Using rigorous statistics, they have highlighted similar correlations in European countries and American states. Correlations were valid even after the exclusion of most extreme cases. The book has been subjected to massive criticism from conservative political and academic circles, yet at least some of the findings could not be neglected and came to the fore in a political debate before elections in 2010. This could be also attributed to the active role of Wilkinson and Pickett, who challenged their critics, both in peer-reviewed academic discourse, and in media debate.

Given the aforementioned data concerning the impact of right political parties, paving the way for a radical increase in inequality through the politics of state retrenchment and reforms of progressive taxation policy, it is particularly striking that, in some cases, inequality was put back on the agenda by right-wing political powers. The most spectacular example of a truly subversive inequality discourse comes from the United Kingdom. The massive growth of inequalities during the Thatcher era was slowed down, but not reversed in the course of 13 years of New Labour rule between 1997 and 2010 (Brewer et al. 2007). Therefore, the Conservative Party without a risk of being sued for spreading false data could produce electoral posters with a close-up of the smiling face of Gordon Brown, Prime Minister and former Chancellor of Exchequer declaring 'I have increased the gap between rich and poor. Vote for me!' with a small postscript below: 'Or vote for a change. For Conservatives' (see Photo 13.1 and Hartley 2010).

The very fact that, in many European countries, the rule of left or centre-left political parties had no influence on the scale of income inequalities is most probably one of the reasons all political powers are still quite reluctant to shoehorn inequality issues back into their political manifestos. Value-laden assumptions about the universally positive impact of low taxes have infiltrated the discourse, and the reverse actions could be perceived by the public as contradictory to previous declarations and actions. Most probably, one of the reasons for the lack

of research in this field among Western elites was connected with this very feature of recent public discourse. On the other hand, research into public attitudes was rich and frequently funded or co-funded by public resources. This could confirm de Swaan's hypothesis that political elites are interested in the phenomena of poverty and inequality when they believe such phenomena threaten their position. These may well be caused by growing pauperisation, greater social disparities, and the worsening position of those at the bottom of the social hierarchy. Even avoiding a purely Marxist interpretation of this state of affairs, there is an impression that checking the acceptable level of inequalities and attitudes of the general public could be part of an applied research agenda, informing (or misinforming) those in power about potential de-legitimisation of their actions. Therefore, the reasons for thorough research into perceptions of and attitudes towards inequality, both among the general public and the political elite, are evident. The contemporary situation in European politics calls for a new research agenda in this field. The continuation of existing studies into public perceptions should be continued, but a more in-depth approach should be applied. Some of the problem questions which should be approached could be treated as a summary of this chapter:

What does the general public know about the level of inequality in a given country, and across-country variations in inequality?

How is the need to redistribute wealth understood?

What does the public know about the possible ways of redistributing wealth and their consequences?

Does the public perceive inequality as inevitable?

Or is it a political choice of those in power?

How is the struggle for redistribution perceived by the general public and political elites?

How is the current level of inequality perceived in a historical context?

To what extent is the public aware that the current scale of inequality is unprecedented?

What does the political elite know about the interrelations between inequality and other social phenomena?

What does the political elite know about the interrelations between inequality and economic growth?

Is the political decision to implement austerity believed to be the most effective measure to counteract budget deficits?

Or is it deemed a necessity because of the pressure from external and supranational political bodies (EU, IMF)?

Is redistributive policy perceived as a way to regulate and/or stimulate conflicts within societies?

How are the various interest groups struggling for favourable policies perceived?

Is lack of discussion about further growth of inequalities as a result of current austerity policies perceived as a threat to political elites?

Could it be understood as a reason for or a consequence of the growing alienation of political elites?

What are the axiological and/or ethical considerations (among both the public and among political elites) regarding what a just redistribution is, and what the demographic, economic and ideological factors are that influence these attitudes? What are axiological and/or ethical presumptions concerning the desired method of redistribution?

What is the perception of their public responsibility by the members of the political elite in terms of growing inequality and its consequences?

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