REDUCING INEQUALITIES

A Challenge for the European Union?

Edited by
Renato Miguel Carmo,
Cédric Rio and
Márton Medgyesi

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Contents

List of Figures

List of Tables

1

Introduction

Renato Miguel Carmo, Cédric Rio, and Márton Medgyesi

Inequality is a major issue today in public debates, especially since 2008 and the beginning of the financial, economic and social crises. In the European Union (EU), the crisis exacerbates a tendency observed since the 2000s: income inequality is growing in most countries, including in Northern European states, which are recognised as the most egalitarian societies in the world (OECD 2011, 2015).

Public and academic debates on inequality in the EU, like elsewhere in the world, are mostly focused on national territories. This can simply be explained by the fact that social issues have traditionally been linked to the nation state: the development and acceptance of social solidarity

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within a community are strongly linked to the development and the acceptance of a national state. Today, we see significant data regarding inequality in the richest countries, including most of Europe. Some contributions provide insight as to why nation states must limit socioeconomic inequalities (Wilkinson and Pickett 2009; Stiglitz 2012), propose explanations of the phenomenon (Milanovic 2011; Piketty 2014) or develop economic and political propositions to limit it (Atkinson 2015).

The aim of this book is to develop a multiscalar approach with a focus on inequality in the EU within and between countries, and in some contributions, comparisons with other European and Organisation for Economic Co-operation and Development (OECD) countries. The book is concerned with both vertical inequality, that is, inequality between those with high incomes and low incomes, and horizontal inequality, that is to say inequality between groups by nationality, age, ethnicity or gender. Our objective is twofold. Firstly, the book describes the social situation in the EU with a focus on inequality in a multidimensional approach, which permits comparisons between national populations. Inequalities are discussed through different perspectives and indicators such as income and economic inequalities, poverty and social exclusion, categorical inequalities and social classes and educational inequalities.[1] Secondly, it proposes political and prospective analyses about the role of the EU institutions in the social domain, and with regard to social and gender inequality. In the first part of this introduction, we explain why we decided to edit a collective book focused on inequality at the EU level. We present the different contributions in a second part.

Since the beginning of the European project, the institutions of the European Economic Community and then of the EU have had access to an ever-increasing number of tools in the field of social issues. According to Falkner (2010), European institutions play a social role through three general dimensions. There is firstly a regulatory role through social directives concerning working conditions, especially regarding health and safety, and equal treatment (wage equality between men and women, for example). The Treaty of Amsterdam (1996) gave the Commission the ability to expand this regulatory role to all European citizens, and not only to workers. Secondly, the regional policy, with its structural funds—European Social Fund, Cohesion Fund and European Regional Development Fund (ERDF)—provides a distributive role to the

European Commission. Finally, this last institution has incentive tools with the open method of coordination, and more recently the European Semester, which, among other effects, leads Member States to pursue common social objectives. It seemed possible at least, particularly during Jacques Delors' term as the president of European Commission, to apply the idea of Social Europe in the real world, with EU institutions playing a major role in the social field, including limiting social inequalities among European populations, and then to observe the development of solidarity in the EU territory.

The situation has changed at least since the beginning of the crisis. While the EU's prerogatives in the social domain are the same, the trend appears negative now, to the extent that many specialists claim that the idea, the cosmopolitan dream of Social Europe, is dead (Crespy and Menz 2015; Lechevalier and Wielgohs 2015). This claim is based on many signs. Firstly, after a period of socioeconomic convergence between European countries, in part thanks to the cohesion policy, since the crisis we can observe a stagnation of socioeconomic disparities. Secondly, and maybe more fundamentally, the period seems quite unfavourable to the development of strong solidarity among European people. Before the crisis, Maurizio Ferrera claimed that there is 'a tension, an uneasiness in linking or reconciling "solidarity" with "Europe"' (2005). The situation may be growing worse: both the EU and a certain idea of solidarity are currently being called into questioned like never before. With the growing importance of the European Council, we observe a return to national interests conflicting with European interests once states are inside the EU project: this can be illustrated not only by 'Brexit', but also by the persistent political divergence between Member States regarding the situation in Greece or the reception of refugees and other migrants. In parallel, national social systems are slowly being dismantled in all European countries, especially in the name of reduction of public debts.

Why then a book focused on European inequality now? Despite the current situation, discussing social issues at the EU level makes sense for at least two reasons. On the one hand, the different contributions to the book demonstrate that the EU has still a real role in the social field and against inequality, even if this role is currently declining. On the other hand, we strongly believe that the EU should play a more pronounced role in social issues in the future. In addition to the heterogeneity of the social situations in the different EU countries, all the national societies face complementary difficulties, especially with the crisis: the rise of public debt and difficulties financing and preserving social security schemes, a rise in unemployment and precarious jobs, and then the risk of social exclusion and poverty. The EU can help its members find an answer to those shared social difficulties.

It is our role as social scientists to discuss these problems. We began this work with the creation of a European network named *Inequality Watch* a few years ago, by bringing together European research centres and civil associations focused on inequality at the national level. By gathering the contributions of recognised specialists of socioeconomic inequality and European processes from distinct scientific disciplines and several European countries, our desire with this book is to reconcile the analysis of social processes with an accurate assessment of public policies affecting vulnerable populations and regional discrepancies in the EU. While the first part of the book highlights the social situation in the EU in line with the consequences of the financial crisis, the second part addresses the role of the EU and its institutions to cope with this challenge. Despite the social and cultural heterogeneity of EU Member States, the first part shows that most populations and their institutions witness a similar phenomenon of growing inequality. It could reinforce the idea of an ambitious Social Europe able to limit inequality, or at least help its Member States do so. The goal of the second part is specifically to discuss the social tools already in use at the EU level and their limits, but also to reflect on the legitimacy of such an idea. Our aim is not to describe or explain the recent developments of Social Europe but to think theoretically and ethically about the current and future role of the EU in the social field and more specifically in the fight against inequality. How does the EU deal with inequality today? What should be the role of EU institutions regarding the challenge of reducing inequality?

The theoretical advances regarding inequality have been both significant and varied and have opened up renewed forms of understanding and explanation. The most important theories and analyses of contemporary social inequalities adopt a multidimensional perspective (Therborn 2006). The different dimensions of inequality—income, poverty, social exclusion, education and social mobility—are linked and interconnected. Likewise, it is useful to compare poverty and social exclusion levels between countries to underline the standards of living of different national populations. This is why we propose in the first part of the book an analysis of the different dimensions of inequality in the EU, both among individuals and groups within countries and between European populations.

Analyses of the change in income inequality are developed in the first two chapters. Despite some methodological limitations, income indicators are useful to measure inequality at the EU level, as Michael Dauderstädt shows in his analysis (Chap. 2). He proves that income inequality between countries and their populations has been stagnant since the beginning of the economic and social crisis in 2008, after a period of relative convergence, but still remains high, especially when comparing the old and new Member States of the EU. Maxime Ladaique and Guillaume Cohen (Chap. 3) highlight and explain the growth of income inequalities observed in a large majority of European countries since the mid-1980s: the development of non-standard work and a common policy agenda that favours diminishing income redistribution and progressive taxation are the main drivers of the present situation.

The following two chapters take a multidimensional perspective on inequality at the European level. Renato Miguel Carmo and Ana Rita Matias (Chap. 4) focus their work on social vulnerability in the southern European countries. According to them, the link between resource inequality and social vulnerability is stronger in the Southern and Eastern European countries, where the gap with regard to Northern countries is increasing. António Firmino da Costa and his team (Chap. 5) analyse the intersections between the distributional inequalities of economic and educational resources in the EU, as well as the categorical inequalities between nation states and between social classes. They demonstrate that social disparities are high between different parts of Europe in terms of income, but also educational inequalities.

Chapters 6 and 7 develop an overview of social disparities between national populations of the EU with a focus on poverty and social exclusion, including social living conditions. Reading the available data bears out similar trends analysed previously: Southern and Eastern countries are more affected by income poverty and material difficulties. In recent years, efforts have been made at the EU level to build harmonised data and social indicators for the European population as a whole, especially regarding poverty and social exclusion. According to Eurostat, an individual is considered as poor and in a situation of social exclusion when he or she is concerned by one of the three following situations: living in a household with very low work intensity, earning a disposable income below 60% of the national median income or being in a situation of severe material deprivation. These and other indicators are discussed concerning the methodological option of establishing a defined threshold of the risk of income poverty (Orsolya Lelkes and Katrin Gasior, Chap. 6) or the relevance of using the indicator of material deprivation (Brian Nolan and Christopher T. Whelan, Chap. 7). The last authors additionally present information regarding the social categories that are suffering from different types of social vulnerability.

In the last chapter of this part, Márton Medgyesi examines social reproduction mechanisms and compares the social situation of young people in different countries of the EU in relation to their participation in education and training and the occupations of their parents. At the European level, social class is still a pertinent category to explain and describe the discrepancies between social positions and their distinct possibilities and opportunities. But the possibilities offered to European people differ strongly regarding their geographic context within the EU. Following this multidimensional perspective, the author demonstrates in his chapter that young people are being considerably affected. He identifies a persistence of inequalities among the young due to social reproduction mechanisms: family background and more precisely parents' social situation and educational level have a strong influence on the life chances of young people.

The goal of the second part of the book is to analyse the current role and limits of the EU and its institutions in the social domain and to question its role in the future. In the original context of the EU, social prerogatives are national: social policies intended to limit socioeconomic inequalities and guarantee sufficient accessibility for all to public goods—education, social security schemes, healthcare and so on—are decided by the Member States, which have the ability to propose political responses to the social consequences of the crisis. But the institutions of the EU, and especially the European Commission, are also engaged in the social domain.

The first three chapters of the second part propose analyses of the nature and limits of EU engagement in the social realm. In Chap. 9, Cédric Rio discusses existing European social tools and elaborates a reflection about the way an ambitious Social Europe could adapt to the social heterogeneity of Member States. He claims that the acknowledgement of common social rights for all Europeans, together with ambitious redistribution mechanisms between European countries in order to finance these rights, could advance European social policies without threatening the diversity of national social systems. Chapters 10 and 11 focus on specific policies associated with inequality. Gwenaëlle Perrier (Chap. 10) proposes a discussion about the gender equality policy led by the EU. She recalls that gender equality policy was and still is justified mainly by economic concerns and the specific need to develop a European free market. According to her, such a justification has limited the scope and impact of this policy. Beatriz Tomás Mallén (Chap. 11) focuses on the recognition of fundamental rights at the EU level through the Charter in the Lisbon Treaty. She mentions the need to institutionalise common and guaranteed rights for all by harmonising the two existing normative systems developed in parallel by the Council of Europe and the EU institutions.

The last three chapters are more prospective. In Chap. 12, Antoon Vandevelde contrasts different theoretical visions regarding implementation of social policies at a European level. Many normative reasons that can be considered to legitimate ambitious social policies at the EU level, including the cosmopolitan argument that recognises fundamental rights to all, are based on the idea of necessary solidarity between European people to pursue the common good. But, as Philippe Van Parijs (Chap. 13) criticises, the facts are completely different: the current situation of the EU is characterised by limited public transnational interventions, high inequality levels and a general lack of solidarity among national governments. This situation is very close to the project dreamed by the neoliberal author Friedrich Hayek: before the Second World War, he defended a potential project of multinational federalism as a way to facilitate liberation of the economy from public interventionism. According to Van Parijs, an ambitious Social Europe, illustrated by the implementation of a Eurodividend—an unconditional basic income—could overcome this 'Hayek's trap'. Finally, in an interview with Frederico Cantante, Thomas Piketty (Chap. 14) describes his vision of a Social Europe. Beyond the statistical trends, Thomas Piketty addresses that the growth in inequality levels over the last two decades is basically the result of political choices. According to his analysis, national governments have to take responsibility for limiting and stopping the rise in inequality and poverty. Moreover, the current interdependence of national economies in the EU and the great disparities among European populations should encourage political actors to elaborate and develop EU social prerogatives. He then argues in favour of European investment in universities and higher education. In the last chapter (Chap. 15), the editors of this book address some final remarks regarding the need to improve and develop an European Social agenda.

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Note

1. In each chapter, the authors include their own precise definition and characterisation regarding the inequality or poverty indicators that are used and discussed in their analysis.

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Part I

Inequality and Poverty in European Union

2

Disposable Income Inequality, Cohesion and Crisis in Europe

Michael Dauderstädt

2.1 Introduction

During the present crisis beginning in 2008, people worry about rising inequality, weaker social protection and the divergence of income levels between the core and the periphery of the European Union (EU). The financial crisis has been blamed on inequality (Rajan 2010; OECD 2015) as poor strata of the population (in the United States, but also in Europe's periphery) borrowed funds to acquire housing or maintain consumption levels in spite of low and stagnating wages. On the side of lenders, high inequality contributed to an overhang of savings as the rich have a higher propensity to save, and investment in the real economy stagnates in the face of weak demand.

When governments increased their debt to bail out a financial sector where bankers and investors had enjoyed astronomical revenues and incomes, public discontent had increased (Occupy Wall Street). Prominent economists like Piketty (Piketty 2013) and Stiglitz (Stiglitz 2012) pointed out the rising levels of wealth, debt and the related income

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inequality and warned about their consequences. Even mainstream institutions such as the International Monetary Fund (IMF) or the Organisation for Economic Co-operation and Development (OECD) criticised the negative impact of rising inequality (Kumhof and Rancière 2010; Gupta 2014; Ostry et al. 2014; OECD 2015).

Concerns about declining cohesion within Europe grew as southern European countries faced shrinking economies and rising poverty and unemployment. The following chapter discusses the dimensions of inequality in the EU and analyses their relationship with the crisis.

2.2 The Dimensions of European Inequality

Inequality can be considered between different entities (such as countries, regions, households, individuals) with regard to different qualities (such as income, wealth, life expectancy) using different indicators and measures. Here, we focus on (disposable)[1] income inequality within the EU. The analysis of inequality in a multi-country context implies certain problems, which have been discussed in depth on a global level by Milanovic (2016) and Bourguignon (2015). They differentiate between three types of international inequality: (1) between nations regardless of their population; (2) between nations weighted by population; (3) between people (households). The last measure takes into account the distribution of income within and between countries.

To compare incomes in an international context, one can use two measures: (1) at exchange rates and (2) at purchasing power parity (PPP). The use of these two different measures makes a lot of sense when one compares income levels between countries with different currencies, as the value (e.g. converted into Euros) might change with the (real) exchange rate, which depends on variations in the nominal exchange rate and on inflation, which are different from country to country. Prices might change at different rates within countries between different regions, too.

The analysis of international inequality and its results depend on the choice of indicator, too. First, there is an almost ethical question: Are absolute differences between incomes more relevant than relative ones? Are poor people content to see their income grow faster than that of the rich or do they want to reduce the absolute difference? In the context of convergence between countries (see section 2.2.1 below), the first concept is called beta convergence; the second sigma convergence, as the standard deviation, indicated in mathematics by the Greek letter sigma, measures absolute differences. To offer a (not unrealistic) numerical example: if at the beginning of the comparison the average GDP/capita of the richer country is 5 times the one of the poorer country and the rich country's economy grows at an annual rate of 2% and the poor at 5%, it would take the poor country 55 years to catch up, and only after 24 years would the absolute difference between the two average incomes begin to shrink (it would still increase for the first 24 years in spite of the higher growth rate).

Second, an indicator of international inequality should better be decomposable into intra- and inter-country inequality. This condition is fulfilled by the Theil index[2] and the quintile ratio (S80/S20), but not by the Gini index. The Gini index varies between 0 in the case of perfect equality and 1 in the case that all income goes to one entity (e.g. household). If one compares only the degree of poverty rather than the distribution of income as such, the Foster–Greer–Thorbecke (FGT) index is decomposable as well.[3] The indicator we use most often is the ratio between the average income of the richest and poorest quintiles (= 20%) of the respective population (the so-called quintile ratio S80/S20).

If one analyses income inequality in a multi-country setting like the EU, different dimensions are of interest.

(A) Disparities between EU Member States measured in terms of average per capita income; in this case, the inequality within the countries is neglected;
(B) Disparities between regions of the EU; in this case, the inequality within the regions is neglected;
(C) Disparities between households within countries;
(D) Disparities between households within the EU as a whole taking into account both inequalities, (A) and (C).

The reduction of disparities between countries (dimension A) and between regions (dimension B) is usually called 'convergence' or 'cohesion'. The funds used by the EU to reduce regional inequalities are cohesion funds. There are regular reports by the EU on development of regional disparities.[4] Dimension (C) refers to the well-known inequality within countries. Let us briefly consider the three other dimensions (A, B and C) before focussing on European-wide inequality (D).

2.2.1 Divergence and Convergence[5]

Greater wealth is one reason why poor countries joined the EU. For the EU itself, convergence is an official goal. Historically, for the first two poor countries that became Member States (Ireland in 1972 and Greece in 1981), progress was slow. Portugal and Spain (entry in 1986) experienced good catch-up growth for several years. For the post-communist countries of Central and Eastern Europe (CEE), catching up has been key. The biggest success story so far has been Ireland, which showed spectacular growth in the 1990s (i.e. 20 years after entry), thus becoming the second-richest country in the EU (measured at per capita GDP).

Income disparities within the EU are huge. The poorest countries (Bulgaria, Romania and the Baltic states) have per capita incomes below €20,000, while this figure exceeds €70,000 for the richest country (Luxemburg) (see Table 2.1). The differences become greater when one compares incomes at exchange rates, as PPPs reflect lower price levels in poorer countries (in particular rents and services).

Regarding different forms of convergence (beta and sigma, see above) one can see that there has been beta convergence since 1999 as most new Member States in CEE (top of Table 2.1) have grown much faster than the core EU countries (bottom of Table 2.1). But there was no clear sigma convergence in the EU. Only after 2007, income disparities between countries have declined by approximately 5% or 10% if measured by the standard deviation of their average per capita income at exchange rates or at PPPs, respectively. If one calculates the S80/S20 ratio for the EU as a whole by adding up countries until their total aggregate population reaches a fifth of the EU (about 100 million), the ratio has declined between 2005 and 2014 from around 5.4 to 3.7 at exchange rates and from 2.6 to 2.0 at PPP.[6] This ratio neglects income disparities within countries.

Table 2.1 Level and change in per capita income at purchasing power parities

	2006 (in € PPP)	2015 (in € PPP)	Change (in %)
EU (28 countries)	24,687	28,924	17.2
Euro area (19 countries)	26,662	30,659	15.0
Bulgaria	9381	13,305	41.8
Romania	9381	16,487	75.7
Poland	12,344	19,958	61.7
Latvia	13,578	18,511	36.3
Lithuania	13,825	21,404	54.8
Croatia	14,318	16,776	17.2
Hungary	15,306	19,668	28.5
Slovakia	15,306	22,271	45.5
Estonia	15,800	21,404	35.5
Malta	19,256	25,742	33.7
Portugal	19,503	22,271	14.2
Czech Republic	19,996	24,585	22.9
Slovenia	21,231	24,007	13.1
Greece	23,206	20,536	−11.5
Cyprus	24,440	23,428	−4.1
Spain	25,181	26,610	5.7
Italy	25,921	27,478	6.0
France	26,415	30,659	16.1
Finland	28,143	31,238	11.0
Belgium	28,637	33,841	18.2
Germany	28,884	36,155	25.2
United Kingdom	30,118	31,816	5.6
Denmark	30,365	35,866	18.1
Austria	30,859	36,733	19.0
Sweden	30,859	35,577	15.3
Netherlands	33,327	37,312	12.0
Ireland	36,043	41,940	16.4
Luxembourg	63,199	78,384	24.0

Source: Eurostat and calculations by the author

Since the beginning of the crisis, recovery in Europe has been unequal. The resulting divergence does not appear in the general measures as most of the poorer Member States in CEE returned to their former growth path while the depressed, austerity-struck economies of Ireland, Greece, Spain, Portugal and Cyprus belonged to the European top or middle 'class', regarding income per capita. Has there been convergence after all? The answer depends on the measure or metric. If one measures relative disparities (e.g. by using S80/S20), countries did converge. If one considers absolute differences (e.g. by using standard deviation), countries did not converge.[7]

2.2.2 Regional Cohesion

Income (average per capita income) disparities between regions are higher than between Member States (see above A) because regional income disparities within countries are high and tend to increase. Many economic activities are concentrated in growth centres, often the country's capital. In Great Britain, for instance, the ratio of average income between London and Wales (the poorest region) is 1:5. In the EU as a whole, the richest region (on the NUTS-2 level[8]) is the City of London with a per capita income (at PPP) of more than €80,000 compared to €7200 in the Romanian border region Nord-Est.

For the EU as a whole, regional inequality (measured by the standard deviation) has increased (no sigma convergence). Nonetheless, there has been beta convergence as regions in poorer Member States have grown faster thanks to the faster growth of their national economies. If one calculates a European S80/S20 ratio by creating the poorest and richest European quintiles (of 100 million people) by adding up poorest and richest regions neglecting intra-region inequalities, the resulting values are 4 in 2000 and 2.8 in 2011. This decline again reflects the catching-up growth of poorer Member States. Within countries, regional inequality has increased. For the 22 Member States of the EU-28 that are divided into NUTS-2 regions (all except the smaller countries Luxemburg, Malta, Cyprus and the three Baltics), the standard deviation increased on average by 106% between 2000 and 2011, while within the new Member States, the rise was even stronger. Regional inequality in Romania increased by 300%.[9]

2.2.3 National Inequality

Recently, concerns about national inequality have increased. Even international institutions not known as progressive or concerned about social justice such as the OECD and the IMF have started to publish critical studies of inequality and its consequences for growth and stability.[10] On average in the EU, inequality within countries has hardly increased. The average of the national S80/S20 ratios has remained at about 5 (see the

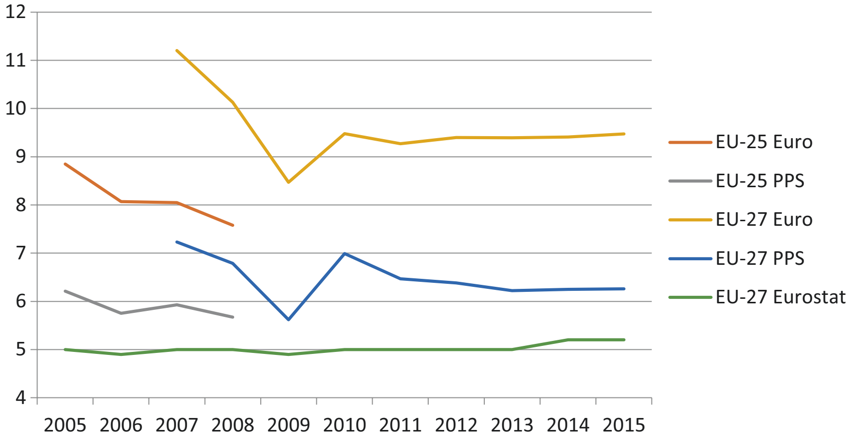

Fig. 2.1 Development of inequality in the EU (2005–2015)
Source: Eurostat, authors' calculations

bottom curve in Fig. 2.1 below). But that average hides substantial disparities. In Croatia, Denmark and France, the ratio increased between 2007 and 2013 by more than 15%, in Greece by 10%, while it declined by more than 10% in Romania, the United Kingdom and the Netherlands.

National inequality is affected by redistributive policies such as progressive taxation, social protection and transfer payments to old, sick and unemployed people. The resulting distribution of disposable income is more equal than the primary distribution of market income. However, the effect of these policies varies widely among Member States. The differences between the Gini coefficients for market and disposable income range from 0.14 (e.g. Finland, Slovenia, France) to 0.09 (Spain, Netherlands) and 0.08 (Estonia).[11]

2.2.4 European-Wide Inequality

While much research and statistical evidence focuses on the first three dimensions of inequality (A, B and C), European-wide inequality (D) is more difficult to calculate and rarely assessed. Using the S80/S20 ratio as an indicator, Eurostat, the statistical office of the EU, offers a value which it calculates as the weighted (by population) average of the national S80/S20 values. This measure is obviously false[12] as it neglects the enormous income differences among countries and assumes that the richest (poorest) quintile of the EU population (about half a billion people) consists of the sum of the richest (poorest) national quintiles. This mistake can be corrected by constructing the true richest and poorest quintiles of the EU.

How do we construct the richest and the poorest EU quintiles, which comprise each around 100 million people? If we had income data for all EU households, we could calculate the income of the bottom and the top quintiles and get a relatively good S80/S20 ratio for the EU as a whole. If we do not have these detailed data, we can approximate the value by building the bottom and top quintiles in different ways.

The easiest (but also very rough) estimate would use Member States and their average GDP/capita, thus neglecting the disparities within the countries. By ordering Member States according to their average GDP/capita, we can form the desired EU quintiles by adding up countries from the bottom respectively from the top until we have arrived at 100 million people. Usually this means cutting off part of the last country's population when the limit of 100 million is reached. This is approach 1 in Table 2.3.

In quite a similar way one can use regions. The distortion will be lower because regions are smaller and an appropriate selection of regions can fit the actual poorest (or richest) quintile of the whole EU more closely. But the inequality within regions is neglected. This is the approach 2 in Table 2.3.

In our approach we wanted to get even closer. Thus we constructed our EU quintiles out of the 135 national quintiles[13] derived from the EU-SILC data (household survey). We ordered these 135 quintiles by average per capita income (see Tables 2.2a and 2.2b). For the poorest EU quintile, we began from the bottom, for the richest quintile from the top and selected as many national quintiles as necessary to make up 100 million people (= a fifth of the EU population). We were then able to sum the total income of these quintiles in order to get the income of the EU quintile. The ratio between the incomes of the poorest and the richest quintiles thus construed yields the S80/S20 ratio for the EU as a whole.

Table 2.2a The poorest (dark grey) and richest (light grey) quintiles in the EU (euros) (2015)

2015	Income per capita in euros				
Member state	Q1	Q2	Q3	Q4	Q5
Bulgaria	1256	2388	3350	4557	8902
Romania	685	1563	2310	3134	5674
Latvia	2243	4081	5828	8110	14579
Lithuania	2005	3625	5186	7451	14395
Poland	2512	4217	5562	7220	12366
Estonia	3169	5580	7947	11089	19663
Hungary	2220	3571	4586	5915	9530
Slovakia	3419	5623	6900	8430	12088
Czech Republic	4214	6123	7424	9185	14777
Portugal	3436	6232	8416	11234	20656
Greece	2714	5443	7515	10103	17626
Malta	6768	10166	13485	17321	28082
Spain	4549	9499	13360	18375	31255
Slovenia	6280	9831	12321	15060	22553
Italy	5996	11593	15884	20959	35014
Cyprus	6780	10281	13827	18563	35251
Germany	9339	15845	20723	26782	44788
France	11219	16924	21471	27179	48094
Belgium	10891	16621	21753	27484	41578
United Kingdom	9540	15808	21043	28373	49901
Austria	11649	18413	23340	29250	47099
Finland	12920	18868	23766	29711	45929
Netherlands	11346	16957	21346	26600	43367
Sweden	12974	20904	26651	33104	48790
Ireland	10528	16159	21617	28475	47391
Denmark	14056	22553	28388	35248	57340
Luxembourg	17385	26925	35081	45258	73832

Source: Eurostat and authors' calculations

Table 2.2b The poorest (dark grey) and richest (light grey) quintiles in the EU (PPP) (2015)

2015	Income per capita in PPP				
Member state	Q1	Q2	Q3	Q4	Q5
Bulgaria	2595	4933	6921	9414	18388
Romania	1289	2941	4347	5898	10679
Latvia	3114	5665	8092	11259	20241
Lithuania	3194	5774	8260	11867	22929
Poland	4499	7552	9961	12930	22147
Estonia	4190	7380	10509	14664	26002
Hungary	3858	6207	7971	10281	16563
Slovakia	5042	8293	10175	12433	17827
Czech Republic	6615	9612	11654	14419	23196
Portugal	4203	7623	10294	13740	25263
Greece	3177	6371	8796	11826	20631
Malta	8367	12568	16671	21414	34718
Spain	4928	10290	14472	19906	33858
Slovenia	7691	12040	15090	18444	27620
Italy	5825	11263	15431	20362	34016
Cyprus	7527	11414	15350	20609	39136
Germany	9202	15613	20420	26390	44131
France	10417	15715	19937	25237	44657
Belgium	10019	15291	20012	25284	38250
United Kingdom	8068	13368	17795	23993	42199
Austria	10909	17244	21858	27393	44109
Finland	10564	15427	19432	24293	37553
Netherlands	10331	15440	19436	24220	39487
Sweden	10332	16648	21224	26364	38856
Ireland	5737	8804	11778	15515	25822
Denmark	10101	16208	20402	25332	41209
Luxembourg	14435	22356	29128	37579	61304

Source: Eurostat and authors' calculations

Table 2.3 Different measures of European-wide inequality (quintile ratios)

	Indicator (S80/S20)					
Approach	Using	Neglecting	Earliest	Year	Latest	Year
1	Average national incomes	Intra-country inequality	2.6 (PPP) 5.4 (€)	2005	2,0 (PPP) 3.7 (€)	2014
2	Average regional incomes	Intra-region inequality	4 (PPP)	2000	2.8 (PPP)	2011
3	Average of national ratios weighted by population, (Eurostat value)	Inter-country inequality	5 (PPP)	2005	5 (PPP)	2013
4	National quintiles, taking into account both inequalities	Intra-quintile inequality	7 (PPP) 11 (€)	2007	6.2 (PPP) 9.4 (€)	2014

Source: Eurostat and authors' calculations

The composition of the EU quintile has changed only slightly over the years. The poorest quintile generally comprises the four or five poorest quintiles of Bulgaria and Romania, the three or four poorest in the Baltic States, Poland and Hungary, the two poorest in the Czech Republic, Slovakia and Portugal, and one each from Greece, Malta, Spain, Slovenia and Italy. The richest EU quintile comprises the three richest quintiles of Luxembourg and Denmark, the two richest of Ireland, Sweden, the Netherlands, Finland, Austria and France, as well as the richest from the United Kingdom, Belgium, Germany, Cyprus, Italy and Spain. If a country grows strongly and moves up in the EU ranking of per capita incomes, its national quintiles will show up less in the poorest and more in the richest EU quintile.[14]

The Tables 2.2a and 2.2b show the national quintiles and the subsets that form the richest and poorest European quintiles in 2015.

If we summarise the different ways to calculate a S80/S20 ratio for the whole EU, one can measure European-wide inequality by constructing the respective quintiles of about 100 million people and calculating the ratio between the richest and the poorest quintile, which delivers different S80/S20 ratios depending on the approach:

1. Summing up whole nations (or parts thereof) to create the EU quintiles neglects intra-country inequality,
2. Summing up whole regions neglects intra-region inequality,
3. Summing up the poorest and richest national quintiles, as the official Eurostat value does, neglects inter-country inequality.
4. Our approach (Tables 2.2a and 2.2b) takes both dimensions into account.

The following Table 2.3 provides an overview of the values resulting from the different approaches in different years.

2.3 The Development of European Inequality

As illustrated in Fig. 2.1,[15] the EU S80/S20 ratio resulting from our method (4th approach) is much higher than the official and inaccurate Eurostat value. While the latter is about 5, our value ranges between 6 and 7 (at PPP) and 9 and 10 (in euros). For comparison, other major economies, according to the UN Human Development Report, have mostly lower values of 4.9 (India), 7.3 (Russia), 8.4 (United States) and 9.6 (China).[16] National S80/S20 values for EU Member States are between 3 and 4 (in relatively egalitarian Scandinavian countries) and 6 and 7 (in Spain, Greece, Baltics); the direction of change is also sometimes different. While the Eurostat value (lowest curve in Fig. 2.1) is relatively stable, the true value declined until 2009, increased shortly after the great recession and has stagnated since.

The decline of European-wide inequality was mostly due to the catch-up growth of poorer countries (see section 2.2.1 above), as intra-country inequality did not change much (see section 2.2.3 above). After a short but substantial rise of inequality during the great recession, the former trend continued, albeit much more slowly. Measured in terms of PPPs, inequality has still fallen. If one considers the changes in the income of the richest and poorest quintiles in the EU between 2011 and 2014, one sees the opposite development, depending on how one measures it. In exchange rate terms, the income of the richest quintile increased by 3.9% between 2011 and 2014, while in terms of PPP, it rose by only 1.9%. In the case of the poorest quintile, it was the other way around: income in exchange rate terms rose by only 2.4%, while in terms of PPP, it rose by 6.3%.

What underlies this discrepancy? Basically, it was the different development of exchange rates and inflation. Especially in poorer countries and in countries compelled to pursue austerity policies, the trend between 2011 and 2014 was deflationary development or below-average inflation. This applies in particular to Greece, Ireland, Portugal and Spain (GIPS), but also to many of the new Member States.

More recently, a study on European inequality using Gini and Theil indexes has been published (Bönke and Schröder 2015), which covers the years 2004–2011 and most (but not all) EU Member States. Calculating a European Gini index is difficult as the Gini cannot be decomposed into intra-country and inter-country components without a residual, while the Theil can. The authors arrive at a Gini value of around 0.32 and a Theil of 0.16. Both values declined since 2004 for the EU-22 until the crisis and stagnated afterwards, thus confirming our findings. In contrast, after 2009 within the Euro zone, inequality increased, according to the authors. It was the deep recession in the southern periphery that showed up in the supranational inequality indicator, if one excludes the non-Euro countries in CEE.

The different development of inequality according to different approaches, particularly approaches 3 and 4 illustrated in Fig. 2.1, is also responsible for different poverty dynamics in the EU. Poverty is measured here as the share of households with an income below 60% of the median income. While national poverty rates (using national median incomes) stagnated, EU-wide poverty (using the median EU income) decreased substantially between 2005 and 2011 (Goedemé et al. 2014).

2.4 Crisis and Inequality

Up to the threefold crisis—financial market crisis, great recession and sovereign debt panic—Europe, which is committed to social cohesion, was able to point to solid progress. Unemployment was falling; life expectancy was rising; and income inequality, although increasing in some countries, was declining in the EU as a whole thanks to growth in the poorer Member States. After falling substantially up to the great recession of 2009, convergence within the EU suffered a setback in 2010, but then appeared to resume its long-term trajectory of income convergence. Since 2011, however, this process has practically ground to a halt, especially in euro terms (rather than in PPP).

Inequality has contributed to the crisis in various ways. Rising inequality in the United States led to more borrowing by the poor and higher savings of the rich, in search of yield. The collapse of the mortgage market triggered the financial crisis. In Europe, imbalances resulted from inequality, too. Large export surpluses in Germany in particular reflect the lack of internal demand due to stagnating wages and the growing savings of the rich. These savings then financed the current account deficits of the countries in the poorer EU periphery, which have been eager to catch up with the richer core. It was this, unfortunately debt-driven, boom that fuelled growth and reduced inequality in the EU.

After the financial market crisis and great recession of 2008, many poorer countries—especially in Central and Eastern Europe—were able to resume their growth path. It was the countries affected by the sovereign debt panic and austerity policies—Greece, Ireland, Portugal, Spain and Cyprus—that fell back. Because they do not figure among the poorest countries in the EU, however, their deep crisis scarcely increased European-wide inequality, but only retarded its reduction.

This effect continues to be felt, but now—after 2012—some of the new Member States (Bulgaria, Czech Republic, Slovenia) have experienced a slump, while two large, wealthy countries—Germany and the United Kingdom—exhibited weak, but above-average, growth. The economies of some richer countries—such as Finland, Italy, Belgium and Denmark—shrank, while many new Member States continued to grow strongly (Baltic States, Poland, Romania, Hungary, Slovakia). Thus, the main cause of the stagnating inequality is not the diverging development of domestic inequality, but the end of strong catch-up growth in some poorer EU Member States.

The key finding with regard to recent years is the notable slowdown of the former decline in inequality. Social Europe's promise to reduce income differences in the EU is no longer really being kept. Without vigorous growth in the poorer countries, inequality remains high. But where is growth supposed to come from? Germany and important EU bodies continue to rely on structural reforms and austerity policies, whose effects on growth are scarcely discernible. The policies forced upon the countries in the Southern periphery suffer from conflicting goals: Austerity, internal devaluation and growth hardly reinforce each other. Reducing government spending harms growth. Lowering wages to improve competitiveness reduces tax revenues and slows down budget consolidation. Growth and structural competitiveness (higher productivity, better quality, export diversification) require appropriate public policies such as improved education and more spending on research and development.

Given these multiple, self-imposed constraints on fiscal policy, demand growth had to rely on monetary policy and exports. But the European Central Bank (ECB's) more assertive policy (after 2012) could only reduce interest rates and stabilise asset prices without restoring vigorous growth. The weakness of the euro vis-à-vis other currencies (one consequence of the loose monetary policy) has supported exports. But without sufficient internal demand, growth remains weak.

In the meantime, at least, the new (elected in 2014) European Commission has recognised that other policies are needed. However, the planned European Fund for Strategic Investment is on too small a scale and depends on a somewhat questionable willingness on the part of private investors to leverage the relatively meagre public resources of €16 billion on a massive scale (by a factor of 15). It is doubtful that the expected total volume of almost €300 billion of additional private resources will be mobilised. The effects will take much time to be felt in the form of higher growth and lower unemployment due to a complex process of project identification, evaluation and implementation.

In order to reduce disparities between countries, investment funds should be concentrated in poorer Member States. Within countries, the build-up of wealth resulting from investment will primarily benefit richer households. This holds in particular when the EU funds are used to reduce risks for the private investors and policies to improve the investment climate aim exclusively at lower wages, more flexible labour markets and weaker social protection. But the greatest obstacle to investment remains the lack of demand. Only stronger demand based on widespread income growth will lead to sustainable growth. In order to achieve this, investment must create jobs that deserve the label 'decent work'.

Notes

1. Income after taxes and social transfers.
2. The Theil index varies between 0 and N (with N the number of compared units).
3. See Goedemé et al. (2014) for an application on Europe.
4. For the latest, the sixth report of 2014 see: http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion6/6cr_en.pdf
5. For a detailed analysis, see Dauderstädt (2014).
6. Calculation by the author using Eurostat data; see also Table 2.3.
7. For a more in-depth discussion of the influence of different metrics on multi-country inequality, see Nino-Zarazua et al. (2016).
8. Nomenclature for Territorial Units for Statistics (NUTS) is the EU classification of regions; NUTS-1 are big regions such as German 'Länder'; NUTS-2 are smaller regions defined for regional policy measures.
9. Calculation by the author using Eurostat data.
10. See OECD (2011), OECD (2015), Kumhof and Ranciere (2010), Gupta (2014).
11. See OECD (2011); the OECD average is 0.1.
12. See also Atkinson et al. (2010), p. 109.
13. Today we would need 140 as Croatia has joined the EU as its 28th member state. In order to facilitate the comparison over time, we still use 135 (=5 × 27).
14. For a detailed explanation, see Dauderstädt (2008) or Dauderstädt and Keltek (2011).
15. Taken from Dauderstädt and Keltek (2015, 2016).
16. The figures might nevertheless not be fully comparable as data sources and methodologies of household surveys vary from country to country.

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3

Drivers of Growing Income Inequalities in OECD and European Countries

Guillaume Cohen and Maxime Ladaique

3.1 Introduction

The gap between rich and poor in Organisation for Economic Co-operation and Development (OECD) and European Union (EU) countries has reached its highest level over the past three decades.[1] This chapter first presents some comparisons on income inequality trends between European and OECD countries (Sect. 3.2). We focus in the following section on the evolution of the situation in the past decades (Sect. 3.3). During this period, income distributions have been profoundly transformed by the interplay of globalisation, technological change and regulatory reforms leading to profound structural changes in labour markets. In addition, taxes and benefits have tended to redistribute less from the mid-1990s up to the crisis. These factors, along with a number of demographic and social trends, are key to understanding the rise in income inequality in the OECD area and EU countries. Following the approach of identifying policies which are effective in tackling inequality,

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the OECD proposes a strategy based upon four pillars: women's participation, employment, skills and education, and redistribution (Sect. 3.4).

3.2 Level and Trends

3.2.1 How Unequal Are European Union and OECD Countries?

Differences in levels of income inequality in the EU are significant. Within the EU region, the Gini coefficient—a common measure of income inequality that scores 0 when everybody has identical incomes and 1 when all the income goes to only one person—ranges from 0.25 in Denmark, Slovenia and Slovakia to 0.35 in Lithuania, the United Kingdom and Bulgaria. Income inequality is generally around the EU average among continental European countries (France, Germany) and above the EU average among Mediterranean countries (Greece, Italy, Portugal, Spain). In comparison, the distribution of income is sometimes larger beyond Europe, at 0.40 or above in the United States, Turkey, Mexico and Chile.

Alternative indicators of income inequality suggest similar rankings. The gap between the average incomes of the richest and the poorest 10% of the population was at around 8 for the average of the EU countries, ranging from 5–6 in Nordic and central European countries to almost two times larger (10–11) in English-speaking and Baltic countries (see Fig. 3.1).

3.2.2 Has the Gap Between Rich and Poor Widened?

Over the past three decades, the gap between rich and poor has widened in two-thirds of EU countries and three-quarters of OECD countries for which long-term data series back to the mid-80s are available. Income inequality followed different patterns across European countries. It first started to increase in the 1980s in the United Kingdom. The trends in the 2000s showed a widening gap between rich and poor also in traditionally

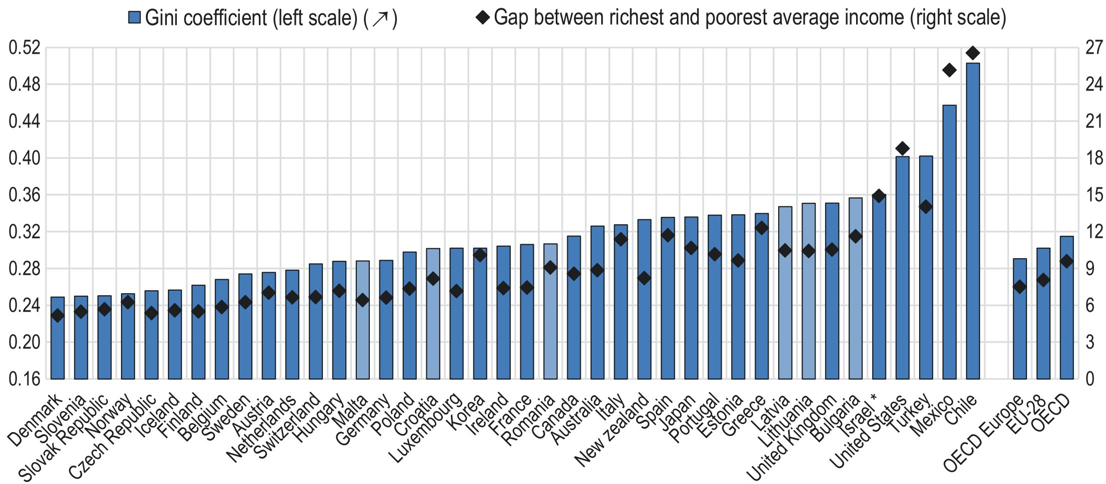

Fig. 3.1 Level of income inequality, 2013 or latest year
Source: OECD Income Distribution Database (http://oe.cd/idd)
Note: non-OECD EU countries are shown in light blue
*The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law

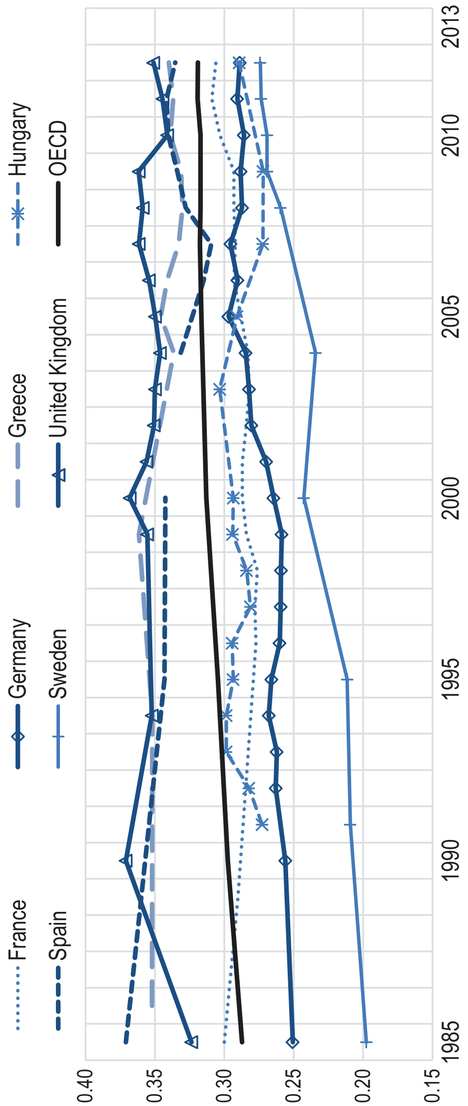

Fig. 3.2 Trends in income inequality, Gini coefficient
Source: OECD Income Distribution Database (http://oe.cd/idd)

more egalitarian countries, such as Germany and Sweden where inequality grew faster than any other OECD country, in relative terms. Since the beginning of the crisis in 2007, income inequality in Europe increased most in France and Spain, but also in some central European countries (Estonia, Hungary and Slovakia). In most countries, the top 10% did better than the bottom 10%. In Spain for example, real income of the 10% poorest has been dropping by 13% per year compared to only 1.5% for the richest 10%. In Austria, Denmark and France, real income at the top increased, while it slightly fell at the bottom (see Fig. 3.2).

3.3 Key Drivers of Growing Inequalities

OECD (2011, 2015) provides a detailed account of the various driving forces of growing inequality up to the crisis. It concerns directly the richest EU countries which are OECD members. The single most important direct driver of growing inequality has been greater dispersion in wages and salaries. This is not surprising, since earnings account for three-quarters of total household incomes among the working-age population. With very few exceptions, wages of the 10% best-paid workers have risen relative to those of the 10% least-paid workers. This was due to both growing shares of earnings at the top and declining shares at the bottom. Annual hours worked decreased more among low-wage than among high-wage earners, and the share of non-standard work increased. Labour markets have been undergoing profound transformations due to globalisation (e.g. Freeman 2009; Milanovic 2016), technological change (e.g. Acemoglu 2002) and changes in product and labour market regulations (e.g. Checchi and Garcia-Penalosa 2005). People with skills in high-demand sectors like information technology or finance have seen their earnings rise significantly, while on the other end of the scale, wages of workers with low skills have not kept up. Besides these profound transformations in the labour market, demographic and societal changes and the decrease in redistribution constitute the underlying drivers of inequality.

3.3.1 Changes in Working Conditions

Before the crisis, many OECD countries were facing a paradoxical situation: their employment rates were at record-high levels and yet income inequality was on the rise. Typically, rising employment might be expected to reduce income inequality as the number of people earning no salary or relying on unemployment benefits falls. However, in recent decades the potential for this to happen has been undercut by the gradual decline of the traditional, permanent, nine-to-five job in favour of non-standard work—typically part-time and temporary work and self-employment. More (often low-skilled) people have been given access to the labour market, but at the same time, this has been associated with increased inequalities in wages and, unfortunately, even in household income.

The development of non-standard work is related to technological changes and the associated evolution of labour demand. Most advanced economies have witnessed increasing job polarisation (e.g. Autor and Dorn 2013)—a decline in the share of workers in the middle of the workforce, both in terms of skills and income, and increases in the proportions of workers in high- and low-skill jobs. The share of workers with routine-task jobs, such as accountants, fell from 53% to 41% between 1995 and 2010. At the same time, the employment share for abstract high-skill jobs, such as designers, grew from 28% to 38%, and relatively low-skill non-routine manual jobs, such as drivers, increased from 18% to 21% (OECD 2015). The emergence of this U-shaped workforce is closely matched by developments in non-standard employment. The decline in middle-skill employment went hand in hand with a decrease of standard work contracts; and workers taking on low- and high-skill jobs were increasingly likely to be self-employed, part-timers or temporary workers.

The spread of non-standard work is most visible when comparing its share in new jobs created before and since the onset of the crisis. Between the mid-1990s and the start of the Great Recession, almost half of all job creation was in the form of non-standard work; if the crisis years are included, this figure rises to 60% (Fig. 3.3).

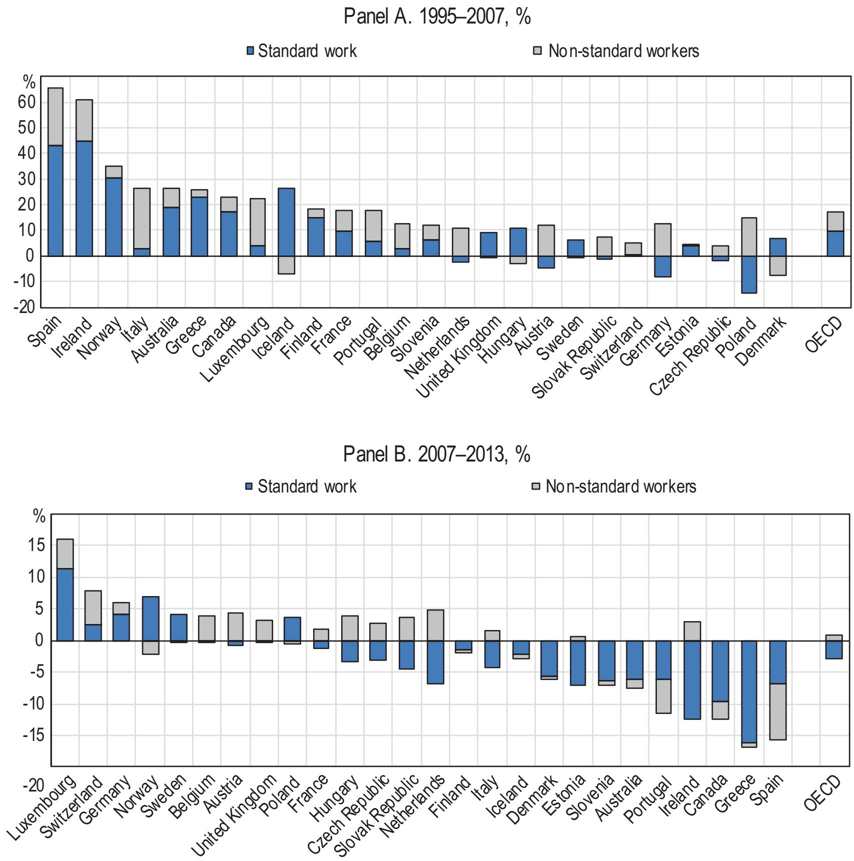

Fig. 3.3 Employment growth 1995–2013, by type of employment
Source: OECD (2015), In It Together: Why Less Inequality Benefits All
Note: Working-age (15–64) workers, excluding employers as well as students working part-time. Non-standard workers include workers with a temporary contract, part-timers and own-account self-employed

Recent OECD findings suggest that non-standard work accounted for around a third of total employment in OECD countries in 2013, shared roughly equally between temporary jobs, permanent part-time jobs and self-employment. In some Eastern European countries, the proportion of non-standard workers is lower than 20%, but in most Southern European countries and Switzerland, it exceeds 40% and in the Netherlands more than half of all workers are in non-standard work, largely because of the high number of part-timers.

Non-standard jobs are not necessarily bad jobs. Non-standard employment is used by employers in need of a flexible workforce that can be adjusted quickly with production, to cut costs during downturns or as a screening device for new hires. Part-time, temporary and self-employment arrangements can be attractive to certain workers who opt for this type of employment to achieve a better work–family life balance, higher life satisfaction or, in the case of self-employment, a greater sense of control.

However, they may be associated with precariousness and poorer labour conditions where non-standard workers are exempted from the same levels of employment protection, safeguards and fringe benefits enjoyed by colleagues on standard work contracts. In addition, OECD (2015) shows that many non-standard workers are worse off on a range of aspects of job quality—lower wage rates, less training and security of employment. However, non-standard work can be a 'stepping stone' to more stable employment. In particular, temporary contracts can increase the chances of acquiring a standard job compared with remaining unemployed in the short run, but this is less true on the longer-run and is mainly limited to prime-age and elderly workers.

3.3.2 Institutional Changes

Labour markets in most OECD countries witnessed both regulatory reforms, such as lower minimum to median wage ratios, lower benefit replacement rates or weaker employment protection legislation and institutional changes, such as lower union density or coverage of collective-bargaining arrangements. These changes had contrasting effects on employment and wage distribution. They helped promote productivity and growth and increase employment opportunities while, at the same time, contributing to wider wage disparities. The combined influence of these factors on overall earnings inequality and household income inequality is less straightforward as employment and wage effects tended to cancel each other out.

3.3.3 Demographic and Societal Changes

Demographic and societal change—more single and single-parent households, more people with a partner in the same earnings group—also played a role for increasing inequality, but much less than sometimes assumed. Smaller households are less able to benefit from household economies of scale. And the so-called assortative mating (i.e. the degree to which individuals marry within their own income group) concentrates earnings of couples in the same income classes. Both trends did contribute to higher overall inequality. However, these factors accounted for much less than labour market-related factors: the widening dispersion of men's earnings contributed more than twice that value, while the increase in women's employment countered the increase towards higher inequality.

On the other hand, when looking beyond wages and including all factors related to higher female labour force participation—higher share of women working full-time and higher relative wages for women—OECD (2015) showed that the general impact of women joining the labour force had an equalising effect on income.

3.3.4 Weaker Redistribution

Another key factor for rising net income inequality was the weakening of redistribution through tax and benefit systems since the mid-1990s until the late 2000s. Direct taxes and cash transfers are the most direct and immediately effective policy levers that governments can use to redistribute market incomes and reduce income inequality. At the onset of the crisis, public cash transfers and income taxes reduced inequality among the working-age population by an average of about one-quarter across OECD countries, down from about one third in the mid-1990s: in Sweden for instance, redistribution fell from 42% to 27% over this period. This redistributive effect is above the OECD average in most European countries, remaining above 35% in Slovenia, Finland, Denmark, Belgium and Austria, and between 30% and 35% in Luxembourg, Czech Republic, France, Croatia, Hungary, Greece, Slovak

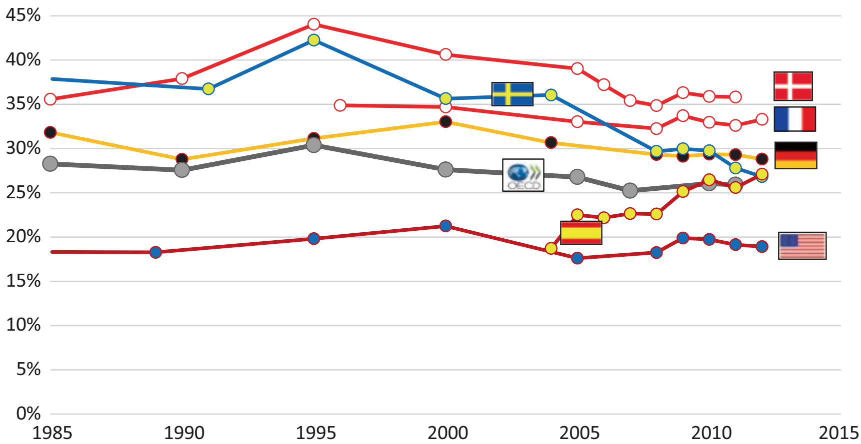

Fig. 3.4 Trends in redistribution
Source: OECD Income Distribution Database (http://oe.cd/idd)
Note: Redistribution is measured as the percentage difference between inequality (Gini coefficient) of gross market income (before taxes and transfers) and inequality of disposable income (after taxes and transfers)

Republic and Norway. The weakening of redistribution prior to the crisis was driven chiefly by benefits rather than taxes or, to be more precise, by changes in their receipt patterns and generosity. Fewer numbers of unemployment benefit claimants and reforms to benefit eligibility criteria have been particularly important factors. Although governments spent more on benefits overall, transfers did not become more progressive. In particular, spending on out-of-work benefits shifted towards 'inactive' benefits, which resulted in reduced activity rates and thus exacerbated the trend towards higher market income inequality (see Fig. 3.4).

3.4 What Can Policy Makers Do?

Tackling inequality and promoting equal opportunities for all requires comprehensive policy packages (see also Atkinson 2015), centred around four main areas:

- *Promoting fuller participation of women in the labour market*: governments need to pursue policies to eliminate the unequal treatment of men and women in the labour market and to remove barriers to female employment and career advancement. This includes measures to increase the earnings potential of women in low-paying jobs and to address the glass ceiling. In addition to gender gaps in employment participation, women still face a glass ceiling when it comes to reaching the top of their professions. To increase women's representation in decision-making positions, France, Germany, Italy and Spain have introduced mandatory quotas.
- *Fostering employment opportunities and high-quality jobs*: policies need to emphasise access to jobs and labour market integration. The focus must be on policies for the quantity and quality of jobs; jobs that offer career and investment possibilities; jobs that are stepping stones rather than dead ends. Active labour market policies also need to be designed to raise the earnings potential of non-standard workers, particularly youth and low-skilled workers. Addressing labour market segmentation is an important element of enhancing job quality and tackling inequality.
- *Strengthening quality education and skills development during working life*: the inability of individuals from poor socio-economic background to access higher education and develop their human capital lies at the heart of the transmission mechanism through which income inequality lowers economic growth. A focus on the early years, as well as on the needs of families with school children, is crucial in addressing socio-economic differences in education. More must be done to provide youth with the skills they need to get a good start in the labour market. With a rapidly changing economy, further efforts should be made, with the active involvement of business and unions, to promote continuous upgrading of skills throughout working life.
- *Designing a better tax and benefits systems for efficient redistribution*: adequately designed redistribution via taxes and transfers is a powerful instrument to contribute to more equality and more growth. In recent decades, the effectiveness of redistribution has declined in many countries due to working-age benefits not keeping pace with real wages and taxes becoming less progressive. Policies must ensure that wealthier

individuals, but also multinational firms, pay their share of the tax burden. Large and persistent losses of low-income groups underline the need for well-designed income-support policies and counter-cyclical social spending. Government transfers have an important role to play in guaranteeing that low-income households do not fall further back in income distribution, but they need to be paired with measures to re-establish self-sufficiency, prevent long-term benefit dependence and support families' capacities to compensate for earnings losses.

Note

1. The authors would like to thank Michael Förster for his useful comments and suggestions. This chapter which summarises the results from recent OECD work should not be reported as representing the official views of the OECD or of its member countries. The opinions expressed and arguments employed are those of the authors.

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4

Unemployment, Precariousness and Poverty as Drivers of Social Inequality: The Case of the Southern European Countries

Renato Miguel Carmo and Ana Rita Matias

4.1 Introduction: Inequalities Are Multidimensional and Systemic

The theoretical advances on the subject of inequality have been both significant and varied, opening up renewed forms of understanding and explanation. The most important theories on and analyses of contemporary social inequalities adopt a multidimensional perspective (Therborn 2013; Costa 2012). Inequalities are linked and interconnected. According to Göran Therborn (2006, p. 4) 'Inequalities are differences that we consider unjust. In-equality is a negation of equality. Behind a perception of inequality there is a notion of injustice, a violation of some equality.' Inequalities are multidimensional, they are not confined to just one sector of society (such as education, health, economy, community), nor to a single resource (wealth, culture, titles, etc.), nor even to a single variable (income, education, age, gender, region, etc.). Inequalities hold a systemic and relational nature with regard to their causes and effects.

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Therborn identifies three main sets of dimensions of inequality in today's world: resource inequality, existential inequality and vital inequality. According the sociologist, 'a study of the distribution income will give the most pertinent picture of resource inequality, given its easy measurability and its wide-ranging convertibility'. Vital inequality 'can be measured by life expectancy, if possible corrected for disability, by mortality and/or morbidity rates, and by incidence of malnutrition'. Finally, existential inequality 'allocates freedom and unfreedom in pursuit of personal life projects, rights, and prohibitions to act, and distributes affirmations and denials of recognition and respect' (Therborn 2006, pp. 6–8). One of the best known sociological conceptualisations of resource inequality is that proposed by Bourdieu (1979), who formalises it in terms of unequal distributions of economic, cultural and social capital.

Inequalities are systemic by nature. One interesting approach that illustrates this idea was developed in a book entitled *The Spirit Level* (Wilkinson and Pickett 2009), which underlines this systemic character, relating income inequality to the level of trust within societies, life expectancy, infant mortality, health and obesity, the educational performance of children, murders and so on. The authors conducted a systemic methodological approach based on the construction a composite index of 'social and health problems' compiled from ten indicators.

Inequality shows signs of growing in most Western countries, with studies drawing attention to the consequences of the increasing social and economic polarisation in Europe and the United States in recent decades (Atkinson 2015; Piketty 2014). These risks include a progressive rise in unemployment and growth in precarious work, which mainly but not exclusively affect the countries that were subjected to austerity measures and structural adjustment programmes (OECD 2015; Carmo and Cantante 2015). Gialis and Leontidou (2016) in their paper about atypical employment in Spain, Italy and Greece conclude that the deregulation initiatives taking place in these countries, mainly post-2008, based on the idea of increasing flexibilisation and flexicurity, did not contribute to generating greater employment or promote stable jobs. Instead, it led to an increase in this labour market fragmentation, deepening regional asymmetries, and failed to improve the already reduced levels of security. A considerable part of the population living in these countries suffered a reduction in disposable income and purchasing power, and in certain protection mechanisms as well.

Through a comparative statistical analysis, the data presented in this chapter shows a significant increase in resource inequalities, and their relationship with other forms of social vulnerability such as poverty, unemployment and precariousness.

Different entities have been pointing out the multiple effects of the crisis on countries, especially those that went through harsh adjustment programmes between 2010 and 2012, such as Greece, Spain and Portugal. The effects go far beyond the economic dimension (OECD 2015; HDR 2014; IMF 2014). Thus, in this chapter, our aim is to investigate how the aggravation of social inequality was systemically linked to the increase of unemployment, precariousness and poverty in countries such as Greece, Spain and Portugal—keeping in mind that the recent data already show signs of a post-crisis context with the reversal/attenuation of some trends that were aggravated during the crisis, although they still remain severe. In this chapter, we will start by comparing Greece, Spain and Portugal to other European Union (EU) countries with regard to: firstly, income inequality (measured by the central inequality indicators); secondly, in a more subjective dimension, we will compare individuals' perception of their economic satisfaction and well-being. Finally, we will present an overview of the main labour market indicators to better understand the changes that have occurred in terms of employment, unemployment and precarious work in these Southern countries. In the end, we hypothesise the increment of a polarised geography of inequalities arising in the European space.

4.2 Income Inequality in the European Union

To understand the differences in income inequality between European countries in 2014, a simple regression was used between the indicators S80/S20 ratio and the Gini coefficient.[1] We could conclude that, in addition to the fact that the values of these two indicators vary considerably across the EU-28 countries, it is also possible to discern an interesting geographical pattern.

In 2014, the S80/S20 ranged from Czech Republic and Slovakia (3.5) to Romania (8.3), respectively, the countries with the lowest and highest levels of inequality between the 20% highest and 20% lowest incomes of the population. As for the Gini coefficient, the values vary from Slovakia (23.7%) to Lithuania (37.9%). It is no surprise to see a close relationship between these indicators (R^2 = 0.930), meaning that countries with high inequality between the top and the bottom of income share are also those that, generally speaking, feature great economical inequalities among all individuals within the society. In order to have a better understanding of the existing inequality patterns within the European countries, we proceeded with an exploratory data analysis using the Hierarchical Cluster Analysis (by Complete linkage), with these two attributes (Gini coefficient and S80/S20). The solution indicates the existence of three clusters (Fig. 4.1).

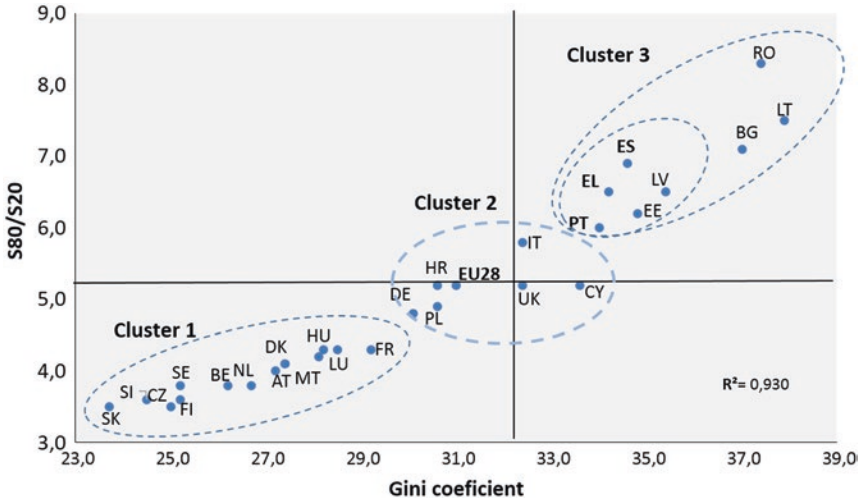

Fig. 4.1 Spatial clustering of income inequality among European Union countries, measured by S80/S20 and the Gini coefficient (2014)
Legend: BE (Belgium); BG (Bulgaria); CZ (Czech Republic); DK (Denmark); DE (Germany); EE (Estonia); EL (Greece); ES (Spain); FR (France); HR (Croatia); IT (Italy); CY (Cyprus); LV (Latvia); LT (Lithuania); LU (Luxembourg); HU (Hungary); MT (Malta); NL (Netherlands); AT (Austria); PL (Poland); PT (Portugal); RO (Romania); SI (Slovenia); SK (Slovakia); FI (Finland); SE (Sweden); UK (United Kingdom)
Source: Eurostat, EU-SILC, 2016
Note: Data for Ireland not available

The countries that constitute Cluster 3 are those that are most downwardly distant from the EU28 average (S80/S20: 5.2; Gini: 31%): southern European countries, Spain (6.9; 34.6%), Greece (6.5; 34.2%) and Portugal (6.0; 34%), the Baltic region—Latvia (6.5; 35.4%) and Estonia (6.2; 34.8) and then, among this cluster, Bulgaria (7.1; 37%), Lithuania (7.5; 37.9%) and Romania (8.3; 37.4) form the group of countries with the highest levels of inequality.[2]

Also with high inequality, but still not reaching the Cluster 3 levels, are the countries from Cluster 2—, Germany, United Kingdom, Poland, Croatia and Ireland, and with the biggest income inequality, Italy and Cyprus. On the opposite situation, the countries belonging to Cluster 1, mostly from northern and central Europe, show much lower levels of economic inequality.

Studies have shown that income inequality goes hand in hand with income poverty—countries where inequality levels are high/medium are very unlikely to have a low poverty risk (Atkinson et al. 2010). Currently, in the European context, these two realties are increasingly correlated. As presented in Fig. 4.2, the S80/S20 ratio explains 75% of the variance in the risk of poverty or social exclusion, and we observe a similar geographical pattern in Fig. 4.1, where countries with high inequality, such as Bulgaria (40.3%), Romania (37.4%) and Greece (35.7%), are those that show the largest percentage of the population at risk of poverty or social exclusion. In contrast, in countries with low levels of inequality, such as the Czech Republic, Sweden, the Netherlands and Finland, the indicator of risk of poverty or social exclusion stands below 16%.

Between 2005 and 2014, in countries like Greece, Spain and Portugal, the number of people living with extreme difficulties increased (Fig. 4.3): in Greece, since 2010, the indicator has risen 8.3 percentage points (p.p.) (854,000 more people at risk); in Spain, this indicator has shown signs of rising since 2007 and reached its peak in 2014 at 29.2% (1.373 million more people than in 2010); in Portugal, the risk of poverty or social exclusion started increasing again after 2012, and in the last two years, the value has stagnated at 27.5% (3.1 p.p. higher than in 2011, which represents 262,000 more people). In 2015, for all three countries and the EU average, the indicator decreased (in Portugal, −0.9 p.p.; Spain, −0.6 p.p.; Greece, −0.3 p.p. and EU −0.7 p.p.).

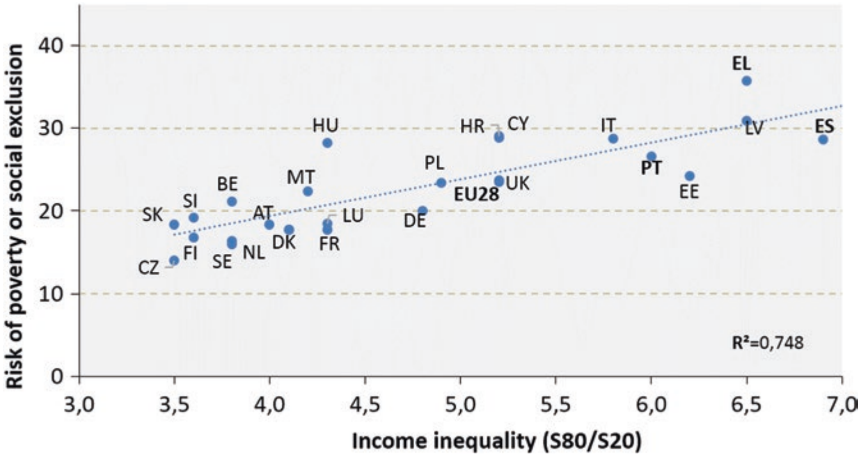

Fig. 4.2 People at risk of poverty or social exclusion and S80/S20 ratios, EU-28 (2014)
Legend: BE (Belgium); BG (Bulgaria); CZ (Czech Republic); DK (Denmark); DE (Germany); EE (Estonia); EL (Greece); ES (Spain); FR (France); HR (Croatia); IT (Italy); CY (Cyprus); LV (Latvia); LT (Lithuania); LU (Luxembourg); HU (Hungary); MT (Malta); NL (Netherlands); AT (Austria); PL (Poland); PT (Portugal); RO (Romania); SI (Slovenia); SK (Slovakia); FI (Finland); SE (Sweden); UK (United Kingdom)
Source: Eurostat, EU-SILC, 2016
Note: Data for Ireland not available

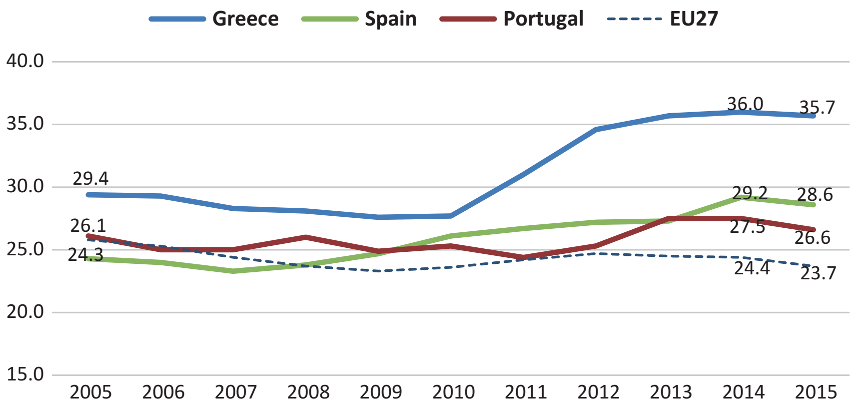

Fig. 4.3 Risk of poverty or social exclusion (%), in Greece, Spain, Portugal and EU27, between 2005 and 2015
Source: Eurostat, EU-SILC, 2016

4.2.1 Economic Strain Versus Economic Well-Being

Besides the clear correlation between income and poverty risk rates, attention should also be paid to material deprivation and economic strain, for they also give us important information regarding average living standards across countries. Countries with greater income inequality also tend to have populations with more difficulty making ends meet.[3] The percentage of Europeans citing difficulty or great difficulty in making ends meet varies considerably among EU-28, ranging from 5.4% in Sweden to an astonishing 77.7% in Greece.

In 2013, for 29% of Europeans on average, making ends meet was managed with some difficulty, but for one-fourth, it was fairly easy (Fig. 4.4). We also observe for this indicator the existence of great disparities among EU-28 countries: for the majority of households in the Netherlands (58.8%), Sweden (50%) and Germany (41.6%), making ends meet is 'fairly easy'/'easy'. In the opposite set, we have countries like

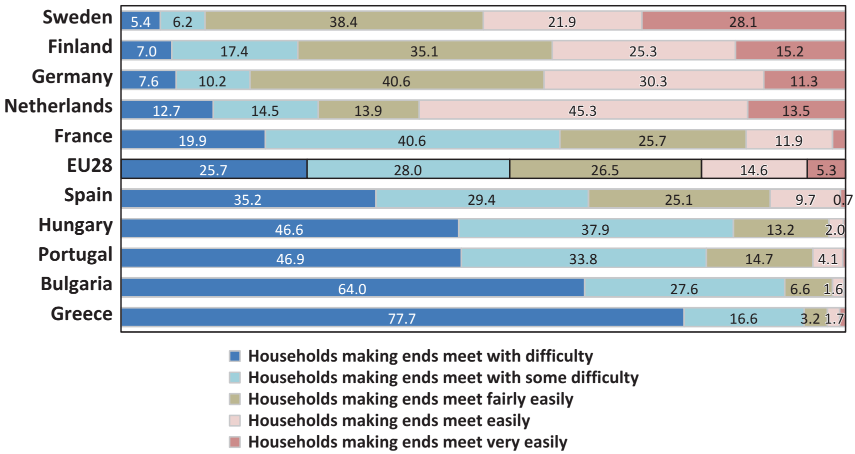

Fig. 4.4 Households' ability to make ends meet (from great difficulty to very easily) (%), in some European countries (2015)
Source: Eurostat, EU-SILC, 2016
Note: The values presented concerning 'Inability to make ends meet' are the sum of percentage of the categories: 'Households making ends meet with great difficulty' and 'Households making ends meet with difficulty'

Greece, Portugal and Spain, where the bulk of households are described as having 'great/some difficulty' making ends meet.

The level of economic strain households are exposed to will certainly influence their financial satisfaction.[4] For instance, according to the EU-SILC module for personal well-being (2013), the average rating of financial satisfaction of Greeks is the second lowest of EU-28, coming in at 4.3 on a scale from 1 to 10 (Fig. 4.5). Also with levels of low financial satisfaction are Bulgaria (3.7), in first place, and Portugal (4.5), coming in third.

Among countries above the EU-28 average (6), and with very high levels of satisfaction in this domain, are Denmark (7.6), Sweden (7.6), Finland (7.5) and the Netherlands (7.4). When we look at the differences between the first and the fifth income quintiles, Croatia, Germany and Hungary stand out as the countries with the biggest dispersion—resulting in a difference of 3 points in satisfaction between the upper and the lower levels of income. By contrast, we find that in countries with low levels of income inequality, like Finland and the Netherlands, differences in satisfaction between quintiles are less significant (around 1.8 points). Additionally, cross-country analyses for each income quintile also show interesting variances among EU-28 countries: for instance, the level of financial satisfaction in the first income quintile for the three most

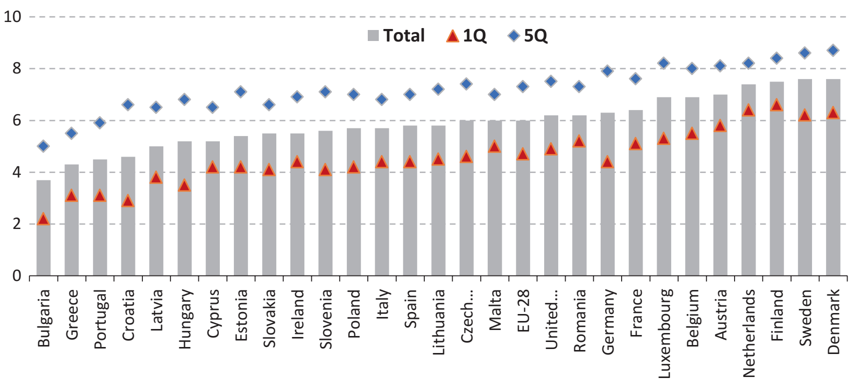

Fig. 4.5 Average rating of financial satisfaction (0—Very low satisfaction; 10—Very high satisfaction) by first and fifth income quintiles, in EU-28 countries (2013)
Source: Eurostat, EU-SILC, 2013, ad hoc module well-being

satisfied countries shows similar scores to the fifth income quintile of the three least financially satisfied countries.

4.3 Employment, Unemployment and Precarious Work: The Case of Southern Countries

Since 2008, the year that marked the beginning of the financial and economic crisis in the United States, the southern European countries, Greece, Spain and Portugal, went through financial assistance programmes and austerity policies were implemented. According to the Labour Force Survey, between 2009 and 2013, employment growth in Greece, Spain and Portugal was consistently negative, which is a clear consequence of the considerable, adjustment efforts these countries have undertaken. Next, we will present an overview of the main labour market indicators for these countries to better understand the changes that occurred in terms of employment, unemployment and precarious work.

Figure 4.6 presents the annual average employment and unemployment rates in Greece, Portugal, Spain and EU-27, between 2000 and 2015: regarding the employment rate for 2000, the value of this indicator for Portugal (68.4%) was significantly higher in comparison with the

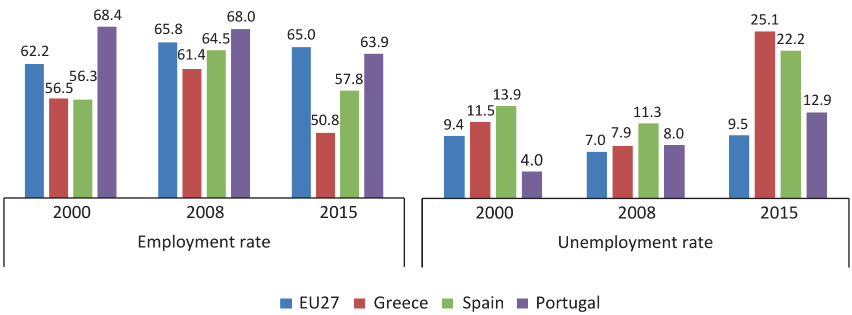

Fig. 4.6 Evolution of the employment and unemployment rate (15–64 years), 2000, 2008, 2015
Source: EU Labour Force Survey (Eurostat)

other southern European countries and the EU-27 (62.2%). Between 2000 and 2008, the employment rate for Greece (from 56.5% to 61.4%) and Spain (from 56.3% to 64.5%) increased, respectively, by 4.9 p.p. and 8.2 p.p., thus approaching Portugal's rate (68%) and that of the EU-27 (65.8%). Between 2008 and 2015, the employment rate decreased in every country and the EU average: −10.6 p.p. in Greece (from 61.4% to 50.8%), −6.7 p.p. in Spain (from 64.5% to 57.8%), −4.1 p.p. in Portugal (from 68% to 63.9%) and −0.8 in EU27 (from 65.8% to 65%). This represents a reduction in the employed population, aged 15–64, of 22% in Greece (975,000 fewer people), 13% in Spain (2.599 million fewer people) and 10% in Portugal (477,000 fewer people). In 2015, the three countries stood below the EU-27 average (65%), although there was also a 2% decrease in EU employment between 2008 and 2015 (3.61 million fewer people employed). As others have described (Carmo and Cantante 2015), the explanation lies in the significant increase in the unemployment rate.

The unemployment rate in Greece, Portugal and Spain was always higher than the EU average throughout the period considered here, although between 2000 and 2008, there was a reduction of the value of unemployment (Fig. 4.6): it was in Portugal that unemployment fell the most between 2000 and 2008 (−4 p.p., from 8% to 4%), followed by Greece (−3.6 p.p., from 11.5% to 7.9%) and Spain (−2.6 p.p., from 13.9% to 11.3%). The difference in the indicator from 2008 to 2015 shows a general increase in unemployment, the most significant jump in the unemployment rate being: a 17.2 p.p. rise in Greece (from the three countries with the highest unemployment rate), 10.9 p.p. in Spain and 4.9 p.p. in Portugal.

Regarding the youth unemployment rate as well, we can observe a significant increase in Greece, Spain and Portugal for 2015 (Fig. 4.7). Contrary to the circumstances of Greece (29%) and Spain (25%) in 2000, Portugal, with a youth unemployment rate of 8.2%, was below the EU-27 average (18.3%), but since that point it increased 8.5 p.p. in this indicator in 2008, and 15.3 p.p. in 2015 (in Portugal, there are 5000 more young people unemployed today than in 2008). Greece and Spain, for the years considered, were always above the EU-27 average. Since 2008, these countries have experienced a substantial rise in youth

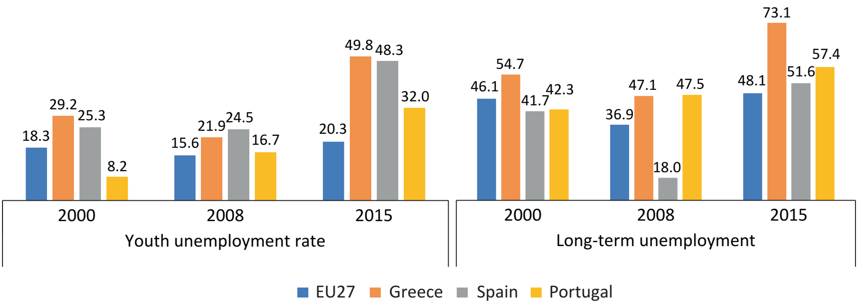

Fig. 4.7 Evolution of the youth unemployment rate and long-term unemployment (2000–2015)
Source: EU Labour Force Survey (Eurostat)

unemployment: Greece increased 27.9 p.p. (from 21.9% in 2008 to 49.8% in 2015—57,000 more young people unemployed) and Spain 23.8 p.p. (from 24.5% to 48.3% in 2015—157,000 more people).

The increase in the unemployment rate in southern European countries was accompanied by growth in the proportion of the long-term unemployed, which refers to the number of people who are out of work and have been actively seeking employment for at least a year (Eurostat, LFS). Between 2000 and 2008, we can detect a downwards trend in Spain, with a fall of 23.7 p.p. in long-term unemployment, and also in Greece, where long-term unemployment fell 7.6 p.p. (from 54.7% in 2000 to 47.1% in 2008). For Portugal, there was already an increasing trend of long-term unemployment in 2008 (+5.2 p.p. compared to 2000), and by 2015, the indicator stood at 57.4% (+9.9 p.p. since 2008). In Greece, in 2015, 73.1% of unemployed were in this situation on the long-term ± 26 p.p. compared with 2008. Of the three countries, Spain had the most significant increase from 2008 to 2015 (33.6 p.p.).

Figure 4.8 presents the percentage of employees in temporary employment contracts and the percentage of workers covered by this type of agreement who would like to have a permanent contract. In the three years analysed, temporary contracts are higher in Spain and Portugal than in the EU-27. However, in the last year, both countries reduced the percentage of people with this kind of contract: Spain −3.9 p.p. (from 29.1% to 25.2%) and

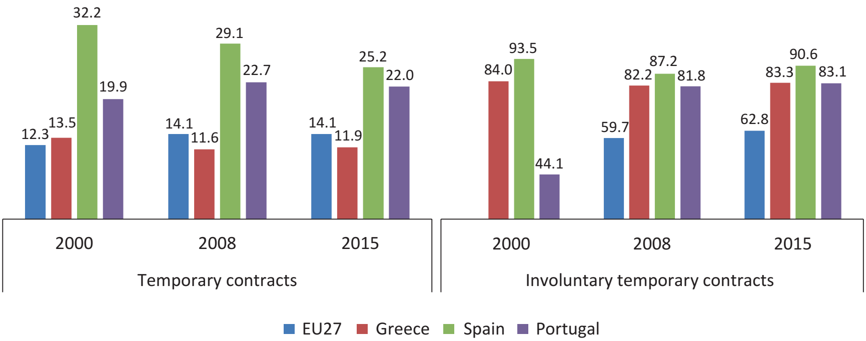

Fig. 4.8 Evolution of the percentage of employees with temporary and involuntary temporary contracts (2000–2015)
Source: EU Labour Force Survey (Eurostat)
Note: Involuntary temporary contracts correspond to the percentage of respondents that could not find permanent job

Portugal −0.7 p.p. (from 22.7% to 22%). By comparison, Greece presents the lowest values of the three southern countries for this indicator, and stood below the EU-27 average in 2008 and 2015. With regard to the values of the EU-27 countries, the percentage of temporary contracts rose 1.8 p.p. between 2000 and 2015 (from 12.3% to 14.1%).

In addition to presenting contractual precariousness levels well above the average EU-27, Spain, Portugal and, in this case also Greece, have a larger proportion of workers in involuntary temporary employment, who were unable to find a permanent job. Portugal, compared with the other two southern countries, has the lowest value in this indicator, but saw an increase of almost 40 p.p. between 2000 and 2015 (from 44.1% to 83.1%). In the three years in question, Greece always had a high percentage of people who could not find permanent employment, but between 2008 and 2015, the value increased by 1.1 p.p. (from 82.2% to 83.3%). Spain is by far the country with the highest rate in this indicator and, despite the slight recovery in 2008 (−6.3 p.p., from 93.5% to 87.2%), in 2014 there was a reversal in this trend, and the indicator increased by 3.4 p.p. (from 87.2% to 90.6%).

Another feature of precarious types of work could be associated with involuntary part-time work. Taken alone, part-time work may not mean a situation of job insecurity if this is a result of a voluntary decision, as in

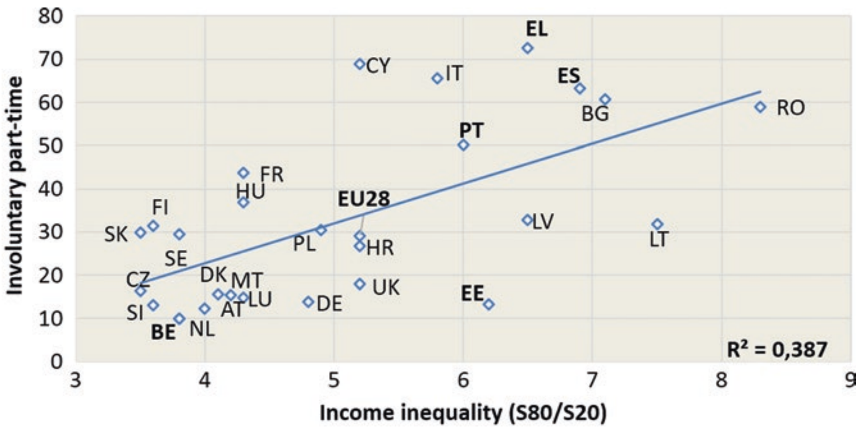

Fig. 4.9 Involuntary part-time work (15–64 years) and income inequality (S80/S20), EU-28
Source: Eurostat
Note: Involuntary part-time employment as percentage of the total part-time employment, from ages 15 to 64

many systems and labour markets where this is quite common, particularly in northern Europe. As shown in Fig. 4.9, there is a strong relation between the level of income inequality of the country and the percentage of people in involuntary part-time jobs. As the simple regression indicates, there is a clear division between the countries that are below the EU-28 average regarding involuntary part-time employment (29.1%), which generally have less income inequality, and those that have high values in involuntary part-time employment and income inequality. In comparison with the values of involuntary part-time employment in countries like Greece (72.6%), Italy (65.6%), Spain (63.2%) and Portugal (50.1%), the values of countries like the Netherlands (9.9%), Belgium (10%) and Austria (12.4%) seem residual.

Figure 4.10 compares the trends in involuntary part-time work by age groups in the southern countries and the EU-28. Between 2000 and 2015, for the population age 15–64, the percentage of involuntary part-time work increased in all countries, including in the EU-28 (+3.5 p.p. from 25.6% to 29.1%). Greece presents the largest value in 2015 (72.6%) and saw an increase of 28.5 p.p. since 2008. Furthermore, we see that youth (age 15–29) in Europe is always affected more by involuntary part-time work. From 2008 to 2015, all the southern countries and the EU-28

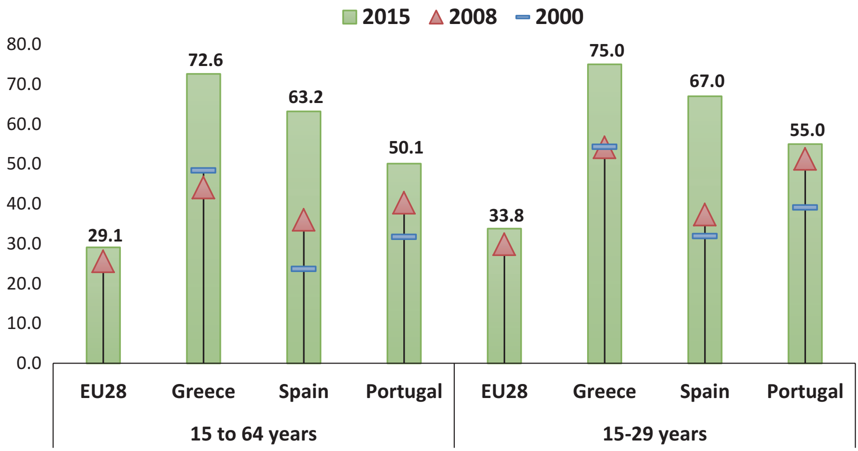

Fig. 4.10 Trends in involuntary part-time work, by age group, in the southern countries and EU-28, in 2000, 2008 and 2015
Source: Eurostat
Note: Involuntary part-time employment as percentage of the total part-time employment

countries increased their percentage of youth in involuntary part-time employment: Greece increased by 20.8 p.p. (from 54.2% to 75%), Spain increased by 29.7 p.p. (from 37.3% to 67%) and Portugal increased by 3.7 p.p. (from 51.3% to 55%).

4.4 Final Remarks

Income inequalities are very pronounced in the southern European countries. This situation is due to several factors among which we can highlight the increase in unemployment rates, precariousness and poverty as significant drivers of social inequalities. This persistent situation has produced profound impacts on the efficiency of the national economies and on their capacity to deal with modern challenges in a sustainable way. Because of this, young people (including the most qualified and skilled) have no job opportunities and a considerable portion of them are emigrating (Bartolini et al. 2015). Brain drain trends have increased over the last five years, and in the medium-term, this situation will have a tremendous negative impact on the productive capacity of these countries. Intensifying investments in human capital is undoubtedly one of the future priorities of national public policy.

At the European level, we are now witnessing a kind of division between the southern countries and some eastern ones that have high levels of poverty and unemployment, and the northern and central countries which have relatively low levels of unemployment and poverty.

With the escalation of austerity measures in recent years, this division has not only widened the gap between the countries affected and the others, but at the same time is causing a continuous rise in inequality in those countries where the unemployment rate continues to be relatively high.

In fact, as we have shown through the data presented, there is emerging a kind of unbalanced or polarised geography within European countries, which needs to be studied and analysed in depth. On the other hand, this phenomenon should alert European policy-makers regarding the negative impact of austerity measures that were, and sometimes continuing to be, applied in these countries. The so-called adjustment programmes for countries such as Portugal, Greece or even Ireland generated a tremendous impact on their social and demographic structures.

Notes

1. The first indicator, S80/S20, is a 'percentile ratio' calculated as the ratio of total income received by the 20% of the population with the highest income to that received by 20% with the lowest income level. The second indicator used is the Gini coefficient, a summary measure that ranges from 0 (complete equality) to 100 (complete inequality).
2. Comparing 2010 and 2014, we see that Romania (+2.2 points since 2010), Estonia and Bulgaria (both with a rise of 1.2 points) stand out as the EU countries with the greatest rise in inequality between the 20% highest and 20% lowest incomes of the population (S80/S20). When we look at the evolution of the Gini, Hungary saw the greatest rise in inequality: from 24.1% to 28.2% (+4.1 percentage points). The European average (28 countries) also rose from 30.5% to 31% between 2010 and 2014 (+0.5 p.p.).

3. According to Eurostat, the indicator 'households' ability to make ends meet' is based on the self-reported difficulty of making ends meet and provides a measurement of poverty in terms of the household's experienced feeling of poverty (Eurostat, LFS).
4. This indicator measures the self-reported overall satisfaction with the financial situation of the household and is measured on a scale of 0–10, where 0 corresponds to the lowest and 10 to the highest grade of satisfaction (Eurostat, LFS).

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5

Distributional and Categorical Inequalities in Europe: Structural Configurations

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5.1 Introduction

Europe is currently a highly unequal social space. The marked inequalities we find today in Europe as a whole may seem unexpected given the convergence objectives the European institutions have set over the last half century. However, contrary to expectations, they are substantial and have troubling implications. This chapter briefly presents a set of contributions to the characterisation of the inequality structure that has arisen in today's Europe. Like most of the important theoretical references on the subject in sociology, our analysis adopts a multidimensional concept of

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inequality, looking primarily at the dimensions linked to the distributional inequalities of economic and educational resources, and the categorical inequalities between nation states and between social classes.

The focus of our study is the structure of European inequality from the point of view of the intersections between distributional and categorical inequalities. We used the European Social Survey (ESS) as the source of empirical data. The ESS microdata allowed us to analyse representative samples of the European population for each country and for Europe taken as a whole. We were thus able to calculate European income deciles, build a matrix of class-country segments for the European social space, and analyse the intersections of this structural matrix with the European distributions of income and education.

The results of this transnational analysis reveal the high levels of distributional inequality that run through Europe. They also show the specific structural configurations of inequality in Europe emerging from the intersection between distributional (income, education) and categorical inequalities (social classes, nation states).

5.2 Multiple Inequalities and Structural Intersections in the European Social Space

In contemporary societies, there are multiple types of relevant inequality, although they do not share the same levels of importance and their relative contributions can change. In addition, diverse types of inequality can often intersect. They sometimes reinforce each other, but on other occasions offset each other's effects to some extent. The predominant tendency is nevertheless a systematic accumulation of multiple dimensions of inequality, as has been shown in most of the significant theoretical contributions in the field, such as those of Bourdieu (1979), Tilly (1998), Therborn (2013), Deaton (2013), and Stiglitz (2015).

The analysis presented in this chapter specifically focuses on *intersections of distributional and categorical inequalities* (Costa 2012; Mauritti et al. 2016). Regarding distributional inequalities, we highlight the unequal distribution of economic (Piketty 2014; Atkinson 2015) and educational (Bourdieu 1979; Breen and Jonsson 2005) resources. In effect, in the context of a market economy and a 'knowledge society', both economic and educational resources are determinant factors in people's living conditions and societal development. When it comes to categorical inequalities, we focus on social classes (Bourdieu 1979; Goldthorpe et al. 1980; Wright 1997; Savage et al. 2015) and national states, which are both powerfully structuring social categories in spaces of transnational integration within the context of globalised capitalism, such as we find in Europe (Favell and Guiraudon 2011; Mau and Mewes 2012). In this study we use a theoretical–methodological approach that seeks to analyse the European space of inequalities as a *multi-level configuration*, at national and transnational levels (Elias 1978; Beck 2013; Habermas 2015).

5.3 Structural Configurations of Inequality in Europe

In the first step of our analysis, we identified the range of income inequality in the current European social space, considering that space as a whole. Then, on a deeper analytical level, we sought to identify the structure of European inequalities based on the intersection of a set of distributional and categorical inequalities.

Table 5.1 provides a first look at the distributional inequalities in Europe, with reference to the yearly average income of European populations per country in Purchasing Power Standards (PPS) and euros. This corresponds to the conventional analyses of economic inequality in Europe, which are performed by comparing the averages of national incomes. We can see that the ratio of the averages of the country with the highest incomes (Switzerland) and the country with the lowest incomes (Bulgaria) is 6:1 in PPS. If we use euros, an almost 21-fold inequality is apparent. As stated previously (Brandolini 2007; Mauritti et al. 2016), neither of these two monetary units is completely satisfactory for comparative analyses in social contexts with a considerable degree of transnational integration; a more realistic approach would therefore have to be scaled at some point between the PPS and euro data.

Table 5.1 Income by European country in PPS and euros, age group 25–64, 2012 (national averages)

Country	PPS	Euros
Bulgaria	5506	2588
Hungary	6988	4682
Lithuania	7250	5220
Poland	8743	5858
Portugal	9513	7230
Slovakia	10,073	7809
Estonia	10,275	8165
Slovenia	11,172	8462
Czech Republic	11,499	9049
Spain	14,778	14,554
Cyprus	15,161	14,908
Italy	15,513	15,873
Iceland	15,873	17,840
Ireland	16,383	19,064
France	17,930	20,692
Belgium	18,157	21,789
Netherlands	18,983	22,772
Germany	19,079	23,467
United Kingdom	24,274	25,859
Finland	24,864	27,915
Sweden	26,004	33,396
Denmark	26,505	37,477
Norway	29,744	50,448
Switzerland	35,132	55,509
Europe	17,917	19,941

Source: ESS (2012)

However, this approach does not allow for the integrated analysis of income inequalities that occur in the European population as a whole, which are the result of a combination of inequalities both between and within countries (Korzeniewicz and Moran 2009; Bourguignon 2015; Milanovic 2016). In order to capture them directly, it is necessary to position each individual in the income distribution of the aggregate European population.

The ESS 2012 microdata were used to generate an aggregate sample of the European population. This sample includes individuals in 24 countries who were integrated into an aggregate sample of the population of Europe.[1] This in turn made it possible to calculate *European income deciles*—that is, for the European population considered as a whole. The analytical objectives of this calculation are the same as those in the pioneering work by Dauderstädt and Keltek (2011, 2015), that is, to analyse the inequalities in income distribution in the European population (and not merely between countries). However, from a methodological perspective, the ESS microdata allowed for direct calculation of European income deciles, as opposed to the interesting indirect method, performed with the EU-SILC source, used by Dauderstädt and Keltek.

It would be possible to perform a similar analysis using EU-SILC data, as other analyses have done on European income inequalities as a whole, such as the abovementioned study by Dauderstädt and Keltek (2011, 2015) or the study performed by Goedemé et al. (2014). However, we have resorted to the ESS microdata, since we are working on a broader research programme on European inequality, which requires relating social and economic variables with cultural and political variables, available in the ESS. The current analysis is part of the results of this research programme.

Table 5.2 shows the European income deciles calculated by our analytical approach. The range of European income inequality using these European deciles is extremely pronounced. The results show a 12:1 ratio between the 10% of Europeans with the highest incomes and the 10% with the lowest incomes. This is a substantial level of inequality. Calculations in euros rather than PPS result in an even more impressive 19:1.

Table 5.2 European income deciles in PPS, age group 25–64, 2012 (brackets and averages)

Deciles	Income (brackets)	Income (average)
1	≤5581	4004
2	5582–7807	6650
3	7808–9601	8489
4	9602–12,149	10,750
5	12,150–14,456	13,213
6	14,457–17,181	15,637
7	17,182–20,650	18,700
8	20,651–24,737	22,548
9	24,738–35,062	29,120
10	≥35,063	48,875

Source: ESS 2012

The European income deciles also enable us to analyse the intersections of distributional and categorical inequalities in Europe. How do the distributional income inequalities relate to the categorical inequalities between countries and classes in the European space?

We performed an integrated analysis of multiple cases characterised by combinations of the structural properties of the European space. To this end, we chose a set of social categories, namely, national states and social classes. We used the ACM typology of class locations,[2] already used in several European analyses (Costa et al. 2002; Almeida et al. 2006; Costa et al. 2009; Antunes 2011; Carmo and Nunes 2013; Carmo et al. 2015; Mauritti et al. 2016). The ACM typology of class locations was proposed by the Portuguese sociologists Almeida, Costa and Machado. The operationalisation of this typology uses occupation (ISCO 08) and employment status as primary variables, combining them in a matrix of class locations. The ACM typology incorporates the analytical dimensions and classification criteria of several noteworthy contemporary sociologists, such as Bourdieu (1979), Goldthorpe et al. (1980), and Wright (1997), for class analysis. It allows for the operationalisation of a set of basic dimensions of contemporary social inequalities and it can convert other class typologies such as those of the authors referenced above, thus facilitating analytical comparison and cognitive accumulation. It is also a very compact classification, which has operational advantages for large-scale comparative analyses, although it allows for more fine-graded versions of the typology depending on the problems and the contexts under analysis.

The cases considered in our analysis are therefore the various *class-country segments* in the European social space (Table 5.3). At first sight, the relationships between the classes and countries and the European income deciles seem quite evident. In short, the countries of Northern and Central Europe, which have relatively high incomes, lie in opposition to the countries of Southern and Eastern Europe, which have relatively low incomes. The relationship between incomes and social classes is similar: *entrepreneurs and executives* (EE) and *professionals and managers* (PM) have higher income levels than *self-employed* (SE), *routine employees* (RE), and *industrial workers* (IW), which comes as no surprise.

However, Table 5.3 reveals some new or unexpected results in the non-egalitarian manner in which the various class-country segments are positioned in the European income deciles. In certain countries, all of the

Table 5.3 European income deciles by social class and country, age group 25–64, 2012

Country	Social class EE	PM	SE	RE	IW	Total
Bulgaria	*2*	*2*	*1*	*1*	*1*	*1*
Hungary	*2*	*3*	*2*	*2*	*2*	*2*
Lithuania	*4*	*3*	*3*	*2*	*2*	*2*
Poland	*5*	*4*	*2*	*2*	*2*	*3*
Portugal	*4*	6	*3*	*3*	*3*	*3*
Slovakia	*5*	*5*	*3*	*3*	*3*	*4*
Estonia	6	*5*	*4*	*3*	*3*	*4*
Slovenia	6	*5*	*5*	*3*	*4*	*4*
Czech Republic	6	*5*	*3*	*3*	*4*	*4*
Spain	7	7	*5*	*5*	*4*	6
Cyprus	8	7	*4*	*4*	*4*	6
Italy	7	6	*5*	6	*5*	6
Iceland	7	8	*4*	6	*4*	6
Ireland	7	8	6	5	*5*	6
France	8	7	6	6	*5*	7
Belgium	8	7	*5*	6	*5*	7
Netherlands	9	8	6	6	6	7
Germany	8	8	6	6	*5*	7
United Kingdom	9	9	7	8	7	8
Finland	9	9	7	7	7	9
Sweden	9	9	8	8	8	9
Denmark	9	9	7	8	8	9
Norway	10	9	8	9	9	9
Switzerland	10	10	8	9	9	10
Europe	8	8	*5*	6	*5*	7

Source: ESS 2012

classes are positioned in the lower deciles, despite the class inequalities that exist between them. In other countries, the opposite phenomenon occurs, with all of the classes positioned in the higher deciles, despite the inequalities between these classes. In the majority of the cases, the class-country segments are positioned in the intermediate zones of European income distribution. Within each country, the classes are distributed in brackets between two and five European income deciles.

Moreover, the structural configuration of the inequalities in the European space using euros generally coincides with that using PPS, with only minor differences. With both PPS and euros, the intersection between income distributions and the class-country categorical structures in the European space forms a very inegalitarian configuration.

Table 5.4 shows a characterisation of the intersection between the distributional inequalities of educational resources and the structural matrix of categorical inequalities (classes x countries).

The locations of class-country segments in the European distribution of educational resources (operationalised by years of schooling) reveal an inegalitarian structure (Meschi and Scervini 2012) that is partially similar to, but also partially different from, the structure of economic resource inequalities. With regard to educational inequalities, there is a clear break between the base wage earners (RE, IW) and the low-skilled self-employed (SE) on the one hand and the dominant (EE) and salaried middle classes

Table 5.4 Educational inequalities in Europe by social class and country, age group 25–64, 2012 (average years of schooling completed)

Country	Social class					Total
	EE	PM	SE	RE	IW	
Portugal	*11*	15	*7*	*9*	*7*	*9*
Bulgaria	14	15	*11*	*11*	*11*	*12*
Italy	13	15	*10*	*12*	*9*	*12*
Switzerland	14	14	*10*	*11*	*10*	*12*
Slovenia	15	15	*11*	*12*	*10*	13
Hungary	15	15	13	*12*	*11*	13
France	15	15	*12*	*12*	*11*	13
Poland	15	15	*12*	*12*	*11*	13
Cyprus	15	16	*11*	*12*	*11*	13
Slovakia	15	15	13	13	*12*	13
Czech Republic	15	15	13	13	*12*	13
Lithuania	15	15	13	13	*12*	13
Belgium	15	15	*12*	*12*	*11*	14
Denmark	15	15	13	13	*12*	14
Norway	15	16	*11*	*12*	*12*	14
Estonia	15	16	13	13	*12*	14
United Kingdom	15	16	*12*	13	*12*	14
Sweden	14	16	13	*12*	*12*	14
Spain	17	18	*12*	*12*	*11*	14
Germany	17	16	14	13	*12*	14
Finland	15	17	*12*	13	*12*	15
Ireland	16	17	14	14	13	15
Netherlands	16	16	13	13	*12*	15
Iceland	17	17	13	14	13	16
Europe	15	16	*12*	*12*	*11*	13

Source: ESS 2012

(PM) on the other. On average, this European educational divide separates the social classes associated with 15–16 years of schooling from those with 11–12 years of schooling.

5.4 Conclusion

This study briefly shows the constitution of a European social space that is presently highly unequal. At the same time, it enabled us to suggest a number of contributions to the current research agenda on inequality in Europe:

- the importance of analysing inequalities in Europe as a whole;
- the impact of the inequalities between countries and within countries, the combination of which leads to the high levels we find in the European social space;
- the current relevance of class analysis in Europe, placing the concept of class within a broader analytical framework of categorical inequalities;
- the heuristic potential of investigating the intersections between distributional and categorical inequalities, namely in relation to the European space.

In this transnational European space, there is a marked 'horizontal' economic divide between country groups, particularly between those whose populations are transversally located in the topmost European income deciles and those whose populations are transversally positioned in the lower ones. This European space is also characterised by relevant educational inequalities, shaped by an overall 'vertical' divide between the propertied, managerial, and professional classes on the one hand, and the base wage earners and independent lower-qualified workers on the other.

Furthermore, this European space of inequalities rests upon two decisive structural elements—nation states and social classes—involving two central dimensions of advanced modernity, namely, state organisation (in the process of transnational integration) and the capitalist social division of labour (at the 'knowledge society' stage). These intersections between categorical and distributional inequalities are at the heart of inequality in the European space.

Notes

1. The ESS 2012 round included microdata from most European Union countries, but not all of them. On the other hand, it included three countries closely associated with the EU (members of the European Economic Area or the European Free Trade Association). In our analysis, we used the microdata available from 24 European countries, 21 countries integrated in the EU and 3 countries closely associated with the EU.
2. The ACM typology of class locations was proposed by the Portuguese sociologists Almeida, Costa and Machado (initials ACM).

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6

Income Poverty in the EU: What Do We Actually Measure? Empirical Evidence on Choices, Underlying Assumptions and Implications (Based on EU-SILC 2005–2014)

Orsolya Lelkes and Katrin Gasior

6.1 Empirical Evidence on Choices, Underlying Assumptions and Implications (Based on EU-SILC 2005–2014)

Social exclusion and poverty highlight one particular aspect of social inequality, focusing on the situation of those who are at the bottom. There are ethical reasons to combat social exclusion based on economic and social rights: we do not want people to live in a state of deprivation. It is not purely a humanitarian or righteous act, however, as the destitution of certain social groups tends to have negative consequences for the rest of the population as well.

Poverty and social exclusion have been a key focus of the European policy agenda, and its reduction was translated into a headline target of

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the Europe2020 Strategy. Until 2020, the European Member States agreed on lifting at least 20 million people out of the risk of poverty or exclusion. The realisation of the agreement is measured by a combination of three indicators: people living in households with very low work intensity, those at risk of poverty and those experiencing severe material deprivation. The 20-million target refers to people who are identified by any of these as socially excluded. The largest group facing poverty and social exclusion are Europeans at risk of poverty.

Social exclusion is a multidimensional approach, and includes dimensions other than income (Vleminckx and Berghman 2001; Burchardt et al. 2002). Multidimensional measures are increasingly used in social monitoring, although there is a considerable debate on the appropriate measurement and the use of such indicators (Nolan and Whelan 2007; Schoukens and Carmichael 2001; Hills 2002). In this book, Nolan and Whelan in their chapters highlight the limitations of the cumulative social exclusion indicator for policy use.

In this chapter, we focus on poverty only, and the specific indicators used for monitoring poverty at the European Union (EU) level.[1] We highlight the methodological and normative assumptions beyond the 'lead' indicator of poverty and show the actual empirical implications of these. What is the significance of the specific poverty threshold chosen? What does it imply for cross-country comparison? We discuss the issue of poverty monitoring over time and make a case for the use of the poverty rate with a threshold 'anchored in time', and demonstrate the significance of this choice with country-specific evidence. Our chapter concludes with data on the situation of migrants, indicating that *social disparities within a particular country are of specific relevance in the use of this indicator* (given its country-specific definition of poverty threshold as such). The analysis is based on EU-SILC data from the years 2005–2014, which provides cross-country comparative data for all EU countries.

Traditionally, poverty is a failure to meet the 'basic needs' of specific commodities. It is an enforced lack of resources, in other words an involuntary deprivation of the individual. 'Basic needs' vary over time and are dependent on the specific cultural context, and such indicators tend to reflect the current social consensus on this (see e.g. Mack and Lansley 1985; Van den Bosch 2001). Such general measures, however, take no account of individual differences in needs, due to physical differences, climatic conditions and work habits.

Conceptually, poverty may also be defined as a ‘capability failure’, where the individual lacks the resources to realise a basic set of capabilities (Sen 1992). Capabilities are what a person is able to achieve in terms of being and doing, such as being healthy, living in a decent home and receiving adequate nutrition. In this conceptual framework, financial poverty implies simply the resources required to achieve certain ‘ends’, that is, basic ‘functionings’, but not a capability failure per se. In addition, the objective definition of poverty can differ from the subjective feeling of poverty, the ability to make ends meet or income satisfaction. Overall, however, there is a clear relationship between poverty and subjective well-being. Having a low level of income in relative terms has been shown to reduce the self-reported well-being of people in the EU (Alesina et al. 2004).

The headline indicator of poverty in the EU, called ‘at-risk-of-poverty rate’, defines poverty in relative rather than absolute terms—with those who have a level of income below a certain threshold in relation to average income in the country in which they live. The people concerned are conventionally defined as ‘being at risk of poverty’ and may not be able to enjoy the standard of living of most people in the country in question. Their standard of living, however, may vary significantly, depending on the general prosperity of the country in which they are living. Nevertheless, they might still feel excluded from society and unable to participate fully because of their relative income level.

Setting nation-specific poverty thresholds reflects national policy-making regimes as a natural boundary. However, people’s reference groups for consumption and basic need may be more specific, depending on their subjective assessment. People may compare themselves to their colleagues, circle of friends or their extended family. Using data from the European Social Survey, Clark and Senik (2010) find that individuals tend to compare themselves with those with whom they interact the most often, with colleagues being the most frequently cited reference group. In parallel, social norms are also becoming increasingly global, leading to higher aspirations and increased frustration for those falling behind. To make the picture more complex, there are significant individual variations regarding with whom one compares oneself, and in what respect.

You may envy the salary of a City banker, and the family life of your neighbour, or neither of these. According to Clark and Senik (2010), the rich compare less and are happier than average when they do, which is consistent with the relative income theory.

The convention in the EU at present is to take the threshold as 60% of median household disposable income, measured on an *equivalised basis* to allow for differences in the size and composition of households (using the Organisation for Economic Co-operation and Development (OECD)-modified scale as the means of adjustment[2]). Thus, income is defined in *cash* terms and excludes, for the most part, income and benefits in kind (such as production for own consumption or social services provided free of charge or on a subsidised basis) and is measured in *annual* terms, which means that neither accumulated wealth nor the possible fluctuation in income from year to year is taken into account. *Disposable income* is used, in other words, as an indicator of poverty after social transfers. As noted by Atkinson (2002), it is an outcome measure, and certain policy changes affect this measure more than others. For example, a change in family benefits or family tax credits affects this indicator directly, while a change in consumption taxes does not.

Poverty estimates are based on household surveys, in this case the EU-SILC in particular, which also implies that only the household population is included by design. People in institutions, the homeless, nomads and travellers are omitted, thus some of the most deprived groups are not covered. In the UK, about half a million of the poorest are missing from survey sample frames (Carr-Hill 2015). In the UK, these 'missing' population sub-groups affect the validity of formulae that have been developed for the geographical allocation of resources to health and social care. Therefore, additional and specially targeted surveys and investigations are necessary to reach the poorest.

6.2 Poverty Rates and Margins of Error

According to the EU-SILC survey carried out in 2014, 85 million people were at risk of poverty in the EU. This means that 17% of the population had an equivalised household income of less than 60% of the median income of the country in which they live. The share of people at risk of poverty varied widely from 10% to 25% across EU Member States. It was smallest in the Czech Republic and the Netherlands and largest in Spain, Greece and Romania (see Fig. 6.1).

The figures for the risk of poverty are normally presented as single values. But since they are based on the information collected from only a sample of households, they are inevitably subject to a margin of error, even if the sample concerned is intended to be representative of the population of the country. The size of these margins of error depends to a large extent on the size of the sample, that is, the number of people surveyed relative to the population of the country. It is important to take explicit account of these margins of error when assessing differences between countries or changes over time; otherwise, there is a danger of reaching misleading conclusions. To avoid this, 'confidence intervals', representing the margin of error, can be calculated around the at-risk-of-poverty figure to indicate the range within which the true figure is likely to lie.

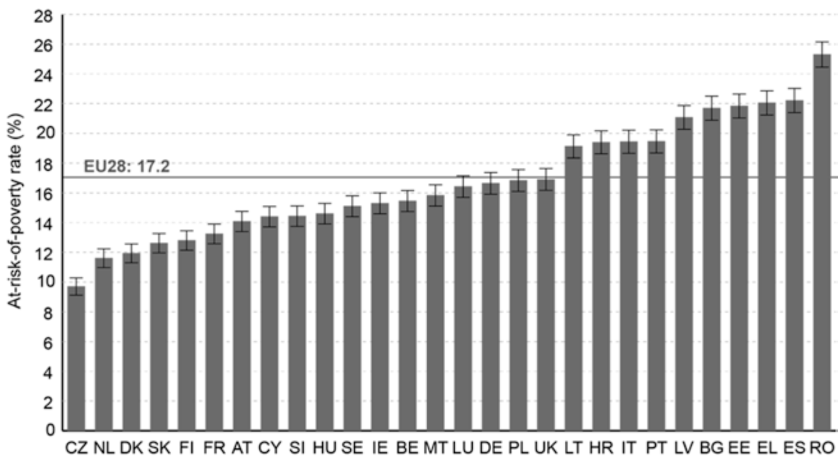

Fig. 6.1 Estimating poverty rates with margins of error
Source: European Commission, Eurostat, cross sectional EU-SILC 2014 UDB August 2016
Note: Proportion of population at risk of poverty across the EU, 2013 income year and confidence intervals. 95% confidence interval for each country (meaning that there is a 95% probability of the true figure being within the calculated range)

Once account is taken of these confidence intervals, the proportion of the population at risk of poverty does not differ significantly in a statistical (or real) sense between a number of countries. This is because the confidence intervals surrounding the figures overlap.

6.3 Poverty Threshold Across Countries: A Seven-Fold Difference

The at-risk-of-poverty threshold is, by definition, relative and country-specific. The actual level of income represented by the threshold differs substantially across Member States. Accordingly, many of the people calculated to be at risk of poverty in a prosperous country may have income well above the poverty threshold in a less prosperous one. There is a particularly large gap between most of the EU15 Member States and the EU13 countries which entered the EU in 2004, 2007 and 2013.

Measuring income in terms of purchasing power standards adjusts for differences in price levels across Member States, or in what a euro can

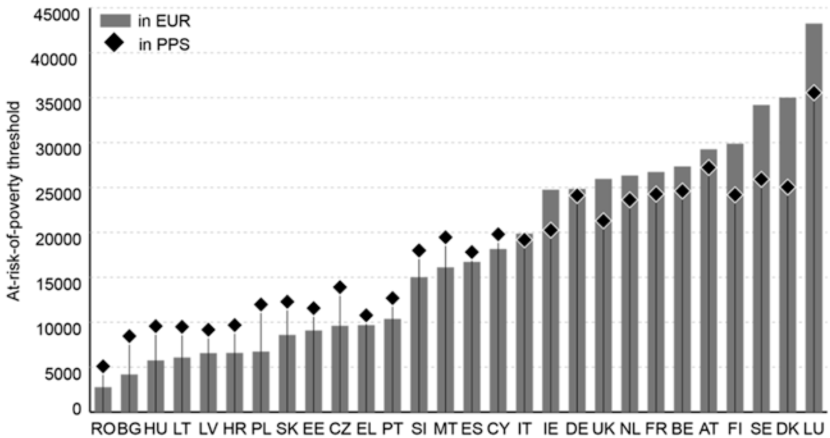

Fig. 6.2 Poverty threshold differs substantially across the EU
Source: European Commission, Eurostat, cross sectional EU-SILC 2014 UDB August 2016
Note: Monetary value of the at-risk-of-poverty threshold for households of two adults with two children under 14, in EUR and PPS, 2013 income year

buy. Since price levels tend to be lower in the EU13 countries than in the EU15, a euro is worth more in terms of the goods and services it can buy, and therefore thresholds adjusted for the purchasing power of the euro (PPS terms) tend to be higher than the unadjusted figure, while the opposite is the case for EU15 countries (see Fig. 6.2).

Even adjusted in this way, there are still large differences in the at-risk-of-poverty income threshold. For a two-adult two-child family in Luxembourg, for example, the income concerned in PPS terms is 7 times higher than in Romania and around 5 times higher in Austria and Sweden.

6.4 Poverty Threshold Is a Choice

The threshold that is set to measure the risk of poverty is largely arbitrary. While the 60% threshold is conventionally used as the indicator of at risk of poverty in the EU, thresholds set at 40%, 50% and 70% of the national median income are also used in different contexts. The 50% threshold is used by the OECD and in the Luxembourg Income Study literature. The 40% threshold is often used to indicate an 'extreme' or a 'severe' risk of poverty, while the 70% threshold can be used to identify those just above the 60% threshold.

The choice of a particular threshold, of course, determines the proportion of population calculated to be at risk of poverty. Poverty rates range from 2% to 13% with a 40% threshold; from 5% to 19% with a 50% one; and from 17% to 31% with a threshold of 70% (Fig. 6.3). The ranking of countries is broadly similar whichever threshold is used, though there are differences, reflecting variations in the shape of income distribution. In Austria, for example, relatively few people are clustered around the threshold, in contrast to Cyprus, where many more people have an income just above or just below the threshold. As a consequence, while the at-risk-of-poverty rates using the 60% threshold are not significantly different in a statistical sense (14.1% and 14.4%, respectively), there are differences if a 50% or a 70% threshold is used (e.g. for Cyprus, the higher threshold shows a much higher rate than for Austria and the lower one a lower rate). A particularly large proportion of people are concentrated just below the 60% threshold in, for example, Estonia and

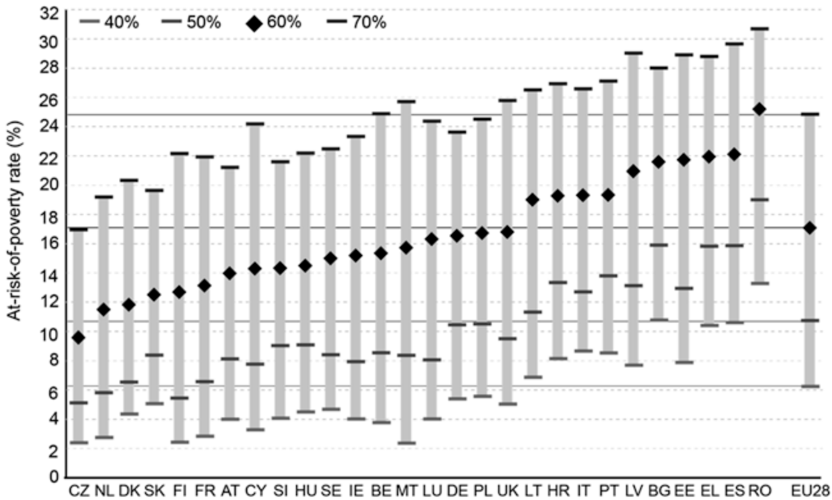

Fig. 6.3 Risk of poverty based on different thresholds
Source: European Commission, Eurostat, cross sectional EU-SILC 2014 UDB August 2016
Note: At-risk-of-poverty rate gap and relationship with the at-risk-of-poverty rate, 2013 income year

Latvia (i.e. the rate at a 50% threshold is much lower than at a 60% one as compared with other countries) and just above the threshold in Belgium, Cyprus, Malta and Finland (i.e. the rate at the 70% threshold is much higher than at 60%). In these countries, more so than in others, the estimates of the at-risk-of-poverty rates are affected by the threshold adopted.

6.5 The 'Depth' of Poverty

The 'poverty gap' (the Laeken indicator termed the 'relative median at-risk-of-poverty gap') measures the difference between the median income of those below the poverty threshold and the threshold itself. It is expressed as a percentage of the poverty threshold and shows the extent to which the incomes of those at risk of poverty fall below the threshold on average. In policy terms, it indicates the scale of transfers which would be necessary to bring the incomes of the people concerned up to the poverty threshold (by redistributing income from higher-income groups).

The median income of those below the poverty threshold is on average 24% lower than the 60% national median, the minimum level of income regarded as being necessary to avoid relative deprivation. The poverty gap in the EU-28 countries varies from 14% (in Finland) to 35% (in Romania) (Fig. 6.4). These values are positively correlated with the at-risk-of-poverty rate. Those below the poverty line, therefore, tend to have lower median incomes in countries with higher poverty risk. This suggests that the two indicators might have a common explanation in terms of the shape of the distribution of income, this being more uneven at the bottom end of the scale in countries with a larger proportion of the population below the threshold. In other words, there tend to be proportionately more people with very low income levels in such countries.

There are outliers as well: Slovakia and Finland. Both countries have a poverty rate of 13%, which could imply a seemingly similar social situation, but it would be a hasty conclusion, given how much worse the situation of the poor is in Slovakia. The poverty gap is about twice as high

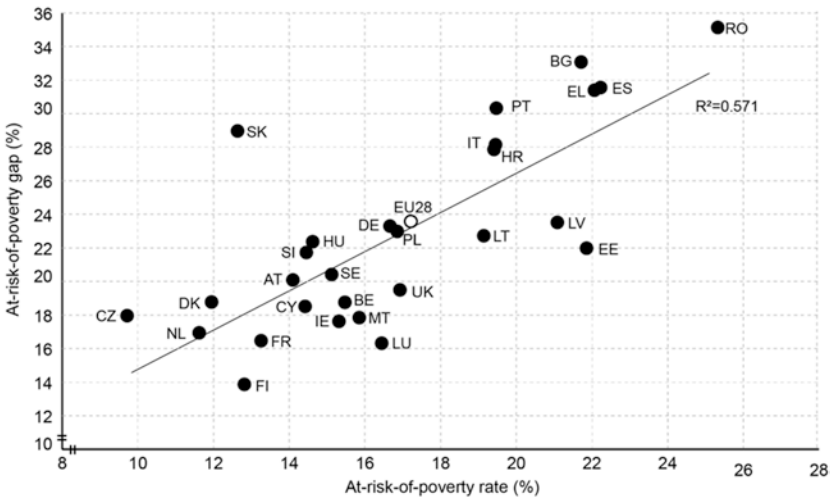

Fig. 6.4 The relationship of poverty risk and poverty gap
Source: European Commission, Eurostat, cross sectional EU-SILC 2014 UDB August 2016
Note: At-risk-of-poverty gap and relationship with the at-risk-of-poverty rate, 2013 income year

in Slovakia, showing that the poor suffer a much greater disadvantage there, even in national terms.[3] The poverty gap, the depth of poverty, thus provides essential complementary information in poverty monitoring and cross-country comparisons.

Note, however, that the at-risk-of-poverty gap indicates only the average income of those below the threshold; it says nothing about the distribution of income between them. Accordingly, the measure would not change if there were a transfer of income from the person with the lowest income level to someone with income just below the threshold, or vice versa. However, it offers an indication of the overall situation of those below the poverty line compared to the general population, and can be used as an indicator for monitoring (changes in) social inequalities.

6.6 Monitoring Poverty Trends: Using the Anchored Rate

Member States agreed on lifting at least 20 million people out of the risk of poverty or exclusion from 2008 to 2020. As already mentioned, the indicator to assess poverty is the at-risk-of-poverty rate. However, this indicator is affected by fluctuations in average income. The poverty rate might increase, for example, if top incomes increase while incomes at the bottom remain the same, as it would drive up the poverty threshold. In this scenario, people with the same level of real income might be classified as poor (having incomes below the poverty threshold) in one year while non-poor (having incomes above the poverty threshold) in the next year, although their real income situation has not changed at all.

Thus, we argue that *poverty trends across the EU need to be monitored with the so-called anchored rate*. The 'change in the at-risk-of poverty rate anchored' is also one of the headline indicators of the EU, so already part of the 'Open method of coordination' monitoring indicators, and it is defined as the proportion of the population whose equivalised disposable income is below the 'at-risk-of-poverty threshold' in a particular 'base' year-the EU indicator currently uses either 2004 or 2007[4]-adjusted for inflation. A comparison of changes in this measure with those in the 'standard' at-risk-of-poverty rate gives an indication of changes in the absolute situation of those with low incomes in relation to changes in the relative situation. In other words, the anchored rate takes explicit account of the overall change in price levels, so if there is an increase in real incomes, it reflects the fact that people, including those at risk of poverty, have become better off over the period being examined. In contrast, the standard measure incorporates changes in average income levels (including the price effect and changes in real income) as well as changes in relative levels.

Because the anchored measure is adjusted for inflation, it can also be considered to indicate the changing proportion of the population who can afford to purchase a fixed basket of goods and services. However, since the basket of goods and services that is considered to be the minimum acceptable to avoid the risk of poverty tends to increase over time as real incomes grow, it can equally be argued that the standard indicator of risk of poverty, which takes account of such an increase, is the more relevant one for measuring changes in these terms as well.

With the threshold anchored in 2004, the proportion of people at risk of poverty declined between 2004 and 2007 income years across most of the EU25 (see Fig. 6.5). As a consequence of the economic and social crisis, this trend reversed in many countries. The largest rise (from 2007 to 2013 income year) occurred in Greece (from 18.5% to 42.7%) followed by Ireland, Spain and Cyprus (8–9 percentage point rise), while there were also significant rises in Italy, Hungary, Luxembourg and Portugal (3–4 percentage points). In these countries, a decreasing number of people could afford to buy a fixed basket of goods and services in the period between 2007 and 2013 income year.

It is arguable that the social impact of the crisis can be better monitored by using an anchored at-risk-of-poverty rate than by using the 'standard' one, which is affected by changes in median incomes. When median incomes fall, the poverty threshold falls as well, which could imply a reduction in the at-risk-of-poverty rate, even if those who were previously at risk are no better off. The annual at-risk-of-poverty rate and the anchored rate can, therefore, show opposite trends, as in the case of Latvia over recent years, where median income rose rapidly in 2007 and 2008 and then fell markedly in 2009.

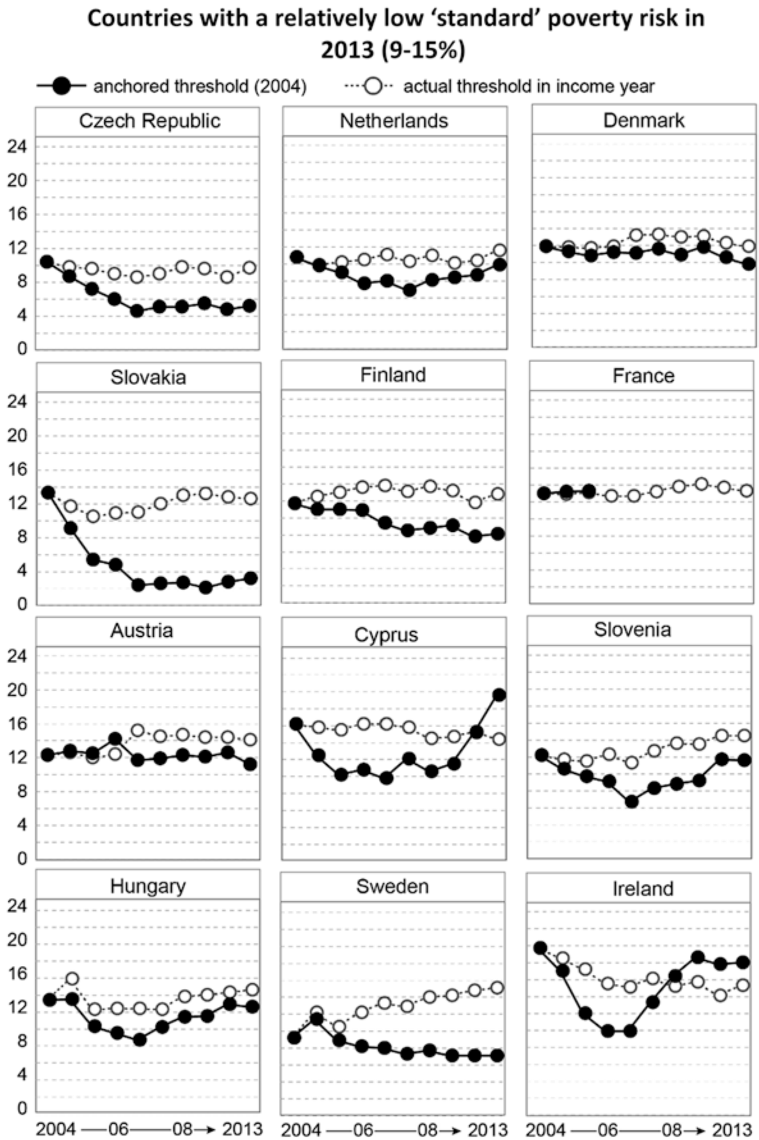

Fig. 6.5 Comparing trends of the anchored and the standard poverty risk. Countries with a relatively low 'standard' poverty risk in 2013 (9%–15%)
Source: European Commission, Eurostat, cross sectional EU-SILC 2005–2014

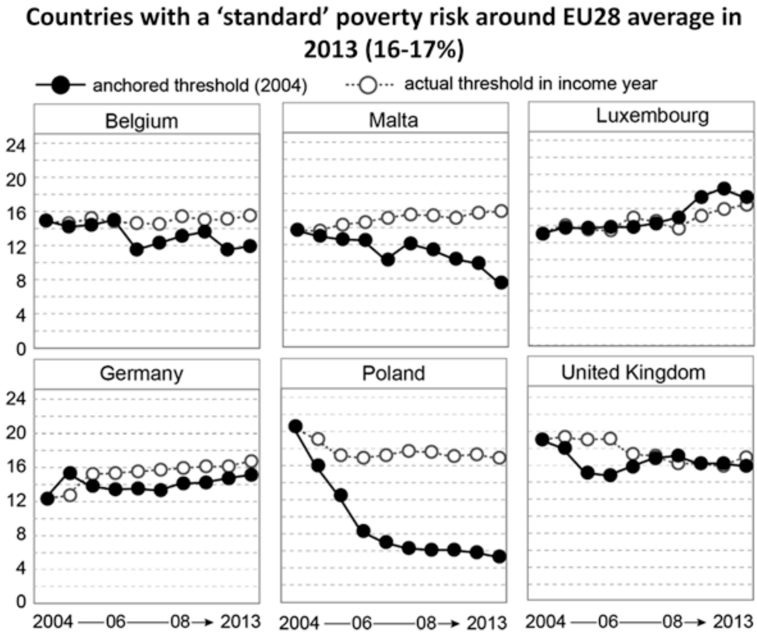

Fig. 6.5 (continued)
Note: Change in the at-risk-of-poverty rate anchored in income year 2004 and the at-risk-of-poverty rate, 2004–2013 income year. The indicator 'anchored in the income year 2004' is defined as the percentage of the population whose equivalised disposable income is below the 'at-risk-of-poverty threshold' calculated in relation to the base year 2004 and then adjusted for inflation. Data for anchored at-risk-of-poverty rates for Bulgaria, France 2007–2009, Romania and Croatia is not available. Break in series: Austria 2007, Spain 2008, United Kingdom 2012

Note that the annual at-risk-of-poverty indicator increased less than the anchored rate over the crisis period in most countries. In Greece, the country where the at-risk-of-poverty rate rose the most, the increase amounted to only 2 percentage points between 2007 and 2013 income years, whereas the anchored rate rose by 24 percentage points. In all three of the Baltic States, the at-risk-of-poverty rate fell over the period, due to falling average incomes, while the anchored rate rose in each case.

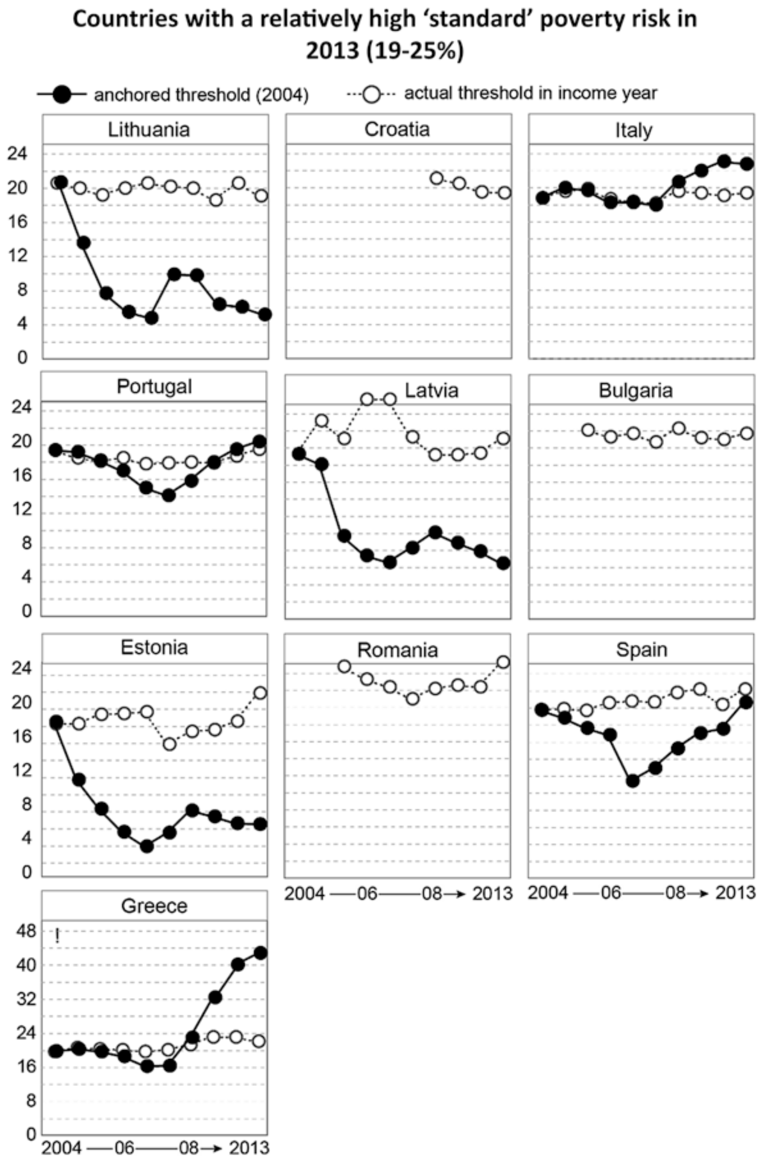

Fig. 6.5 (continued)

These figures show the number of poor in one particular year, but not necessarily the same group of people. The income situation of people might differ from year to year, meaning that they are moving in and out of poverty and they could spend longer and shorter times in a precarious situation. It is well researched that the longer the time spent in poverty, the larger its impact on health and future prospects. Walker and Ashworth (1994) identify different categories based on the spells in poverty: (1) *transient poverty* refers to one short period in poverty while (2) *occasional poverty* refers to people with an income just above the poverty threshold, meaning that they occasionally end up below the poverty threshold if their income situation changes slightly. In a similar vein, (3) *recurrent poverty* is defined as repeated spells of poverty with longer more prosperous spells in between. They furthermore identify three more steady forms of poverty: (4) *persistent poverty* with long-term poverty periods and shorter non-poverty spells in between, (5) *chronic poverty* with very long periods of poverty and (6) *permanent poverty*. The poverty trends discussed above capture all of these categories but without being able to identify the persistence of the poverty risk. In practice, calculating long-term poverty spells is a major challenge, as it requires longitudinal data, following the same individuals over time, and the longer the data series is, the higher attrition is. This affects data quality and also the representativeness of the sample.

In the EU framework, persistent poverty risk is defined as the proportion of persons in a country who are currently income poor and who were income poor in at least two of the preceding three years, and it is a so-called primary indicator. Thus, the EU definition of persistent poverty risk actually includes several types of Walker and Ashworth's typology. Furthermore, poverty risk is calculated on the basis of annual income. People with a relative stable income situation in some months but a very precarious situation in other months might also be characterised as at risk of persistent poverty if their average annual income is below the poverty threshold. Data on persistent poverty is available on the European Commission's Social Situation Monitor website, providing tables by different social groups.

The key issue here is: what is the added value of this indicator? Jenkins and Kerm (2014) show a near-linear relationship between persistent at-risk-of-poverty and current at-risk-of-poverty rates in EU countries.

In their study, they predict persistent poverty risk based on current poverty information and compare the results to persistent risk using panel data. Their results suggest that the way persistent poverty is currently calculated only provides limited added value. However, persistent poverty certainly signals a social problem and gives an indication on the size of the population affected.

6.7 Social Patterns of Poverty: Migrants

The average poverty risk in a country is a good first indication of social inequality. However, poverty risks differ widely among different population groups. Our calculations show the social pattern of poverty by different characteristics. The EU-wide gender difference is relatively small (16.7% men vs. 17.7% women), while there is an age divide with a higher poverty risk for younger population groups (21.1% of people aged 0–17 and 23.8% of people aged 18–24). This is also reflected in the poverty risk by household types. Especially, single-parent households (32.4%) and households with three or more children (26.8%) face a higher than average poverty risk. Country-specific social patterns tend to mirror the overall patterns at an EU level with respect to gender differences and also household types.[5] On the other hand, age, especially old age, has pronounced country-specific profiles: older population groups are relatively disadvantaged in some countries (e.g. Cyprus, Slovenia, Croatia and Bulgaria), contrary to the overall EU average and most other EU countries, where old-age poverty is relatively low. Migrants born outside the EU face a particularly high risk of poverty, with one out of three persons affected, a much higher ratio than that of migrants from other EU countries. These rates differ greatly, however, across different Member States. Given the high social relevance of this issue, we present evidence on the cross-country variation of poverty rates of migrants.

While the at-risk-of-poverty rate of the population born in the country of residence varies from 19% to 25% across the EU, the rate for migrants born outside the EU exceeds 40% in Belgium, Spain and Greece (Fig. 6.6). This warrants caution from the perspective of social rights. A potential cause for social tension, however, is *relative* disadvantage:

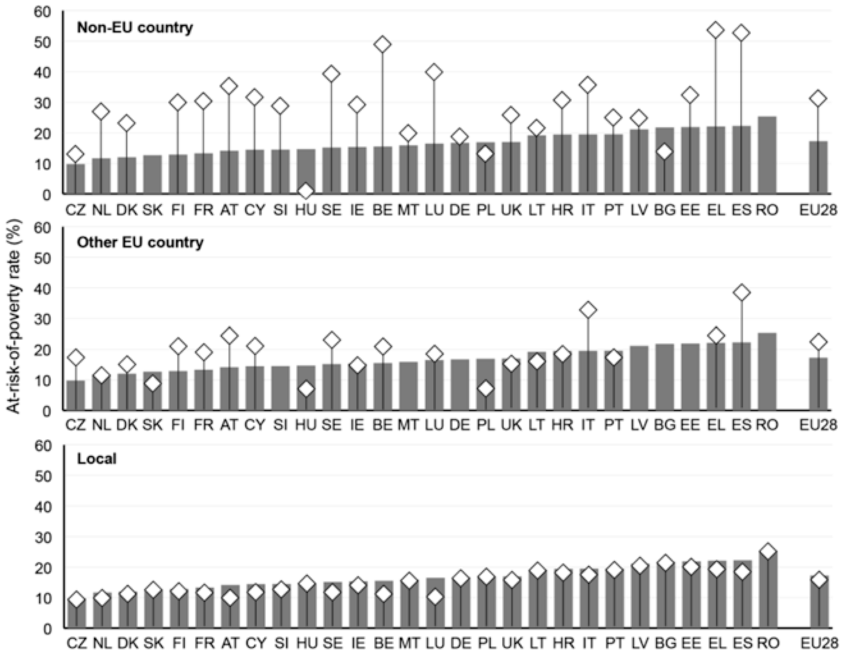

Fig. 6.6 At-risk-of-poverty rate among migrants, by region of origin, 2013 income year
Source: European Commission, Eurostat, cross sectional EU-SILC 2014 UDB August 2016
Note: Grey bars show at-risk-of-poverty rates for the total population. Estimates are based on a low number of observations (20–49) in Bulgaria for non-EU migrants. Estimates for Romania (EU and non-EU), Bulgaria (for EU) and Slovakia (for non-EU) are omitted due to a very low number of observations (<20)

in other words, the difference between poverty rates of migrants on the one hand, and of the indigenous population on the other, or differences within the migrant population as such.

In the worst case, the situation of migrants is disadvantageous both in absolute and relative terms, characterised by both high poverty rates and relatively higher poverty rates than the 'indigenous' population. This is especially the case for non-EU migrants in Greece, Spain and Belgium. In the UK but also in Estonia, Portugal and Ireland, non-EU migrants clearly fare badly in relative terms, but their poverty rate is not particularly high in European comparison. In some 'egalitarian' countries, migrant groups do not experience high poverty in a relative sense. In Hungary, Poland and Bulgaria, migrants are not more disadvantaged than locals.

The poverty risk of migrants from EU countries varies greatly by country, but it is clearly favourable to other migrants, or at times even to non-migrants. The 'EU/non-EU' gap among migrants is particularly marked, for example in Finland, Greece or Luxembourg. EU migrants experience lower (or about the same) poverty levels than the national average in Croatia, Poland, Bulgaria and Portugal. Austria seems to have a specific situation, as poverty among people born in the EU tends to be also nearly twice as high as among non-migrants (for more see: Lelkes and Zólyomi 2008, 2010; Lelkes et al. 2012).

6.8 Conclusion

Our analysis is based on the standard indicators for poverty accepted by the EU, while we also highlight some of the main underlying assumptions of these indicators and the implications for social monitoring.

We make a case for monitoring poverty trends by using a poverty rate anchored in time, rather than the 'standard' measure of the annual poverty rate, which is affected by changes in median incomes. When median incomes fall, as was the case during the recent economic crisis, the poverty threshold falls as well, which could imply a reduction in the at-risk-of-poverty rate, even if those who were previously at risk are no better off. Therefore we opted for the use of the anchored rate. With the threshold anchored in 2004, the proportion of people at risk of poverty declined between 2005 and 2008 across most of the EU. As a consequence of the economic and social crisis, this trend reversed in many countries. The largest rise (24 percentage points) occurred in Greece, followed by Spain, Ireland and Cyprus. In these countries, a decreasing number of people could afford to buy a fixed basket of goods and services in the period between 2008 and 2013. These trends are less visible if one only takes into account the standard poverty risk rate.

What is the best use of the European indicator of poverty? We advocate that country league tables need to be interpreted carefully, especially as they are based on country-specific relative poverty thresholds, and may offer little in advising national policies. The discussion shows that methodological and normative assumptions also need to be kept in mind. On the other hand, monitoring *social disparity within a particular country*, or *time trends*, the change in the number of those living below the poverty threshold may provide politically relevant evidence for devising policies of social inclusion. This is especially true for monitoring social disparity of different population groups.

Notes

1. The results presented here are based on the project Social Situation Monitor, funded by the European Commission (DG Employment, Social Affairs and Equal Opportunities). We are grateful for comments received from Terry Ward.
2. The choice of the equivalence scale also has implications for poverty measurement, as shown by extensive theoretical and empirical literature, including e.g. Coulter et al. (1992), Buhmann et al. (1988).
3. As presented earlier, the poverty threshold is country-specific, so the 'poverty gap' indicator measures disadvantage compared to this standard.
4. This is the first year for which EU-SILC data are available for nearly all EU Member States (except Bulgaria and Romania). Note that Eurostat defines the base year as 2005, but this relates to the year of the survey and not the income year.
5. For more information on country-specific differences, see the on-line repository of the Social Situation Monitor http://ec.europa.eu/social/main.jsp?catId=1050&langId=en

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7

Poverty and Social Exclusion Indicators in the European Union: The Role of Non-Monetary Deprivation Indicators

Brian Nolan and Christopher T. Whelan

7.1 Introduction

In this chapter, we outline the way in which non-monetary deprivation indicators have come to play an important role in capturing poverty and social exclusion across the European Union (EU) and progress in addressing it. The development of poverty and social exclusion monitoring in the EU must be seen in the light of the evolution of the broader EU social policy context. In deciding in 2000 that social policy should be a distinct focus of attention for EU cooperation, the European Council also agreed on the process by which this should be implemented. This was to be done through the open method of coordination (OMC) with key elements being the agreement of common objectives in relation to poverty and

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social exclusion and the adoption of common indicators to monitor progress. In this chapter, we wish to stress that the choices we make in relation to the conceptualisation and measurement of poverty and social exclusion have important implications in relation to our ability to formulate and address policy issues. In particular, they affect what we consider to be a crucial ability to address national and EU issues in relation to poverty and inequality and the manner in which they are related and our capacity to illuminate the underlying processes.

7.2 Commonly Agreed Social Indicators

The task of developing a set of indicators to enable the Member States and the Commission to monitor progress towards common objectives in the area of social inclusion was assigned to the Social Protection Committee (SPC) which set up a technical Indicators Sub-Group (ISG). Atkinson et al. (2002), in a report sought by the Belgian presidency of the Council, emphasised that a portfolio of such indicators should focus on outcomes and recommended that individual indicators should have a clear accepted normative interpretation, be robust and statistically validated and be timely and susceptible to revision but not subject to manipulation. The SPC (2001) 'Report on indicators in the field of poverty and social exclusion' recommended ten primary indicators to cover the most important elements leading to social exclusion.

Non-monetary indicators of deprivation were not included at that point, though their use was discussed by Atkinson et al. (2002). That discussion raised a number of issues, including choices relating to weighting of items and the manner in which deprivation indices are combined with income measures. They concluded that deprivation indicators could serve in country-specific circumstances to identify those experiencing exclusion due to a lack of resources, and in a comparative context to bring out differences in living standards, but that there was no simple generally accepted approach to using such indicators to measure poverty in different countries in the same way. Whelan and Maître (2010a, 2010b) concluded that developing an appropriate assessment of poverty levels in the enlarged EU that adequately captures both relative and absolute outcomes is likely to require that we make use of a number of indicators at both national and EU levels.

In the EU, the widespread adoption of the terminology of social exclusion/inclusion reflected a concern that focusing simply on income misses an important part of the picture while reinforcing an interest in material deprivation and more broadly in multidimensional approaches to measuring poverty and social exclusion (Nolan and Whelan 2007). Locating such concerns in a wider theoretical context involves taking into account Sen's (1993, 2009) argument that well-being should be defined and assessed in terms of the functionings and capabilities that people enjoy. Functionings are 'beings and doings' that people value, and capabilities represent the various combinations of functioning that people can achieve. Sen argues that poverty should be understood as capability deprivation. This implies a multidimensional view of poverty and the need for value judgements. Interpretation of a particular pattern of functioning requires justification in relation to the choice of dimensions, weighting and thresholds.

7.3 Incorporating Material Deprivation into the Social Exclusion Indicators

In responding to the perceived limitations of income-focused approaches, there has been a variety of efforts to develop multidimensional approaches of poverty and exclusion. The major factor motivating such efforts is the conviction that the underlying notion of poverty that evokes concern is intrinsically multidimensional. However, as Nolan and Whelan (2011) stress, multidimensionality of a concept may or may not necessarily have direct implications for the manner in which it is measured. Even if the poor suffer multiple deprivations, it is possible that low income may successfully identify the poor. A clear distinction needs to be drawn between understanding the multifaceted nature of poverty and social exclusion and identifying those exposed to poverty and social exclusion.

The core notion common to a number of different multidimensional approaches is that poverty is not simply about outcomes, because these may be affected by the different choices that people make, but rather the capacity to affect these outcomes in a purposive fashion (Townsend 1979; Erikson 1993; Sen 1993). Resources are an important component of what enables people to have choices. However, resource-based measures are not a very precise indicator of what a person can be or do because people may have different needs, which means that they may require different levels of resources in order to achieve the same outcomes. As Sen puts it, different 'conversion' factors are involved.

The multidimensional nature of poverty creates measurement challenges which have been an important focus of research (Moisio 2004; Whelan and Maître 2005; Whelan et al. 2014; Kakwani and Silber 2007). The academic and policy debates on such methodological approaches have highlighted a tension between the value of summary indices for communication to a wide audience and the potentially arbitrary nature of the decisions required in combining distinct dimensions into a single summary measure. In seeking to capture multidimensionality, the 'counting' approach would involve summing the number of dimensions on which an individual is deemed to have a problem. Atkinson (2003) distinguishes between the union and intersection approaches to counting dimensions. The union approach would count as poor or deprived anyone lacking on any of the dimensions. This is the approach adopted in the EU2020 target, discussed in detail below. The intersection approach, on the other hand, was adopted in setting a national anti-poverty target in the case of Ireland, defined in terms of 'consistent poverty', that is, both below a relative income poverty threshold and above a deprivation threshold (Whelan 2007).

The problem with the union and intersection approaches is that, as a consequence of the fact that deprivation dimensions turn out to be more moderately correlated than is generally assumed, they tend not to perform particularly well in terms of identifying the poor or excluded. Where the number of dimensions is large, the union approach can result in the identification of an implausibly large group as poor/excluded, while the intersection approach can result in the identification of an implausibly small minority (Whelan et al. 2014).

A number of increasingly sophisticated approaches to the issue of multidimensionality have been developed to address these problems. For example, Alkire and Foster's (2007, 2011a, 2011b) adjusted head count ratio (AHCR) approach focuses on distinguishing between censored and uncensored correlation between dimensions, with the former addressing the difficulties created by conventional intersection approaches by distinguishing a sub-set of individuals located above a specified number of selected deprivation thresholds. The approach captures the fact that deprivation dimensions are more closely interrelated among those satisfying the dual criteria relating to individual deprivation thresholds and a multiple deprivation cut-off. This approach is characterised by a number of desirable axiomatic properties in relation to the partitioning of deprivation between dimensions, socio-economic groups and countries.

Alternative approaches involve employing clustering techniques such as latent class analysis or self-organising maps. Such techniques differ in terms of the extent to which they involve prior assumptions relating to the number and type of dimensions involved and the optimum thresholds relating to constituent items. In every case there are crucial choices that must be made by the analysts. In general there tends to be a trade-off between the strength of prior assumptions and the challenges presented by post hoc interpretation of the findings (Pisati et al. 2010; Whelan et al. 2010).

The application of a multidimensional approach does not necessarily imply the need for a multidimensional poverty index (Ravallion 2011), and there has been robust debate relating to the merits of an aggregate indicator such as the composite United Nations Development Programme (UNDP) Human Development Index versus the Millennium Development Goals and now the Sustainable Development Goals, which avoid such aggregation.

The expansion of the EU gave significant impetus to the analysis of non-monetary indicators. The ISG proposed a rationale for developing measures of deprivation that focused on not only the limitations of income measurement but also the relative nature of at-risk-of-poverty indicators in a context where living standards now varied widely across the Member States. Guio and colleagues, making use of the EU Statistics on Income and Living Conditions (EU-SILC), undertook a number of analyses in association with Eurostat with a particular eye to the use of deprivation indicators in the EU Social Inclusion Process (Guio 2005; Guio and Engsted-Maquet 2007). Their results pointed to the grouping of 11 deprivation items in EU-SILC into three dimensions, termed economic strain, enforced lack of durables and housing. It should be acknowledged that this is a very limited database on which to construct indicators of material deprivation at the EU level. In 2006 a task force was set up, drawn from the ISG and Eurostats's 'Income and Living Conditions Statistics working group', to propose indicators for material deprivation and housing. Drawing on an analysis of EU-SILC and Eurobarometer data by Guio (2009), the ISG in 2009 recommended that two new indicators of material deprivation be included in the social indicators' portfolio, the 'material deprivation rate' as a primary indicator and the depth of deprivation as a 'secondary indicator'. The former was to be measured as the percentage of the population living in households that could not afford at least three of the following nine items:

- To face unexpected expenses;
- One week's annual holiday away from home;
- To pay for arrears (mortgage or rent, utility bills or hire purchases instalments);
- A meal with meat, chicken or fish every second day
- To keep home adequately warm
- A washing machine
- A colour TV
- A telephone
- A personal car

There are a number of features of this set of items which require particular comment. In the first place, all items are treated as having equal weight across countries. Marlier et al. (2007) considered such an 'absolute' approach unsuitable, as the only, or even, main, measure of poverty and social exclusion, but as one in a set it was seen as having real value. It was suggested that it could be complemented in time by more relative approaches weighting items appropriately. There are obviously difficulties in reconciling the demands of transparency and accessibility with technically desirable requirements.

However, the limitations relating to the indicator are compounded by several additional features. The first relates to the fact that for the final four items, levels of deprivation are extremely low in the more affluent countries, and as a consequence, correlation between such items are extremely modest with deprivation on these items being affected by largely random factors. For the more affluent countries the indicator is effectively reduced to a five-item scale. In addition, of the remaining five items, a strong case can be made that those relating to capacity to deal with unexpected expenses and ability to cope with arrears are tapping not only objective economic circumstances but also capacity to cope and evaluations that are influenced by choice of reference groups. Whelan and Maître (2009, 2010a, 2010b) show that this indicator produces particularly sharp variation between more and less affluent EU countries while at the same time making the interpretation of deprivation levels in the former somewhat problematic.

7.4 The EU Poverty and Social Exclusion Target

As part of its 2020 Strategy, the EU has set a number of headline targets including one for the reduction of being 'at risk of poverty or social exclusion' (AROPE). The population identified in framing the target is persons in the Member States either below a country-specific relative 60% of equivalised median income poverty threshold, above a material deprivation threshold of 4+ of the 9 deprivation items identified earlier[1] or in a 'jobless' household with this final indicator identifying persons aged 0–59 that are living in households with 'very low work intensity', that is, where the adults (aged 18–59) worked less than 20% of their total work potential during the past year.

The indicators are combined to identify the target group so that meeting *any* of the three criteria suffices for an individual to be included among those counted 'at risk of poverty and social exclusion'. However, Member States are free to set national targets on the basis of what they consider to be the most appropriate indicator or intersection of indicators, as long as they are in a position to demonstrate how these will contribute to the achievement of the overall EU-wide target. Copeland and Daly

(2012) conclude that, while the target is ambitious, rather than signifying deeper integration of EU social policy, it reveals fundamental conflicts relating to such policy.

7.4.1 The Distribution of Risk of Poverty and Social Exclusion Using the EU Poverty Target Indicators

In this section we follow Maître et al. (2014) in providing an analysis of the consequences of decisions relating to the manner in which dimensions are combined to produce a European Poverty and Social Exclusion Target. The current analysis updates their estimates, which were based on data from EU-SILC 2009, to EU-SILC 2014. For each country in turn, the first column in Fig. 7.1 shows the percentage in each country 'at-risk-of-poverty' in the sense of being below the 60% of median relative income threshold. For ease of interpretation, countries have been ranked in terms of median equivalised household income in Purchasing Power Parity terms. The highest rates (of 22–26%) are seen in some of the New Member States. The next highest levels are observed for the southern European countries (18–20%). At the other end of the spectrum, the Netherlands and Denmark have relatively low rates of 11–13%, with the Czech Republic, Slovenia and Slovakia having even lower rates. The association between the poverty indicator and average national levels of prosperity is rather weak.

The second column for each country in Fig. 7.1 shows the impact on the size of the target population of adding those who are deprived on four or more items but who are not below the 60% income threshold. For virtually the whole of affluent northern Europe, the union of at risk of poverty and material deprivation identifies almost the same group of people captured by the income poverty measure taken on its own. At the other extreme, in Romania, Bulgaria and Hungary the target population is approximately doubled. The rate for the union of relative income poverty and material deprivation ranges from a low of 12% in the Netherlands to a high of 46% in Bulgaria. The addition of the deprivation criterion thus produces much sharper variation across countries, but this mainly

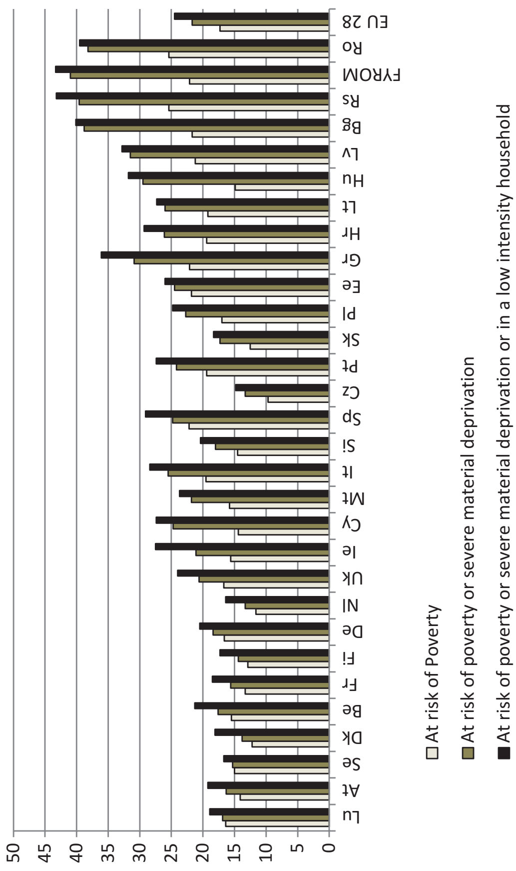

Fig. 7.1 Elements of the EU poverty and social exclusion target by country for EU-SILC 2014
Source: Eurostat, 2014 SILC data, ilc_pees01 extracted on 15/10/2016

involves a polarisation between a sub-set of New Member States and the remaining countries. This outcome is an entirely predictable consequence of the high deprivation threshold and the extremely low levels of deprivation on some of the constituent items.

In the last column we add those living in households where the level of work intensity is less than 0.20. For all but two countries this produces only modest increases in the size of the target population ranging from 1% to 4%. Somewhat larger increases of 6% and 7% are observed for Latvia and Poland. The overall variation in the size of the target population ranges from 14% in the Czech Republic to 46% in Bulgaria—a smaller range than in column two. Introducing the work intensity criterion produces less rather than more differentiation of countries in terms of the overall number at risk of poverty or social exclusion.

If being at risk of poverty or social exclusion is thought of as involving variable unions of these three elements, then the phenomenon is being captured by quite distinctive combinations of outcomes in different countries. For most of the more affluent Northern Europe countries, together with the former Czech Republic, Slovakia, Slovenia and Estonia, the headcount is driven by the at-risk-of-poverty measure. For Ireland the work intensity measure plays a substantial role. For the remaining Eastern European countries, with the exception of Latvia, we see substantial increases associated with the material deprivation component but little further impact of the work intensity measure.

7.5 Multidimensional Poverty Measurement Reconsidered

In analysing poverty and social exclusion in Europe, the restricted range of indicators available in the annual EU-SILC limits one's ability to analyse cross-national differences. A number of authors have sought to take advantage of a special module on deprivation conducted as part of the 2009 wave of EU-SILC (Guio et al. 2016; Whelan and Maître 2012). Drawing on such analysis, Whelan et al. (2014) applied the Alkire & Foster's AHCR approach to 28 European countries. Their focus was on five dimensions comprising relative income poverty at 60% of median income (AROP), basic deprivation (involving absence items relating to food clothes, heating, etc.), consumption deprivation, health deprivation and neighbourhood environment. Dimensions were weighted equally and thresholds were chosen to correspond closely to that relating to the national income measure. Deprivation scores above 0 relate only to those who are above the multidimensional threshold of 2 deprivations. All others are allocated a score of zero. The AHCR is the product of H, the proportion of people who are multidimensionally poor, and I, the average deprivation score across dimensions for those experiencing multidimensional poverty.

Alkire et al. (2015: 189) note that the AHCR indicator can be interpreted as a measure of capability poverty on the following assumptions:

- Indicators measure or proxy functionings or capabilities.
- People generally value attaining the deprivation cut-off level of each indicator.
- The weights reflect a defensible set or range of relative values on the deprivation dimensions.
- The cross-dimensional poverty cut-off reflects 'who is capability poor'.

The AHCR has a potential range of values from 0 to 1. Where no one in the population experiences any of the deprivations, the value is 0 and 1 where all individuals experience deprivation on all dimensions. Across the 28 countries, values of the AHCR generally increased as country income levels declined. The AHCR ranges from 0.313 for Romania to 0.030 for Iceland. This compares to levels of 0.310 and 0.821 for the union approach and 0.001 and 0.006 for the intersection approach. The AHCR approach provides a middle ground between the union approach, where large segments of the population are counted as multiply deprived, and the intersection approach, where hardly anyone is counted as multiply deprived even in the least affluent countries.

One of the advantages of the AHCR measure is that is that it is decomposable in terms of deprivation dimensions and socio-economic characteristics. In the more affluent countries, basic and consumption deprivation play a modest role, with the AROP indicator and health deprivation making the greatest contribution. The neighbourhood dimension has its highest values in relatively affluent countries such as the Netherlands and the UK. Multidimensional poverty is influenced by both deprivation levels and the association between dimensions. Individuals are counted as poor only where they are deprived on two or more dimensions. Low levels of deprivation on individual dimensions together with modest levels of association produce minimal levels of poverty. For the more affluent countries, the distribution of levels of deprivation and the degree of association between income poverty and health are sufficient to lead to these factors dominating, while others play a much less significant role.

For countries in the middle range of affluence, individual dimensions contribute more evenly. However, the role of the consumption dimension remains modest in a number of cases and the role of neighbourhood environment remains variable. For the least affluent countries, basic deprivation in particular but also consumption deprivation play an important role.

Multidimensional poverty, defined in the foregoing manner, varies systematically across socio-demographic groups. The impact of key factors such as social class and age group varies significantly across countries, with the former playing a more significant role in less affluent countries and the latter having its most substantial influence in their more affluent counterparts.

Inevitably, both the levels and patterns of poverty observed employing a common multidimensional measure across countries differ from what we would observe from nationally specific measures. The advantages and disadvantages of both approaches are dependent on the specific questions we wish to answer, and it important to employ methods that allow us to assess the consequences of the choices we make.

The extent to which aggregation may create difficulties is related to the choice of dimensions included in the analysis and the degree to which it is reasonable to assign weights, whether equal or unequal. This is something which must be determined on the basis of substantive rather than technical considerations. The breadth of the dimensions employed in applying this method to developing countries (Alkire and Santos 2010; Alkire and Seth 2011) presents substantially greater difficulties in this respect than the deprivation analysis relating to European countries that we have discussed in this chapter. The choice of dimensions to include in the analysis and the thresholds for the dimensions included and the weights to apply lie with the analyst rather than deriving from the method. Any such findings can be subjected to sensitivity analysis in order to assess the robustness of the findings. If a multidimensional index of this kind is to be utilised, it is clearly preferable that it be constructed so that it is characterised by a range of desirable axiomatic properties rather than on an ad hoc basis. However, the construction of such an index is not an alternative to the development of improved indices for individual dimensions. Nor is this the only approach to tapping such dimensionality: for example, latent class approaches focusing on distinctive risk profiles rather than patterning of current outcomes offer a different but complementary perspective (Grusky and Weeden 2007; Whelan and Maître 2010b).[2]

7.6 Conclusions

We recognise that the approach to developing an EU 'At Risk of Poverty or Social Exclusion' target involves a compromise between different political and policy traditions. However, it is impossible to avoid the conclusion that the particular decisions made in constructing the target result in a fundamental incoherence in the approach adopted. In focusing on the union or combination of the three indicators, cross-nationally we are not comparing like with like and the case for aggregating the indicators to produce a multidimensional indicator is seriously undermined. For most affluent countries, the headcount of those 'at risk of poverty or social exclusion' is driven by the income measure. For Ireland and the UK, work intensity plays a significant role. For most of the Eastern European countries, we observe substantial increases associated with the material deprivation component but little further impact of the work intensity measure. Not only are the dimensions of distinctly variable relevance across countries, but the profiles of those defined as poor and excluded also vary significantly across the dimensions. While those added to the count of the poor and socially excluded by incorporating the material deprivation dimension exhibit social class profiles in line with our theoretical expectations, adding the work intensity criterion leads to the identification of a distinctly more heterogeneous sub-group (Maître et al. 2014).

The EU *Employment and Social Developments in Europe 2011* report argues that the computation of a single indicator is an effective way of communicating in a political environment, and a necessary tool in order to monitor 27 different national situations. From the foregoing it should be clear that we are not entirely persuaded by such arguments. Indeed, while sympathising with what it is seeking to achieve, our general evaluation would be that the approach introduces more problems than it solves. Furthermore, our concerns are exacerbated by the suggestions in the report that future efforts might seek to incorporate factors such as exclusion from social relationships, access to services and so on. In our view the difficulties associated with this approach are exemplified in the Social Justice in the EU-Index Report 2015 (Schraad-Tischler 2016) where aggregate national indicators across a range of dimensions are combined in what we consider to be an essentially arbitrary manner that obscures rather than illuminates underlying processes. This approach we argue is characterised by the fundamental flaws identified by Ravallion (2011) who asks whether you would consider it an advance to collapse all the dashboard dials in your new car into a single composite index. Seeking to accommodate a variety of very loosely correlated dimensions of social exclusion appears to us to be a recipe for confusion.

Earlier we noted the argument of Copeland and Daly (2012) that the choices made in relation to the EU AROPE indicator reveal fundamental conflicts in relation to EU social policy. As a consequence of these choices, crucial issues relating to the relationship between national- and EU-level outcomes and associated policy issues are obscured. Heidenreich and Wunder (2008) argue that while the causes of social inequality are increasingly shaped at EU level, this arises through supranational regulation of economic, social, regional and employment policies and the integration of national markets rather than through European welfare state processes. Ferrera (2006) stresses that European integration is based on a logic of economic opening that challenges the spatial demarcations and closure practices that sustain national solidarity and concludes that the challenge is to achieve an appropriate combination of national and transnational forms of legitimacy and suggests that it may be necessary to recast the European integration project so that it can be promoted as the best means of safeguarding modernised national protection systems. It should be abundantly clear that the legitimacy and social cohesion issues that are central to this argument have become increasingly salient as the challenges to EU integration have increased. In that context, adequately addressing issues relating national and EU perspectives and underlying processes is crucial to our ability to contribute productively to policy and political debates relating to trends in inequality.

Our central argument is that the problems associated with an incoherent index go well beyond the purely methodological and are likely to produce incoherent communication and less-than-productive discussion. Our preference is for keeping the central focus of EU poverty and social exclusion targets and measurement on the core elements of income poverty and generalised deprivation. Alongside such efforts we need to enhance our understanding of the processes leading to outcomes, such as labour market exclusion, and the factors mediating the consequences of such disadvantage for wider exclusion from society, social cohesion and quality of life. In seeking to achieve these objectives, there is a great deal to be said for investing in improved measures of deprivation, and where multidimensional indices are employed, to adopting approaches with clearly understood axiomatic properties that allow us to evaluate the consequences of alternative strategies for our understanding of levels and distribution of poverty and social exclusion at both national and EU levels and the manner in which they are interrelated.

Notes

1. No justification is provided for the increases from 3 to 4 items.
2. An analysis of the changing distribution of income and deprivation raises a range of additional issues which it is not feasible to encompass in the current chapter. See Whelan et al. (2016) for an analysis of the impact of the Great Recession on income, deprivation and economic stress in 16 economically advanced European countries.

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8

Inequality of Outcomes and Opportunities Among the Young

Márton Medgyesi

8.1 Introduction

Young people were hit particularly hard by the economic recession of 2008–2009 and have continued to experience difficulties during the period of stagnation which has followed (European Commission 2014). Although the impact of the recent economic crisis on young people appears to have been considerable, it has not been homogeneous (O'Reilly et al. 2015). Countries most affected by the recession in Southern and Eastern European regions showed especially high youth unemployment rates. Difficulties on the labour market during the crisis and subsequent years have multiple consequences for the young population. Youth poverty increased and inequality between younger and older adults has widened. Moreover, increased economic hardship proved to have long-lasting

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effects, for example, by contributing to a delay in the process of transition to adulthood. The aim of this chapter is first to describe the evolution of the labour market situation and poverty among the young since the economic crisis.

Opportunities of young adults to cope with the consequences of the economic recession varied according to family background. The family can play a role in mitigating the adverse consequences of the crisis, by helping youth in trouble with financial and non-financial transfers. But family background also affects the vulnerability of young adults in case of an economic downturn. The experience of the parents shapes the opportunities of their offspring through the transmission of resources and cultural capital. Young people inheriting low amounts of such resources are more likely to enter the labour market with low educational qualifications and low levels of skills, information and contacts that are necessary for success. For them, long-term exposure to unemployment is part of a generational legacy. In this chapter, we will describe inequality of opportunities to cope with the economic crisis among the young, by describing the influence of parental background on education and labour market outcomes during the economic recession.

The age group studied in the following chapter is those between 15 and 29 years of age, which includes those in the process of acquiring educational qualifications and those who are at the beginning of their labour market career. In some cases the age coverage is extended further to age 34 as longer educational careers and more difficult labour market integration of the young often results in vulnerability of those in their early thirties.

8.2 The Situation of Young Adults in the Labour Market

8.2.1 NEET and Unemployment Among the Young

As the young are in a phase of transition from education to the labour market, a useful indicator of their situation would express the relation to both. One such indicator is called 'NEETs', which expresses the percentage

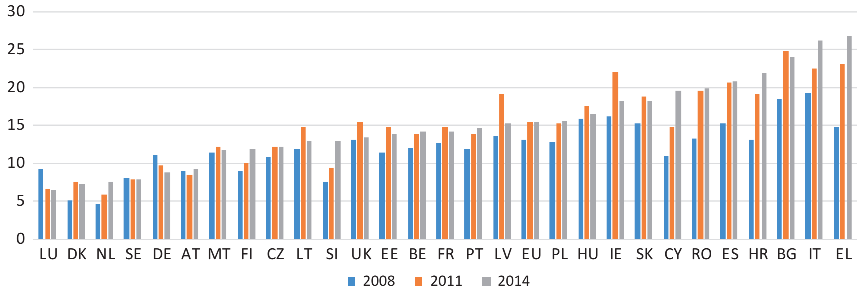

Fig. 8.1 Young people neither in employment nor in education and training (NEET rates), 15–29 years old (%)
Source: Eurostat database, edat_lfse_20 table, extracted on 02/05/2016

of those neither in employment nor education or training. The value of this indicator increased during the crisis years in most EU Member States (see Fig. 8.1). It increased the most in Greece, from 15% to 27%, and Cyprus, from 11% to 20%. In addition, Spain, Italy and the South-Eastern EU Member States (Bulgaria, Romania, Croatia) have also seen a rising percentage of those neither in employment nor in education or training. The only countries where this indicator did not increase between 2008 and 2014 are Luxembourg, Germany and Sweden. In countries like Ireland or Latvia, the increase in NEETs during the crisis years (2008 and 2011) was followed by a decline in the subsequent period (between 2011 and 2014).

One category of the NEETs that are particularly affected by social exclusion is the unemployed. The economic crisis has brought about an above-average increase in youth unemployment in the EU, but the effect was different in the various Member States. Countries with the greatest increase in youth unemployment between 2008 and 2011 were partly those countries that were most affected by the crisis in general, such as Greece, Spain, Latvia, Lithuania and Ireland. In these countries the overall unemployment rate increased by 8–10 percentage points, while the unemployment rate among those between 15 and 24 increased by between 15 points (Ireland) and 23 points (Greece). Some other countries with a more moderate increase in overall unemployment (4–5 points) also had relatively high increase in youth unemployment (13–14 points), like Slovakia, Croatia, Cyprus and Portugal. Poland, the Czech

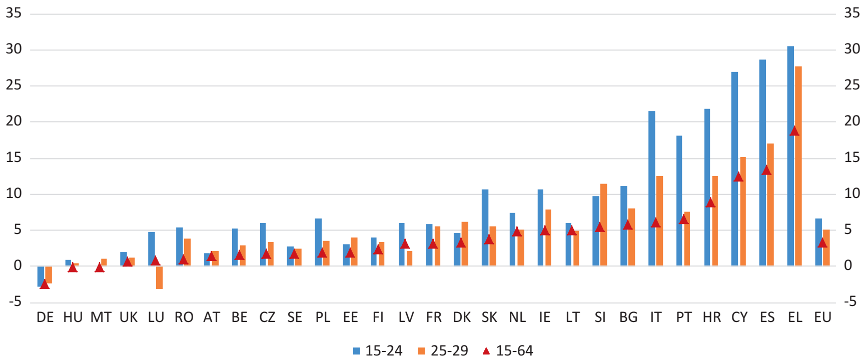

Fig. 8.2 Evolution of the unemployment rate in different age groups (percentage point change, 2008–2014)
Source: Eurostat database, lfsa_urgaed table, extracted on 07/03/2016

Republic and Italy were characterised by a relatively low increase in the overall unemployment rate (2–3 points), but the increase in the unemployment rate among 15- to 24-year-olds was more significant (8 points). In summary, the Southern European countries and the EU13 countries were most affected by the rise in youth unemployment (Fig. 8.2).

During the period between 2011 and 2014, unemployment and youth unemployment continued to increase in the Southern European countries. In Greece, Italy, Spain, Croatia and Cyprus, the total unemployment rate increased by 4–9 points and unemployment in the 15–24 age group increased at a higher rate (by 7–14 points). In the Baltic States, Ireland, the UK and Hungary on the other hand, employment recovered and youth unemployment declined as well. In these countries the total unemployment rate decreased by 2–5 points and the decline in the youth unemployment rate was even more significant in all of the countries. Youth unemployment rates declined especially in the Baltic States, where the unemployment rate in the 15–24 age group was 8–14 points lower in 2014.

According to the Eurofound (2012) study, apart from the unemployed there are two other categories of NEETs who are most at risk of social exclusion: the unavailable—which includes young carers, young people with family responsibilities and young people who are sick or disabled—

and the disengaged, which can be those young people who are not seeking jobs or education and are not constrained from doing so by other obligations or incapacities.

8.2.2 Precarious Employment Among the Young

NEET and unemployment are not, however, the only indicators of problematic integration in the labour market of young adults in Europe. The labour markets of some EU countries have become more segmented, with the burden of flexibility falling on workers with 'atypical' contracts—those with fixed-term contracts and part-time work. Youth employment is characterised by high shares of temporary and part-time work (European Commission 2014). Temporary work means less secure employment, since most often it goes together with less strict dismissal rules. In addition, temporary workers have less access to training, paid sick leave, unemployment insurance and pensions, as well as lower salaries. Working part-time is also associated with lower hourly wages, poorer training and career opportunities, and, in the long run, lower pension entitlements.

As Fig. 8.3 shows, the share of young employees under limited-duration contracts, as a percentage of the total number of young employees increased in most EU countries between 2008 and 2014. The only

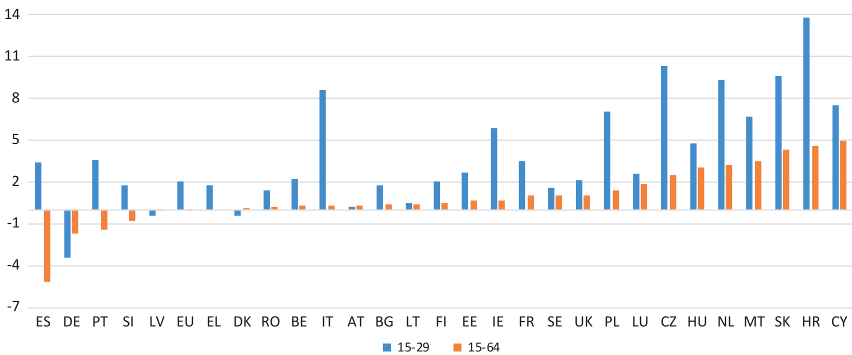

Fig. 8.3 Change in prevalence of temporary work among those in employment (percentage point change, 2008–2014)
Source: Eurostat database, lfsa_etpga table, extracted on 08/03/2016

exception is Germany, where the percentage of young employees under temporary contracts declined. It is also apparent that temporary work increased more among the young compared to the working population as a whole, the only exception once again being Germany. Countries where temporary employment increased most relative to the overall figure are some of the Southern European countries (Spain, Italy, Malta) and some of the Eastern European countries: Poland, the Czech Republic, Slovakia and the Netherlands.

Part-time work is also often used as an indicator of labour market precariousness. But the increase in part-time work can be a positive development if it means that people can more freely choose the balance between work and other objectives. It is consequently more appropriate to use involuntary part-time work as a measure of vulnerability on the labour market. In case of involuntary part-time work, this is the only available option for the individual on the labour market or the only one that allows a reconciling of work with private life and family responsibilities. Figure 8.4 shows the evolution of involuntary part-time work in EU countries. It can be seen from the figure that in most EU countries the share of involuntary part-time work has increased among those working part-time. The exceptions are Germany, Belgium and Malta. The increase among those in active age (15–64 years old) has been most important in

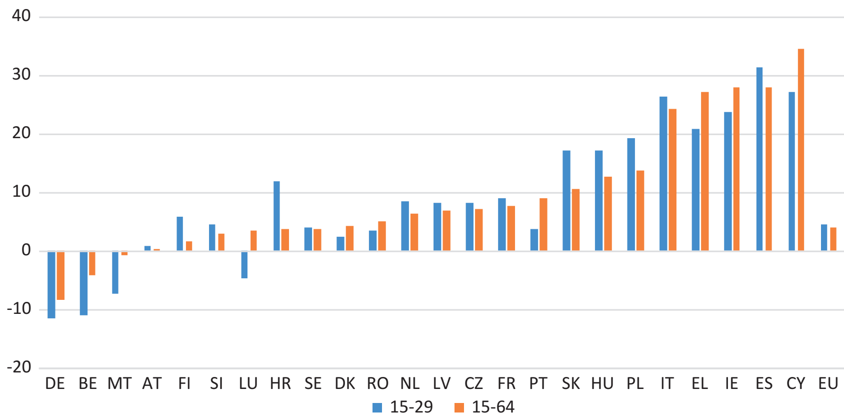

Fig. 8.4 Change in involuntary part-time work among those working part-time (percentage point change, 2008–2014)
Source: Eurostat database, lfsa_eppgai table, extracted on 12/09/2016

the countries most affected by the crisis, Cyprus, Spain, Ireland, Greece and Italy. In some of these countries, like Spain and Italy (but also in Poland, Hungary Slovakia and Croatia), the increase in involuntary part-time employment was more pronounced for the young.

As the data have shown, many of the young who managed to gain a foothold on the labour market are in marginalised situations, with jobs offering low employment security, relatively low wages and few possibilities for advancement. The question is whether precarious work is a stepping stone to more stable and well-paid employment or whether the young in these jobs are more likely to experience a difficult integration in the labour market throughout their working career. Some of the literature (e.g. Chung et al. 2012) argues that transition rates from temporary work to stable employment are low and decreasing, thereby creating a persistent disadvantage for those entering the labour market during the recession years.

8.2.3 Long-Term Consequences of Youth Unemployment

According to research, youth unemployment has long-term consequences on labour market prospects and individual well-being. This so-called scarring effect means that the experience of unemployment will increase likelihood of future unemployment and reduce future earnings. This is likely to happen because of deterioration of skills during periods of unemployment, foregone work experience and also because periods of unemployment might be interpreted as a sign of low productivity by potential employers (Scarpetta et al. 2010). Longer periods of unemployment increase the likelihood that individual productivity will be affected, and the scarring effects are likely to last longer for those with low level of education.

According to research results, experiencing a spell of unemployment at an early stage of the labour market career has a detrimental effect on employment well after the event (Bell and Blanchflower 2011), and this experience is found in countries with different labour markets and welfare systems such as Germany, Sweden, Italy or the UK. It has also been shown by the literature that lost work experience has a sizeable effect on the wages that young people can earn after being unemployed. The size of the income penalty associated with the experience of unemployment varies between countries. For example, studies in Nordic countries estimate an earnings penalty 5–6 years after unemployment ranging between 17% in Sweden (Nordström Skans 2011, for vocational education) and 25% in Finland (Verho 2008).

8.3 Income Poverty Among the Young

The worsening labour market situation of the young also resulted in higher risk of falling into poverty. Income poverty among the youth increased in almost all EU Member States between 2008 and 2012. As shown by Fig. 8.5, the most important increase has been recorded in Greece where the poverty rate increased from 22% to 32%. Spain (increase from 19% to 28%) and Ireland (increase from 13% to 21%) have also recorded a considerable increase in the youth poverty rate. Austria, Denmark, Estonia and Romania have also seen poverty increase by 5 percentage points among those aged 15–29. Countries where the youth poverty rate remained unchanged during this period are Germany, Finland, Cyprus and Bulgaria. In most EU countries, the youth suffer from an above-average poverty rate. The difference is high in countries where the youth have been hit hard by the crisis, like Greece, Spain or

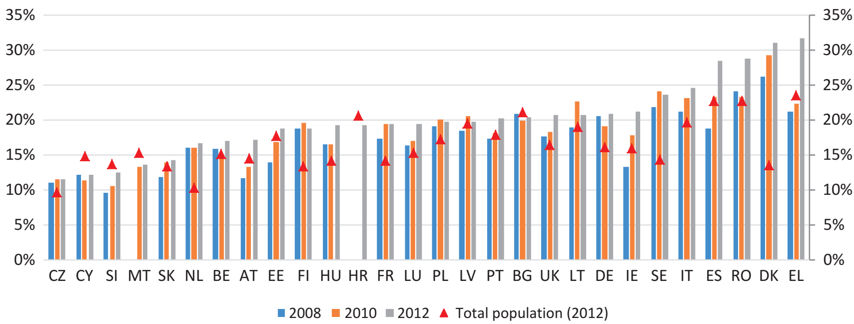

Fig. 8.5 Relative income poverty among the 15–29 age group
Source: Own calculation based on EU-SILC UDB 2009, 2011, 2013.
Note: poverty threshold is 60% of median equivalised household income

Ireland, but it is also high in case of the Northern European countries where the young have an above-average poverty risk due to early emancipation from the parental home.

8.4 Family Background and Youth Outcomes During the Crisis

For some young people, low education, unemployment and poverty are partly inherited from their parents' generation. Studies of inequality of opportunity and intergenerational social mobility analyse the strength of the relationship between individual's status and the status of their parents. This perspective is important, because inequalities in incomes and other outcomes might be more readily accepted by the population if the society is mobile, if it offers ample opportunities for those from deprived social backgrounds to get ahead.

Studies show that parental and child income status is positively correlated (Becker and Tomes 1986; Blanden 2013), and the likelihood of becoming poor is higher among those with parents from lower social classes (Whelan et al. 2013). There are various mechanisms that might explain the intergenerational correlation of social status and incomes. Education is a key determinant of success in the labour market; thus, the effect of parental social status (education, employment, income) on child educational achievement (see Haveman and Wolfe 1995; d'Addio 2007; Blanden 2013) is an important channel of status transmission between generations. But even with similar educational backgrounds, children of low-income families might be less successful on the labour market and might have higher chances of becoming poor during the economic crisis.

The following sections summarise results regarding the effect of parental background on youth outcomes during the economic crisis. First, we describe patterns of parental background effect on education. Then we describe how differences in parental background can have an effect on labour market chances and poverty even for young adults of similar education levels. Comparative studies on changes in intergenerational mobility and inequality of opportunity over the economic crisis are scarce.

As underlined by Feigenbaum (2016), the impact of an economic recession on social mobility can be positive or negative. Social mobility could increase in economic downturns, as a recession may disrupt mechanisms of the intergenerational transmission of inequalities that link the outcomes of children with those of their parents. Alternatively, if poorer families are less able to cope with the recession, children who might have climbed the income ladder in normal times would instead end up with similar social status as their parents.

8.4.1 Family Background and Vulnerability to Crisis Among the Youth: Family Influence on Educational Levels

Earlier, it was argued that education is a key determinant of success on the labour market and the effect of the economic crisis was more pronounced for young adults with low education levels. Family background might have an effect on children's outcomes at school for various reasons. According to the human capital theory, educational choices are governed by returns and costs of schooling (Becker and Tomes 1986). Lower educational investment among low-income families might thus be explained by lower returns or higher costs of pursuing education. Lower returns for children from disadvantaged families might arise if these children typically access lower-quality educational institutions, or if they have lower average ability due to effects of poverty on childhood development, or if the family networks of low-income families are less capable of helping children on the labour market (Behrman and Knowles 1997). Higher costs of schooling among low-income families might arise in case of credit constraints because parents in low-income families have to accept a trade-off in consumption to meet education expenditures (Becker and Tomes 1986).

Comparative studies of educational mobility measure how strongly parental and child education is correlated in countries with different educational systems and welfare systems. Studies in EU countries generally show that in Mediterranean countries and Eastern European countries, educational mobility is relatively low, while the Nordic countries are characterised by high mobility and less persistence of educational levels (e.g. Hertz et al. 2007; Di Paolo et al. 2013; Schneebaum et al. 2015). Western European countries are characterised by a middle level of social mobility. This pattern is also confirmed by recent data by Grundiza and Lopez Vilaplana (2013), who describe the intergenerational transmission of low education based on the European Union Study of Incomes and Living Conditions (EU-SILC) 2011. According to their results (see Fig. 8.6), the value of the odds ratio, which expresses the strength of the association between parental and child education, is 14.7 in the EU overall, but significant differences exist between countries. In Bulgaria and Croatia, the association index was much higher (more than 40), meaning a stronger association between parental and child education, while in Norway, Estonia, Denmark and Finland, it was less than 5.

Changes in social mobility are often described by comparing the correlation of parental and child status across cohorts. In most of the countries studied by Grundiza and Lopez Vilaplana (2013), the persistence of a low education level is higher for those aged 45–59 than for those aged 25–34, which means that social mobility is increasing. However, the largest differences between age groups are to be found in the countries where the persistence of low educational attainment is higher in the younger age group, for example, in Bulgaria, Lithuania and Latvia. Other countries where persistence of low educational attainment is higher among the younger age group are Estonia, Romania, Austria and Germany.

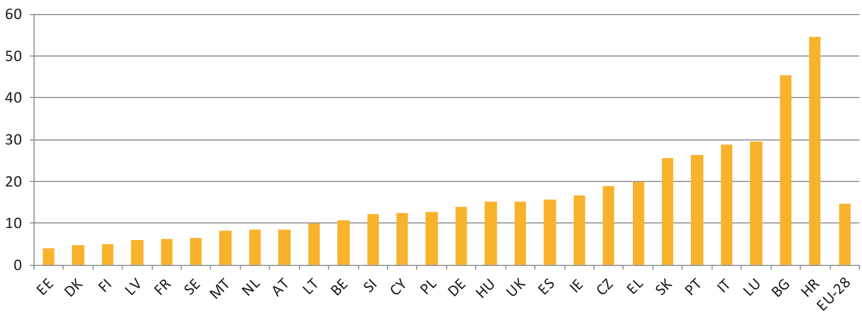

Fig. 8.6 The association index (odds ratio) of being low educated when having low-educated parents compared to high-educated parents, 25–59 age group, 2011
Source: Grundiza and Lopez Vilaplana (2013)

8.4.2 Family Help to Cope with Labour Market Adversity

Having parents with high social status not only benefits children while in education, but family background impacts labour market outcomes even after leaving school. Families can help young adults with direct transfers of money, contacts and information and also by transmitting values and attitudes that can contribute to success on the labour market. Direct parental transfers in terms of money or co-residence to young adults searching for a job might have effects similar to unemployment benefits. By lowering costs of searching for a suitable job, parental transfers might allow young adults to persist in searching, which can improve search outcomes (Jacob 2008). Direct family transfers of wealth might also help young adults to start entrepreneurial activity in case of unemployment.

Families can also help young adults facing difficulties with labour market insertion with information and contacts. Young adults from high status family might rely on the social contacts of relatives (and also friends) when searching for a job (Montgomery 1991; Bartus 2001). Moreover, higher-status parents are also more likely to be better informed about labour market vacancies and opportunities that are open to young adults on the labour market. More indirect effects of parental status on young adults' labour market prospects operate through the transmission of cognitive traits and soft-skills that may influence career advancements (Bowles and Gintis 2002). Parents might also transmit values and attitudes that influence how young adults cope with difficulties on the labour market: for example, parental work experience can modify young adults' aspirations and attitudes towards education and labour market participation, that is, their evaluation of paid work, their attitudes towards relying on welfare benefits, gender roles and so on.

Recent examples of studies on the effect of parental background on young adults' labour market advancement were produced by the Strategic Transitions of Youth labour in Europe (STYLE) project. Berloffa et al. (2015), among others, analyse how parental employment status affects young adults' insertion into the labour market after leaving school. The authors have found that the employment structure of the families of origin is of crucial importance in explaining youth school-to-work trajectories in

EU countries. Having at least one parent in stable employment is associated with more favourable entry trajectories for both male and female school-leavers, as this significantly increases the probability of a speedy transition to stable employment and significantly decreases the probability of being continuously unemployed/inactive. Regarding the effect of the crisis, the authors find that those who entered the labour market during the crisis (2008–2011) generally had more difficulty transitioning to employment, but young individuals living in work-rich households were more protected from the increasing difficulties of the school-to-work transition than their peers living in work-poor families.

Another study by Filandri et al. (2018) examines how family background impacts labour market success five years after finishing studies. They use data from EU-SILC 2011 and study labour market success of young people under the age of 34 who obtained a secondary or tertiary educational qualification over the 5 preceding years. They estimated the impact of parental education on labour market success in terms of employment, skills and wages. Among those who left the parental household, children of parents with a high- or middle-level education exhibit greater likelihood of success on the labour market (having skilled employment with high wages) compared to children with low-educated parents. Among those still living in the parental household, children with high-educated parents are less likely to be in 'investment' jobs (skilled jobs with low pay) but significantly more likely to be in education. Children with high-educated parents have a lower probability of being unemployed five years after finishing school regardless of living arrangements.

Berloffa et al. (2015) use EU-SILC data from 2005 to 2011 to study the long-term persistence of employment status. The authors have found intergenerational persistence of employment in all regions of Europe: having had a working mother at the age of 14 increased the probability of young people (25–34 age group) being employed and reduced that of being inactive. Relatively large effects were found in Nordic and in Anglo-Saxon countries. By contrast, fathers' labour market status appears to play a role mainly in Mediterranean and Continental countries. Comparing the effect of parental employment between 2005 and 2011 sheds light on the effect of the economic crisis. During the crisis, the effect of parental background (both of maternal and paternal employment) increased in Mediterranean countries and the Anglo-Saxon countries (paternal employment). On the other hand, in the Continental countries the effect of fathers' employment vanished.

8.4.3 Family Background and Youth Poverty

Family help to improve education or labour market outcomes will of course diminish the likelihood of falling into poverty, but families can also protect young adults with direct transfers of money, as well as by offering shelter in the parental home (Swartz et al. 2011).

The share of young adults living at their parents' home varies to a great extent across countries in the EU. The proportion of young adults aged 25–34 residing with their parents is much higher in the Southern European, Central European and South-Eastern European countries compared to Western or Northern European countries. In the groups characterised by higher rates of co-residence with parents, the percentage of young adults living in the parental home is between 37% (Cyprus, Czech Republic) and 56% (Slovakia), while in Belgium and Germany the corresponding figure is 14–17%. The Baltic States show more similarity to the Western pattern, except Lithuania.

Co-residence with parents might be increased by young adults delaying departure from the parental home or moving back with their parents in case of financial difficulties. Although we are not able to differentiate between these, both are signs of a delayed transition to adulthood. According to data from EU-SILC, the percentage of young people aged 18–24 and 25–34 living with parents increased in 6 and 13 countries respectively between 2006 and 2010. The highest growth rates among 18- to 24-year-olds are recorded in Hungary (7 percentage points). In the case of Hungary, the increase took place during the crisis years, that is, between 2008 and 2010. In the older age group, Slovakia and Hungary take the lead with 8 percentage points, followed by Portugal with a 6-point growth rate. The increase in the percentage of those living with parents might be related to the economic crisis. As a consequence of financial hardship (inability to finance studies and/or unemployment, etc.), young adults may postpone the establishment of a separate household or might decide to move back in with their parents.

Mazzotta and Parisi (2018) analyse transitions into independence and returning to the parental home based on EU-SILC longitudinal data. They do not find changes in rates of home-leaving between the pre-crisis and post-crisis years except for Continental countries, where the probability of leaving during the period under consideration declined. Continental European countries continue to be characterised by higher levels of home-leaving compared to Southern European or Eastern European countries, but the fragility of school-to-work transitions, as well as unemployment and financial hardship may have increased the uncertainty of the economic situation, thus lowering the probability of leaving in 2009. All EU countries experienced an increase in the percentage of people returning home, apart from the Eastern countries and with some exceptions, regarding timing: Southern European countries registered an increase throughout the entire period; Continental countries showed an increase in the very first period after the onset of the crisis; and in the Baltic countries, the effect came earlier (in 2008–2009), but lasted longer.

According to the literature, young adults most often benefit financially from staying in the parental house (saving on rent, bills, etc.), and co-residence with parents can protect young adults from falling into poverty (Aassve et al. 2007; Gáti et al. 2012; Özdemir et al. 2014). However, most of the literature assumes equal sharing of resources in co-residential households and actual exchanges between parents and adult children are rarely studied. In their study of income-sharing patterns in households where young adults reside with parents, Medgyesi and Nagy (2018) confirm that young adults most often benefit from income-sharing in the household. At the same time, they find a non-negligible minority of young adults (between 11% in Spain and 33% in Malta) whose contribution to the household budget is so important that they actually support their parents.

Parents can also help to mitigate the consequences of youth unemployment by financial transfers. Previous research shows that parental transfers act as a ‘safety net’ for young adults. Youth experiencing crisis are more likely to receive financial transfers (Swartz et al. 2011), which might help them to smooth labour market transitions (Jacob 2008). It has also been demonstrated, however, that financial transfers in the family are also very much related to parental income and wealth. Children from high-income/wealth families are much more likely to receive transfers when they need them. Papuchon (2014) asserts that while co-residence of young adults with their parents has been increasing during the crisis years, the occurrence of financial transfers from parents to adult children has not increased. One possible reason for this is precisely the strong link between transfers and parental income/wealth: parents of young adults in need are often not capable of providing financial support.

8.5 Conclusion

Youth unemployment rates tend to be higher compared to adult rates for various reasons. Reasons are partly related to decisions of firms, who most often seek to hire experienced workers, and tend to dismiss those first who spent less time at the firm. The labour supply of young adults also tends to contribute to higher unemployment rates: labour turnover tends to be higher in this age group because the young are in search for a job that matches their preferences and skills.

The economic crisis has exacerbated this difference as youth unemployment rates have increased to a greater extent than adult unemployment rates. Countries with the most important increase in youth unemployment between 2008 and 2011 were partly those countries that were most affected by the crisis in general. During the period between 2011 and 2014, unemployment and youth unemployment continued to increase in the Southern European countries, but in countries like the Baltic States, Ireland, the UK and Hungary, on the other hand, employment recovered and youth unemployment declined as well. Research warns that youth unemployment not only has immediate effects on poverty among the young but can have long-term negative effects on labour market prospects of persons affected and other long-term social effects. For example, research shows that unemployment leads to increased reliance on the family and the delay of transition to adulthood, which potentially has a negative effect on fertility and might fuel migration plans.

Youth experience during the crisis is far from being uniform across social classes. Studies show that young adults from low-status family backgrounds were hit more severely during the crisis. The family background is important firstly in determining opportunities for achieving high levels of education, which is of prime importance for the labour market success of young adults. Studies in EU countries generally show that in Mediterranean countries and Eastern European, inequality of opportunity in education is relatively high, while the Nordic countries are characterised by less intergenerational persistence of educational levels.

High-status families might also help their children succeed on the labour market by transmitting skills, contacts, information and values that make offspring less vulnerable in times of crisis. Studies show that young adults with parents in employment are able to integrate the labour market more rapidly. Higher parental education can increase the likelihood that young adults become successful on the labour market (have skilled employment with high wages) compared to children with low-educated parents. During the crisis, the effect of parental work intensity on youth employment seems to have increased in Mediterranean countries, while in Continental countries, this effect of paternal employment vanished. The family can also help young adults by protecting them from the consequences of the crisis with transfers of money and shelter in the parental home. Co-residence with parents increased in many EU countries during the crisis years. Postponement of leaving the parental home has been important in Western European countries, while all EU countries experienced an increase in the percentage of people returning home, apart from the Eastern countries. Children from high-income/wealth families are also much more likely to receive monetary transfers when they need them.

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Part II

European Union against Inequality

9

The European Union Social Tools in Question

Cédric Rio

9.1 Introduction

European construction mainly pursues a set of economic goals through the establishment of a supranational free market. The objectives of the founders of the European Economic Community in 1957 (Treaty of Rome)—and before that the European Coal and Steel Community (ECSC) in 1951—and of those who subsequently joined the club to create the European Union (EU) were indeed to improve economic cooperation and national growth. Since then, the development of a European free market and the current 'Europe 2020' growth strategy pursue the same dynamic.

Nevertheless, solidarity and social objectives have also been highlighted since the beginning of the European project. As an illustration, the Preamble of the treaty of the ECSC emphasises that 'Europe can be built only through real practical achievements which will first of all create real

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solidarity, and through the establishment of common bases for economic development', while 'the constant improvement of the living and working conditions of their peoples' appears as an essential objective for the partners in the Preamble of the Treaty of Rome. From the development of the Regional Policy to the recognition of fundamental rights, tools have been created treaty after treaty in order to promote social equality in the EU. Despite the fact that social prerogatives are officially national, the EU and its institutions are already acting in the social domain.

The purpose of this chapter is not only to focus on the European tools in the social domain, but also to discuss their scope. Social tools might exist, but they are not very ambitious and clearly insufficient to act effectively against social inequality among Europeans. We discuss successively (1) the impact of the Regional Policy, (2) the European dialogue on social goals, (3) the recognition of social rights at the European level, and (4) we propose, finally, to recognise more ambitious social rights and implement a redistributive policy between the states which guarantees such rights, thanks to which it would be possible to develop ambitious social mechanisms at the EU level without threatening the diversity of national social systems.

9.2 Regional Policy and Socio-Economic Convergence

The most explicit social tool in the EU is the Regional or Cohesion Policy. Its goal is clearly to reduce economic inequalities between Europeans: it is supposed to reduce 'the differences existing between the various regions and the backwardness of the less favoured regions', as stated in the preamble of the Treaty of Rome (1957). But only upon ratification of the Single European Act in 1987 did European partners develop an effective policy to achieve this goal.[1] Today, the Regional Policy pursues an objective of socio-economic convergence between regions of Europe through an investment policy. In concrete terms, the structural funds included in the Regional Policy—namely, Cohesion Fund, European Regional

Development Fund (ERDF) and European Social Fund (ESF)—are mainly designed for the poorest regions of the EU to help inhabitants catch up with other European regions.

Each fund pursues specific objectives linked with a set of general targets defined at the EU level (set out in the growth strategy, see below). The Cohesion Fund concerns only those Member States with a Gross National Income Product (GNI) per inhabitant of less than 90% of the European average. It aims to help those specific countries such as Bulgaria, Romania, Greece, and so on to improve growth and employment conditions, and then to pursue an objective of convergence in the EU. On the other hand, ERDF and ESF—also called 'Structural Funds'—concern all Member States, even if some priorities are given to the poorest countries in the EU. The purpose of the first is to finance in part large-scale projects in the fields of public transport, education and new technologies. The funds are mainly managed by the regions. The second, ESF, is the main EU tool to support national policies for employment, for social inclusion or against discrimination. It serves more precisely to finance training programmes, particularly for unemployed people. Each Member State must define an operational programme to stress some specific topics, but the funds are also managed by the regions.

It is quite difficult to determine the results of the Regional Policy. Before the 2008 economic crisis, we observed a socio-economic convergence between regions[2] of the EU, thanks to faster growth in the poorest regions than in the richest. But the convergence observed stopped with the crisis: we do not see a rise in inequality but a stagnation of European regional discrepancies (Dauderstädt and Keltek 2015). Socio-economic inequality between European regions is still strong. As an illustration, the Centre of London (Inner London, United Kingdom) is the richest region of the EU with a gross domestic product per inhabitant of €86,400 in purchasing power parities (PPS), compared to €28,800 for Lisbon in Portugal, or €8300 for Severen Tsentralen in northern Bulgaria (Data from Eurostat, Year 2013). Thus, socio-economic convergence between European regions remains an important objective, and there is no guarantee that the current desire to give priority to the poorest regions will succeed in achieving it.

9.3 European Cooperation to Pursue Social Goals

Beyond the Regional Policy, the European Commission and the Member States cooperate to pursue common social goals related to the European growth strategy, currently known as 'Europe 2020'. The general and official goal of this strategy is economic: it is intended to 'create the conditions for smart, sustainable and inclusive growth'. Five objectives are pursued, concerning employment, research and development, climate change and energy sustainability, education and the fight against poverty and social exclusion.

This strategy also includes some social targets, in particular in the two last general objectives. In education, the objectives are to reduce the rates of early school leaving[3] below 10%, and to permit at least 40% of 30–34-year-olds to complete a third-level education. Concerning poverty and social exclusion, the specific target is to achieve at least 20 million fewer people in or at risk of poverty and social exclusion.[4] It must be noted that these targets are European, but comprise different national targets fixed by the Member States in relation to the European objectives and their national contexts. For example, Spain proposes to reduce the rate of early school leaving below 15%, and Hungary 4%, and the number of 20 million people to leave a situation of poverty and social exclusion is the result of the sum of the national targets.[5]

Of course, the European Commission cannot obligate Member States to pursue the objectives they accepted to define: it is a soft law tool. However, some incentive mechanisms can be used. With the Open Method of Coordination, Member States are invited to share their results and how they have been progressing in terms of poverty, social inclusion, and also social protection reforms. Thanks to the European Semester, a more recent tool that originally concerned only economic topics (Zeitlin and Vanhercke 2015), the Commission can also produce recommendations for Member States, which in turn are supposed to explain how the recommendations can be implemented in their territories and social context. Finally, Member States and civil society are offered subsidies to pursue social targets.

Five years before the end of the strategy, some improvements can be observed, but many efforts remain necessary to attain the social targets. In education, 11.1% of Europeans between the ages of 18 and 24 were early leavers in 2014, compared to 14.6 in 2010, and 37.9% of those aged 30–34 attained a tertiary education qualification in 2014, compared to 31.2 in 2010.[6] However, in poverty or social exclusion, the situation is getting worse because of the economic and social crisis. The number of people concerned by a risk of poverty or social exclusion grew between 2010 and 2013 from 116.6 to 121.6 million people, while the target for 2020 is 96.6 million people.

9.4 Formal Recognition of Social Rights

A final European social tool comprises the law and the recognition of social rights. First, some social directives are defined by the European Commission, with input from employee and employer representatives, as part of a European social dialogue especially concerning labour law. These directives are minimal prescriptions which must be applied in all countries in the EU. For example, the EU recognises a disclosure obligation for employees, criteria to guarantee a minimum degree of security in the workplace, and capping of the workweek at 48 hours for employees.

Secondly, some fundamental rights have also been recognised since the beginning of European construction, but few categories of European citizens were initially concerned. With the Treaty of Rome, freedom of movement, the obligation of equal pay for men and women and non-discrimination laws regarding nationality were guaranteed for European workers, and only for them. Step by step, those rights became rights attached to European citizenship, and then to all European people. This is the case with the application of the Treaty of Amsterdam in 1999 and the introduction of Article 13 on non-discrimination. This article enables the European Council 'to take appropriate action to combat discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation'. Concretely, the European Council deliberates on and eventually adopts directives developed by the European Commission in association with the European Parliament.

As the same, the introduction of the Charter of Fundamental Rights in the Treaty of Lisbon in 2007 guaranteed certain civil and political rights to all.[7] The Charter recalls a principle of equality and non-discrimination, and extended freedom of movement to non-workers in the Schengen Area—with some exceptions concerning, for example, Romanians and Bulgarians in some countries. Among other things, the Charter bans the death penalty and slavery; protects freedom of thought, conscience and religion, freedom of expression; sets out protection of personal data; puts forth a right to education, to vote and stand for election and so on. But some social rights are also included, highlighted in title IV, 'Solidarity'. Some concern only workers, such as a right to fair and just working conditions; others benefit all Europeans: for example, a right to healthcare, social protection and social assistance.

While non-discrimination laws are supposed to guarantee equal treatment for all Europeans, whatever their gender or origin, we can expect those social rights to limit inequalities with regard to access to fundamental services such as education or social protection. But whether or not equal treatment is protected by the Charter and thus by the European Court of justice, recognition of social rights in itself does not really limit social inequality: it is merely a formal recognition of social rights. If the latter are officially recognised, nothing is provided for to guarantee application in the different countries.

Beyond the problem of the 'justiciability' of social rights—it appears quite difficult to appeal to the Court to truly implement social protection—and the lack of means to develop more robust social protection systems in the countries, two principal reasons explain why it remains insufficient. First, the desire of Member States' representatives to preserve the originality of their systems (Barbier 2008) can explain a lack of ambition, and why social rights are never precisely defined. Despite the fact that European countries share some strong social systems, each of them has developed systems with specific characteristics (see Esping-Andersen 1990). The Charter appears then more as a recognition of this established fact than a text recommending social progress.

Second, social rights are seen at the European level as *exceptions* to the economic rules of free market (Barbier and Colomb 2012). As we have said, the primary objective of the European Community, and then of the

EU, is economic: the development of a European free market. The development of social prerogatives is supposed to protect people but not to create an obstacle to the creation of a European free market. In other words, the Charter can be read as a list of exceptions to the idea of a free market, and then a justification of protections guaranteed to individuals without damaging this idea.

9.5 A More Ambitious and Tolerant Social Europe with National Heterogeneity

Regarding the social situation and social disparities in the EU, it seems desirable and necessary to develop some public policies to fight socio-economic inequality at the EU level (Franzini 2009). And regarding the existing tools we emphasised, it appears materially possible to reframe them in order to engage more ambitious policies against inequalities at the EU level within and between countries. As an illustration, many alternative and ambitious proposals about social policies in the EU—and more precisely in the Eurozone—are already being defended in public debate: for example, the implementation of a Eurodividend, a European application of the more general idea of universal income (Van Parijs), or of a social investment with priority given to the poorest countries (Vandenbroucke et al. 2011).

However, the desirability and legitimacy of a more ambitious social Europe must first be questioned. Without denying the general plausibility of supranational justice, many authors claim that several differences between domestic and supranational contexts justify the fact that global—and thus European—justice criteria cannot be equivalent to those under national justice. The absence of public authorities capable of implementing rules accepted by all citizens (Nagel 2005) is one of the more important arguments here. However, in reality it is possible to argue that there are no real differences and also that the distinction between national and European territories is, at least theoretically, quite unjustified (Van Parijs 2007). The existence of global organisations—IMF, WHO, and so on—shows that rules can be implemented at a global scale. And it is even more evident in the EU context, where EU rules (directives and decisions of the European Court of Human Rights) are binding and have to be accepted—at least indirectly—by all European citizens, to be implemented. Following this, there would then be no distinction between global and domestic area, and thus no argument against the implementation of global justice and/or social justice at the EU level.

But we have to take into account the reluctance we have already mentioned on the part of Member States' representatives, who don't want to lose their social prerogatives, and most importantly, on the part of the populations of the EU. Like in many of the world's countries, European populations agree in large part with the implementation of social policies to fight social inequality in their national area (Forsé et al. 2013). But this is not the case outside the national territory and, *a fortiori*, outside the EU. According to Maurizio Ferrera (2005), based on the results of Eurobarometer polls (62 & 71), there is 'a tension, an uneasiness in linking or reconciling "solidarity" with "Europe". Both receive mass public support—but only to the extent that they keep on separate tracks and that solidarity remains a national affair'. (p. 2) While EU populations favour social policies and the EU project, those elements are never thought of jointly.

Many reasons can certainly explain this reluctance, and especially the 'negative integration' resulting from the development of the free market (Leibfried 2010). More fundamentally, however, it reflects the desire to protect the specificity of their national social systems. For example, the Swedish social system, built on universal allocations, is very distinct from the German model based on an insurance rationale. These systems are the product of historical and democratic choices taken at a national level: it would not only be counterproductive for the EU project to deny these choices, but more fundamentally, we have to respect them. The situation became even more complex with the recent enlargement of the EU: it appears increasingly difficult to develop social prerogatives at the European level because of the diversity of national social models, and we have to cope with this reality (Scharpf 2002).

A more ambitious social Europe will be then possible only thanks to modalities that would be in line with European cultural and social diversity. In our view, it would be possible by recognising ambitious social rights guaranteed via implementation of a redistributive policy between the states.

This general proposition raises of course many interrogations and difficulties. Europeans will come to an agreement about common social rights to guarantee, the modalities to define them, and finally distribution of the contributions among countries and distribution of the benefits of cooperation. This could mean, for example, reforming the principle of unanimity in votes concerning social questions in the European Council. The current context is not conducive to optimism, given the difficulties reaching compromises to cope with the social and economic crisis and the reception of migrants, but it does not seem impossible.

However, two factors bolster our proposition. First, it would allow Member States to develop ambitious social policies with the support of the EU while keeping their prerogatives in this domain. The objectives of the Member States and their populations are shared, and they have to pursue them, but each is free to define how to do so. Second, it is based on existing mechanisms. As we emphasised, some fundamental and social rights are already recognised throughout the EU, and the Regional Policy, by allowing the EU to pursue an objective of socio-economic convergence, can be seen as a progressive redistribution policy at the European level. Indeed, the richest countries contribute the most to cooperation, and the poorest countries are the principal beneficiaries of it. Our proposition would thus merely entail proposing a feasible new orientation and ambition to existing European mechanisms in the social domain.

Notes

1. The European Regional Development Fund (ERDF) and European Social Fund (ESF) were created, respectively, in 1975 and 1958, but they pursued other objectives.
2. In statistics, Eurostat classifies regions in Nomenclature for Territorial Units for Statistics (NUTS).
3. 'Early leavers' are those who have at best a diploma representing lower secondary education.
4. People are said to be at risk of poverty and social exclusion when they are concerned by *one* of the following situations: a level of disposable income lower than 60% of national median income; a situation of 'severe material deprivation' (lack of capacity to realise at least four of the nine following

actions: to pay their rent, mortgage or utility bills; to keep their home adequately warm; to face unexpected expenses; to eat meat or proteins every two days; to go on holiday; to possess a television set, a washing machine, a car, a telephone); living in a household where the employment level of members is low.

5. An overview of national targets in Europe 2020 Strategy is available on Europe 2020 Website: http://ec.europa.eu/europe2020/pdf/annexii_en.pdf
6. Eurostat. It should be noted nevertheless that there is a break in time series. The data should then be taken with caution.
7. It should be noted that a Charter of fundamental social rights for workers was first created in 1989, in parallel with the European Social Charter developed by the European Council. In the end, the United Kingdom and Poland are exempt from the EU Charter.

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10

European Union Policy on Gender Equality: The Scope and Limits of Equality in the Single Market

Gwenaëlle Perrier

10.1 Introduction

Of the many inequalities that exist in Europe, those involving gender are as significant as ever. According to the 2014 European Commission report on equality between men and women, the percentage of women in employment was 11.5 points lower than the percentage of men (p. 7),[1] and the difference in earnings was 37% in 2010 (p. 15). Of the elected representatives in European Union (EU) state parliaments, only 28% were women, and the figure for European corporate boards was 20% (p. 20). European society also comprises a range of inequalities that cut across the likes of social class, ethnic background and country of origin, and place women in a very heterogeneous group which is itself characterised by marked inequalities (European Commission 2015).

These statistical inequalities exist despite primary Community law establishing the principle of equality: in 1957 the Treaty of Rome banned pay discrimination on the basis of gender, and the 1999 Treaty of

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Amsterdam (Article 2) establishes equality between men and women as one of the tasks of the EU. This relative voluntarism underpinned by legality has encouraged European institutions to implement a bona fide gender equality policy and has given the impression that this policy represents a 'drive towards equality' (Fraisse 2003).

How is it possible that the EU, which has often been noted for its preference for all things economic over social and political change, has been able to develop a gender equality policy? And how does this policy manifest itself within the overall policy of European integration in the single market?

10.2 A Pioneering Institution in the Promotion of Gender Equality (1957 to the 1980s)

Europe's belated and rather timid response to social issues has given rise to numerous criticisms; nevertheless, from the 1970s onwards, a public policy promoting gender equality was formulated. How can we make sense of this unexpected digression in the matter of social policy?

10.2.1 An Early Commitment to Gender Equality, but One Marked by Ambivalence

The Treaty of Rome gives overall priority to economic issues, but there is an exception: Article 119, which espouses the principle of equal pay for equal work. Its very existence is even more remarkable when we consider that at the time, the percentage of working women in Member States was quite low and their careers were often interrupted (Maruani 2011). In point of fact, the impulse for laying the legal cornerstone of a pan-European gender equality policy cannot be considered as egalitarian. Article 119 was added to the treaty following concerns by the French delegation that its national equal pay measures[2] were not reflected throughout the European Economic Community (EEC), and that, in particular, its textile sector would suffer because of competition from the female dominated textile sectors in other Member States (Hoskyns 1996). Sophie Jacquot (2009) describes a policy (gender equality) geared to the needs of the market: supporting equal pay would prevent distortions in the competitive model and ensure that the fledgling internal market would operate effectively in line with the economic interests of major industrialists.

Article 119 may have fulfilled an economic function when it was first written, but its scope has become much broader. From the 1970s onwards, it acted as the legal basis for a number of European directives on equal pay for equal work, on equal treatment in matters of social security, and on equal treatment in the matter of access to jobs and training. Notwithstanding their legal obligations, these directives are noteworthy for being adopted prior to the creation of state feminism in Member States (Mazur and Stetson 1995). At the beginning of the 1980s, the EEC's policy towards gender equality included a series of action programmes whose remit surpassed that of Article 119, that is, eliminating gender stereotypes in school curriculum materials, establishing the role and place of immigrant women, protecting women against violence and ensuring a maximum political representation of women (Mazey 1998).

Thus, Article 119 on equal pay provided the legal basis for the development of a gender equality public policy during the 1970s, enshrined in law, which was solely related to the labour market and which evolved, as far as budgets would allow, to encompass wider-ranging themes from the 1980s onwards.

10.2.2 A 'Militant Elite' Fighting Inequality

The introduction of measures promoting gender equality ran alongside and was also made possible by the institutionalization of the theme of gender equality in European institutional decision-making. In 1976, in a bid to increase its own powers, the European Commission set up a 'Bureau for Problems Concerning Women's Employment', which in 1990 would become the Equal Opportunities Unit. Even if these structures can be viewed as relatively marginal in the grand scheme of Brussels administration, especially in the light of their limited human resources, they were granted a considerable amount of freedom for initiative taking, hence enabling them to push forward the gender equality policy (Jacquot 2009). In 1984, the European Parliament created a Committee on Women's Rights (FEMM), which forged strong links with women's groups and feminist organisations (Jacquot 2009).

The role of such a 'militant elite' within the context of European institutions is key in helping us understand the development of a gender equality policy in the 1970s, and this in spite of the restrictive legal framework of Article 119 on equal pay. The 'militant elite' were a network of powerful women: 'femocrats',[3] politicians, academics and representatives from women's organisations, who worked in unison to move gender equality beyond the bounds of the framework and therefore widen the scope of the EEC's activities in this area (Jacquot 2009).

10.2.3 The Deficiencies in the Equality Policy with Regards to the Single Market

However, this policy attracted criticism for its direction, its approach and its coverage from both academics and militants alike.

According to several authors, the fact that the directives focused on issues surrounding work and employment, and that the structural causes of inequality outside of the world of work remained beyond the scope of the EEC, had a considerable bearing on the capacity of the policy to change gender relations (Duncan 1996; Young 2000; Mazey 1998). The private sphere weighed in with issues such as the right to abortion and gender violence, neither of which was addressed in EEC legislation. As the European Court of Justice stated in 1989, the policy purports to "implement equal treatment between men and women not generally but only in their capacity as workers".[4] Moreover, this institution bolstered the restrictive application of the policy with the backing of a number of Member States anxious to maintain their social policy prerogatives.

The European approach, with its emphasis on equal treatment, also attracted criticism. The directives doubtless served numerous individuals in cases of discrimination (Mazey 1988), but the promotion of formal equality posed the problem as to the extent to which the law could be relied on as an instrument for change in social relations (Rossilli 1997). Being able to proclaim equal treatment does not resolve the structural inequalities that exist between men and women and that particularly impede women's access to employment.

Ultimately, several researchers have questioned the impact of the EEC's policy within Member States. I. Ostner and J. Lewis (1998), along with S. Mazey (1998), point out the existence of national filters, inherent to the transposition of directives into national law, which influenced the application of Community law. For example, the neoliberal philosophy espoused by the Conservative governments in the United Kingdom limited the impact of the directives on equal treatment: their transposition led to flexible working weeks and part-time employment, all in the name of 'supporting equal opportunities' (Mazey 1998, p. 422). M. Rossilli (1997) calls attention to the various interpretations by Member States of what constitutes pay when transposing the directives, for example, does pay include sick leave?

At the end of the 1980s, the EEC had therefore developed a policy, which despite its limited legal basis, was important, and considering the scant commitment by most Member States at the time, was also innovative, but limited by its thematic boundaries. The mobilisation of women keen to advocate for the cause of equality ensured that the policy expanded into other areas, regardless of the fact that at first it had been solely concerned with its original priority: equal treatment in the labour market. This original priority, however, was never called into question.

10.3 The 1990s Onwards: A New Impetus for the EU's Gender Equality Policy?

The EU's gender equality policy underwent a number of substantial changes from the 1990s onwards, in terms of both the methods employed to promote equality and the scope of intervention (beyond the labour market). The relationship between the EU's gender equality policy and its economic direction has continued to evolve, but remains problematic.

10.3.1 The Adoption of Gender Mainstreaming: Expansion or Dilution of the EU's Policy?

The first change occurred in how equality was promoted. When the policy of the 1970s was evaluated, it was clear that there had been persistent inequality, and this led EU's specialists in equality policy to question the effectiveness of an approach based on equal treatment (Jacquot 2009). As a consequence of this, from the middle of the 1990s, EU institutions began to promote 'gender mainstreaming'. Gender mainstreaming entails incorporating a gender perspective into all public policy to ensure anticipative action rather than corrective action in the fight against inequality.

If the notion of gender mainstreaming has created many expectations, its ability to bring about effective and substantial change in member state public policies has been disputed (Daly 2005; Rubery 2002). In particular, its adoption as a soft law measure, making it non-binding, with no legal sanctions should inequalities be proven, and vague instructions from the EU as to how this type of measure should be implemented, have limited its impact. The popular approaches used to implement gender mainstreaming at an infracommunity level, such as awareness raising and gender training, have not necessarily changed the behaviour of those responsible for implementing the approaches (Perrier 2013). The impact of gender mainstreaming has been largely dependent on it being embraced by local and national networks of women and on national institutional traditions which influence the form that the goal of equality should take (Perrier 2014).

10.3.2 The Politicisation of the Private Sphere: A Lever for Gender Equality?[5]

The second change in EU policy concerns the broadening of its scope. Indeed, from the 1990s onwards, various texts confirm the politicisation of family issues and the private sphere: a Council recommendation on childcare was adopted in 1992 (92/241/EEC); a Council directive on parental leave was issued in 1996 (96/34/EC); and the directive on part-time work (97/81/EC) has as one of its objectives to reconcile family and professional life. Other texts, always non-binding, such as the Communication from the Commission on a framework strategy for gender equality (COMM (2000) 335 final), refer to the gender division of domestic labour.

This broadening in scope of the EU, characterised by a politicisation of issues which were traditionally considered as belonging to the 'private' domain, fits neatly into the double context of politics and economics. On the one hand, Jacques Delors, president of the Commission, actively pursued greater European involvement in the social domain, which was perceived as a launch pad for the reinvigoration and relegitimisation of the process of integration during a phase marked by low impetus. On the other hand, Member States, preoccupied by the rising costs of social protection measures, viewed the employment of women as an underexploited resource. They started to show an interest in tackling the obstacles that prevented women from gaining access to full employment. The lack of childcare facilities and the difficulties in reconciling family and professional demands were clearly barriers for women in the labour market. Reconciliation was hence incorporated into the European employment strategy, whose aim was to increase the general rate of employment for adults of working age, especially for women.

This politicisation of the private sphere has not been without its ambiguities, however. It has certainly reflected feminist views that this sphere is the beating heart of masculine domination (Philipps 2000); it also represents the culmination of the sustained efforts by EU female specialists in equality who have relied in particular on the work of the EU childcare network to highlight the importance to the policy of reconciling family and professional life. But the development of this policy has encouraged ambiguity: an analysis of policy documents reveals that equality comes across more as being a device for achieving employment targets rather than a device in its own right; certain European Community documents reproduce a sexist categorisation of work, for example, proposing the development of flexible employment opportunities for women. Moreover, given the fact that equality objectives are subordinate to macroeconomic objectives, S. Jacquot points to the return of a market-driven policy (2009).

10.3.3 A Difficult Relationship Between the EU's Gender Equality Policy and its Economic and Budgetary Policy

The subordination issue between the objective of reconciliation and the objective of increased employment rates reflects the wider relationship between gender equality and overall EU policy.

In 2000, Brigitte Young highlighted the pressures engendered by the criteria of convergence and of the promise of stability and growth (these criteria impose public deficit caps) and by employment policies geared to business competitiveness. According to the authoress, these paths restrict the possibility of developing access to employment for women, who are more often than not present in public sectors and services such as education and health. In recent studies of the latest developments in EU economic and budgetary policy, several author.esse.s have noticed the threat posed by the 'Europe 2020' strategy (the Europe 2020 agenda replaces the Lisbon agenda) to European social models (Defraigne et al. 2013): the priority given to balancing state budgets and reducing public expenditure will affect pension, pay and employment levels. Throughout the EU, women receive less in the way of pay and pensions than men do, so it seems unlikely that the Europe 2020 strategy will reduce inequalities. The cases of Greece, Spain and France show that austerity policies, in whatever format, have had a negative impact on women via reductions in pensions, pay and public sector employment, via diminished redistributive policies and social rights, and via the consolidation of the role of caregiver in the context of a retreating welfare state (Karamessini 2015; Otaegui 2015; Marty 2015).

10.4 Conclusion

The success of the EU's gender equality policy therefore appears to be relative. The European commitment to fight inequality was progressive for its day and has driven forward policies within Member States. However, the overall impact of the policy remains unclear when viewed in the light of its problematic implementation in Member States. Moreover, the strength of this social policy, which has developed endosymbiotically with the single market, has also been its weakness: it was first and foremost designed for the market, which automatically limits its scope. Although a 'militant elite' have endeavoured to move the policy beyond the confines of its strict labour market framework, their actions have been carried out under cover of the ambiguous nature of the policy's status, that is, the policy is subordinated to employment objectives. This uncertain status—legitimate anti-discrimination policy in its own right or economic policy tool for the development of the single market, employment and economic growth—begs the question as to which actors involved in the process of European integration hold the balance of power. Its status is also tied to the future of this process, which has historically been based on economic priorities, and whose expansion into social realms continues to cause debate. In more general terms, it seems only right to challenge the scope of the policy: where does it sit with regard to the neoliberal ethos that has flooded European policy and with regard to the austerity measures pursued by many Member States, where often it is women who are left counting the costs?

Notes

1. General data on employment (full-time and part-time) for people aged between 20 and 64 across all 28 EU Member States.
2. Especially the preamble to the Constitution of 1946.
3. This term, which is a contraction of 'feminist' and 'bureaucrat', refers to the female advocates who laboured for women's rights in state institutions (see Mazur and Stetson 1995).
4. Judgement of the Court of 27 June 1989. J.E.G. Achterbergte Riele and other v Sociale Verzekeringsbank. http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:61988CJ0048&rid=1
5. This subsection draws its inspiration from the chapter written by Jönsson and Perrier and published in a book in 2009.

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11

European Union and Human Rights: Reducing Inequalities and Asymmetries in the Context of the Economic Crisis

Beatriz Tomás Mallén

11.1 The Bases of European Union Law in the Field of Human Rights and Non-Discrimination

The criticism aimed at the European Union (EU) because of its preference for liberalism and the market economy (more accentuated in the era of globalisation and in the context of the current economic and financial crisis) has not, however, been an obstacle to this 'credo' (which has characterised the Union since its origins in the 1950s) being balanced by the recognition of some human rights associated with the principle of equality (as in the treaties establishing the European Communities of 1951 and 1957) and by the progressive development of social policy (above all since the Single European Act of 1986).

However, such recognition has been based on regulations with a very limited substantial profile in the EU and, from this perspective, since the original European Community treaties, human rights and egalitarian

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measures have focused particularly on non-discrimination for reason of nationality or sex. Along these lines, in terms of the principal reforms of the Union's 'Primary Law', the Maastricht Treaty of 1992 deepened the principle of non-discrimination for reason of nationality by consecrating a kind of 'mini-catalogue' of human rights connected to the new Union citizenship,[1] while the Treaty of Amsterdam of 1997 introduced a general clause of non-discrimination with new grounds (age, disability, sexual orientation) as well as the possibility of adopting positive measures in favour of women and other affirmative action policies.

Later on, the Nice Treaty of 2001 was not able to incorporate as a part of the primary Law the Charter of Fundamental Rights of the EU, which was only proclaimed in a solemn way, and with no legally binding character, in December 2000.

Then, after the failure of the 2004 Constitutional Treaty, the Lisbon Treaty of 2007 gave binding effect to the Charter of Fundamental Rights by the insertion of a phrase conferring on it the same legal value as the treaties [new Article 6(1) of the Treaty on European Union, TEU]. The EU Charter summarises the common values of the EU Member States and brings together in a single text the traditional civil and political rights as well as economic and social rights.

For the first time, a single document brings together all of the rights previously to be found in a variety of legislative instruments, such as national laws and constitutional traditions as well as international conventions from the Council of Europe, the United Nations and the International Labour Organisation. By making fundamental rights clearer and more visible, the Charter intends (according to its Preamble) to develop 'the indivisible, universal values of human dignity, freedom, equality and solidarity', alongside 'the principles of democracy and the rule of law', 'citizenship of the Union' and 'an area of freedom, security and justice'.

The EU Charter theoretically enhances legal certainty as regards the protection of common values and fundamental rights, where in the past such protection was guaranteed only by the case law of the European Court of Justice (ECJ). Nonetheless, even if the ECJ made explicit reference to the Charter in its ruling of 27 June 2006 concerning the directive on family reunification (Case C-540/03) and, thus, even before becoming legally binding after the entry into force (1 December 2009) of the Lisbon Treaty, the truth is that the position of the Court of Justice in relation to several rights (especially social rights) is still 'restrictive'.[2] For this reason, a more expansive judicial activism may be traced in these and other fields in order to avoid inconsistencies within the EU Charter, and thus with democratic legitimacy (Gjortler 2017, p. 180).

Indeed, such a degree of activism on the part of the ECJ (and, more broadly, on the part of the other European institutions) appears to be necessary to combat the negative national strategies (Alter 2011, p. 63)[3] against this emblematic expression of the common values (articulated through initial confusing opt-out clauses from the EU Charter by Poland and the United Kingdom and then by the Czech Republic) and, even worse, against the whole European project (recently challenged by 'Brexit'[4]).

From this point of view, the following Sect. 11.2 tackles the difficult and asymmetric road towards the consolidation of a European consensus on values and fundamental rights. Then, Sect. 11.3 underlines the importance of such consensus by emphasising the necessary synergies between the EU and the Council of Europe, while Sect. 11.4 focuses on some challenges to be faced in the EU agenda. Finally, Sect. 11.5 highlights the necessity of making efforts to optimise common human rights standards in Europe.

11.2 The Asymmetric Road Towards Consolidation of a European Consensus on Values and Fundamental Rights

As mentioned, the consolidation of both the specific EU Charter of Fundamental Rights and the whole European project currently established by the Lisbon Treaty have been threatened by some national strategies of exclusion. The initial rejection of the Lisbon Treaty in 2008 by the Irish electorate (a decision which was reversed in a second referendum on 2 October 2009 by essentially voting 'the same text') was the pretext for some governments to reopen negotiation in order to change the treaty. The clearest example is provided by the Presidency Conclusions of the

European Council of 29–30 October 2009, which included the Annex I with *Protocol on the application of the Charter of Fundamental Rights of the European Union to the Czech Republic* implying the amendment of Protocol N° 30 on the application of the Charter to Poland and to the United Kingdom. Similarly, it can be argued that the referendum on Brexit was conceived as a British 'card' that was part of a roadmap to push for a revision of current European treaties (Dauderstädt et al. 2014).

In real terms, the number and content of Protocols and Annexes to the Treaties are likewise the result of political wishes (Kölliker 2001).[5] The negotiations of the Lisbon Treaty led to the integration of the text with 37 Protocols and 65 Declarations. Even though some experts had tried to portray the Lisbon Treaty as a 'substantial rescue' of the 2004 'European Constitution' (Aldecoa Luzarraga and Guinea Llorente 2008; Ziller 2007a), the real picture shows that the name 'Reform Treaty' emerged during the conference held in Brussels on 23 July 2007, finally clarifying the abandonment of the constitutional terminology. In the same vein, the Brexit vote implies a clear challenge from a constitutional point of view at both the European and British levels, since it has an impact not only on the EU integration project itself, but also on the UK unity (Castellà Andreu 2016; Gilmore 2016).[6]

Actually, the political character of some Protocols is understandable when they deal with sovereign matters and their acceptance is submitted to the political will of national governments and parliaments. For example, Protocol N° 14 on the Euro Group, which lays down special provisions for enhanced dialogue between Member States whose currency is the euro, pending the euro becoming the currency of all Member States of the Union, affirms that the creation and regulation of the currency of a nation implies the exercise of sovereign power. For this reason, even if the 2004 Constitutional Treaty conceived the euro as a symbol of the EU, the dynamics of the 'Europe of different speeds' might justify the reluctance of some countries to attribute this sovereign power to the European monetary authorities (Verdun 2002).[7]

Nevertheless, the political imposition of other Protocols annexed to the Lisbon Treaty is unacceptable when this imposition invokes a presumed attack on national constitutional values supported by the verdict of the national supreme court or constitutional jurisdiction

(Choudhry 2006).[8] For instance, in the case of the Czech Republic, even if its Constitutional Court ruled (Judgement of 3 November 2009) that the Lisbon Treaty as a whole was compatible with the Czech Constitution, the president of the Czech Republic Vaclav Klaus obliged all Member State governments to grant an apparent opt-out from the Charter of Fundamental Rights by means of a Protocol attached to the Presidency Conclusions of the European Council of 29–30 October 2009.[9]

In general terms, it must be said that the more one introduces Protocols and Declarations in order to facilitate political negotiations, the less one strengthens real application of the provision of the treaties. This is so because priority is given to exceptions in order to reach consensus. Simply stated, the legally binding clauses (Protocols) as well as the soft law clauses (Declarations) lessen the treaties' force. However, such exceptions are unacceptable when they attack the pillars of the European consensus on values and fundamental rights, especially the above-mentioned Protocol N° 30 on the application of the Charter of Fundamental Rights of the EU to Poland and to the United Kingdom (as well as, then, to the Czech Republic).

At most, this Protocol can be considered a political victory for these three Member States in terms of the imposition of such an arrangement as a part of the negotiations leading to the final acceptance of the Lisbon Treaty. Nonetheless, this Protocol produces a relative (and even null) legal effect (a more symbolic than real effect), insofar as it only clarifies the contents of the Charter and its relation with national legislation according to the terms established by the Charter itself. From a legal point of view, it must be argued that Protocol N° 30 is closer to a 'Declaration' than to an opt-out clause. Consequently, the null legal effect of Protocol N° 30 which could be considered useless (Ziller 2007b, p. 177) or ineffective (Fernández Tomás 2008, pp. 119–149) can be held on the basis of the following arguments (Jimena Quesada 2009):

- Firstly, considering Protocol N° 30 as an opt-out from the Charter could somehow be read as incompatible with the object and purpose of the Lisbon Treaty and correspondingly, it could be considered as equivalent to a reservation prohibited by the 1969 Vienna Convention on the Law of Treaties. A different interpretation would raise serious questions of credibility and legitimacy with regard to the EU's commitment to human rights as a goal of the European treaties (Brems 2009, p. 372).[10] Under these conditions, Art. 6 TEU and the Charter represent homogeneous clauses to be shared by all Member States,[11] without possible heterogeneous exceptions (Bellamy 2007, p. 50).

- Secondly, the acceptance of an opt-out from the Charter cannot be conceived as a mere opposition to the substance of the major achievement represented by Part II of the 2004 treaty establishing a Constitution for Europe (Bonnemaison 2008, p. 173). It would represent an attack on a classic aim of community treaties: to guarantee protection of fundamental rights as part of the general legal principles of the European construction by drawing inspiration from the shared constitutional traditions of the Member States and from the European Convention on Human Rights (Goldston 2009, p. 603; Tapper 2009, p. 81),[12] according to settled case law of the Court of Justice.[13]
- Thirdly, if the Charter of Fundamental Rights 'reaffirms, with due regard for the powers and tasks of the Union and for the principle of subsidiarity, the rights as they result, in particular, from the constitutional traditions and international obligations common to the Member States, the European Convention for the Protection of Human Rights and Fundamental Freedoms, the Social Charters adopted by the Union and by the Council of Europe and the case-law of the Court of Justice of the European Union and of the European Court of Human Rights' (Preamble) and, in parallel, Poland, the United Kingdom and the Czech Republic take part in all these common traditions and international instruments, such a presumed opt-out Protocol shows a lack of consistency from these countries (Palombella 2009).
- Fourthly, if the Charter of Fundamental Rights has been used as a source of inspiration by national and European jurisdictions since it was solemnly proclaimed in December 2000 and, consequently, before its entry into force on 1 December 2009, such a presumed opt-out Protocol, likewise, has no sense in practical legal terms (Díez-Picazo 2001, p. 26).[14]
- Finally, if the EU must consistently legislate with the Charter (and, in practice, the European institutions have been adopting regulations and directives in which the Charter is mentioned as a source of inspiration), it would appear very strange not to accept the primary EU law

(the Charter) and, by contrast, to admit secondary EU law (regulations and directives).[15] Furthermore, it must be noted that the stated aim of the Lisbon Treaty was 'to complete the process started by the Treaty of Amsterdam and by the Treaty of Nice with a view to enhancing the efficiency and democratic legitimacy of the Union and to improving the coherence of its action'.

11.3 The Necessary Synergies Between the EU and the Council of Europe

First of all, it is worth mentioning that the TEU (according to the Lisbon Treaty) recalls in its Preamble the 'inspiration from the cultural, religious and humanist inheritance of Europe, from which have developed the universal *values* of the inviolable and inalienable rights of the human person, freedom, democracy, equality and the rule of law'. As far as the EU's *objectives* are concerned, this Preamble recalls likewise 'the historic importance of the ending of the division of the European continent and the need to create firm bases for the construction of the future Europe'. This Preamble also refers to the *fundamental principles* of the EU: 'their attachment to the principles of liberty, democracy and respect for human rights and fundamental freedoms and of the rule of law'.[16]

From this last point of view, it must be reminded that the three pillars of the Council of Europe are also democracy, human rights and the rule of law. Such convergence was already explicitly articulated in the Treaty of Rome of 1957.[17] Then, the Single European Act mentioned (in its Preamble) for the first time in 'Primary Law' the two basic instruments of the Council of Europe: the 1950 European Convention on Human Rights and the 1961 European Social Charter. Subsequently, the 1992 Maastricht Treaty only included in its text a reference to the 1950 European Convention, while the 1997 Amsterdam Treaty introduced a reference to the 1961 Charter in its legally binding content (now Article 151 TFEU).

Later on, the Charter of Fundamental Rights referred to the 1961 Social Charter only in its Preamble, while the 1950 European Convention is also mentioned in Articles 52(3) and 53 of the EU Charter. In this respect, even if the EU Charter does not establish the right to appeal (a kind of 'amparo' appeal) before the Court of Justice, the Court of Luxembourg has to deal with many issues in which fundamental rights are involved. And this may provoke conflicts of European jurisdictions, in particular between the Court of Justice of Luxemburg and the European Court of Human Rights in Strasbourg. Similarly, there can be divergences between the Court of Justice and the European Committee of Social Rights (the monitoring body of the European Social Charter).

One solution to avoid these conflicts is EU accession to the European Convention on Human Rights, as foreseen and imposed by the Lisbon Treaty (but the modalities of this accession have yet to be concluded). Unfortunately, in its Opinion 2/13, of 18 December 2014, the ECJ (Full Court) raised new obstacles to this accession by concluding that 'the agreement on the accession of the European Union to the European Convention for the Protection of Human Rights and Fundamental Freedoms is not compatible with Article 6(2) TEU or with Protocol (No. 8) relating to Article 6(2) of the Treaty on European Union on the accession of the Union to the European Convention on the Protection of Human Rights and Fundamental Freedoms'.

Finally, regarding the establishment of coherent and harmonious relationships between the two normative systems (EU and Council of Europe) in favour of the harmonization of human rights standards and to avoid controversies, it appears essential not to forget EU accession to the European Social Charter as a further step to complete the parallel accession to the European Convention on Human Rights.[18]

11.4 Challenges to Reduce Inequalities and Asymmetries at EU Level

11.4.1 Strengthening Social Rights

At the origin of European construction, the 1957 TEEC contained few provisions on social policy and social rights, which were conceived in close relation to two important goals: free competition and worker mobility.

In this regard, it has been noted that economic integration was the primary objective of the EEC and its predecessor, the European Coal and Steel Community (ECSC), and the founding treaties reflected this (Anderson 2015, pp. 52–54). In this sense, even the treaties establishing the ECSC in 1952 and the European Atomic Energy Community (EAEC) in 1957 emphasised social policy more than the Treaty of Rome did. The reason of this: because they referred to specific industries (coal, steel, nuclear energy), the ECSC and EAEC had fairly strong social policy mandates in order to deal with the employment and health effects of these rapidly changing industries. The ECSC had funds to deal with redundant workers, and the EAEC was empowered to set health and safety standards (Anderson 2015).

Subsequently, the adoption of the Single European Act in 1986 gave a new impetus to several areas of social policy, especially in the working environment (as regards the health and safety of workers) and in the social dialogue. The Single Act also introduced in its preamble, as mentioned above, the first reference to the 1961 European Social Charter in the founding treaties.

Coming to the present situation, a first approach to 'social policy' in the Lisbon Treaty shows that the provision serving as a basis or introduction to Title X ('Social Policy') of the Treaty on the Functioning of the European Union (Art. 151 TFEU) introduces an apparent prevalence of commercial objectives over the Union's social objectives.

From this perspective, while in the economic sphere advances in the EU have been occurring evenly, social progress has been introduced 'asymmetrically' (according to the dynamic of the 'Europe of different speeds'). In truth, the adjective 'social' as an element associated with the 'market economy' is merely incidental. Ultimately, the idea of a 'European social and economic constitution' does not project a balance between the social and the economic, but rather an imbalance clearly in favour of economic issues rather than social concerns. Furthermore, the entry into force of the Lisbon Treaty took place in the context of the economic crisis, which has even weakened social policy instruments, since the development of such policy has not been consolidated in accordance with 'the procedures provided for in the Treaties', but following new controversial procedures under the dynamics of the Troika.

Similarly, the EU Charter of Fundamental Rights has approached social rights in a weaker manner, since it refers in its Preamble to the recognition of 'the rights, freedoms and principles set out hereafter', the latter (principles) being associated with social rights in spite of the principle of indivisibility. Nonetheless, the European Social Charter of the Council of Europe, which reflects to a large extent a kind of European social consensus, has been ratified by all Member States of the EU (in most cases even before EU membership). For this reason, it is incomprehensible that some EU Member States did not at first accept a non-binding instrument such as the Community Charter of the Fundamental Social Rights of Workers of 1989 (which does not compete with the 1961 Social Charter, but is rather based on it), or that they have also articulated the above-mentioned confusing opt-out clause from the Charter of Fundamental Rights (whose catalogue of social rights—especially those under the heading 'Solidarity'—was based precisely on the Revised Social Charter of the Council of Europe).[19]

A convergent dynamic has recently been promoted by the Council of Europe in the framework of the so-called new 'Turin process for the European Social Charter', which was launched by the secretary general of the Council of Europe at the high-level conference on the European Social Charter organised in Turin on 17–18 October 2014. This process aims at reinforcing the normative system of the Social Charter within the Council of Europe and in its relationship with the law of the EU. Its key objective is to improve the implementation of social and economic rights at the continental level, in parallel to the civil and political rights guaranteed by the European Convention on Human Rights.[20] Regrettably, Brexit is generating further asymmetries and damaging the European social model through lack of solidarity and internal cohesion.[21]

11.4.2 Facing Anti-Crisis and Austerity Measures

The Court of Justice has not only appeared 'timid' when protecting the social rights recognised by the EU Charter of Fundamental Rights,[22] but has also exercised clear 'self-restraint' when tackling austerity measures. From this perspective, the Court of Luxembourg has conferred important weight to national parameters (or, more exactly, to state margin of discretion) when dealing with anti-crisis legislation incorporating austerity measures deriving from the operations of the troika.

A recent illustration of this approach is offered by Case C-117/14 (*Nisttahuz Poclava*, Judgement of 5 February 2015), concerning the employment contract of indefinite duration to support entrepreneurs introduced by Law 3/2012 of 6 July 2012 on urgent measures for labour market reform, which amended employment legislation because of the economic crisis that Spain was undergoing. According to the referring court, this new employment contract (entailing a one-year probationary period during which the employer might freely terminate the contract without notice or compensation) infringed Article 30 of the Charter of Fundamental Rights, Directive 1999/70, Articles 2 (2)*b* and 4 of 1982 ILO Convention No 158 concerning the Termination of Employment at the Initiative of the Employer and the 1961 European Social Charter 1961 (in relation to a decision of the European Committee of Social Rights of 23 May 2012 on a similar Greek contract).

Nevertheless, on the one hand, the Court of Justice validates this 'diverse national solution' by holding, 'as regards Article 151 TFEU, which sets out the objectives of the EU and Member States in the field of social policy, that provision does not impose any specific obligation with respect to probationary periods in employment contracts. The same is true for the guidelines and recommendations in the field of employment policy adopted by the Council under Article 148 TFEU' (paragraph 40). On the other hand, for the Court of Justice, the external international sources which are invoked by the referring court (including those explicitly mentioned in Article 151 TFEU, such as the European Social Charter) would not have any impact, due to the fact that 'the Court has no jurisdiction under Article 267 TFEU to rule on the interpretation of provisions of international law which bind Member States outside the framework of EU law' (paragraph 43).

The final solution reached in Luxembourg is perhaps not so deceiving if we take into account the fact that, this way, a potential contradiction between the ECJ and the previous decision adopted on 23 May 2012 by the European Committee of Social Rights,[23] has been avoided. In particular, in its decision, the Committee of Strasbourg declared that the

2010 Greek legislation (imposed by the Troika) allowing dismissal without notice or compensation of employees in an open-ended contract during an initial period of 12 months is incompatible with Article 4§4 of the 1961 Charter, as it excessively destabilises the situation of those enjoying the rights enshrined in the Charter.

Among others, in its legal reasoning, the Committee did not accept the observation made by the government to the effect that the rights safeguarded under the European Social Charter had been restricted pursuant to the government's other international obligations, namely those it had under the loan arrangement with the EU institutions (European Commission and European Central Bank) and the International Monetary Fund within the 'Troika'; in other words, these obligations did not absolve the government from their obligations under the Social Charter.[24]

11.4.3 Combating the Gender Pay Gap

The current EU has, from its origins,[25] put the emphasis on protection against non-discrimination on grounds of sex in the field of wages. In particular, Article 157 TFEU states that 'each Member State shall ensure that the principle of equal pay for male and female workers for equal work or work of equal value is applied' (paragraph 1), and that 'with a view to ensuring full equality in practice between men and women in working life, the principle of equal treatment shall not prevent any Member State from maintaining or adopting measures providing for specific advantages in order to make it easier for the underrepresented sex to pursue a vocational activity or to prevent or compensate for disadvantages in professional careers' (paragraph 4).

The evolved gender perspective was a novelty introduced by the 1997 Amsterdam Treaty to provide a specific legal basis in the European treaties in this field, which also aimed at overcoming the restrictive approach established by the Court of Justice in the *Kalanke case*,[26] which started to be reviewed in the *Marschall case* concerning a provision similar to that in *Kalanke* but containing a 'saving clause'.[27]

Before the *Kalanke case*, the case law of the Court of Justice was basically grounded in two important legal acts adopted on the basis of Article

119 of the Treaty establishing the EEC: *Council Directive 75/117/EEC of 10 February 1975 on the approximation of the laws of the Member States relating to the application of the principle of equal pay for men and women* as well and *Council Directive 76/207/EEC of 9 February 1976 on the implementation of the principle of equal treatment for men and women as regards access to employment, vocational training and promotion, and working conditions*. Both directives[28] were then repealed by Directive 2006/54/EC.

Finally, that new approach introduced by the 1997 Amsterdam Treaty has been maintained in Article 23 of the Charter of Fundamental Rights: 'Equality between women and men must be ensured in all areas, including employment, work and pay. The principle of equality shall not prevent the maintenance or adoption of measures providing for specific advantages in favour of the under-represented sex'.

With these parameters, alongside the major substantial challenge (which is not a new one, that is to say, the 'traditional' existence of gender wage gap), it is necessary to confront it with other two important procedural challenges (in conjunction): first, the role of social partners and relevant organisations of civil society in salary negotiations, and, secondly, the extension of the scope of the valid comparator beyond the same undertaking to facilitate the protective role of national judges. In both aspects, the synergies between the EU and the Council of Europe in a broader social Europe are essential.

Concerning the first aspect, it implies greater involvement of social partners, since several studies have revealed the persistent disadvantage that women have at the bargaining table. From this perspective, it has been criticised in doctrine that the European regulatory landscape has changed to one relying heavily on soft law approaches and with more limited ambitions in the field of gender equality than at the creation of the European Employment Strategy in 1997 (Deakin et al. 2015).

With regard to the second aspect, the European Committee of Social Rights recently developed (in December 2012)[29] new case law in this field in the framework of the reporting system which affects the 43 state parties to the European Social Charter. In particular, it adopted a new interpretation under Article 20 of the 1996 Revised Social Charter (equivalent to Art. 1 of the 1988 Additional Protocol), which enables national courts to make comparisons outside the same undertaking.[30]

Of course, it would also be desirable that the Court of Justice of Luxembourg assumes these more favourable standards deriving from the European Social Charter, consistent with the explicit reference to this emblematic social rights treaty of the Council of Europe, in Article 151 TFEU as well as in the Preamble and Explanations to the Charter of Fundamental Rights of the EU. In this spirit, it is worth recalling that the Court of Justice held a vanguard position in this field (since the famous case *Defrenne I*, Judgement of 25 May 1971), while the European Court of Human Rights proceeded with a 'belated recognition' of gender equality issues (Carmona Cuenca 2015).

11.4.4 Protecting Vulnerable Groups

Since its origins, the EU's negotiations and strategies have been focusing on the combat against distortion of competition and against social dumping associated with worker mobility. More recently, other types of migration within the common territory, including the current crisis of refugees in Europe, are dealt with through the Asylum, Migration and Integration Fund (AMIF),[31] which also supports the European Migration Network, the Union Resettlement Programme and the transfer of beneficiaries of international protection from an EU state with high migratory pressure to another.

In this context, in spite of the lack of political will from some EU Member States to also fulfil European and international legal commitments in this field, in May 2015 the Commission presented its European Agenda on Migration setting out a comprehensive approach for improving the management of migration in all its aspects, as well as a first package of implementing measures, including relocation and resettlement proposals, and an EU action plan against migrant smugglers.

Then, in June 2015, the European Council agreed to move forward on the proposals made by the European Commission in the European Agenda on Migration, focusing on relocation and resettlement, returns and co-operation with countries of origin and transit. Later on, in July 2015, the Justice and Home Affairs Council agreed to implement the measures as proposed in the European Agenda on Migration, notably to relocate people in clear need of international protection from Italy and Greece over the next two years. In September 2015, the Commission proposed a new set of measures, including an emergency relocation mechanism for 120,000 refugees, as well as concrete tools to assist Member States in processing applications, returning economic migrants and tackling the root causes of the refugee crisis.

Unfortunately, the EU-Turkey Statement on 18 March 2016, apparently dedicated to deepening relations between both parties as well as addressing the migration and refugee crisis has actually put the European project at risk from a double perspective: from a procedural point of view, a mere declaration without binding force has been negotiated instead of adopting an international agreement in accordance with the rules of the TFEU. On the other hand, the European values themselves, which as universal ones are to be promoted by the EU in the rest of the world,[32] have also been substantially unknown.

Ultimately, this statement 'confirms the worrying trend that intergovernmental decision-making is taking over in the Union, and that national interests increasingly often prevail over the common values of the Union. This is bad for European democracy'.[33] Under these conditions, 'the absence of strong democratic leadership has been a problem, especially in relation to the refugee crisis. In a leadership vacuum, attitudes have become more radical (as also evidenced in the United Kingdom with the example of Brexit)' (Veebel 2016, p. 55).

Certainly, these political and legal actions must be improved by giving impetus to the Common European Asylum System (García Mahamut 2016)[34] and supported by the case law of the Court of Justice. A good illustration of this is provided by the Judgement of 18 December 2014, *Abdida*, C-562/13, concerning minimum standards for determining who qualifies for refugee status or subsidiary protection status in terms of more favourable standards.[35] At the same time, the Court of Justice must also be 'sensitive' to the favourable standards deriving from the Council of Europe, in particular from the case law of both the European Court of Human Rights[36] and the European Committee of Social Rights (Jimena Quesada 2015).

11.5 Conclusion: Towards the Optimisation of Common Human Rights Standards in Europe

The optimisation of common human rights standards in Europe implies the establishment of coherent and harmonious relationships between the two normative systems (EU and Council of Europe) in order to avoid controversies resulting in a lack of credibility of the European system as a whole for the protection of human rights.

From this perspective, it appears essential not to forget the EU accession to the European Social Charter as a further step to complete the parallel accession to the European Convention on Human Rights. In other words, the more 'popular' accession of the EU to the European Convention on Human Rights should be accompanied by the parallel accession of the Union to the Council of Europe's Social Charter, so that political and social democracy go hand in hand, and for the sake of coherence with the principle of indivisibility of human rights.

Indeed, besides the theoretical argument, the importance of the Union's accession to the European Social Charter is particularly rooted in a pragmatic issue: avoiding divergences or contradictions between the Union's Court of Justice and the European Committee of Social Rights.[37] In other words, the need to exploit those synergies (at an interpretative level until the moment of the EU's actual accession to the Social Charter) is not merely theoretical, since the parallel solutions have already emerged in several occasions.

In case of different solutions, all these human rights treaties contain specific *favor libertatis* clauses, such as Articles 52(3) and 53 of the Charter of Fundamental Rights, Article 32 of the European Social Charter (Article H of the Revised Charter) and Article 53 of the European Convention of Human Rights (Jimena Quesada 2012).

In conclusion, strengthening such synergies is the best way to optimise our common human rights standards in Europe by reducing inequalities and asymmetries in a context of an economic crisis which must not lead to a crisis of values. In doing so, the considerable weight of Euroscepticism and Europhobia which has been recently experienced in some EU Member States in the name of their fierce defence of national sovereignty (Brexit and other potential 'Brexiters') will never prevail over European construction.

Notes

1. Among others, right to vote and to be elected in local and European elections, complaints before the European Ombudsman, petitions before the European Parliament, or diplomatic and consular protection. Concerning the case law of the Court of Justice, see, for example, the famous *Bosman* case (Judgment of 15 December 1995, case C-415/93): the Court declared that there could not be discrimination because of nationality between sportspeople who were nationals of EU Member States.
2. As illustrated by its Judgement of 15 January 2014, Case C-176/12, *Association de médiation sociale*, where the ECJ concluded: 'Article 27 of the Charter of Fundamental Rights of the European Union, (…) *cannot be invoked in a dispute between individuals in order to disapply that national provision*'. In the same restrictive direction (concerning Article 20 of the EU Charter), ECJ, Case C-198/13, *Julián Hernández*, Judgment of 10 July 2014.
3. Alter, K. J. (2011, p. 63): 'While the ECJ can be less concerned about the responses by national governments than many other international courts, it also has a larger and more diverse constituency to please. National court restraints are multiplied many times because each country has its own constitution and its own domestic political concerns'.
4. Paragraph 2 of the judgement handed down on 24 January 2017 by the Supreme Court of the United Kingdom summarises the domestic procedure leading to the Brexit result and the complex procedure of withdrawal under Article 50 TFEU: 'In December 2015, the UK Parliament passed the EU Referendum Act, and the ensuing referendum on 23 June 2016 produced a majority in favour of leaving the EU. UK government ministers (whom we will call "ministers" or "the UK government") thereafter announced that they would bring UK membership of the EU to an end. The question before this Court concerns the steps which are required as a matter of UK domestic law before the process of leaving the EU can be initiated. The particular issue is whether a formal notice of withdrawal can lawfully be given by ministers without prior legislation passed in both Houses of Parliament and assented to by HM The Queen'. The conclusion by the Supreme Court is that such Act of Parliament is necessary (see https://www.supremecourt.uk/news/article-50-brexit-appeal.html, visited on 5 October 2017).

5. The author reflects on a theory of differentiation by linking it with public good theory and intends to explain the effects of differentiation on the EU, its policies and members, as well as on individual policy areas.
6. Concerning Ireland, see Gilmore, A. (2016): "The UK's referendum was the first significant disintegrative act in the EU's history and will have particularly profound implications in Ireland. As mentioned, the country's economic and political dependencies on the UK meant that its accession to the EU was entirely dependent on its neighbour's. Even today, Ireland remains the most deeply integrated country with the UK in terms of trade, language, culture, and politics. In both political and economic terms, Brexit will constitute an asymmetric shock for Ireland."
7. See also ECJ, Judgement of 16 June 2015, Case C-62/14, *Peter Gauweiler and Others*, on the Decisions of the Governing Council of the European Central Bank (ECB) on a number of technical features regarding the Eurosystem's outright monetary transactions in secondary sovereign bond markets.
8. See Choudhry, S. (2006), in particular cf. the chapter by M. Moran ('Inimical to Constitutional Values: Complex Migrations of Constitutional Rights'), who analyses the nature of legal authority as set against the cross-jurisdictional construction of constitutional values, along with its domestic impact at both vertical and horizontal levels.
9. Despite the judgement adopted by the Czech Constitutional Court, the fact is that President Klaus revealed that the Charter would jeopardise the so-called 'Beneš decrees', and in particular the decree that allowed confiscation, without compensation, of the properties of Germans and Hungarians during World War II. This was one more cynical political pretext for exclusion from the Charter, insofar as these decrees are still part of the domestic law of both the Czech Republic and Slovakia (the latter not having requested any exemption from the charter).
10. Brems, E. (2009), p. 372: 'if it can be grounded in a shared commitment, maximisation of human rights through the improvement of monitoring techniques is both thinkable and feasible'.
11. For a systematic analysis of homogeneous provisions, see Mangiameli, S. (2006).
12. With such a spirit, Goldston, J.A. (2009). Cf. a nuanced view in Tapper (2009, p. 81).
13. Similarly, it has been noted that by means of two important judgements of the ECJ (*Schmidberger* and *Omega*), the path towards an impact

beyond the EU constitutional order in the field of fundamental rights was open (Cartabia 2009, p. 544).

14. The author has noted that it will be difficult, even in cases not dealing with EU law, for national judges not to follow the Charter when it offers a more generous level of protection.
15. From this perspective, it has been argued that Protocol N° 30 creates a situation of legal uncertainty (De Schutter 2008, p. 127).
16. See also Article 2 TEU ('The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail') and Article 3.1 TEU ('The Union's aim is to promote peace, its values and the well-being of its peoples').
17. See Article 230 of the EEC Treaty: 'The Community shall establish all suitable co-operation with the Council of Europe'.
18. As stated in the *European Parliament Resolution of 19 May 2010 on the institutional aspects of the accession of the EU to the European Convention on Human Rights* [Document of the European Parliament 2009/2241(INI)], paragraph 30. On this point, see Gragl 2014, p. 58.
19. See in particular the explanations (established by the Praesidium of the Convention which drafted the EU Charter) of the following provisions of the EU Charter which mention the provisions of the European Social Charter as a source of law: Articles 14, 15, 23, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34 and 35.
20. See all the relevant documents in: *http://www.coe.int/en/web/turin-process*
21. According to the British Government's official 'Brexit White Paper' (under the title *The United Kingdom's exit from and new partnership with the European Union*, presented to Parliament by Prime Minister Theresa May, February 2017), it is stated that 'in the last decade or so, we have seen record levels of long term net migration in the UK, and that sheer volume has given rise to public concern about pressure on public services, like schools and our infrastructure, especially housing, as well as placing downward pressure on wages for people on the lowest incomes. The public must have confidence in our ability to control immigration. It is simply not possible to control immigration overall when there is unlimited free movement of people to the UK from the EU' (p. 25); in addition, 'UK employment law already goes further than many of the

standards set out in EU legislation and this Government will protect and enhance the rights people have at work' (p. 31).

22. See, for example, the Order of 17 July 2015, *Sanchez Morcillo*, Case C-539/14, paragraph 39, in relation to the right to housing under Article 34 of the EU Charter.
23. Complaint No. 65/2011, *General federation of employees of the national electric power corporation and Confederation of Greek Civil Servants' Trade Unions v. Greece*.
24. See a critical approach in Jimena Quesada (2016), in particular chapter 9 ("Recent Controversies on Austerity Measures and Social Standards"), pp. 127–143. See also, more extensively, Alfonso Mellado et al. (2014).
25. Article 157 TFEU as its genesis in Article 119 of the Treaty establishing the EEC, which already stated that 'each Member State shall in the course of the first stage ensure and subsequently maintain the application of the principle of equal remuneration for equal work as between men and women workers'.
26. ECJ, Judgment of 17 October 1995, Case C-450/93, *Kalanke*.
27. ECJ, Judgment of 11 November 1997, Case C-409/95, *Marschall*.
28. A connecting legal act is Council Directive 79/7/EEC of 19 December 1978 on the progressive implementation of the principle of equal treatment for men and women in matters of social security. In this respect, see ECJ, Judgement of 19 October 1995, Case C-137/94, *Richardson*.
29. Statement of interpretation on Article 20 of the 1996 Revised Social Charter/Article 1 of the 1988 Additional Protocol: equal pay comparisons, Conclusions 2012 (published in January 2013).
30. According to this interpretation: 'equal treatment between women and men includes the issue of equal pay for work of equal value. Usually, pay comparisons are made between persons within the same undertaking/company. However, there may be situations where, in order to be meaningful this comparison can only be made across companies/undertakings. Therefore, the Committee requires that it be possible to make pay comparisons across companies. It notes that at the very least, legislation should require pay comparisons across companies in one or more of the following situations:cases in which statutory rules apply to the working and pay conditions in more than one company;cases in which several companies are covered by a collective works agreement or regulations governing the terms and conditions of employment;cases in which the terms and

conditions of employment are laid down centrally for more than one company within a holding [company] or conglomerate'.

31. The AMIF was set up for the period 2014–20, with a total of €3.137 billion for the seven years. It will promote the efficient management of migration flows and the implementation, strengthening and development of a common Union approach to asylum and immigration.
32. See Article 3(5) TEU: 'In its relations with the wider world, the Union shall uphold and promote its values and interests and contribute to the protection of its citizens. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and the development of international law, including respect for the principles of the United Nations Charter.'
33. Den Heijer and Spijkerboer (2016): 'Is the EU-Turkey refugee and migration deal a treaty?', http://eulawanalysis.blogspot.com.es/2016/04/is-eu-turkey-refugee-and-migration-deal.html (visited on 5 October 2017): both authors criticised the fact that after the conclusion of this statement, 'it is no longer possible to obtain an opinion of the ECJ "as to whether an agreement envisaged is compatible with the Treaties"' (Art. 218(11) TFEU). It is still possible for one of the EU institutions or a Member State to bring an action for annulment of the act of the European Council to conclude the agreement with Turkey. It is however possible for individuals (such as those being returned from Greece to Turkey) to challenge the implementation of the EU-Turkey agreement before national courts, arguing that it conflicts with fundamental rights. This in turn, may lead to a referral to the ECJ or a complaint before the ECtHR. Is the agreement in violation of human rights? As has been argued by UNHCR and many others, the agreement may well raise issues under (at least) the prohibition of refoulement (is Turkey safe and is there a risk of expulsion from Turkey?), the right to liberty (is systematic detention in Greece allowed?) and the prohibition of collective expulsion (are the returnees able to challenge their return on individual basis, including before a court?)'.
34. According to this author, the unsustainable pressure concerning the national asylum systems, especially in Greece and Italy, generated by the severe humanitarian crisis and the tragedy undergone by hundreds of thousands of persons, many of them in clear need for international

protection, has not managed to be mitigated throughout the emergency mechanisms taken to address them by the EU.

35. By contrast, see the more controversial judgement delivered by the ECJ on 17 March 2016, case C-695/15 PPU, Mirza, on the extend of the examination of an application for international protection in connection with the rights of EU Member States to send an applicant to a safe third country and the obligations of the Member State responsible for examining the application in the event that the applicant is taken back.
36. It must be noted that Turkish reception facilities are inadequate and the minimum procedural guarantees insufficient under the case law of the ECtHR (among others, Judgement of 15 December 2015, case of *S.A. v. Turkey*).
37. The aim is to allow the 'cross-fertilisation of the two systems' (Clapham 1992, p. 197).

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12

Normative Arguments for a European Social Union

Antoon Vandevelde

12.1 Introduction

Many politicians are sceptic about the desirability and feasibility of a European Social Union (ESU). The aim of this chapter is to see whether we can find strong enough counterarguments to dismiss this scepticism. Therefore, we will turn to the specifically ethical discussion about this issue. It is surprising that normative political philosophers did not pay more attention to the question of what justice could mean for intermediary regional organisations like the European Union (EU). Probably this is a consequence of the fact that this discipline is dominated by Anglo-Saxon philosophers who tend to be euro-sceptic. However scepticism about the ESU is also present on the continent, in the heads of people who are generally in favor of the EU. We will first explain the reasons for this scepticism and specify what we have in mind when talking about an ESU. Then we will argue that three strategies can be followed in order to prove the necessity of the development of an ESU. (1) One can show that

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arguments in favour of the implementation of (more) just institutions on a national scale can be expanded to supranational levels like the EU. (2) One can show that theories of cosmopolitan justice apply all the more at the European level. (3) Finally, we will argue in favour of the 'public goods' argument for the development of an ESU. The EU already provides an important range of public goods to its citizens and it could expand this offer considerably by developing a Social Union. Of course, feasibility constraints play an important role in the reflection on how social justice should be implemented on a European scale. Although there are clear advantages to organising forms of interindividual redistribution within the EU, we suggest that, for the following years, Europe should focus rather on a macro-economic policy narrowing the gap between the Northern and Southern countries and on the expansion of social investment for the enhancement of the basic capabilities of the poorest European citizens.

12.2 Strong Sceptic Arguments

Especially at a moment when European policy is already contested in its current scope, many European and national politicians and thinkers are rather negative about the development of a genuine ESU as a new strand of European intervention. Most of them favour a more egalitarian distribution of wealth and income within the European Union, but they reject the idea that national states should or will ever transfer social competences to supranational institutions. Three types of arguments for this position have been put forward in recent years.

First of all, sceptics have argued that, historically, the aim of European construction was not poverty relief or social justice, nor the concentration of political power in a globalising world, but peace building. Indeed, the founding fathers of the EU had a primarily political objective. After two devastating world wars, visionary politicians wanted to establish a lasting peace in Europe. However, instead of engaging directly in a political union, they started up various forms of economic cooperation, hoping that economic success would force politicians to agree on common political institutions. In the background, there was the idea of 'le doux commerce' that dates back to the eighteenth century. Montesquieu and the early proponents of economic liberalism thought that war is destructive for all participants, including for the winners. Hence, it is better, and mutually advantageous, to engage in trade relations. The common market was primarily seen as an instrument to achieve peace within Europe. Remember that Montesquieu's idea had been declared obsolete in the first half of the twentieth century by theorists stating that capitalism inevitably leads to imperialist wars. However, the founders of the European Community for Coal and Steel resumed a more optimistic stance. More than half a century later, we see that European leaders have repeated the same strategy time and again: they engage in economic reforms and they bet that necessary institutional reforms will be agreed upon subsequently. With the introduction of a common currency, for example, they created a 'fait accompli', knowing that the sustainability of the euro depends on the development of new and far-reaching forms of coordination of national economic policies. And indeed, until a few years ago, it was hardy imaginable that the budgets of the Member States of the Eurozone would be closely monitored by the European Commission, as is now the case. The rationale behind European construction was political and economic, and not immediately social.

Secondly, there is an evident problem about the democratic legitimacy of institutional reforms that are primarily imposed by economic necessity. Here, the spectre of an irresistible European technocracy lurks behind the corner. For a long time, the subsidiarity principle has been considered to be the corner stone of the European construction. What can be done efficiently at a lower level should not be taken over by higher levels of decision-making. Policies decided within smaller communities suit the preferences of the citizens better and it is easier to organise a public debate on their shape. However, when the European Commission and its administration control Member States, especially those belonging to the Eurozone, in order to avoid excessive budget deficits or unbalanced external trade relations, this is a highly centralised procedure. Probably these external controls help to impose some discipline to national politicians who are inclined to overspend or who are too myopic, and in this way they contribute to the general interest of national societies. Questions arise however about how far and how deep these central controls can go.

The definition of a minimal retirement age, labour market policies, the generosity of the allocation of social security benefits, the performance of the education system: all this definitely has an influence on budget deficits. Is this sufficient justification for Europe to aim at a harmonisation of policies in all these spheres? One of the strong arguments in favour of an ESU is precisely that this is an indispensable precondition for the preservation of the economic and monetary union (Vandenbroucke 2012). The problem is that such a policy orientation would probably enhance the (perception of a) 'democratic deficit' within Europe.

A third objection against the implementation of something like an ESU states that it would disturb the generally accepted division of labour between national and European levels of decision making. The idea is that Europe's primary function is to boost economic growth by expanding and deepening the common market. National authorities can then decide to tax away part of the additional wealth and spend this money for poverty relief or for redistribution. Hence, the EU provides the economic 'infrastructure' for a more generous social policy at the national level without having to develop a social policy at its own level. Not just political leaders, but also trade unions and employers' associations agree that social policy is and has to remain a national prerogative. This is the reason why even trade union leaders object to the imposition by European institutions of (nationally defined) standards of minimum income or minimum wage. Another example: even a modest project granting some European subsidies to NGOs providing food to the poorest—substituting for the allocation of food surpluses to food banks—was recently unanimously rejected by European prime ministers.

Doubtlessly, these sceptic considerations should be taken seriously, but they are not the final word on the issue of the ESU. Now, in order to avoid misunderstandings, we should first define more precisely the goal we have in mind. The development of an ESU does not mean that we have to build up a new supranational welfare state. Even the creation of a new pillar of solidarity on a European level is not our aim, at least not for the next twenty years or so. Of course, feasibility constraints tend to limit our ambitions, especially in times when the European construction is criticised by strong populist parties, but, more importantly, we think that Europe has no vocation to completely replace national states. In our conception, an ESU should aim rather at improving and strengthening existing welfare states. In general, Europe should contribute to mainstreaming social objectives in European policy and in the policies pursued by national states. I give some examples (Vandenbroucke 2014):

1. We see that the crisis within the Eurozone after 2008 has led to a divergence between the southern and the northern countries of Europe with huge social costs in the South. Hence, institutional reforms, for example, the creation of Eurobonds, linked to rules preventing moral hazard on behalf of weaker Member States, should be set up in order to achieve an upward convergence of all countries.
2. The difference in wealth between rich and poor European countries is considerable, greater, for example, than between the various states of the United States (with the exception of Puerto Rico). The median income of the richest 20% of people in Bulgaria would fall within the income range of the poorest 20% of the German population. Hence, the definition of a uniform minimum wage or minimum income throughout Europe is unfeasible. However, Europe could set goals concerning these issues for each country separately and then, it could help the poorest countries to achieve these goals. Possibly a (re)insurance mechanism could also be set up in order to support countries with increasing levels of unemployment.
3. Europe should organise internal migration without allowing social dumping. Actually, we have free movement of persons within Europe, but social dumping is a real problem that has contributed greatly to the vote in favour of Brexit in Great Britain and to the rise or anti-European feelings in some other countries.
4. Europe could help Member States in organising a social investment policy, especially in the domain of education. Next to the structural fund, it could organise a social fund that could finance projects in the field of early childhood education, lifelong learning and the prevention of early school leaving.

For a long time, national states have derived their legitimacy from their ability to shield their citizens from the most disruptive fluctuations of the market. Globalisation has not just created more wealth, but also new risks and it has undermined the capacity of states to protect their citizens. One could have expected Europe to take over this function and to fulfil it in a more efficient way, but this is certainly not the perception of what has happened in reality. Organising the expansion of the common market, Europe has been seen as part of the problem, rather than the solution. Giving substantial content to the ESU could remedy the failure of national states to efficiently regulate international markets and to organise the protection of its most vulnerable members. European institutions have partly moved in this direction, for instance with the implementation of anti-discriminatory case law by the European Court of Justice. However, as the reference to the horrors of past wars inevitably loses its force in the course of time, what Europe needs in order to mobilise popular support, energy and imagination is a clear future-oriented project. However, the debates between eurosceptics and promoters of the European project are usually dominated by pragmatic considerations about what is actually feasible. Beyond debates on incremental changes there is a need for a more fundamental normative discussion on the goals of the EU. Hence, the urgency of a reflection on the meaning of values like solidarity and justice within the EU. We will follow two strategies. Starting from national theories of justice, could these be expanded to supranational realms? And starting from theories of global justice, could they be particularised to the sphere of the EU? Rawls and Nussbaum are the starting points of our reflection.

12.3 Rawlsian Justice[1]

Rawls aims at elaborating a normative theory of justice that can be endorsed by people sharing a democratic and broadly egalitarian ethos. He thinks society consists of a variety of social positions. Each social position defines a set of rights and obligations. Together, all these social positions define the basic structure of society. Its fundamental features are supposed to be organised at the constitutional level and this is precisely the focus of Rawls' work. Unavoidably, some of these social positions yield more privileges than others. This makes the definition of these social positions and of the basic structure of a society a very delicate matter.

Now Rawls offers a contractualist method in order to determine what social justice basically means. A just social order is one that rational and reasonable citizens would choose under more or less ideal circumstances. This means: we should avoid people's conception of justice being biased by their personal interests. Therefore, they should develop their ideas on social justice from a more or less detached point of view. This is what Rawls calls the original position. He invites all citizens to develop the principles that should govern a just society behind a veil of ignorance. Everybody should step back from his actual position in society. People should imagine that they possibly could be amongst the worst-off members of society as well as amongst the more privileged ones.

Rawls presumes that rational and reasonable citizens would be prudent enough to make the situation of the worst off as good as possible. Hence, he thinks that they would agree with his famous three principles of justice. First, all members of society should be allotted the most extensive set of equal civil rights (translating human rights). Moreover, inequality of wealth and income is only permitted (1) if all positions in society are open to all its members on conditions of fair equality of opportunity (for equal competence) and (2) if this inequality brings maximum benefit to the worst-off members of society (the difference principle). This last principle is justified because in a society with equal civil rights and equal opportunities the most attractive social positions will still be occupied by those who are favoured by accidental factors: the genetic lottery, the family in which they are born, the absence of serious forms of simple bad luck. In a just society, one should compensate for these factors that are beyond individual responsibility. Rawls' theory of justice is egalitarian, but not naïve. He accepts that individual effort should be rewarded. His theory is responsibility sensitive. Also he takes seriously the levelling-down objection: it is not good to condemn everybody to poverty in order to achieve equality. The ultimate objective of a just society is that the situation of the worst off is (maximally) improved. If equality kills the motivation to work, then we risk evenly dividing poverty instead of wealth. Hence, some inequality can be justified by considerations of economic efficiency.

According to Rawls, justice is the first virtue of social institutions. This statement is not as innocent as it may seem. It drastically restricts the scope of the theory of justice. It means that claims of justice do not impose themselves on individual motivations, nor do they arise within families or beyond the borders of a particular state. Rawls distrusts theories of global justice. He thinks that they are a kind of ideological coverage hiding the interests of global capitalism, keen to make profit on a worldwide basis (Rawls and Van Parijs 2003). He is convinced that, even in a globalised world, the fate of individuals is still mainly determined by their place in the national division of labour. This relates to Rawls' cooperativism. Rawls describes society as a cooperative venture for mutual advantage. Cooperation and division of labour yield gains in productivity and hence a cooperative surplus. The problem of distributive justice crops up when these economic agents have to divide up the proceeds of their cooperation. When some participants to the production process feel that they are exploited, they will raise a claim of justice. Rawls believes that the networks within which social wealth is produced, what we have called the 'basic structure', are mainly national.

Towards the end of his active life, Rawls has somewhat amended his view. Still he does not believe in global justice and continues to distrust proposals for implementing distributive justice on a transnational level. However, in a small booklet *The Law of Peoples*, he has developed a theory of international justice, that is, a theory on the relations between independent countries ('peoples') (Rawls 1999).[2] Again, he uses the device of an original position. However, the participants to the (hypothetical) debate on international justice are not individual human beings, but representatives of the various political states in the world. Again, during the deliberation about a just world order, they should forget about the size of the population and the relative strength of the people they represent, the extent of its natural resources and net level of its development. According to Rawls, liberal and decent peoples would not aim at distributive justice—that is an internal matter of separate states—but rather at a peaceful world order. Hence they would agree on the ordinary principles of international law: respect for national sovereignty, compliance with international treaties and agreements, non-intervention in other states, justification of war only in cases of external aggression, ius in bello and so on. The only originality of Rawls' principles is that he accepts the possibility of humanitarian interventions in other states in case of permanent and severe violations of human rights. Also Rawls accepts a duty of assistance to extremely poor countries, but only for the sake of the preservation of peace, that is, only up to the point where these countries become able to sustain decently just institutions.

Rawls' refusal to aim at distributive justice on a global scale has been heavily contested by other political philosophers and ethicists. Also, many disciples of Rawls were disappointed by Rawls' severe restriction of the scope of the theory of justice. Thomas Pogge and Charles Beitz, for example, have argued that globalisation has made the fate of people and communities all over the world dependent on regulations on trade, finance and quality standards, defined by international institutions that are heavily dominated by the interests of wealthy people and nations (Pogge 2002; Beitz 1999). The expansion of the world market has rendered obsolete the idea that the basic structure would still be predominantly national. Arguably, this is even more the case with the EU. The jobs and expectations of so many people in Europe depend on decisions of the European Central Bank, the European Court of Justice, the European Commission and the Council of Ministers. Moreover, free trade reigns within Europe and European institutions are the key bodies that regulate competition, prevent the creation of monopolies and oligopolies, control banks and other financial institutions. Hence, Rawls' principles of justice should apply not only to the internal affairs of separate states, but also to the whole of the EU. This means: a policy stimulating economic growth by liberating the markets of goods, services, capital and labour can only be justified if it contributes maximally to the improvement of the situation of those who are worst off within Europe. If, according to Pogge and Beitz, Rawls' principles of justice, and especially the difference principle, should apply to the whole world, then definitely, we can say that they should also apply to the EU.

But what would this mean exactly? Concerning Rawls' first principle, one can argue that the respect for fundamental human rights has already been secured on a much firmer basis than under the old, exclusively national legal systems by the creation of the European Court of Justice and of other legal institutions with transnational competence. Also, Europe has created a large territory where free movement of persons and of employees prevails (under certain conditions). Equal opportunities or equal access to attractive positions for equally competent persons—Rawls' second principle—has been enhanced by the Erasmus exchange programme of students and teachers and by the creation of transnational procedures for recognition of university degrees and skills obtained in another country. However, much work still remains to be done in order to create real and not just formal equality of opportunities, on a national scale as well.

Now, when we try to see what the implementation of the difference principle on a European scale could mean, we come to an important dilemma. If we consider the EU as a single economic and political unit, then the difference principle applies to individual persons. Hence, an extensive program of interindividual redistribution on a European scale should be set up. In the long run, this could possibly lead to the creation of a European social security system. However, as I have already stated, very few politicians actually want to move in this direction. They refer to the subsidiarity principle in order to block such a development. If, on the contrary, following Rawls' suggestion in *The Law of Peoples*, we aim at international justice, also within the EU, and if we want to reserve a substantial domain of competences for national states, then we should take states as the basic units for redistribution within Europe.

The difference between both strategies is far from negligible. Suppose we want to develop a European policy concerning (the risk of) unemployment. In the first case, we should aim at the pooling of individual risks within a system that should be funded by the contributions of all European citizens. In the second case, solidarity is organised between states. One has argued that people are more prone to solidarity with other individuals than with collective entities. Therefore, we could presume that the first type of solidarity would be more robust than the second one. Indeed, insurance systems are based on more or less enlightened self-interest. Hence, like in the case of national systems of social security, there is a good chance that, after a while, a European system of unemployment insurance would acquire some form of legitimacy. The practical implication of interindividual redistribution between employed and unemployed persons would be that net transfers of wealth from rich to poor regions would take place. However, interregional redistribution would not be the primary aim of Social Europe. Transfers would quasi automatically result from a system that runs according to its own logic. The second strategy to build up an ESU would on the contrary depend on national transfers of wealth from rich to poor regions. This should be based on political decisions at the European level. Knowing what actually happens within Europe, these decisions would be very hard to achieve and would always be contested. Probably, each year again, some countries would try to renegotiate the transfers. In the end, following Mrs. Thatcher's device—'We want our money back'—each country would try to get back what it gives, and no serious redistribution would take place.

To be honest, the first strategy would also be quite vulnerable. Organising an insurance system covering the risk of unemployment at the European level would be especially attractive if the risk of unemployment were equally divided amongst individuals, regions and states. However, in actual reality, this is far from being the case. Some persons, especially high-skilled people, are convinced (rightly or wrongly) that they will never have to face a problem of unemployment. Others are chronically at risk of losing their job. Also, in some regions, unemployment is endemic, whereas in others, over long periods of time, there is no more than frictional unemployment. In these circumstances, it could be as difficult to establish intergovernmental forms of redistribution as to set up interindividual systems. Probably both will remain threatened by free ridership.

All things considered, one can imagine that the applicability of Rawls' theory to devise recommendations for a social Europe is less evident than one could think at first sight. Of course, there is no problem in granting equal civil rights to all European citizens. Here the main problem concerns the extent to which we accept immigration from outside the EU. Equal opportunities? Free migration within Europe largely contributes to this objective, but the problem with posted workers suggests that the precise implementation of this principle is far from evident. If justice leads to a scaling down of social protection in the more wealthy countries of the EU, one should not be surprised that this creates frustration and even anger. And if a straightforward interpretation of the difference principle leads to the advice that national systems of social security should be replaced by a European system, such a policy would only be defended by very few players in the field. The development of international forms of redistribution in order to help countries that are temporarily struck by external shocks or by the necessity to restructure a backward economic structure is more promising, although it would have to confront serious collective action problems.

12.4 Cosmopolitanism and Humanitarianism

Contrasting Rawls, many political philosophers have developed a cosmopolitan theory of justice (O'Neill 1986; Shue 1980). According to this type of theory, what we owe to the global poor is defined by the principle of mutual help: we are morally obliged to help people in severe distress if we can do so with relatively few costs and risks for ourselves. This is also the core principle of humanitarianism. It is not a minor obligation. On the contrary, it is a strong and urgent duty we have towards all human beings, on the basis of our common humanity, regardless of colour, ethnic background or culture. Now, the precise content of this duty differs according to whether we give a minimal or a more expanded definition of the most basic human needs and rights.

Martha Nussbaum is the most well-known advocate of cosmopolitanism (Nussbaum 2006). She argues that each and every human being—stronger even, each and every living being—has an unconditional right to develop his or her basic capabilities. For human beings, she proposes an extensive list of ten basic capabilities. They range from the right to bodily integrity and the right not to be hungry to the right to form one's own conception of the good and the right to full participation to social life. I will not discuss this theory in detail. What is important for us here is, first of all, that Martha Nussbaum presents her list as an absolute ethical constraint on all societies and institutions, and, second, that she presents these requirements as claims of justice. In the literature, this has been called a non-relational theory of justice. Human persons have claims of justice on the very basis of their humanity, no matter in what relations they stand towards other human persons.

For Nussbaum, the duties implied by her Capability Approach are quite substantial and they impose themselves without the slightest possibility of compromise or trade-off. There is no hierarchy amongst the basic capabilities she enlists and she gives no indication of priorities.

For instance, in order to permit persons with wheelchairs to have access to schools, public administration, trains and busses, huge costs should be borne. These expenditures would probably not pass the utilitarian requirement that the utility of the whole society should be maximised, but Nussbaum justifies them on the basis of her capability theory. Her list of basic capabilities goes well beyond a minimal agenda of human dignity like it has been defined in the Millennium Goals for Human Development, for instance. It sets a normative agenda for the whole world, and a fortiori this is also an agenda for Europe: it should ensure basic capabilities for all Europeans.

However, Nussbaum's cosmopolitanism faces important objections. First of all, one can argue that the lack of hierarchy amongst the basic capabilities diminishes the practical usefulness of her theory. Nussbaum seems to neglect the basic fact of scarcity.[3] Secondly, humanitarian or non-relational theories of justice define purely moral rights and duties that impose themselves on all human societies. Societies can respond in very different ways to the requirements imposed by Nussbaum's list, but, of course, we need procedures and institutions in order to create the so-called perfect rights, rights with corresponding holders of obligations. Nussbaum confronts us with a strong ethical requirement, but its translation into a political agenda is much less evident. Is the construction of Europe a first step towards a cosmopolitan community or is it rather an obstacle? Actual reality suggests that building an island of prosperity in the midst of an ocean of misery is not possible. However, Nussbaum's theory offers us no cues about how to devise the division of labour between various levels of solidarity and the inevitable trade-offs this implies.

12.5 Relational Theories of Justice

The discussion of humanitarianism refers to a more fundamental question. Are we first human beings, members of a global 'kosmopolis', or are we rather culturally embedded citizens of particular societies? Both positions have been defended by contemporary philosophers. With her Capability Approach, Nussbaum argues for a universal theory of the good life that should be sufficiently minimalistic and vague to permit—at least in principle—a great diversity of human societies to gain legitimacy. Other proponents of cosmopolitanism argue that what human beings have in common is much more important than what divides them. They sometimes refer to biological features or to the genetic setup human beings share. Adherents to the phenomenological philosophical tradition on the contrary stress that we are not freewheeling spirits, floating above the turmoil, but that we are bodily beings, always situated in a particular place, against a horizon that we can never completely leave behind. Hence, the requirement of absolute detachment from our spontaneous commitments would be impossible and even not desirable. We learn to develop empathic feelings towards distant others on the basis of our interactions with the near and dear and against a background that we can never completely objectify in a transparent way.

Relational theories of justice are based on the idea of human persons as contextual beings and oppose themselves against abstract humanitarianism. They derive claims of justice from the particular relations people sustain with each other. Take the example of victims of a tsunami. Of course, we should help them urgently, simply because they are human persons like us; moreover they are human beings in extreme distress. This is a strong humanitarian requirement. However, if it can be shown that these natural disasters are caused by global warming, for which the inhabitants of the rich parts of the world have special responsibility, then we have an additional obligation to help. I would say that this second obligation is now based on a claim of justice in the strong sense of the word. Moreover, claims of justice based on relational theories of justice have to be justified in a public debate. They are discussed on the political forum, while humanitarian duties seem to have more of a moral status, preceding public debates.

According to the relational conception, claims of justice can be founded on various types of social relations. Rawls' cooperativism is an illustration: it states that the question of distributive justice arises among people who cooperate in order to create a cooperative surplus that has subsequently to be divided up amongst the contributors. A disturbing aspect of Rawls' cooperativism is that this theory seems to neglect those who for some well- or ill-founded reason are unable to cooperate for the production of a social surplus. One can argue that severely disabled people can appeal to assistance on the basis of humanitarian considerations, or that they can appeal to the empathy on their fellow citizens, but maybe this sounds too much like appealing to beneficence. Probably, a better way to escape to this problem is to appeal to another type of special relations yielding claims of justice. Maybe these nonproductive people do not contribute to the general welfare, but, as members of our society or of the EU, they share with us a common history, they are subject to the same institutions, they sometimes speak the same language(s), and in general, they and us, we belong to the same community of fate. Belonging to the same community is definitely a special relation yielding particular claims of justice, next to the humanitarian rights all human beings already enjoy on the basis of our common humanity.

Similarly, one can argue that there exists a special relation between some European countries and their former colonies. In most cases, this common history encompasses the best and the worst: exploitation, oppression and cultural destruction, but also medical progress and education. The consequence is that, in case of serious problems, former colonisers feel responsible and people in former colonies look for assistance from the people with whom they share part of their history.

Thomas Pogge has developed his own version of relational (global) justice (Pogge 2002). He argues that there is a causal relationship between our wealth in the northern part of the world (or in the West) and poverty in the South: poor people are poor because they have been exploited by rich people at the other side of the globe. Underdevelopment in some countries is mainly caused by external, rather than by internal, factors. According to Pogge, the rules of the international monetary and financial system and the trade regulations on the world market systematically benefit the rich part of the world. Hence, again, it is the latter's duty to compensate for the harm caused to the poor parts of the world. It is easy to see the implications of Pogge's theory for the EU. For instance, if the common agricultural policy within the EU has contributed to the impoverishment of small farmers, they can introduce a claim of justice. Another example I have already pointed at concerns the Eurozone. If the monetary union leads to the enrichment of the Northern part of Europe and to the impoverishment of the Southern part, then an adjustment of the structure of the Eurozone imposes itself. The strength of such a claim of justice evidently depends on the plausibility of this actual connection between wealth and poverty on a world scale or within the Eurozone. Loose social relations generate weaker claims of justice.

Another example: if inequality within the EU is larger than within the United States, this is partly due to the fact that Europe has recently accepted poor countries like Romania and Bulgaria as new members of the Union. This situation creates obligations for the future, but one cannot argue for a strong duty of justice towards poor Rumania and Bulgaria on the basis of past harm. If a country is brought to severe distress, due to a foolish internal policy conducted by its own president or government, we may still feel a humanitarian duty to help but there will be no strong duty of justice, although it could well be the case that wealthy countries have tolerated these greedy or even predatory leaders for some time. The relative strength of the causal nexus between internal and external structures and institutions, between poverty here and wealth in another place in the world becomes important in this respect.

The idea that justice is primarily a national concern and that there are no bounds of justice beyond national borders has not only been defended by John Rawls, but also, and on different grounds, by Thomas Nagel (Nagel 2005). He advocates another version of a relational theory of justice, which has been called 'statism'. According to this philosopher, people cannot live together peacefully without some coercive rules. Now, for a liberal, all coercion should be justified towards those who have to undergo it. In a liberal society, citizens are forced to comply with laws. This can only be legitimate if these laws have been made (collectively) by the same citizens to which they apply. In a scheme inspired by Rousseau, they are the subjects as well as the authors of the general will. The element of coercion is balanced by the need for justification of the coercive laws. Of course, people can escape legal coercion by emigration, but in that case, the price they have to pay for their freedom is so high that we can still speak of coercion. Nagel thinks that it only makes sense to speak about justice in the context of a national state. He sees no sovereign power on a transnational level equivalent to a national state. Hence, norms of social justice do not apply on a transnational level such as the EU, and certainly not at the global level.

This conclusion is highly contestable. Definitely, Europe does exercise coercion on European citizens, for instance recently by imposing budget cuts on national states in order to save the euro. Also, there is a European Parliament, where representatives of European citizens discuss the appropriateness and the legitimacy of European policies and procedures. Entrance to the EU may be voluntary, but members are not allowed to quit unilaterally in case of disagreement. If they did, we may suppose that some sanctions on behalf of the other members of the EU would follow. The price to pay would probably be quite high. Contrasting Nagel, Andrea Sangiovanni argues that norms of social justice also apply to voluntary organisations (Sangiovanni 2012). The fact that, at the time of their entrance, new Member States agree in general terms with existing European laws and treaties does not mean that they are no longer allowed to criticise European policies in the name of social justice.

I think Sangiovanni is right in this, but it is not particularly germane to our discussion here. National states within the EU do not have full sovereignty anymore. In classical political theory, sovereignty was a yes-or-no question, not a matter of degree. Within Europe, it may still be the case that national states have the power to decide in exceptional circumstances (the Carl Schmitt criterion), but in many realms European law now has priority over national law. Also, within federal states like Belgium there is no clear hierarchy between state and substate law. Sovereignty is divided among many instances. The dual role of members of communities, who are at the same time submitted to coercion and who can ask for its justification, is no longer the monopoly of national states. Hence, Nagel's theory offers no principled objection against an ESU aiming at social justice.

12.6 The Public Goods Argument

Rawls' and Nagel's arguments for the implementation of social justice at a national level are less destructive for the possibility of something like an ESU than both philosophers seem to think, and Nussbaum's cosmopolitanism gives no indication of where European policymakers should start. Still we lack a strong positive argument in favor of the definition of social justice as the common purpose of the EU. Maybe the public good argument is a plausible candidate for this task. The idea is that the EU provides all of its members with a range of public goods. We have already hinted at some of these goods like internal peace and additional economic growth. Also the EU can have more influence on the international scene than national states acting separately. How to stop global warming? How to tackle global environmental problems? How to stop the importation of meat treated with hormones or antibiotics without being sued in international courts of justice for violation of the principles of free trade? How to regulate international financial markets? Can we organise a Tobin Tax? In all these fields, transfer of national competences to the European level is more efficient.

Some advantages of the EU are quite obvious. Although the euro was in great danger at a certain moment, we can hardly imagine having to return to a situation where we had to exchange money when we travelled from Paris to Brussels or Rome. The absence of border controls within Europe is a luxury that we'd rather not sacrifice for the sake of the struggle against terrorism. Other advantages are less visible. The creation of a wide unified economic territory permits more efficient taxation of capital income. The imposition of European norms of good governance on governments stimulates national politicians to better serve the general interest of their country. Europe makes it easier to organise counterpowers against the monopolistic tendencies of some multinationals. Europe can promote beneficial social models: states combining high levels of productivity and economic growth with high levels of taxation and solidarity perform better than less wealthy states with low levels of economic growth and taxation and a poor organisation of social security. Some public goods provided by Europe clearly have a social impact. I am convinced that the public goods argument is a strong justification for a more explicit development of an ESU in the direction I have sketched in the initial pages of this text.

The problem with this argument, however, is that public goods are always vulnerable to free ridership: Member States wanting to profit maximally from common provisions with minimal contribution. There is a huge literature on how to limit free ridership. Organising more transparency about the advantages of European membership is certainly important. It should be made clear that Europe can enhance the domestic problem-solving capacity, for instance by pooling the risk of being subjected to asymmetric external shocks. From an ethical perspective the fairness principle is important in this respect. We know that in common life, most people are willing to cooperate for a common purpose, at least when they know that most others will join them in this effort. The idea is that each beneficiary should participate equally in a common venture. In the background is the idea of reciprocity, which is the most basic social norm in common life. Those who want to profit from cooperation should also contribute to it. This form of cooperative justice is close to the Rawlsian cooperativism we have described above, but while Rawls stresses the claims of justice that each participant can derive from his cooperative effort, here the emphasis lies on the duty of all beneficiaries of the cooperation to contribute in a fair manner.

Empirical research learns that the fairness principle constitutes a powerful motivation for individuals to avoid free ridership and to engage in loyal cooperation. It is less obvious that it works equally well in intergovernmental negotiations in the European Council of ministers. Now, one of the reasons why the provision of public goods within Europe is so difficult seems to be the lack of a common ethos amongst European citizens and politicians. Solidarity is the key value in this respect.

12.7 Solidarity

Solidarity can be defined as the willingness to share with others we do not know personally, but with whom we identify on the basis of some form of communality. Solidarity defines a 'we' feeling. It is a transposition of the third value of the French revolution—fraternity—to the era of masses, the realm of anonymous social relations. It refers to the idea that we are all children of the same father/mother, and, hence, it presupposes a sense of equality. Solidarity amongst wage laborers is the classical example. Here the communality is formed by the fact that workers or employees occupy the same structural position within a capitalist society. At the most abstract level we can develop empathic feelings with all fellow human beings. However, in actual reality, solidarity seems to flourish better on the basis of more particularistic features. Also ascriptive features like race, religion, common language or nationality seem to work better as criteria of identification than common projects. Habermas' constitutional patriotism is fine, but probably, it is somewhat abstract to mobilise European citizens.

Doubtlessly, solidarity can be instrumental in limiting the temptation of free ridership. The important question is whether it is indispensable for the construction of something like an ESU. Communitarian and liberal political philosophers have different opinions about this issue. The latter think that spontaneous feelings of solidarity have no normative weight and that, if they have not been the subject of thorough reflection, they can even be dangerous in some contexts, while the former are convinced that ultimately, ethical motivations have no other basis than the common understandings and intuitions of actual people with their particular attachments. However, this is not just a matter of general principles. Two strategies have been defended for Europe. Many theorists are convinced that we need a strong common ethos in order to advance in the direction of an ESU. Also they point to scientific evidence that suggests that heterogeneous societies tend to have less generous systems of social security. Most of them are pessimistic about the feasibility of an ESU. They think Europe will never be able to develop into more than a free trade zone. Others think that it is not impossible that institutional innovation—more precisely, the creation of new or expanded redistributive mechanisms at the European level—will generate its own cultural presuppositions, that is, the ethos that is needed to sustain these institutions. Still, this remains a wager. Also, it is not clear whether the introduction of more democracy in Europe would stimulate the development of an ESU, or whether it would rather sharpen nationalist sensibilities. Probably some institutional engineering can be helpful in this respect, for instance with the organisation of the election of MEPs by a Europe-wide constituency. However, the question how far a common ethos can be produced by institutional reforms is not really decided. Probably, it is even not decidable because it is overly dependent on context.

It is clear that, in actual reality, the sense of a European identity is less developed than feelings of national adherence. Moreover, in a pluralist society, one should not entertain much hope that Europe can unite around common values. The only common values that, at least in the old

European countries, we are proud of, that we continue to cherish, and that we highlight in contradistinction with the United States are precisely those backing our welfare states. If Europe wants to develop a common purpose, definitely, it has to develop into a Social Union, not as a competitor with existing national welfare states, but rather in order to strengthen distributive justice. In this respect, what we do together is probably more important than all references to common values, heritage and history. Hence again, the importance of the creation of public goods.

12.8 Basic Income or Social Investment

As we have already mentioned, the EU already produces an important range of public goods. However, the public goods argument remains relatively general as long as we do not specify how it can justify an ESU. Here we have to turn back to the analysis of the actual political problems of the EU that we sketched in the beginning of this text. One of the main arguments in favour of an ESU is that it is necessary in order to obtain a smoother-functioning economic and monetary union. In this respect, several authors have suggested that Europe should look at how the United States has succeeded in solving the problem of maintaining a monetary union between states with varying economic development (Cantillon and Vandenbroucke 2014; Van Parijs 2012). There are two remarkable differences. First of all, in the United States, there is large interstate migration. When the car industry in Detroit closes down, many people move out to other, more flourishing states. Within Europe on the contrary, linguistic barriers considerably limit migration between Member States and migration is seen as a threat to national welfare states. There is a second built-in stabiliser of the social and economic system of the United States. Federal authorities have organised and funded a system of massive interpersonal redistribution. Social security in the United States may be less generous in general, but transfers from wealthy to poor states are considerable compared to what we have in the EU. Also migration is less a threat if social security programmes are organised at a central level. Centralisation of insurance devices is more efficient. In this case, the subsidiarity principle does not lead to decentralisation.

The American example shows that Europe could gain in terms of economic stability and political legitimacy by organising a Social Union. However, there are many obstacles. We have already mentioned the reluctance of governments and social actors to go down this path. Stimulating the development of a systematic anti-poverty and employment policy in the various European countries by way of the open coordination method may be too soft, but it has at least the merit of being feasible. It clearly shows what policies fail, and it contributes to spreading good practices.

Note that many problems of the EU stem from the recent expansion of the Union. The conditions for admission to the Union were much tougher for the first countries that wanted to join, than for their successors. Originally, the idea was that a country could only enter into the Union, if it had gone through a series of structural reforms, that is, if it had successfully modernised its economy. Countries had to put their household in order before being admitted. Entrance to the Union opened the prospect of strong local economic growth and progress. Hence, migration pressure remained limited. Recently, however, countries have been admitted for political reasons more than on the basis of their economic record. Probably, the development of an EU with variable geometry can solve this kind of problems. Doubtlessly, it would be easier (but also less generous and less urgent) to construct a Social Union with countries that already have a comparable level of economic development. Of course this will make the structure of the European institutions more complex, but probably it is the only feasible way of making progress.

More transfers between European Member States: Should we organise this on an interpersonal or on an international basis? As we have already mentioned, there are some clear arguments in favour of interpersonal redistribution. It is perceived as more legitimate than interstate transfers that have to be decided on a yearly basis by politicians bargaining in order to 'get their money back'. Also, interpersonal systems of redistribution on the basis of insurance mechanisms or the organisation of a Eurodividend, Philippe Van Parijs' proposal, would make quite visible the advantages of membership in the EU. I tend to favour an alternative and less spectacular proposal, namely the increase of European investments enhancing the capabilities of poor people. My inspiration comes from the theory of economic development. There you find the following classical problem:

What should a poor country do in case of a windfall profit, a huge amount of money falling from heaven? The opening of a diamond mine in the desert of Botswana is an oft-quoted example (WDR 2001). The bad way to proceed is to spend the money for consumption, to subsidise bread or oil, or to give additional income to everyone. Sound policy, on the contrary, implies using the windfall profit for investment.

To some extent, this is what Europe has done in the recent past with regional funds and structural funds. The amounts of money spent are not huge—the European budget is limited—but nevertheless, transfers to countries like Bulgaria and Romania represent 3% to 4% of their gross domestic product (GDP). Also, most public investments in poor European Member States are currently funded by the EU. Many of these investments concern the construction of roads, opening distant regions to markets. Improving market access is appropriate in a project that focuses on stimulating economic growth and direct or indirect job creation. However, new funds could be created for social investment focusing on the improvement of education systems, healthcare and access to labour markets. This could be a project that is not overly ambitious, but also not unfeasible. Moreover, measures should be taken within the Eurozone to stimulate convergence rather than divergence of strong and weak states and regions. Installing a reinsurance mechanism for regions confronted with an unexpected external shock could contribute to this objective, although close monitoring would be necessary in order to prevent moral hazard.

12.9 Conclusion

Is normative moral theory useful for a reflection on the future of the EU and on the scope of an ESU? Our overview shows that theories of justice are often devised at a rather general level. Nussbaum's capability approach and related humanitarian or cosmopolitan theories specify claims that all human beings can legitimately bring forward. They can be considered as an ethical minimum, which should certainly be guaranteed within the EU, although that minimum is quite demanding in Nussbaum's version. This type of theory can guide us in discussions on the rights of the global poor, of refugees and potential migrants knocking at our doors, and of handicapped people within our welfare states, but it is less inspiring for an ESU. Rawls' advocacy of an extensive set of equal civil rights and his principle of equality of opportunity have been adopted by European institutions, but the difference principle is more contestable at this level. If it would imply that we have to go for the development of a European system of social security that should replace national systems, then very few people would accept it. By the way, this also casts doubt on whether the difference principle is as attractive as a device of global justice, as some theorists have suggested. Possibly the difference principle could inspire transfers in favour of the poorest countries of the EU, or a policy to stimulate more convergence within the Eurozone, but this is far from Rawls' suggestion that socio-economic inequalities should *maximally* benefit the least well off. Finally, I have suggested that the public goods approach, with its strong emphasis on the principle of reciprocity as it has been developed by Sangiovanni (and others), is a most promising approach for the development of an ESU.

Notes

1. John Rawls (1971).
2. Rawls speaks about 'peoples' rather than 'states' to indicate that he adheres to a normative rather than a realist conception of international relations.
3. Amartya Sen on the contrary has developed his theory of basic capabilities within a consequentialist framework that does admit trade-offs. Sen refuses to establish an a priori list of basic capabilities. He thinks that each society should define its own priorities in a democratic political process. Compared to Nussbaum's version of the capability approach, his theory loses some of its normative sharpness—politics takes priority over ethics—but it is able to take into account the fact that not all things that are desirable or ethically required can be realised immediately (Sen 1999).

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13

Hayek's Trap and the European Utopia We Need

Philippe Van Parijs

13.1 Hayek's Trap

Where can we find the most lucid compact description of the predicament of today's European Union (EU), the most convincing succinct explanation for its contribution to the deepening of inequalities and its inability to reduce them? In a powerful plea for the creation of a multinational federation written nearly eighty years ago. In an article published in 1939 under the title 'The economic conditions of interstate federalism,' Friedrich Hayek sets out why he finds such a multinational federation, much later exemplified by the EU, a wonderful idea. This is essentially because it combines two features.[1]

First, there is the disabling function of the common market, that is, the economic constraints on state-level policy that stem from the freedom of cross-border movement:

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> *If goods, men, and money can move freely over the interstate frontiers, it becomes clearly impossible to affect the prices of the different products through action by the individual state*. (Hayek 1939, p. 258)

This disempowerment of national governments would not be limited to price fixing.

> *As has been shown by experience in existing federations, even such legislation as the restriction of child labor or of working hours becomes difficult to carry out for the individual state. […] Not only would the greater mobility between the states make it necessary to avoid all sorts of taxation which would drive capital or labour elsewhere, but there would also be considerable difficulties with many kinds of indirect taxation*. (Hayek 1939, p. 260)

Alongside governments, all state-level economic organisations would be seriously weakened.

> *Once frontiers cease to be closed and free movement is secured, all these national organizations, whether trade-unions, cartels, or professional associations, will lose their monopolistic position and thus, qua national organizations, their power to control the supply of their services or products*. (Hayek 1939, p. 261)

Wonderful—for Hayek! But won't the capacity to act at national level be replaced by a capacity to act at the newly created level of the federation? By no means—and this is the second feature that, combined with the first, accounts for Hayek's enthusiasm. For there are two serious obstacles to the creation of such a capacity. First, economic differences are likely to be far more pronounced in a large entity than in a small one:

> *Many forms of state interference, welcome in one stage of economic progress, are regarded in another as a great impediment. Even such legislation as the limitation of working hours or compulsory unemployment insurance, or the protection of amenities, will be viewed in a different light in poor and in rich regions and may in the former actually harm and rouse violent opposition from the kind of people who in the richer regions demand it and profit from it*. (Hayek 1939, p. 263)

Second, and more seriously, a multinational federation lacks the common identity and associated disposition to solidarity that nation-states can rely on.

> *In the national state current ideologies make it comparatively easy to persuade the rest of the community that it is in their interest to protect 'their' iron industry or 'their' wheat production or whatever it be. [...] The decisive consideration is that their sacrifice benefits compatriots whose position is familiar to them. Will the same motives operate in favor of other members of the Union? Is it likely that the French peasant will be willing to pay more for his fertilizer to help the British chemical industry? Will [...] the clerk in the city of London be ready to pay more for his shoes or his bicycle to help [...] Belgian workmen?* (Hayek 1939, pp. 262–263)

There is no doubt, for Hayek, as to the answer. He concedes, however, that

> *[t]hese problems are, of course, not unfamiliar in national states as we know them. But they are made less difficult by the comparative homogeneity, the common convictions and ideals, and the whole common tradition of the people of a national state*. (Hayek 1939, p. 264)

In particular, decisions are less difficult to accept if the government taking them is regarded as consisting of compatriots rather than as consisting mostly of foreigners:

> *Although, in the national state, the submission to the will of a majority will be facilitated by the myth of nationality, it must be clear that people will be reluctant to submit to any interference in their daily affairs when the majority which directs the government is composed of people of different nationalities and different traditions. It is, after all, only common sense that the central government in a federation composed of many different people will have to be restricted in scope if it is to avoid meeting an increasing resistance on the part of the various groups which it includes*. (Hayek 1939, pp. 264–265)

The outcome of the combination of these two features—economic constraints on state government and political constraints on union government—should be clear enough:

> *There seems to be little possible doubt that the scope for the regulation of economic life will be much narrower for the central government of a federation than for national states. And since, as we have seen, the power of the states which comprise the federation will be yet more limited, much of the interference with economic life to which we have become accustomed will be altogether impracticable under a federal organization*. (Hayek 1939, p. 265)

Consequently, the creation of such a multinational federation is an essential and indeed a fantastic tool for the realisation of Hayek's 'liberal programme,' of what much later became called 'neo-liberalism.' Bluntly put: 'the creation of an effective international order of law [in the form of a multinational federation] is a necessary complement and the logical consummation of the liberal program.' (Hayek 1939, p. 269)

13.2 The Eurodividend

If there is one person who got Hayek's message perfectly, it is Margaret Thatcher. She campaigned for her country to confirm its membership of the EU in 1975. When in office between 1979 and 1990, she strongly supported both the further unification of the common market, particularly through the 1986 Single European Act, and the further expansion of its reach made possible by the collapse of the iron curtain in 1989. In accordance with Hayek's argument, the increased mobility created by the deepening of the common market further disempowered Member States, while the increased heterogeneity created by post-1989 enlargements further prevented the federation from taking over the regulatory and redistributive powers that Member States were increasingly unable to exercise. This is Hayek's trap, the trap we are in more than ever thanks to the 2004 and 2007 enlargements and the relentless defense of the 'four freedoms' by the European Commission and the Court of Justice of the EU.

How should we react? As lucidly explained by Hayek, if we exclude re-erecting thick national borders, with the huge economic losses and uncertainties of all sorts this would trigger, there is only one real option: we must build a genuine European polity that encompasses the European single market, instead of letting each national polity struggle with constraints imposed by its immersion in this market and, beyond, in an increasingly globalised world market. In particular, we urgently need to build socio-economic institutions that organise at least part of redistribution on a higher scale. Such redistribution will foster the pursuit of justice both directly, through Union-level transfers better protected against social and tax competition than country-level redistribution, and indirectly, by protecting national-level redistribution against such social and tax competition.

This does not mean that we need to build an EU-wide mega welfare state at least equal to what exists at the federal level in the United States. Our respective national welfare states have been shaped, and should continue to be shaped, by largely separate debates. If only because of the linguistic distinctiveness of these debates, a particularly strong version of the subsidiarity principle should apply. In matters of social policy as in many others, it would lastingly justify a degree of decentralisation significantly higher than what would be optimal with a mono-national population of equal size. The moral hazard inherent in such decentralisation will legitimately reduce the optimal level of transnational transfers: 'no solidarity without responsibility,' as we kept hearing throughout the Greek crisis. However, the fact that a high level of solidarity is harder to achieve and sustain politically at European level than at national level does not make it any less important.

My own favourite proposal for how best to move forward includes the introduction of a eurodividend: a modest unconditional basic income paid to every permanent resident of the EU and funded by an EU-wide Value Added Tax (see Van Parijs 2013; Van Parijs and Vanderborght 2017: Chap. 8). The amount should be modulated as a function of the cost of living in the various Member States. An average level of €200 per capita would require a VAT rate of about 20%. Such a scheme would provide a macroeconomic stabiliser badly needed for the economic sustainability of the single currency. It would provide a demographic stabiliser badly needed for the political sustainability of the free movement of people. It would help sustain the generosity and diversity of Europe's national welfare states by inhibiting tax and social competition. And it would make a badly needed contribution to the legitimacy of the EU in the eyes of the stay-at-homes, not only the movers, by making more tangible for them the material benefits they owe to European integration. Clearly, the implementation of such a scheme requires a further empowerment of the Union, which should be entitled to tax and redistribute across borders to a less insignificant extent than it does now. The EU does not need to mimic the American federal state, but it needs to do more of what the latter does if it does not want to let its European social model degenerate, stuck as it is in Hayek's trap, into something far more pathetic than the American welfare state, which we Europeans so often look down upon.

13.3 The European Utopia We Need

Such a move, urgently needed to get out of the trap, is of course exactly what Hayek's disciple Margaret Thatcher would have hated to see happening. In *Statecraft*, her 2002 book, she formulates a fiery plea against those who want to erect something like the United States of Europe:

> *The parallel [with the United States] is both deeply flawed and deeply significant. It is flawed because the United States was based from its inception on a common language, culture and values—Europe has none of these things. It is also flawed because the United States was forged in the eighteenth century and transformed into a truly federal system in the nineteenth century through events, above all through the necessities and outcomes of war. By contrast, "Europe" is the result of plans. It is, in fact, a classic utopian project, a monument to the vanity of intellectuals, a programme whose inevitable destiny is failure: only the scale of the final damage done is in doubt.* (Thatcher 2002, p. 359)

In the aftermath of German foreign minister Joschka Fischer's famous speech on the ultimate objective of European integration (Berlin, May 2000), she did not hesitate to get personal:

> *It is no surprise to me that the strongest proponents of Euro-federalism today often first cut their political teeth in the infantile utopianism, tinged with revolutionary violence, of the late 1960s and the 1970s.* (Thatcher 2002, p. 343)

As the realisation spreads that this is precisely what we need to get out of Hayek's trap, as pressure mounts to move in this direction, her advice to Britain became, and would be today, to get out of the grip of this monster:

after '*I want my money back,*' it is time for '*We want our country back.*' But in order not to undo what was done over the decades in accordance with Hayek's script, it is crucial that Britain should retain full access—and remain fully subjected—to the European market, which the United Kingdom and Margaret Thatcher herself can pride themselves of having helped deepen and enlarge. In this way, Britain, having regained its 'sovereignty' can quietly undermine, through tax and social competition, any serious attempt to pursue egalitarian justice in Europe, whether at national or Union level. In other words: '*Let us Brexit, but "softly", so as to keep our sabotage capacity intact*.' This is what could be called, without too much phantasy, 'Thatcher's plot,' the conspiracy aimed at saving Hayek's neoliberal programme from the threat of the 'classical utopian project' of a political, social and fiscal union.

Hayek himself, however, unwittingly advises us not to give up on this utopian project. Ten years after he wrote the article quoted earlier, in the aftermath of World War II, Friedrich Hayek was in despair about the turn of events throughout Europe and North America. With the New Deal, the expansion of social security systems, nationalisations, the spreading of socialist regimes in Eastern Europe from Estonia to Albania, statism was gaining ground all over the world. In an article published in 1949 under the title 'The intellectuals and socialism,' he urged his fellow liberals to erect precisely what Thatcher would have dismissed as 'a monument to the vanity of intellectuals':

> *If we are to avoid such a development, we must be able to offer a new liberal program which appeals to the imagination. We must make the building of a free society once more an intellectual adventure, a deed of courage. What we lack is a liberal Utopia, […] a true liberal radicalism which does not spare the susceptibilities of the mighty (including the trade unions), which is not too severely practical and which does not confine itself to what appears today as politically possible. […] The main lesson which the true liberal must learn from the success of the socialists is that it was their courage to be Utopian which gained them the support of the intellectuals and thereby an influence on public opinion which is daily making possible what only recently seemed utterly remote*. (Hayek 1949, p. 194)

Articulating our utopias is not just a way of enabling us to achieve what is possible. It makes possible what is currently impossible. Had Hayek not thought so and not been right in thinking so, his neo-liberalism would not be dominating the world half a century later. If we don't want to remain forever stuck with neo-liberalism or leave the field free for nationalist and jihadist dystopias, what we need now is to learn from Hayek what he said he learned from the socialists. We need bold utopias, not least, for us Europeans, regarding the destiny of the European Union.

But if the utopian project we need is to have any chance of being realised, it will have to protect itself against the pressure of globalisation, including—through tough Brexit negotiations—against tax and social competition from a potential pirate state across the Channel. Above all, it will need to strengthen its federal institutions and develop the EU-wide demos required to make them work. This will require many initiatives and structural changes, essentially to strengthen the grip of pan-European deliberation relative to interstate bargaining. But one development is more fundamental than any other, and aptly identified by Margaret Thatcher in her *Statecraft*:

> *Perhaps the most significant shortcoming of the fledgling superstate [i.e. the European Union] is that it is not, will not be, indeed ultimately cannot be, democratic. […] The real reason why there can be no functioning pan-European democracy is because there exists no pan-European public opinion. […] It is commonplace, but it is all too frequently ignored, that the European Union nations are extraordinarily deeply divided by language—no fewer than twelve main languages are widely spoken among the present members. […] Of course, in time Europeans may all, in any case, speak English (I only half jest). If that happens, it might be possible to consider seriously trying to make democracy work at the pan-European level.* (Thatcher 2002, pp. 342–343)

There cannot be European demos unless people are able to communicate cheaply and effectively with one another despite the diversity of their native languages. This requires the democratisation of a common lingua franca. In the EU, this lingua franca is and will remain English, a sloppily pronounced mixture of German and French that will operate as a more neutral common medium of communication among Europeans after the completion of Brexit. But this democratisation of a common lingua franca can and must be made consistent with respect for the diversity of native languages and their lasting preservation, thanks to the territory-specific implementation of coercive rules regarding the use of languages in public communication and compulsory education.

I developed this position elsewhere (Van Parijs 2011) and shall limit myself here to proving that it is not completely outlandish by quoting Germany's president Joachim Gauck's (2013) speech about 'the prospects of the European idea.'

> *It is true to say that young people are growing up with English as the lingua franca. However, I feel that we should not simply let things take their course when it comes to linguistic integration. For more Europe means multilingualism not only for the elites but also for ever larger sections of the population, for ever more people, ultimately for everyone! I am convinced that feeling at home in one's native language and its magic and being able to speak enough English to get by in all situations and at all ages can exist alongside each other in Europe. A common language would make it easier to realise my wish for Europe's future—a European agora, a common forum for discussion to enable us to live together in a democratic order.*

Such courageous and far-sighted words should give us hope, but they were not exactly received with universal approval in Germany, home to the first language of the EU in terms of native speakers. It also leads to a set of hard questions, not only about how best to democratise competence in the lingua franca, but also about how to prevent the European public forum from being colonised by the Anglo-American press—*The Economist*, *The Financial Times*, *Politico* and the like. I leave these questions aside, as well as the many others about what needs to be done, beyond this linguistic dimension, to strengthen the European demos and help it achieve what Hayek thought it would never be able to do.

I want to close, however, by returning to a more general and fundamental condition for progress and at times also simply for successful resistance to regression. It was powerfully formulated in the final paragraph of Max Weber's 1919 lecture *Politik als Beruf*:

> *Politics is a strong and slow boring of hard boards. It takes both passion and good judgment. Certainly all historical experience confirms the truth that man would not have attained the possible unless time and again he had reached out for the impossible. But to do that a man must be a leader, and not only a leader but a hero as well, in a very sober sense of the word. And even those who are neither leaders nor heroes must arm themselves with that steadfastness of heart which can brave even the crumbling of all hopes. This is necessary right now, or else men will not be able to attain even that which is possible today. Only he has the calling for politics who is sure that he shall not crumble when the world from his point of view is too stupid or too base for what he wants to offer.* (Weber 1919, p. 67/128)

These are the women and men Europe badly needs to conduct the frequently uphill struggle for a more just Europe. It is their commitment and their persistence, their passion and their good judgement that will make possible one day what today is—or seems—impossible.

Note

1. This text is an expanded version of 'Thatcher's plot—and how to defeat it' (*Social Europe*, 29 November 2016), itself consisting largely of the final part of 'Just Europe', Max Weber lecture delivered at the European University Institute (Florence) on 16 November 2016.

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14

Wealth, Taxation and Inequality

Thomas Piketty and Frederico Cantante

14.1 Introduction

Economic inequality is a social, political and historical construction. In order to understand how inequality evolves we need to look at different dimensions and analyse several components through which this kind of material oppositions are defined. Tax system, labour market institutions, education, economic growth, demography and historical events like wars are some of the key dimensions structuring the distribution of wealth and/or income over time. There is nothing natural about inequality, because its degree changes in time and space according to the intersection of these variables. In this sense, the way societies deal with inequality is determined by political ideas. Inequality can be seen as being ethically

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unproblematic or, on the contrary, censurable; it can also be regarded as growth friendly or as having multidimensional negative impacts in the way societies function.

Wealth and income are two autonomous economic components. We cannot explain labour income inequality using the formula $r > g$ and vice versa. Nevertheless, these two components fuel each other partially. Wealth concentration at the top tends to reinforce income inequality and income concentration, namely top wages, might generate wealth inequality. Both capital and wage inequality have increased in the last decades in most western countries—sharply, in some of them. The very top is going away from the middle classes and from the bottom. Social stratification within countries is becoming more dualistic if we compare the economic elite to the rest of the population. Wealth and income concentration undermines social mobility, equal opportunity and is also a menace to democracy. Political power and influence is often associated with economic power.

So, what can be done about it? Is inequality an unavoidable phenomenon in a globalised world? Can countries put in place equality-driven policies on their own or is the effectiveness of these policies only achievable at a larger scale? How are left-wing parties dealing with growing wealth and income inequality? And what can be done to decrease asymmetries between European countries? Thomas Piketty reflects about these and other questions in an interview conducted by Frederico Cantante.

14.2 Capital, Political Ideas, Menaces

According to you, the higher profitability of capital comparing to economic growth has been and will be in the twenty-first century the main driver of economic inequality. Looking at the last decades, how do you explain this phenomenon? Why does capital grow faster than the economy as a whole?

Let me make clear that if we could explain all the evolution of inequality with r versus g my book would be 50 pages long instead of being 900 pages long. If it is a long book, it's because the complete history is much more complicated than just the rate of return to capital or the growth rate. There are many other forces that are important. The gap between *r* and *g* is one of the important forces, but for instance this is not going to explain the evolution of labour income inequality. The inequality of wages is determined by inequality in the access to education, by labour market institutions, unions, minimum wage. This has basically nothing to do with *r* and *g*. The comparisons between the rate of return to capital and the growth rate are important to understand the evolution of the concentration of property, of wealth. The concentration of wealth is partially a consequence of the concentration of labour income, but there's more going on. For a given level of distribution of labour income, you can have different levels of concentration of wealth in the long run, depending on a number of other factors, including the gap between the rate of return to capital and the growth rate.

Your question was how it is possible to have such a gap? We have to distinguish two things. One is the gap between the rate of return and the growth rate. The other question is why wealth grows faster than income, which is really a different issue. You can very well have a high rate of return, but if people consume the return to their wealth, inequality will not go up. So it's important to realise that there's nothing surprising about $r > g$. It's not necessarily bad. An economy in which the average return to capital is 5% and the growth rate is 1% could be a perfectly egalitarian society, where everybody has an equal share of the capital stock through, for example, some gigantic pension fund. What this would mean is that every family just needs to reinvest one-fifth of its capital income each year to make sure that its capital keeps growing at the same speed as the size of the economy. Then each family could consume the other four-fifths of the capital income. This would be perfectly fine; there would be no inequality. Of course, this is not the real world, but from a logical view point it's very important to start from there in order to realise that there's nothing really surprising in itself about the fact that the rate of return is higher than the growth rate. What this example implies is that people can consume the four-fifths of the return. In other words, you can have a level of consumption, a level of living standards which is higher than if you didn't have capital. In a way, this is the least you can ask for having capital. What is the point of having capital if you could not consume more? If the rate of return was only 1% and the growth rate 5%, then it would be very stupid, because you would need to reinvest more than the return to your capital to make sure that your capital rises as fast as the economy.

So $r > g$ isn't surprising from a logical view point, but also from a historical viewpoint. Throughout most of human history, r has been bigger than g simply because the growth rate was close to zero and the rate of return to capital, the rental venue of the land, was typically about 4% or 5%. Take a novel of Balzac, Jane Austen or other authors from the eighteenth century. Everybody knows very well that if you want an annual income of £1000 per year, you need a capital of £20,000. The novelists go from the capital to the annual income produced by the capital in the same paragraph, and they don't need to put a footnote saying $r = 5\%$, because everybody knows it for sure. The growth rate at that time was about 0%. So r was of course bigger than g, and in a way this was the very foundation of society, because it allowed a group of owners to live of their wealth, to consume the return to their property and to do something else with life than to take care about their own survival. Inequality was not rising because people were consuming, although inequality was very high.

The question is what is the relation between the r–g gap and inequality? Well, as I said before, in theory, you can have perfect equality having a big gap between r and g. But in practice you don't have perfect equality of course, for all sorts of reasons: people have very different labour income; for a given average rate of return to capital some people make huge profits and other have losses; some people save more, some people consume more; some people have many children, so wealth splits. The point is that for a given variance of all these shocks—whether it is inequality of labour income, inequality of saving rate, inequality of number of children—that create wealth inequality, a higher gap between r and g will tend to amplify these shocks and to lead the concentration of wealth to a higher equilibrium level. So it's not that inequality is going to rise forever, of course not.

I think one of the key reasons why wealth inequality and concentration was very large in pretty much every society until World War I is because the industrial revolution during the nineteenth century did not really reduce the gap between r and g as compared to the pre-industrial world. The growth rate *g* went maybe from 0% to 1% or 2%, but the rate of return also increased from 4% or 5% to 5%, 6% or 7% with the new industrial investment. It was only with World War I and World War II that the rate of return to capital reduced to a new level. The growth rate increased 5% per year in the post–World War II decade, largely because of the contraction. This is why during this very long period, from 1940 until 1980/1990, the relation between *r* and *g* was completely transformed. Now we are back to a situation which is way closer to the situation in the nineteenth century until World War I. Growth rates are back to 1% or 2% per year at most; even this we don't have. But even if we had better policy in Europe, I don't think we would go back to 5% growth rates. And if you have a lot of competition to attract investment, financial globalisation—this is probably aggravated by financial deregulation—the rate of return on capital tends to be high, particularly for large portfolios. This is why in the past three decades the gap between *r* and *g* was high and may be high in the future.

Do you think economic inequality has negative impacts on the way societies function? Why do you think wealth and income concentration have to be limited?

I think it is all a matter of degree. I don't say full equality is the objective. Some level of inequality can be justified by the fact that people can make different choices for their lives, also because it provides incentives. The problem with inequality when it becomes too extreme is that it tends to come with the perpetuation of social positions over time. High inequality tends to come with less mobility, and that's not good for the ideal of equal opportunity, for maximum opportunities and capabilities for all. And it's not particularly good for growth. Typically, the extreme concentration of wealth that we had in pretty much every European society until World War I was certainly not particularly good for growth. We had growth, but it was not necessary to have so much inequality to achieve growth. When inequality was reduced by major shocks in World War I and World War II, it probably facilitated growth. The very least in which we should all agree is that less inequality wasn't a problem for growth. But to me the main problem with inequality is not so much the possible negative impact on growth, although this can be a problem. It's more about if you don't need inequality for growth we should reduce it. Maybe inequality is not necessarily hugely bad for growth, but if it's not good, we should reduce it.

Do you think that the high concentration of income and wealth in the USA could have been one of the main causes that triggered the financial crisis?

I think the high rise of inequality in the USA until 2007 contributed to the stagnation of median incomes and also to the increase of household debt, used to compensate the stagnation of income. This certainly contributed to weakening the system.

Both naturalisation of economic inequality and its inevitability in a globalised world are arguments often used to undermine critical analysis that focus on the growing concentration of wealth and income. How have left-wing parties been dealing with these arguments?

To me the best way to fight this naturalisation of inequality is to put inequality into broad historical and international perspective, because this is where you realise that there's nothing natural in economics in general and with inequality in particular. It's all man-made. It depends on the institutions, the legal system, the policy. Inequality changes over time, not only after major shocks like wars, it changes also because you have different policies. Rising inequality in recent decades has been very different in the USA, in Europe, in Japan. Although you have globalisation everywhere, you have different level of increase of inequality, which shows that different social systems, educational systems, labour market policy make a difference. I think the main risk is that people sometimes don't look beyond their country or don't look beyond the recent past, and they don't take this comparative and historical perspective.

Do you think that the rise of income inequality in Europe for the last 10 or 15 years is a political choice?

Yes, it's a political choice, or it's a lack of political choice, or it's a lack of political imagination. It's not that there's a big plan. Sometimes people are sincere in their lack of imagination.

It's quite strange, because the OECD, other institutions and researchers have been saying that inequality has bad consequences, for example, on growth and…

They are just starting to say that. Take the discourse on progressive taxation. It is starting to change, including at the IMF and OECD. But they have a long way to go. In the economics profession, and to a large extend in international organisations, we still have that Thatcher-Reagan view. We agree to limit tax progressivity and agree that top income rates should not exceed 40% or 50%. This is still part of a very strong mainstream view, not only among economists, but also largely in international organisations. They say they are concerned about inequality, but when it comes to the solution … they talk about education, they talk a little bit more about progressive taxation … I think that the overall influence of OECD and IMF has been largely negative in the past few decades. There's a long way to go before it becomes a positive influence.

14.3 Tax Policy

Although the beneficiaries of tax loopholes or proportional taxation of capital income are a small portion of the population, political parties tend to be very conservative when it comes to tax policy. Why isn't tax progressivity a more popular subject in politics?

I think part of the answer is political power, the political influence of money, which allows top income and wealth groups to have political influence through the financing of the media, the financing of lobby groups, the financing of think-tanks, the direct financing of political campaigns.

There is another reason. What makes tax reform a complicated issue today as compared to 50 years ago is the fact that you have globalisation, which requires a lot of international coordination—which is technically possible but objectively difficult. But there's an even more important reason. The overall level of taxation today is quite large and you have to convince public opinion that you don't necessarily want to increase the total level of taxation, but want to reduce some taxes and raise others for a given total level of taxation. That's difficult to explain because many people are afraid of an increase in the total level of taxation and I think they are right to be afraid. The big difference between the post-2008 debate and the post-1929 debate is that after the Great Depression and after World War II the idea of an extension in government's role in general was very legitimate. They started from very small, whereas today we started from very large. The criticisms that are made of government or public sector organisations should be taken seriously. It would be a mistake to deny that these are legitimate criticisms. Left-wing parties put themselves in too much of a defensive mode with respect to this. Take the pension system in a country like France. Reforming the pension system doesn't mean dismantling or reducing it. The social institutions and policies that were put in place in the post-war period are great, but they could be even better. The public pension system in France is extremely complicated. We have different regimes, public, private. For the new generation this is a nightmare. You have people in their thirties that already contributed to ten different regimes. In order to sustain these systems we need to simplify it, to make it better.

The issue of progressive taxation is related to fairness. My point is that we don't see much of a talk in left-wing parties about the growing concentration of income and wealth. They don't implement policies that can deal with it. Why don't they do that if most of the population doesn't benefit, for instance, from capital income? Capital income is taxed in most countries at a much lower level than labour income. I don't hear much of a debate about this.

Conservatives have been quite successful explaining to the people, including to the people who don't have capital income, that government is already too big, doesn't need extra money, and taxing capital income more will not reduce the other taxes. Conservatives have been quite successful in convincing many people that this is what happens, so left-wing progressive parties have to be more convincing saying the opposite, showing the benefits of it. Take the idea in Portugal of creating a tax on inheritance: I think it would be more powerful if it went together with the Socialist Party's idea of reducing social security contributions so as to increase wages. In his last book—*Inequality: What Can Be Done?* Harvard University Press (2015)—, Tony Atkinson proposes using inheritance tax revenue to finance a sort of capital endowment for everybody at age 18. With the reform he is proposing for the UK, it would be £10,000. Right now it is £5000. This is a way to speak to people because they see the advantage.

The other strong and effective argument made by the conservatives is that even if a given tax reform would be good for people, the money would in any case flee the country. This has to be taken seriously: it's true, there are limits. The solution is how do we organise democratic decisions at a higher scale than the level of the nation-state? This is a difficult question.

Do you think we have to develop tax policies at the European Union level? And what do you think has to be done to deal with tax havens?

I think we should both do what we can at the national level while improving European and international cooperation. I think there's a lot that can be done at the national level. I think Portugal can create an inheritance tax at the national level without waiting for a unified European inheritance tax. The inheritance tax in Portugal could probably not be as big or as progressive as it could be if it were at the European level, but it doesn't mean it has to be zero.

What can we do more at the European level to fight tax havens, to have a common tax on large multinationals? Here the key issue is not technical; it's clearly a question of political institutions. Taxation has always been at the core of sovereignty and parliamentary democracy. Tax system has always been difficult even at the level of a single country. So the question is how do we do this at the European level? The current institutions are not adequate for this, because the key institution in Europe is not the

Parliament but the Council of Ministers, the Council of Heads of state, where each country is represented by one individual, the finance minister or the prime minister. This basic institution in Europe is completely unable to take majority decision on taxation. Treaties say we need unanimity on taxation, but even if we move to majority decision on taxation, that wouldn't work. We can see what we had with the Eurogroup and Greece. This is not public deliberation. This is completely opaque meetings of finance ministers or heads of state. We don't know the arguments that are being judged. It is impossible to have public deliberation with majority decision-making when you have only one individual representing one country. In the case of Germany or France, one individual represents 80 million or 60 million people. We have to represent each country with 20 or 30 parliament members, people from the left, from the right, and then maybe we will be able to have majority decision-making to vote a common corporate tax, to vote common sanctions against tax havens. All these decisions, which are not difficult technically, need to be approved by a parliament to become possible politically. I think it cannot be simply the European parliament. National parliaments have been voting budgets and taxes for centuries. You have to build a new European parliamentary sovereignty by forcing national parliament members to be part of this democratic political decision-making process.

These changes scare people. Many people on the left refuse this discussion of institutions, they say it's abstract. Not wanting to talk about how you organise democracy, saying it's too technical and not important, is what makes markets very powerful. You have to organise democracy if you want democracy to rule the markets. Take corporate taxation: if you don't do something, it will come down to zero very soon. We tax the mobile factors of production, capital and very high incomes, less and less, but because we have to pay for our social model, public services, schools, hospitals we overtax someone else. We end up overtaxing the people, who are less mobile: labour, consumption. Overtaxing labour isn't good for job creation, employment and also isn't good for our basic social contract. There is great resentment. There are people who reject the entire social system because they feel they pay more tax than people at the top.

So you think we should fight inequality in a more general way at the European Union level?

If we think of inequality in general, it's much more than taxation. It's all the social state, the social spending, partially financed by taxation. It's the education system, the health system, the pension system. But beyond taxation and spending there is a full set of legal rules and institutions. How do you organise power in companies? What's the role of labour and trade unions? Do you have voting rights in the boards of companies? Do you have information and transparency in company accounts? These are major issues. Yes, I think the European model could be useful. The fact that workers have voting rights in German companies apparently does not prevent them from producing good cars.

Are there good examples in Europe or in other countries whose policies regarding capital and wealth taxation can be used as benchmarks?

I don't think there is a perfect model. There is a lot to learn from different countries. But first we need to distinguish between at least three types of capital taxation. One is the taxation of capital income. The second one is the taxation of the capital stock itself and this takes different forms. There are countries like France where you have wealth tax, but even in countries that don't have wealth tax like the French one you always have systems of property tax, taxation of real estate property, which is a very big tax. Real state is typically half of the wealth tax. So, first we have the tax of capital income flow, the second is the taxation of the capital stock each year, and the third one is the taxation of wealth transmission, inheritance tax. Most countries have the three, but the best countries are not the same for the three. There is a lot to learn. Some countries have suppressed their inheritance tax, mostly small countries. Large countries like Germany, Britain, France, the USA and Japan still have an inheritance tax with a top rate of 40%, 50%. The only large country that reduced to zero inheritance tax is Italy under Berlusconi. If you look at smaller countries, you have countries like Sweden, which usually are quite progressive, that suppressed inheritance tax just like Berlusconi did. In Germany or in Britain nobody is talking about suppressing the inheritance tax. Merkel and Cameron are not particularly left wing, but they don't say, 'we should go to zero'; Swedish social-democrats did.

What arguments did they use?

'We are a very small country, a very small open economy. The capital would go to Norway or to Denmark'. This small-country feeling has been very strong and I don't think this is an example to follow.

But there's a lot to learn. Sometimes you have surprising evolution. Recently, the British Conservative government adopted a more progressive taxation of real estate transactions. They have created what they called a 'mansion tax', where you are taxed if you sell property worth more than £1million. You have an extra tax. This is not a perfect system. I think it would be better to tax on an annual basis rather than a transaction.

But we are far away from your proposal: a global and progressive tax on property.

Yes, but the real world is like this.

Do you find encouraging signs?

I talked about the British example because it is positive. It was introduced originally by the Labour government before Cameron. They introduced a 5% tax rate on transaction of properties worth more than £1million. Initially, it was criticised by the Conservative, and then when Conservatives came to power, they created a 7% tax rate for transactions of property worth more than £2million. This is still not perfect. I think it would be better to have an annual tax that take into account not only property but also financial assets, financial liabilities. And we should do it in a more coordinated way. But at least this shows that evolution sometimes goes beyond left and right. Monti, which is not particularly left wing, tried to create a wealth tax in Italy. The problem is that he did it in a very strange way. Because there was too little coordination with the other European countries and he didn't want to lose financial assets, he created a wealth tax with a tax rate that was eight times bigger for real estate than for financial assets, which made the Italians mad.

Buildings cannot run to other countries.

Right. In fact this was a regressive tax, because if you had a €100,000 house you would pay eight times more than if you had a financial portfolio worth several million euros. People in Brussels were saying that Monti was a genius of public finance, but the Italians did not agree. At least this shows that you can have political evolution in the right direction. But if we want to push it in the right direction, we certainly need to make progressive coverage.

14.4 Inequality in Europe

In the Eurozone, there are big imbalances between countries which have very different economic profiles and use the same currency. To what extend do you think new redistributive policies should be implemented at the European Union and Eurozone level?

Probably one of the best policies in the Eurozone to reduce inequality and to have more growth would be a big investment plan in the universities and higher education. The Erasmus programme, which is one of the most popular European policies in education, is ridiculously small. I checked the numbers recently. If you look at annual expenditures, total Erasmus spending for the entire European Union is about €2billion. To give you a sense, the interest payment of the Eurozone countries' public dept. each year is €200 billion, it's 100 times more. I'm not saying we should put Erasmus to €200 billion right away, although in principle we could invest more in higher education than we are paying in interest. But certainly we should increase it a lot. It should not only be used to encourage mobility, but also to finance infrastructure. I think this could be the right way to prepare the future, especially at a time when private investors don't want to invest and they don't know what to do with their money. They prefer to rent a safe in the European Central Bank. It's called 'negative interest rate'. They pay a price just to keep their money in the safe, because they don't know what to do with it.

When we compare the average income of Germany with the average income of countries like Romania or Bulgaria, it's pretty clear that there is a huge economic inequality between countries that belong to the same political community. At the national level, countries implement policies of economic redistribution through taxes and income transfers to families. To what extent could this kind of policy be implemented at the European Union level? I know we have monetary transfers from the rich to the poor countries, but maybe they aren't as strong as they could be.

They could be much stronger. I think solidarity and redistribution are never natural, inequality is not natural. All these things are made by political choices, by institutional choices, by the democratic institutions that we choose. There is nothing natural in solidarity between the people in France and the people in Portugal or Greece. If you take the point of view of the young generation in Greece or Portugal or Romania, they are not more responsible than the young generation in other countries for the public debt of their country. At some point, we'll have to accept the fact that if we want to build something together, we have to start from the assumption that this new generation all have the same basic rights and we should try to give them the same opportunities and capabilities. But this will not replace the national policy.

We have to rethink the fundamentals of our European democratic institutions, because Europe has been organised from the beginning in a way that makes this kind of redistribution impossible. In many ways, Europe has been constructed just on the basis of pure and imperfect competition between countries. And the monetary union was constructed at a time when we thought 'we don't need a government, we just need an independent central bank'. After the financial crisis of 2008, and given the situation in which we are now, I think everybody has to accept the view that this is not working, to have a singular currency without political and social union. This is a good time to start thinking all over again about these issues.

Thomas Piketty is a French economist whose work focuses on wealth and income inequality. He is a professor (directeur d'études) at the École des hautes études en sciences sociales (EHESS), associate chair at the Paris School of Economics and Centennial professor at the International Inequalities Institute, which is part of the London School of Economics (LSE). He is the author of the best-selling book *Capital in the Twenty-First Century* (2014, Harvard University Press; 2013 for the French edition).

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15

Conclusion: Back to the Future – Towards a European Social Agenda

Renato Miguel Carmo, Cédric Rio, and Márton Medgyesi

The European Union (EU) is living tremendous challenges generated by the high level of social disparities within and between national populations. European institutions have a decisive role in changing this situation and improving social protection policies. Chapters of this book demonstrate that despite certain successes of the EU's tools in the social domain, there is much to be done to achieve the social goals of the EU, namely the promotion of convergence between countries and improving social cohesion within countries (Vandenbroucke and Rinaldi 2015).

Until the economic crisis, the role of the EU in promoting convergence between countries was by and large successful. During successive

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enlargements, countries joining the EU had lower development levels compared to the core countries. After adherence to the EU, most Southern European and Eastern European countries continued to enjoy high economic growth rates and managed to decrease the gap with regard to the average development level of the EU (see Chap. 2, this volume). The EU has been rightly named a 'convergence machine' by World Bank economists (Gill and Raiser 2012). Goedeme and Collado (2016) show that this convergence also contributed to the decline of poverty between 2005 and 2011 in the new Member States when the poor are defined on the basis of an EU-wide poverty threshold.

The EU has also played an important role in guiding and influencing social policymaking in the Member States via the Open Method of Coordination. Setting policy targets in the social domain and setting up the statistical system to monitor development towards the policy targets have greatly enhanced transparency of social policymaking and empowered stakeholders in the Member States. Not all elements of this process have proved popular, however. For example, the at-risk-of-poverty-and-social-exclusion (AROPE) indicator has been criticised by several experts. Some critics denounce it on the grounds that it takes into account only one aspect of social exclusion (namely, labour market exclusion), while others argue that by mixing different types of poverty indicators the resulting combined indicator is difficult to interpret (see Chap. 7, this volume). Others argue that reducing this indicator to levels prescribed by the EU2020 targets would necessitate serious reduction of income inequality that most of the countries would not want to undertake (e.g. see Darvas 2017).

Despite the intensive guidance and monitoring of policies, promoting social cohesion and poverty reduction has not been a success story. Poverty rates did not decline even during the years of economic growth preceding the crisis, as was shown by Lelkes and Gasior in this volume (Chap. 6) and others (e.g. Cantillon 2011). The economic crisis has brought to the surface the inherent tensions and insufficiency of the social tools of the EU. First, the process of convergence suffered a setback with the economic crisis, as argued by Dauderstädt in this volume and also demonstrated by others, for example Goedeme and Collado (2016), who show that EU-wide poverty increased in the EU15 countries between 2005 and 2011.

Most importantly, the crisis hit the Southern European countries hard, halting their convergence to the EU average especially in the case of Greece (see Chap. 4, this volume). Class inequalities are also persisting in the EU, and this is deepening the structural social and economic gaps between countries (see Chap. 5, this volume).

The economic crisis has also made the achievement of social cohesion and poverty reduction more difficult. Although welfare states in EU countries in many cases managed to moderate the increase in inequality and poverty (see Chap. 3, this volume), effective poverty reduction remained mostly a dream in most of the Member States. The crisis has also brought to the surface new problems, like the difficult labour market situation of the young in many Member States and the resulting high poverty rates of this age group (see Chap. 8, this volume).

As was demonstrated in several chapters, the financial crisis in 2008 and the austerity policies related to the 'adjustment processes' that has taken place in several European countries (since 2010) have caused a rise of unemployment and labour precariousness that affected the levels of social cohesion within these societies. For instance, in the EU and the peripheral countries subject to these processes, the crisis provided the context for the adoption of regressive labour market and social policy reforms. Those changes converged in the rise of inequalities, precariousness and impoverishment.

It is not possible to develop a genuine social cohesion policy within European countries without a structural reduction in the unemployment rates, poverty and precariousness that affect the population. These trends are causing a narrowing of future expectations that is affecting people's ways of life. Inequality and poverty cannot be seen as individualised problems of hopelessness or social disenchantment. On the contrary, these problems involve society as a whole (Wilkinson and Pickett 2009; OECD 2015). The generalisation of several types of social vulnerability is in fact a very relevant social problem that promotes significant levels of social exclusion which, in the medium term, could be associated with the growth of violence and marginalisation. This is quite concerning at the present time when the EU is facing tremendous risks, and that is why it is important to study the social situation of countries that have been deeply affected by the economic crisis, where in a very short period of time social vulnerability has increased tremendously, causing considerable impacts on the majority of the population. It is urgent to act to improve redistributive policies capable of promoting effective social cohesion.

The aim of this book was to contribute to opening the debate on the legitimacy of the social role of the EU and what should be its main objectives towards a new social agenda. Several proposals regarding the way it should be implemented, such as Social Europe agenda, are being discussed today. Some of these proposals are introduced in this book. In these final remarks, we would like to address the need to deepen the policy debate at the European level regarding the social impact of the existing social policies, and the urgency of discussions among academics, politicians and other representatives of civil society regarding the most appropriate alternative ways and paths to implement these and other redistributive and social policies that could significantly reduce the level of social and economic inequalities in Europe. One of the major challenges of the EU lies in its ability to build a plausible future for its people.

Although all Europeans are in the same boat, we know that this boat is at serious risk of sinking and collapsing. Indeed, the EU is facing cumulative crises that are putting at risk our sustainable collective future. From the refugee crisis—and the impossibility of developing a common position in this regard—to a never-ending Eurozone crisis, from the political risks of Brexit to the proliferation of nationalist and populist movements, we are living in dangerous times that could destroy the viability of the European project. This image of a sinking boat is becoming a powerful and tragic metaphor that is causing deep-seated torment in our collective consciousness. We are all in the same boat, but this boat must be inclusive and open to diversity and to multiple cultures and ways of life. Otherwise, it will be unable to hold its course.

This book demonstrates that inequality and poverty are related problems that are producing asymmetries in different European regions and countries. The social and economic gaps are increasing and these trends are deepening the division between individuals and social groups through distinct forms of social and economic polarisation. To stop this escalation and reduce the rise in inequality, we must change the perspective on how to recognise and respond to these problems. It is becoming clear for several economists, such as Joseph Stiglitz (2012) Paul Krugman (2012) and

Anthony Atkinson (2015), that greater equality need not undermine national economic performance. Indeed, the EU must reinforce its social policy agenda not just as a way to offset the social imbalances generated by the liberal economy, but mostly as an alternative path capable of building a more equalised society. To achieve this aim it will be important to discuss and debate several possibilities that consider the transnational scale as a means for improving the scope and efficiency of redistributive policies. Authors such as Thomas Piketty (Chap. 14) and Philippe Van Parijs (Chap. 13) put forth in this book that considering the transnational scale is an essential prerequisite for the development of more equitable redistributive and fiscal policies. In our opinion, this is in fact one major challenge for the future of the EU: it will not be possible to reduce inequality without implementing a transnational approach capable of conducting a new social policy agenda that must combine social justice with economic performance.

It is also important to point towards the design of mixed public and social policies that foster individual and collective capacities (Sen 2009), the formation of social capital, and the increased levels of mutual trust between public (and private) institutions and social players. In fact, several authors consider trust as a basic requirement for social cohesion (Rothstein 2005), as a kind of social mediator essential for opening sustainable collective and personal futures. Lack of trust in institutions is a long-term problem which is in part related to high levels of inequality (Carmo and Nunes 2013).

The texts gathered here are a modest contribution to fill the gap between the economic, social and political analyses on inequality regarding the context of the current situation of the EU and the difficult challenges on the path towards a more sustainable and equitable future. The EU is living in an age of urgency that demands a clear view on how we are to deal with these challenges in order to build a sustainable and fair common future.

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Index[1]

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