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Foreword



There is now compelling scientific evidence that since the mid-1970s socio-economic inequalities have increased significantly in the world including in Europe. This publication not only confirms this observation but goes much further by showing where socio-inequalities are to be found in the European Union and their characteristics.

Socio-economic inequalities are nothing new and many EU citizens and policymakers at times feel that inequalities are an inevitable consequence of our modernity. However such a stance takes no account of the fact that research shows that between the 1930s and the 1970s socio-inequalities were indeed reduced, and sometimes very significantly, in many parts of the World including Europe, mainly through the strong influence of “the Welfare State”. Thus socio-economic inequalities are not an automatic consequence of modernity, they can be reduced and kept at bay.

There is also ever more evidence that countries and regions with higher socio-economic inequalities experience the most acute socio-economic problems – whether we speak about lower economic growth, increases in violence, poorer educational achievement, declining civic or electoral participation or higher mortality rates. On the contrary, countries with a lower level of socio-economic inequalities fare better in all these domains.

An intriguing question remains to be addressed. Why are socio-inequalities on the rise everywhere in the world, including in Europe? The question is particularly important given that there has been a period of sustained economic growth since the 1980s. It means that the type of growth witnessed in recent decades fosters inequalities and, with them, all the social and economic evils that we see in the EU and which weaken it as a model for progress and well-being. As the Directorate for Science, Economy and Society already stressed in a 2009 publication on *The World in 2025*, what is badly needed is a new model of development which acts as a buttress to a positive socio-ecological transition. Fighting socio-economic inequalities whilst at the same time remaining with the same old models of growth and not daring to be politically bold enough to accept the need for change will only lead to frustration and the ineffective use of our limited resources. The way forward is a new socio-ecological model which takes account of European democratic values such as equity, and will allow real progress. This will make sure that socio-economic inequalities will decline and soon.

Jean-Michel BAER
Director
Science, Economy and Society



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Philippe Keraudren and Luca Rizzo of the European Commission DG Research supervised the work.

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Introduction:
Setting the Scene

1



Introduction: Setting the Scene

Socio-economic inequalities have been rising in the European Union (EU) and in most countries are higher today than in 1980 ⁽¹⁾. These trends are similar to those found in the United States of America (USA) and other industrialised economies and reflect the combined effects of changes taking place in the labour market, linked to globalisation and technological change, in social variables, such as household composition, and in the redistributive activity of welfare states.

Inequality matters because it contravenes the values of EU citizens, the European Commission's objectives for economic and social cohesion, and the specific objectives of "Europe 2020" Strategy ⁽²⁾, for "smart, sustainable and inclusive growth" ⁽³⁾.

Research very convincingly shows that egalitarian societies are associated with higher levels of economic growth and political inclusion. By contrast unequal societies experience higher rates of crime, ill-health drug abuse, and persistent poverty ⁽⁴⁾. Cohesion and growth objectives are therefore complementary as well as critical to socio-economic well being.

This report is based on an extensive review of 13 research projects financed by DG Research under Framework Programme 6 that investigated the processes underlying inequality, poverty and exclusion and the effectiveness of strategies designed to promote social cohesion in EU Member States (MS). The report presents the main findings from their final reports, working papers, as well as from books and academic articles stemming from the projects. In addition the review draws on related work financed by the European Commission, other institutions including the International Labour Organisation, OECD and UN Development Programme and the wider literature.

[1] INEQ; LoWER3; Salverda, W. and Mayhew, K. (2009) Capitalist Economies and Wage Inequality, *Oxford Review of Economic Policy*, 25 (1):126-154; Franzini, M. and Pianta, M. (2009) Mechanisms of Inequality: An Introduction, *International Review of Applied Economics*, 23 (3):233-237.

[2] European Commission (2010) "Europe 2020": A European strategy for smart, sustainable and inclusive growth, COM(2010) 2020.

[3] More specific objectives include reducing poverty, expanding the employment rate and reducing the proportion of early school leavers and will be aided by flagship initiatives: including the Innovation Flagship Initiatives, the "European Platform Against Poverty" and an "Agenda for New Skills and Jobs".

[4] Wilkinson, R. and Pickett, K. (2009) *The Spirit Level. Why More Equal Societies Almost Always Do Better*, London: Allen Lane.

1.1 The Research Projects

The 13 research projects investigated the processes generating and aiming to redress economic and social inequalities and relate to the three main sources of income:

- market earnings from paid employment;
- social transfers through taxes and benefits;
- non-cash resources, such as education, which also increase well-being.

Correspondingly the research projects, while interrelated, can be grouped under three main themes:

1. **INEQ, LoWER3, EQUALSOC, DYNREG and RESIST** investigated the processes generating disparities in market earnings and highlighted the roles of economic restructuring associated with the development of a knowledge economy, innovation, education and changing labour markets;
2. **PROFIT and WELLCHI** focused on social inequalities including social transfers and the effectiveness of social policies designed to redress inequality;
3. **AIMP-AP, CAPRIGHT, KATARSIS, INCLUDED, LLL2010 and EUREQUAL** focused on non-cash incomes and analysed the effectiveness of policies designed to redress multi-dimensional forms of inequality and exclusion, including education, lifelong learning and political inclusion.

The projects focused on **inequality** which means that they analysed disparities in the **distribution of resources across the whole of society**, that is, those generating economic growth and affluence as well as those leading to poverty and social exclusion.

Inequality is defined and measured in a number of ways which are discussed below and defined in *Box 1.1*. Socio-economic inequality refers to differences in a range of economic and social factors that influence well-being, including income, education, and health. Economic inequalities relate primarily to disparities in earnings, derived from paid employment and in household incomes, which reflect the combined effects of earnings and net social transfers (taxes and benefits). Social inequality refers to differences in access to social commodities, e.g. health care or education, or to social and institutional networks. When obtaining social goods depends on wealth, social and economic inequalities are linked.

Inequality is also related to poverty and social exclusion which are distinct, but interrelated concepts. Poverty is defined primarily in economic terms and relates to people whose incomes and resources preclude them from having a standard of living considered acceptable in the society in which they live⁽⁵⁾. Changes to either poverty or inequality may occur independently of each other but generally countries with high levels of inequality tend to have high rates of poverty⁽⁶⁾. Social exclusion encompasses aspects of poverty and inequality and highlights the complex, dynamic, and relational natures of disadvantage as well as the processes through which people become excluded.

One of the key messages from the research is that the **economic and social dimensions of inequality and poverty are interrelated**, hence the need to examine socio-economic inequalities. Correspondingly, **economic and social policies need to be attentive to their impact on socio-economic inequalities**.

[5] European Council's definition 1975.

[6] See UNDP (2005) International Co-operation at a Crossroads: Aid, Trade and Security in an Unequal World, http://hdr.undp.org/en/media/HDR05_complete.pdf

Box 1.1 Inequality, Poverty, and Social Exclusion [7]:

Inequality

- Refers to disparities in the distribution of monetary resources within or between populations. A variety of measures are used:
 - the Gini coefficient captures differences in inequality in household incomes over time or between different regions and countries. It ranges between 0 (absence of inequality) and 1 (total inequality);
 - decile ratios measure disparities in earnings between high and low paid workers. Frequently used are the 90/10 decile ratio, which contrasts the top 10% of earners with the lowest 10%.

Socio-economic inequality

- Relates to disparities in both economic and social resources, linked to social class and includes earnings, income, education and health that contribute to a sense of well-being.
- Measures incorporate such indicators as income, education, occupation, or health status.

Poverty

- The EU uses an “at-risk of poverty” measure, defined as “those living below 60% national median equivalised disposable income”, as not all those with low incomes are necessarily poor.
- The unit of measurement is households adjusted for household size: equivalised incomes are defined as the household’s total disposable income divided by its “equivalent size”.

- The poverty threshold is the value in PPS in € at the 60% median income level for any particular state. This means that those defined as poor living at or below the poverty threshold in one country – for example UK (poverty threshold = PPS € 17 000 and 17% of the population live in poverty) are considerably richer than those in another, for example the Czech Republic (poverty threshold = PPS € 6000 and 10% live in poverty) [8].

Social Exclusion

- Multidimensional: relating to many spheres:
 - economic: livelihoods, employment, property, housing, poverty and material deprivation;
 - social: education, health, personal contacts, respect;
 - political: civic engagement and citizenship.
- Multi-layered: existing at individual, household, community or national level.
- Dynamic: refers to the process through which individuals or groups become excluded from full participation in the society within which they live.

[7] Based on EUROSTAT (2010) Combating poverty and social exclusion (2010) edition. A statistical portrait of the European Union 2010, Luxembourg: OOEPEC.

[8] SILC (Statistics on Income and Living Conditions) Survey, reported in EUROSTAT (2010) op.cit.



**The European
Policy Context**

2

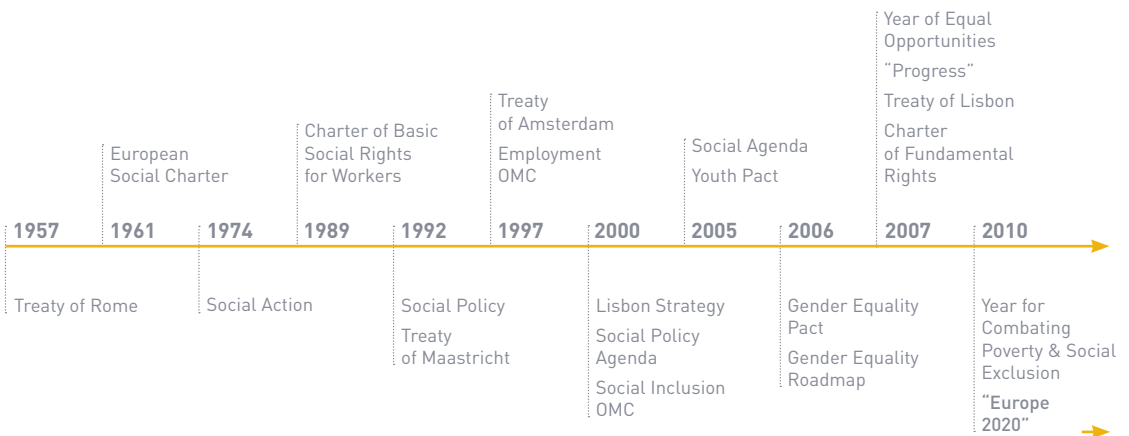
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The European Policy Context

European Union's (EU) policies for combating social inequalities involve "hard law" instruments – such as directives, regulations, or decisions; and "soft law" measures – such as the Open Method of Coordination (OMC) or various Community Programmes, which provide a framework and funding for national strategy development and policy coordination between the Member States (MS). All EU institutions – the Parliament, the Council of the EU, the Commission, as well as the Social Partners – participate in this process.

This section gives a brief overview of EU policies for combating inequalities and points to future policies to support social protection and social inclusion, as expressed in the "Europe 2020" Strategy. Crucially, while EU policies address various dimensions of social and economic patterns of inequality and thus are relevant to some of the underlying processes associated with inequality, such as employment or education, these policies do not target socio-economic inequality directly.

▶ **Figure 2.1 Select EU Social and Economic Policy Developments**



2.1 Development of EU Social and Economic Policies

Figure 2.1 shows that EU-level concern with socio-economic inequalities has expanded over time. It evolved from the Treaty of Rome (1957) and the focus on freedom of movement for workers, to the Lisbon Strategy (2000) goals. The social and employment fields form a tightly interlinked approach to reducing social inequalities, although scholars point out the privileging of economic and employment over social policies⁽⁹⁾ and that the focus has been on poverty reduction rather than combating socio-economic inequality directly⁽¹⁰⁾.

The passing decade has emphasised the fight against poverty and exclusion, particularly within the Lisbon Strategy and its economic, social and environmental pillars. It set the challenge of making Europe “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion” and included modernization of the European Social Model, investing in people, and combating social exclusion⁽¹¹⁾. The Social Policy Agenda⁽¹²⁾ and the Social Agenda⁽¹³⁾ formed part of the integrated EU approach towards the Lisbon goals, confirmed by the renewed Lisbon Strategy⁽¹⁴⁾ and continued in the “Europe 2020” Strategy.

Box 2.1 The overarching objectives of Social Protection and Social Inclusion⁽¹⁵⁾

- Social cohesion, equality between men and women and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies.
- Effective and mutual interaction between the Lisbon objectives of greater economic growth, more and better jobs and greater social cohesion, and with the EU's Sustainable Development Strategy.
- Good governance, transparency and the involvement of stakeholders in the design, implementation and monitoring of policy.

The overarching objectives of the European Employment Strategy⁽¹⁶⁾

- Attracting and retaining more people in employment, increasing labour supply and modernising social protection systems.
- Improving adaptability of workers and enterprises.
- Increasing investment in human capital through better education and skills.

[9] For example: Sharpf, F. (2002) “The European Social Model: Coping with the Challenges of Diversity”, *Journal of Common Market Studies* 40 (4): 645-70; Mosher, J. and Trubek, D. (2003) Alternative Approaches to Governance in the EU: Social Policy and the European Employment Strategy, *Journal of Common Market Studies*, 41: 63-68; De la Porte, C. and Pochet, P. (2004) “The European Employment Strategy: Existing Research and Remaining Questions”. *Journal of European Social Policy*, Vol.14, No. 1, pp. 71-8 ; O’Connor, J. (2005) “Employment-Anchored Social Policy, Gender Mainstreaming and the Open Method of Policy Coordination in the European Union” *European Societies*, Vol. 7, No. 1, pp. 27-52; Stratigaki, M. (2004) “The Co-optation of Gender Concepts in EU Policies: The Case of “Reconciliation of Work and Family”. *Social Politics*, Vol. 11, No. 1, pp. 30-56; Lewis, J. (2006). Work/family reconciliation, equal opportunities and social policies: The interpretation of policy trajectories at the EU level and the meaning of gender equality. *Journal of European Public Policy*, 13(3), 420-37.

[10] INEQ.

[11] Council of the EU (2000c) Lisbon European Council of 23-24 March 2000: Presidency Conclusions.

[12] CEC (2000) *Social Policy Agenda*. Communication. COM(2000) 379 final of 28/6/00.

[13] CEC (2005) Communication on the *Social Agenda*. COM(2005) 33 final of 9/2/2005.

[14] European Commission (2005) “Working together for growth and jobs: A new start for the Lisbon Strategy”, Communication from the Commission, COM(2005)24.

[15] European Commission (2005) Working together, working better: A new framework for the open coordination of social protection and inclusion policies in the European Union. Communication from the Commission COM(2005) 706 final, Brussels.

[16] Council of the EU (2008) Council Decision of 7 July 2008 on guidelines for the employment policies of the Members States. 10614/2/08 Rev2.

The Social Inclusion Process was established to significantly eradicate poverty by 2010. The first objectives were designed: to facilitate participation in employment and access to resources, rights, goods and services; to prevent risks of exclusion; to help the most vulnerable; and to mobilise all relevant bodies⁽¹⁷⁾. Employment was highlighted as the best defence against social exclusion and as such the European Employment Strategy (EES) was closely linked to the Social Inclusion Process.

A five year evaluation of the Lisbon Strategy signalled that the objectives of sustainable economic growth leading to more and better jobs and improved social cohesion were far from realised and that the Strategy needed refocusing. Consequently in 2006, on the basis of the Commission's Communication⁽¹⁸⁾, the European Council adopted the Social Protection and Social Inclusion process, whereby the fields of social inclusion, pensions, and health and long-term care were brought together. Similarly, the EES was merged with the broad guidelines for economic policies and became part of the Integrated Guidelines⁽¹⁹⁾. Additionally, an integrated flexicurity approach was introduced to achieve social and employment goals, as flexicurity policies should address at the same time the flexibility of labour markets (work organisation and labour relations, reconciliation of work and private life) and employment security and social protection⁽²⁰⁾. Further impetus came in the form of

the Commission's Recommendation on active inclusion of people excluded from the labour market⁽²¹⁾, urging MS to combine adequate income support, inclusive labour markets and access to quality services. Finally, education and training policies were also an essential part of the renewed strategy. The Copenhagen Process, in particular, was intensified in order to develop lifelong learning policies that would effectively accompany and buttress innovation policies in Europe.

Fighting poverty is especially relevant to children – the focus of the 2007 Social Protection and Social Inclusion policy cycle⁽²²⁾. Accessible and affordable quality childcare is central in this respect and has been reflected in the coverage rate target to reach 33 per cent of children under three and 90 per cent between three and school age by 2010⁽²³⁾. In 2006 the Spring European Council committed to “take necessary measures to rapidly and significantly reduce child poverty, giving all children equal opportunities, regardless of their social background”⁽²⁴⁾.

Other specific groups of European citizens also require attention. The European Youth Pact adopted in 2005 comprised of three priority fields: education and training, employment and social inclusion, and reconciliation of working and private life⁽²⁵⁾. The unequal position of ethnic and migrant population, especially female migrants from outside the EU, has also entered the EU policy sphere.

⁽¹⁷⁾ Presidency Conclusions, Nice European Council Meeting, 7-9 December 2000.

⁽¹⁸⁾ European Commission (2005) Working together, working better: A new framework for the open coordination of social protection and inclusion policies in the EU. Communication from the Commission COM(2005) 706 final, Brussels.

⁽¹⁹⁾ Council of the EU (2005) Council Decision of 12 July 2005 on Guidelines for the employment policies of the Member States (2005/600/J). Official Journal of the EU.

⁽²⁰⁾ European Commission (2007) Towards Common Principles of Flexicurity: More and Better Jobs Through Flexibility and Security. COM(2007) 359 final of 27/6/07.

⁽²¹⁾ European Commission (2008) Commission Recommendation of 3 October 2008 on the active inclusion of people excluded from the labour market (notified under document number C(2008)5737) OJ L 307, 18/11/2008.

⁽²²⁾ Council of the EU (2009) Joint Report on Social Protection and Social Inclusion, 7503/09, Brussels.

⁽²³⁾ Council of the EU (2002) Barcelona European Council of 15-16 March: Presidency Conclusions.

⁽²⁴⁾ Council of the EU (2006) European Council Brussels 23-24 March: Presidency Conclusions.

⁽²⁵⁾ Council of the EU (2005) European Council Brussels of 22-23 March: Presidency Conclusions.

The Commission and the Council pursue common European immigration policy, including the need to bring unemployed and economically inactive third country nationals legally residing in the EU into employment, with a particular focus on women^[26]. Gender inequalities have been an object of EU policies for over fifty years, but persisting differences remain in a number of areas. In March 2006, the Commission adopted a Roadmap for Gender Equality 2006-2010^[27] and the European Council approved the European Pact for Gender Equality to accelerate progress and achieve equality between the sexes^[28]. At the EU level policies aimed at combating gender inequalities comprise of a dual approach – specific measures and gender mainstreaming of all policies and areas.

A broader approach to inequality has been highlighted by the 2007 European Year of Equal Opportunities for All^[29], seeking to raise awareness of equal treatment rights and discrimination relevant to racial or ethnic origin, sexual orientation, religion, belief, disability, age, or sex. 2010 is the European Year for Combating Poverty and Social Exclusion^[30].

Financial instruments available to MS and their regions, such as the European Regional

Development Fund, the European Social Fund, and the Cohesion Fund^[31], comprise a significant effort towards strengthening the economic and social cohesion of the enlarged EU. For example, over the period 2007-2013 the European Social Fund will distribute about €75 billion to EU MS and regions.

EU activities in social and economic policies have also been marked by Community Action Programmes. In 2000 the Commission proposed a Community Action Programme to Combat Social Exclusion 2002-2006, adopted by the Parliament and the Council in 2001^[32]. Further developments came in 2006 with the establishment of a Community Programme for Employment and Social Solidarity – PROGRESS^[33].

2.2 Future Policies to Support Social Protection and Social Inclusion

The Lisbon Treaty, signed in 2007 and in force since December 2009, introduced the Charter of Fundamental Rights^[34] into primary law. The Charter concerns civil, political, economic and social rights in light of social change, social progress and scientific and technological developments and makes them more visible. The greater emphasis and concerted effort of future EU and MS policies to

[26] European Commission (2008) Communication from the Commission "A Common Immigration Policy for Europe: Principles, actions, and tools". COM(2008) 359 final. Brussels.

[27] European Commission (2006) A Roadmap for Equality between Women and Men 2006-2010 COM/2006/92 Final.

[28] Council of the EU (2006) European Council Brussels 23-24 March: Presidency Conclusions.

[29] http://ec.europa.eu/employment_social/eyeq/index.cfm?cat_id=SPLASH

[30] Decision No 1098/2008/EC of the European Parliament and of the Council of 22 October 2008 on the European Year for Combating Poverty and Social Exclusion (2010). Official Journal of the EU: L298/20, 7.11.2008. <http://www.2010againstopoverty.eu/>

[31] Council of the EU (2006) Council Regulation EC No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999. OJ of the EU L210/25, 31.7.2006.

[32] Decision No 50/2002/EC of the European Parliament and of the Council of 7 December 2001 establishing a programme of Community action to encourage cooperation between Member States to combat social exclusion.

[33] Decision No 1672/2006/EC European Parliament and the Council of the European Union of 24 October 2006 establishing a Community Programme for Employment and Social Solidarity – Progress. Official Journal of the EU L315, 15.11.2006.

[34] Charter of Fundamental Rights of the European Union (2007) Official Journal of the EU C 303/01 of 14.12.2007.

meet social and economic objectives are of key importance. As a recent Draft Joint Employment Report^[35] points out, since the outbreak of the economic crisis the EU social and territorial cohesion has been at risk because countries and regions are affected in different ways and to varied degrees of intensity.

In this context the European Commission has launched a consultation on the future “Europe 2020” Strategy^[36], with a formal Communication^[37] addressed to the European Council with three mutually reinforcing priorities:

- **smart growth**: developing an economy based on knowledge and innovation;
- **sustainable growth**: promoting a more resource efficient, greener and more competitive economy;
- **inclusive growth**: fostering a high-employment economy delivering social and territorial cohesion.

The European Council finalized this process in June 2010 when the detailed parameters of the strategy, including the integrated guidelines and national targets, were adopted.

The “Europe 2020” Strategy purports to implement several flagship initiatives for a smart, sustainable and inclusive growth that should help fight socio-economic inequalities. The following Section 3 on the results of the Framework Programme research in Social Sciences and the Humanities shows how combating socio-economic inequalities is actually fundamental not only to an inclusive EU but also to growth.

[35] European Commission (2009) Draft Report from the Commission to the Council “Draft Joint Employment Report (JER)” 2009/2010. COM(2009)674/3. Brussels.

[36] European Commission (2009) Commission Working Document: Consultation on the Future “Europe 2020” Strategy, COM(2009) 647/3, Brussels.

[37] European Commission (2010) Communication from the Commission “Europe 2020”: A strategy for smart, sustainable, and inclusive growth.



**Key Thematic
Research Findings**

3

▶ 3

Key Thematic Research Findings

The EU has consistently supported economic growth with economic and social cohesion from its inception and the “Europe 2020” Strategy confirms the objectives for cohesive growth and inclusion. Yet research projects financed under Framework Programme 6 show that socio-economic inequalities are high and have been rising within the majority of MS, in the last three decades, similarly to trends elsewhere in the world^[38]. **For the majority of MS socio-economic inequalities were higher in 2007 than in 1980.** The projects analyse changes in inequality, explore the processes generating inequality and the effectiveness of policies and initiatives designed to redress these inequalities.

3.1 Rising Inequalities in the European Union

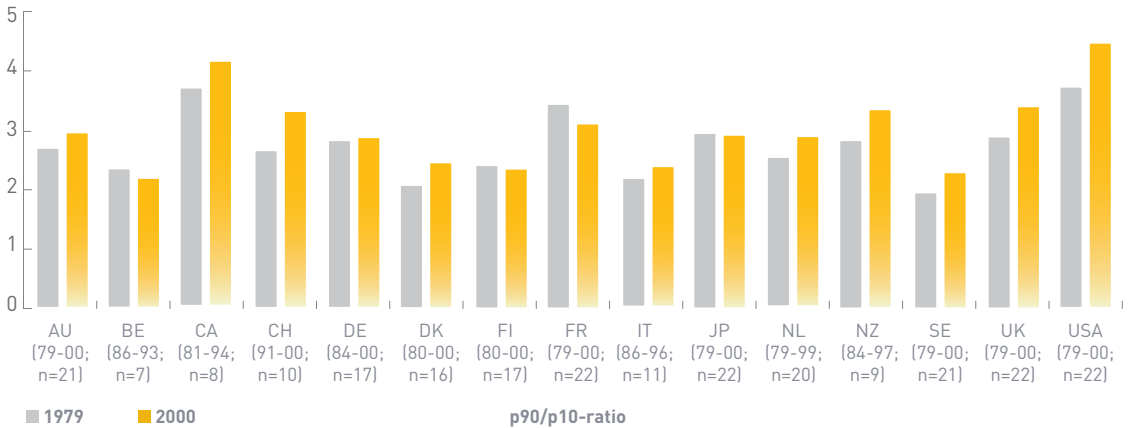
3.1.1 Earnings Inequalities

The main source of income for individuals and households in the EU is earnings from employment. Earnings inequalities have been rising in the majority of MS, similarly to trends found elsewhere in the world including the USA, China and India. *Figure 3.1* from EQUALSOC shows the increase in earnings inequalities, measured by the inter-decile ratio, for a number of EU member states and selected OECD countries^[39].

[38] OECD (2008) *Growing Unequal. Income Distribution and Poverty in OECD Countries*, Paris: OECD In many states inequalities rose most steeply between the 1980s and mid 1990s and subsequently stabilised at a high level as the INEQ project showed.

[39] See *Box 1.1* for a definition of the measures.

► **Figure 3.1 Changes in Earnings Inequalities in Selected Member States and OECD countries 1979-2000**



Source: Sjoberg [2009] ^[40] from EQUALSOC

NB: (i) the period relates to 1979 and 2000 or as close as data permits. NB: (ii) the measure of inequality is the inter-decile ratio.

As EQUALSOC shows, the largest increases in earning inequalities between 1979 and 2000 were in English speaking countries as well as in Northern Europe. By contrast continental European countries experienced only modest increases or even decreases ^[41]. OECD data for a slightly longer period show similar increases in earnings inequality among men and among women of about 10 per cent. As inequality among men and among women have both increased the gender wage gap has largely remained unchanged (OECD 2008).

Underlying the increase in earnings inequalities is the growing imbalance between pay increases and productivity increases, which has resulted in a decline in labour's share of value added (IMF 2007). INEQ shows that European workers, especially the lower paid, have not benefitted from increases in productivity in recent decades. Furthermore,

an increasing proportion of European workers have experienced a decline in total income – wages plus social contributions.

The INEQ project concludes: "During the 1996 to 1999 period, 48 % of the workforce saw their earnings rise more slowly than their productivity. Between 2003 and 2006 the gap widened to include 61 % of the workforce. Moreover, during that same period, 23% of the workforce saw their hourly compensation drop while their productivity rose..."

Between 1996 and 1999, hourly compensation (wages plus social contributions) in major EU countries declined by 16.5%. Within just a few years – between 2003 and 2006 – the figure doubled to 33% ^[42].

[40] EQUALSOC – Sjoberg, O. (2009) Corporate Governance and Earnings Inequality in OECD Countries, 1979-2000, *European Sociological Review* 25 (5):519-533.

[41] The data for this diagram comes from the OECD data base and has to be regarded with some caution as the measure of earnings used is not always comparable. Data for Finland and France for example reflect weekly rather than hourly earnings.

[42] INEQ (2009) Europe's Inequality Challenge, European Policy Brief.

As INEQ strikingly argues, “the inability of labour to capture an adequate share of productivity gains constitutes a major problem in Europe [43]”. A number of explanations have been advanced to account for this finding, including differential opportunities for capturing productivity gains from different forms of innovation and the consequences of new, less secure working patterns which are discussed in more detail in Sections 3.2 and 3.3 below.

The outcome of this shift in the distribution of value added, rising earnings inequalities and the decline in relative earnings among low paid workers, is that although people of working age in employment are less likely to be at-risk of poverty than those who are unemployed or economically inactive, **employment does not provide a guarantee against poverty.**

In 2007 the working poor accounted for one third of working age adults at-risk of poverty as shown by LoWER3. This poses a challenge to both employment policies and social policies that have relied on employment as a means of addressing social inclusion.

3.1.2 Income Inequalities

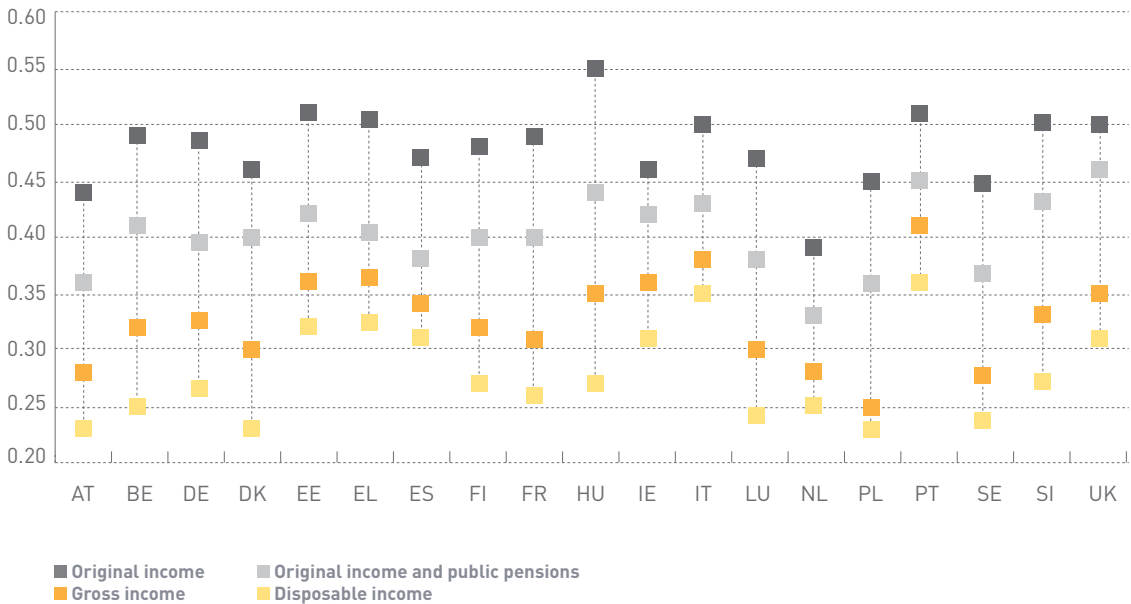
Earnings inequalities are moderated by social transfers, taxes and benefits and are generally measured at the household level. While the AIM-AP project points out that cash incomes are a partial measure of economic resources associated with welfare, income inequality is generally measured by the Gini coefficient on the basis of household disposable income (see *Figure 3.2* and *Box 1.1*). **Social transfers (taxes and benefits) moderate earnings inequalities (see *Figure 3.2*) but income inequality remains and has been increasing in recent decades.**

As *Figure 3.2* shows, disposable incomes are far more equal than original incomes. Hungary for instance has the most in-egalitarian original income (that arises primarily from earnings), but is in the middle of the distribution for disposable income, indicating strong redistributive policies. Sweden and Denmark have comparatively low earnings inequalities and are among those with the lowest levels of inequality in disposable income, with Gini's of 0.23, even though Sweden experienced a sharp increase in earnings inequality in recent decades, as shown by INEQ (see also *Figure 3.1*) [44]. The more corporatist Western European countries, Austria, France, Germany and the Benelux, show comparatively low levels of inequality, while Southern European states, and the more market oriented UK, and to a lesser extent the new MS, are among the most unequal.

[43] ILO research finds that labour's share of output fell in 51 out of 73 countries for which there is data. ILO (2008) *World of Work Report 2008: Income Inequalities in the Age of Financial Globalisation*, Geneva, International Labour Office.

[44] INEQ: Franzini, M. and Pianta, M. (2009) Mechanisms of Inequality, *International Review of Applied Economics*, 23 (3):233-237.

► **Figure 3.2 Income Inequality Before And After Social Transfers (Gini Coefficient)**



Source: Paulus, Figari and Sutherland (2008)^[45]

NB: the data for the different countries varies between 2001, 2003 and 2005 depending on availability; see definition of Gini Coefficient in Box 1.1.

As findings from INEQ, EQUALSOC, and LoWER3 show, both earnings and incomes inequalities have increased in recent decades for most EU states (see also *Table 3.1*). The level of inequality varies between different MS. For example, inequality declines marginally in

Belgium but rises significantly in the UK. The main source of rising inequality for many states is the increased share of income accruing to more affluent households, those in the top quintile – (the top 20% of incomes).

[45] Paulus A., Figari F. and Sutherland H., 2008, "The effect of taxes and benefits on income distribution in the EU", Chapter 7 in Social Situation Observatory Report 2008, reproduced in EU (2009) Social protection Committee Growth, Jobs and Social Progress In The EU, http://www.lavoro.gov.it/NR/rdonlyres/4502C661-F4FC-4B1D-AC80-A581DAF05E07/0/Lisbon_TF_Final_report.pdf Unfortunately this Figure does not map the situation in all new MS.

► **Table 3.1 Trends in household income inequality (Gini coefficient)**

	Mid 1970s	Mid 1980s	Mid 1990s	Mid 2000s
Austria		0.236	0.238	0.265
Belgium		0.274	0.287	0.271
Czech Republic		0.232	0.257	0.268
Denmark		0.221	0.215	0.232
Finland	0.235	0.207	0.228	0.269
France		0.300	0.270	0.270
Germany		0.257	0.272	0.298
Greece	0.413	0.336	0.336	0.321
Hungary		0.273	0.294	0.291
Ireland		0.331	0.324	0.328
Italy		0.309	0.348	0.352
Luxembourg		0.247	0.259	0.258
Netherlands	0.251	0.259	0.282	0.271
Norway		0.234	0.256	0.276
Poland				0.372
Portugal	0.354	0.329	0.359	0.385
Slovakia				0.268
Spain		0.371	0.343	0.319
Sweden	0.212	0.198	0.211	0.234
United Kingdom	0.282	0.325	0.354	0.335
United States	0.316	0.338	0.361	0.381

Source: Adapted from OECD (2008) op.cit.

NB: Norway and the US are included for comparison; see definition of Gini Coefficient in Box 1.1.

The increase in real incomes of the top quintile has been double that of the lowest quintile in FI, SE, DE, IT as well as the UK and the USA (see *Table 3.2*)^[46] though this pattern is

not shared by all countries and the timing of the relative increase varied, being in the earlier period in the UK, while in the latter period for SE and DK.

[46] INEQ, drawing on OECD data (OECD 2008) op.cit Franzini, M. (2009) op.cit.

► **Table 3.2 Income growth by income quintile**

	Average annual change mid-1980s to mid-1990s					Average annual change mid-1990s to mid-2000s				
	Bottom quintile	Middle three quintiles	Top quintile	Median	Mean	Bottom quintile	Middle three quintiles	Top quintile	Median	Mean
Austria ¹	2.5	2.7	2.8	2.8	2.7	-2.1	-0.5	-0.4	-0.6	-0.6
Belgium ¹	1.2	0.5	1.2	0.4	0.8	1.4	1.3	1.7	1.2	1.5
Czech Republic ¹	..	..	..	..	..	0.4	0.6	0.7	0.5	0.6
Denmark	1.3	0.9	0.8	0.9	0.9	0.6	0.9	1.5	0.9	1.1
Finland	0.9	0.9	1.0	0.8	1.2	1.6	2.5	4.6	2.5	2.9
France	1.0	0.5	-0.1	0.5	0.3	0.9	0.7	1.0	0.8	0.8
Germany	0.4	1.4	1.6	1.2	1.4	-0.3	0.5	1.3	0.6	0.7
Greece	0.3	0.1	0.1	0.3	0.1	3.6	3.0	2.7	2.9	2.9
Hungary	..	..	..	..	..	0.9	1.2	1.0	1.1	1.1
Ireland ¹	4.0	3.0	2.9	3.2	3.1	5.2	7.7	5.4	8.2	6.6
Italy	-1.3	0.5	1.5	0.6	0.8	2.2	1.0	1.6	1.0	1.3
Luxembourg	2.3	2.5	3.0	2.4	2.7	1.5	1.5	1.7	1.5	1.6
Netherlands	1.1	2.7	3.9	2.8	3.0	1.8	2.0	1.4	2.0	1.8
Norway	-0.3	0.3	1.0	0.4	0.5	4.4	3.9	5.1	3.8	4.3
Portugal ¹	5.7	6.5	8.7	6.2	7.3	5.0	4.1	4.4	4.2	4.3
Spain ¹	4.4	3.2	2.4	3.2	3.0	5.2	5.1	5.0	5.5	5.1
Sweden	0.5	0.9	1.2	0.9	0.9	1.4	2.2	2.8	2.2	2.3
United Kingdom	0.7	2.0	4.3	1.9	2.8	2.4	2.1	1.5	2.1	1.9
United States	1.2	1.0	1.9	1.0	1.4	-0.2	0.5	1.1	0.4	0.7

1. Changes over the period mid-1990s to around 2000 for Austria, Belgium, the Czech Republic, Ireland, Portugal and Spain (where 2005 data, based on EU-SILC, are not deemed to be comparable with those for earlier years).

Source: Adapted from OECD (2008) op.cit.

The projects show that a combination of factors (including economic restructuring associated with the move towards a knowledge economy, labour market change and redistributive policies of welfare states) account for these increases in inequality in the last two to three decades. In addition, AIM-AP finds that non-cash benefits are pro-poor, but they vary across populations and countries, and therefore are an important component in understanding socio-economic well-being in different European states.

Variations in inequality between MS show that **inequality is not inevitable and that policies can redress undesirable outcomes**. Inequality matters because it impacts negatively on social welfare and undermines social cohesion. EUREQUAL finds that in Central and Eastern Europe equality goes hand in hand with economic and political advantages and that more egalitarian states display higher economic growth and are more democratic than less egalitarian countries. More surprisingly, both INEQ and EQUALSOC find that the relationship between inequality and growth is

complex, and most likely, that one is not directly related with the other. The projects find **no evidence that redistributive policies adversely affects growth or that growth leads to lower levels of inequality as trickle down effects have been shown to be too weak.** Drawing on evidence from Brazil, declines in economic inequality have occurred alongside economic growth as a consequence of a combination of macro-economic stability, economic growth and strong redistributive government programmes^[47]. INEQ, EQUALSOC and Klasen (2009)^[48] report widespread evidence that high levels of initial inequality tend to reduce growth. Taking this evidence alongside the discussion below in Sections 3.2 and 3.3, relating to the knowledge economy and new forms of work, suggests that the form of growth or the model of the economy are critical, and in this respect the projects do not find any evidence that suggests that securing the European values for greater equality, reflected to some degree in the European Social Model, would undermine economic growth^[49].

3.1.3 Key Messages and Policy Implications

- The relationship between inequality and growth is complex. The projects find no evidence that redistributive policies adversely affects growth or that growth leads to lower levels of inequality as trickle down effects have been shown to be too weak. The projects report robust evidence that high levels of initial inequality tend to reduce growth.
- The economic and social mechanisms producing polarisation and inequality are generally dealt with separately; much attention is devoted to the effects of inequality – such as poverty, discrimination and lack of social

cohesion – without a proper link to the mechanisms that are at their source. Policy discussion tends to focus on narrow redistributive actions, drawing from an ever reducing base of public expenditure and welfare services, with little attention to the broader economic and social policy tools that may reverse the increase in inequality^[50].

- **Inequality in earnings has risen in the majority of member states in recent decades.** In particular labour's share of value added has fallen especially among the low paid. This means that employment no longer provides a guarantee against poverty and exclusion. One third of working adults are in poverty, implying the need to strengthen policies aimed at working poor.
- European workers, especially the lower paid, have not benefited from increases in productivity in recent decades. **The inability of labour to capture an adequate share of productivity gains constitutes a major problem in Europe.**
- MS respond to inequality and poverty largely through social transfers to the benefit of the low income households but these policies do not meet the same success. Hungary and the Nordic States redress market inequalities to the greatest extent, pointing to the importance of institutional environments in different Welfare State contexts.
- States rarely address the processes leading to market inequalities or earnings inequalities directly. Given employment changes, discussed in more detail below, states should consider ways of increasing labour's share of value added so that it better reflects their contribution to productivity increases.

[47] EQUALSOC – Klasen, S. (2009) Inequality in Emerging Countries: trends, interpretations, and implications for development and poverty reduction, *Intereconomics*, Nov/Dec: 360-363.

[48] INEQ and Franzini, M. (2009) Why Europe Needs a Policy on Inequality, *Intereconomics*, Nov/Dec: 328-331.

[49] EQUALSOC – Klasen, S. (2009) Inequality in Emerging Countries: trends, interpretations, and implications for development and poverty reduction, *Intereconomics*, Nov/Dec: 360-363.

[50] INEQ: Annex 1 – "Description of Work", 14.10.2005: 2.

3.2 The Knowledge Economy, Education and Inequality

Moving towards a knowledge intensive society in the global economy is associated with increasing economic growth, economic integration and major economic restructuring. In mature European economies there has been a shift from manufacturing, which provided relatively well paid and regular employment for people with medium levels of skills, to services, where employment is more polarised between highly paid professional and managerial work and more routine manual service work.

Findings from INEQ and PROFIT show that the polarisation of the employment composition impedes career progression and increases the difficulty of redressing the intergenerational transmission of inequality (see Section 3.5 below). These trends in Europe are similar to those in the US and in both cases are in sharp contrast to the era of income compression between the 1930s and mid 1970s^[51].

Economic restructuring, innovation and a highly educated and well trained workforce are critical to the development of a competitive, smart, knowledge economy (“Europe 2020”) but these economic, employment and educational changes are associated with wage polarisation, primarily due to the expansion of earnings at the top of the distribution relative to those lower down and *the inability of labour (especially lower paid labour) to capture an adequate share of productivity gains*^[52] as findings from INEQ, RESIST, LoWER3 and EQUALSOC show. Similarly education is critical to promote social inclusion

by equipping people to work in the knowledge intensive industries but sectors with a large proportion of highly educated workers are associated with wider disparities in earnings as shown by INEQ.

A number of explanations have been advanced to account for widening inequalities, including: differential opportunities for capturing productivity gains associated with different forms of innovation as shown by INEQ; differential barriers to education and training relating to educational systems and styles, shown by KATARSIS and INCLUD-ED and the extent to which education and skills can be upgraded over the lifecourse, shown by LLL2010. In addition throughout the contemporary economy, working patterns have become less secure as shown by LoWER3 and EQUALSOC, and discussed in more detail in Section 3.3.

3.2.1 Innovation and Inequality

Innovation is critical to establishing a more competitive economy but, as shown by INEQ, DYNREG and RESIST, new technologies can be associated with increasing inequalities at all levels: between the EU and other world regions, between different regions in the EU and between different groups of workers.

INEQ found that high level workers and managers were able to appropriate gains from product innovation but not from process innovation (see *Box 3.1*). This finding shows that one of the reasons underlying widening inequalities is linked to the inability of low paid workers to share in the benefits of economic growth. **INEQ recommend strengthening labour market institutions to address this problem.**

[51] See Piketty T. and Saez E. (2006) The Evolution of Top Incomes: A Historical and International Perspective, *American Economic Review*, Papers and Proceedings 96(2): 200-205.

[52] ILO (2008) op.cit. Research finds that labour’s share of output fell in 51 out of 73 countries for which there is data.

Box 3.1 Innovation and Inequality

INEQ research provides some advance over conventional explanations linking technological change to wage polarisation by using better measures of polarisation and by distinguishing between different types of innovation (process and product) and finally by considering the implications for different types of occupations.

The research shows industries associated with greater skill intensity tend to have higher levels of wage inequality, especially where product innovation is frequent. Managers and highly skilled workers are able to gain from the high returns associated with new products because technology and product markets are more concentrated than industries with process innovations. Process technologies are linked with a diffusion of knowledge across a wide range of sectors and while they raise productivity, the impact is more difficult to identify and gains less easy to capture and appropriate by managers and highly skilled workers.

To redress these market tendencies towards increasing inequality INEQ^[53] recommends that labour market institutions be supported as they play a critical role promoting a greater sharing of productivity gains and opportunities for workers to raise their skills in the workplace.

RESIST, focusing more on spatial rather than social inequalities, identifies ways of promoting growth without exacerbating inequalities by bringing economic and social objectives together rather than relying on redistributive policies to moderate the outcomes of unequal growth and by widening the understanding of growth beyond GDP to include social objectives (see Box 3.2).

Box 3.2 The knowledge economy paradigm should not focus only on economic growth but should include social cohesion goals

RESIST identifies ways in which regulatory regimes and policies on science, technology and innovation (STIs) could be redesigned so that scientific advance would more likely counter than reinforce existing economic and social inequalities within and between member states. RESIST shows how existing policy frameworks are implicitly based on a Knowledge Economy Policy Paradigm with the primary focus on growth, productivity and competitiveness. Within this framework knowledge generators are assumed to be private firms and benefits assumed to trickle down to a wider population. RESIST shows that STIs are more likely to contribute to redressing global inequalities and inequalities between EU regions if a Social Cohesion Policy Paradigm (SCoPP) is adopted. SCoPP takes equality and accountability as core objectives and values low technology and traditional indigenous knowledges in addition to economic goals. This way STIs are more likely to contribute to the combined goals of competitiveness and cohesion rather than just the knowledge economy pillar.

In a similar vein, but relating to social inequalities, CAPRIGHT explores the possibilities for designing new measures of social well-being. As it can no longer be assumed that social cohesion follows from economic growth, CAPRIGHT proposes a broader set of measures drawing on the capabilities framework, similar to the United Nations in their Human Development Index, to encompass the combined goals of growth with cohesion. This framework would also better accommodate the social and environmental objectives within “Europe 2020”.

[53] INEQ- Angelini, E., Farina, F. and Pianta, M. (2009) Innovation and Wage Polarisation in Europe, *International Review of Applied Economics* 23 [3]:309-325.

3.2.2 The Knowledge Economy and Territorial Disparities

Within the EU income disparities have diminished between MS but increased between regions. DYNREG shows that countries where regional disparities increased strongly between 1995 and 2005 are also those where personal income inequalities have increased the most substantially.

Taking an EU wide perspective, in order to redress overall inequality it is necessary to reduce inequalities between countries and regions as well as within countries. Regional policies aim to redress spatial inequalities in the EU and receive considerable funding through the EU Structural Funds. DYNREG shows, however, that socio-economic inequalities within regions and countries constitute 80% of overall inequality⁽⁵⁴⁾. As a consequence DYNREG suggests that policies to redress socio-economic inequalities within regions and countries rather than between countries might be given more attention at EU level. INEQ also comments that inequality is affected by many factors and that EU policies as a whole could be evaluated for their implications for inequality.

3.2.3 Education and Inclusion

KATARSIS notes that exclusion in education can manifest itself in access, process, and outcome. All these forms of exclusion can have a cumulative effect leading to students dropping out of school and, given the changing world of work, this trend has more lasting negative consequences than similar processes from even a decade ago (see also Section 3.5.2).

INCLUD-ED analyses educational systems which either contribute to social cohesion or exacerbate exclusion. Different approaches to segregating or grouping students in schools

are associated with varied levels of inequality and academic achievement. The project has identified methods schools use in segregating students into different groups (*tracking* and *streaming*) and in including heterogeneous students in the classroom (*mixture* and *inclusion*) (see Box 3.3).

Box 3.3 Segregating and Inclusive Methods in Education [INCLUD-ED]

- *Tracking* segregates students into different tracks, e.g. into vocational and academic tracks in different schools.
- *Streaming* uses different curricula according to students' ability, where different teachers work with a group of more and less able children.
- *Mixture* is based on a traditional classroom set-up with a diverse student body in terms of ability or culture being taught together by one teacher in the classroom.
- *Inclusion* retains heterogeneity of the classroom and engages professionals, families, volunteers to support all students in a common environment.

Tracking generates inequalities, which are greater for students from disadvantaged backgrounds, and when tracking starts at an early age (in some countries as early as 10). Because tracking can deter access to higher education, and reduce thus long term opportunities, postponing tracking can lower inequalities between students and schools. Comprehensive school systems can serve as a counter to early segregation. Streaming also widens the differences between students and lowers their academic performance, especially among low achievers. Students in the lower ability stream often come from

⁽⁵⁴⁾ Kanbur, R. and Venables, A. (2007) Spatial disparities and economic development, in Held D. and Kaya A. (eds) *Global Inequality*, London: Polity Press.

disadvantaged backgrounds, and streaming further exacerbates their lack of opportunities. Mixture is associated with compromised outcomes for students and often leads to school failure for pupils from a disadvantaged background. In contrast, inclusion overcomes these problems as all students, including vulnerable groups, experience better relationships and have more opportunities to learn.

INCLUD-ED also emphasizes the importance of social agents to children's education. Family and community involvement helps to overcome inequalities and stereotypes, improves the coordination between home and school and meets the needs of children and communities to a greater degree. Furthermore, involvement of women from the community (in addition to female teachers) helps in reaching more egalitarian gender roles. Insofar as the educational system is the extension of care, the report recommends that fathers too should be encouraged to participate in the school activities.

These research results, if taken into account by policy makers, require fundamental changes in our national educational systems.

Typically, European countries treat lifelong learning as a "cradle to grave" practice, and many are reforming their early childhood and primary education systems. For example, the UK's Sure Start programme aims to provide young children, especially those with disadvantaged backgrounds, with the necessary skills to gain from compulsory school education. Lifelong learning generally relates to post school education and is focused on skills training for the knowledge economy.

The LLL2010 project studies lifelong learning policies in 13 European countries and how

they address income and wealth inequality associated with globalisation. It concludes that the "patterns of lifelong learning appear to reflect, rather than challenge, these inequalities, i.e. it is the already better educated segments of society who disproportionately secure access to the new learning opportunities"⁽⁵⁵⁾ (LLL2010).

Box 3.4 Lifelong learning and the persistence of inequality [LLL2010]

LLL2010 reviews the lifelong learning policies in 13 MS and points to their inherent weaknesses, as exemplified by Slovenia, Scotland and Estonia.

- In Slovenia, access to education has become highly selective and inequality is growing as those with lower educational levels, older people, and those with lower occupational status are less likely to participate in lifelong learning programmes.
- Scotland's focus on human capital in lifelong learning strategies suggests that disadvantaged and excluded groups who often only get poorly paid work may have less chance to develop than those who make larger contributions to the economy.
- In Estonia individuals pay for their own training, which is linked to the increase in inequalities in training by excluding people with lower incomes from participation.

Besides, employees with higher levels of education have greater access to training in the workplace, especially in the public sector. This pattern of unequal access, researchers argue, may be further intensified by increased involvement of the private sector in the provision of lifelong learning (LLL2010).

[55] LLL2010: SP1_Exec_Summary: pp. 12.

In post-socialist states, the potential of education and life long learning programmes to reduce inequalities is related to the wider context of the political economy. The socialist goal of broadening participation in education and reducing inequality was abandoned and the introduction of market forces into education appears to exacerbate inequality. While inequality in access to education has increased, it is persons with higher education who are better able to adapt to changing market conditions (LLL2010). The polarisation of the employment composition also impedes career progression and increases the difficulty of redressing the intergenerational transmission of inequality as shown by PROFIT and INEQ and discussed further in Section 3.4 below.

Access to lifelong learning is differentiated by such social divisions as gender, age, ethnicity, and region. Generally, women are more likely to participate in formal education and lifelong learning, but this advantage does not translate well into labour market success and within vocational training programmes there are greater numbers of men. Younger people are more likely to participate in education and training than older age groups. Ethnic minorities are often deprived due to linguistic or other culturally-based forms of exclusion. Despite this recognition and a range of policies for ethnic minorities, reliable quantitative data about learning provisions for these groups and about take-up is lacking. Finally, there is regional variation in access to education between urban and rural areas (LLL2010).

3.2.4 Key Messages and Policy Implications

- Research shows that existing policy frameworks are implicitly based on a Knowledge Economy Policy Paradigm with the primary focus on growth, productivity and competitiveness. Within this framework knowledge generators are assumed to be private firms and benefits assumed to be private firms and benefits assumed to trickle down to a wider population. Policies on science, technology and innovation are more likely to contribute to redressing inequalities if they integrate social mechanisms or help value other inputs such as low technology and traditional indigenous knowledges in addition to economic goals.
 - Current innovation policies in industrial sectors where product innovation is high may actually reinforce socio-economic inequalities and thus weaken the innovation potential of Europe. Effective labour market institutions in these industrial sectors would make possible an improved trade-off between economic growth and economic and technological innovation on the one hand and socio-economic equality and improvement of skills on the other hand.
 - If we look at inequalities spatially, inequality between MS has generally decreased but inequality between EU regions has increased. Even more worrying, inequality within EU regions has greatly increased. Socio-economic inequalities between people are thus much more visible now and put a strain on the socio-economic and political coherence of entire regions or cities of Europe.
 - Education, including lifelong learning, is essential to innovation. However, the Framework Programme research shows that education is more often likely to reinforce socio-economic inequalities than fight them because the European educational systems often participate actively to various forms of social segregation. Education and lifelong learning should provide improved guarantees for adequate and fair returns in the labour market and personal development.

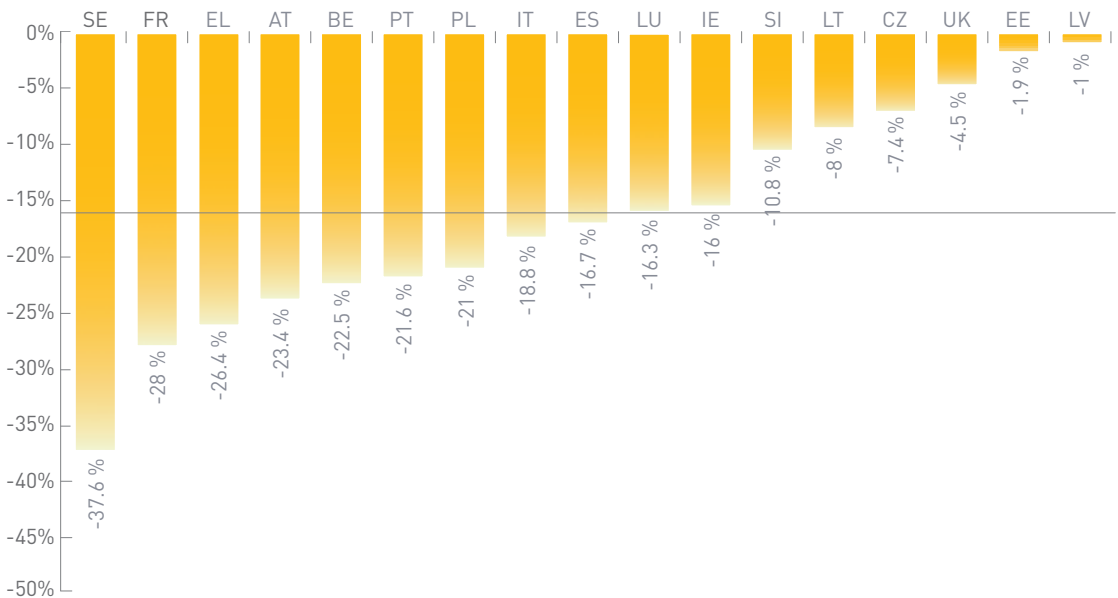
3.3 Labour Market Change, Earnings Inequalities and In-Work Poverty

3.3.1 New Forms of Work and Earnings Inequalities

Earnings inequalities can be attributed to polarisation in employment composition, between highly skilled and well paid jobs and to employment deregulation and changes in working contracts. In particular, atypical work with shorter hours, intermittent and temporary working has expanded and these jobs have lower relative rates of remuneration, especially at the lower end of the distribution as demonstrated by INEQ, EQUALSOC, LoWER3, WELLCHI and PROFIT. INEQ also shows that earnings inequalities are higher in industries with greater labour market dynamics or turnover and where labour regulations and the power of trade unions are lower.

Across the EU-27 temporary, part-time and seasonal workers were at notably higher risks of poverty than permanent and fulltime workers⁽⁵⁶⁾. *Figure 3.3* from the INEQ project shows how the gap in wages between workers with permanent and temporary contracts varies between MS, with particularly high gaps in Sweden, though here the proportion of temporary workers is relatively small. More generally, INEQ and EQUALSOC show this gap is higher in countries characterised by more regulated labour markets, suggesting something of an insider/outsider differentiation within these countries – with trade unions being able to protect the interests of permanent workers but less so for those on temporary contracts.

► **Figure 3.3 Wage Gaps Between Workers with Temporary and Permanent Contracts (%)**



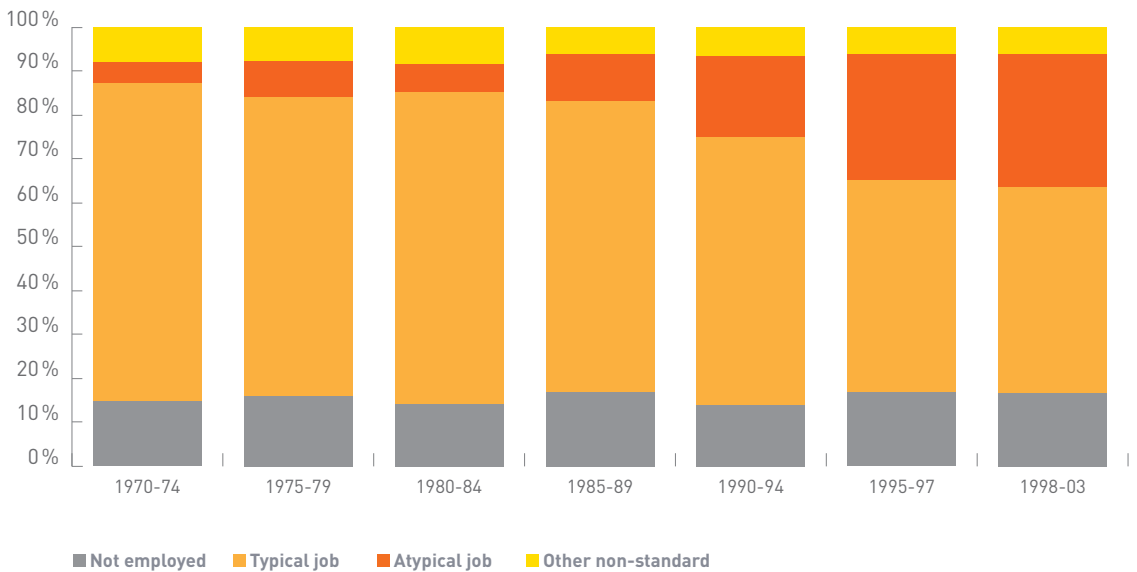
Source: INEQ Policy Brief 2009

[56] EUROSTAT (2010) op.cit.

EQUALSOC demonstrates that in Italy, where the proportion of young workers in atypical forms of employment has increased in recent years (see *Figure 3.4*), those entering atypical employment, including well educated school leavers, were likely to experience repeated spells of such employment rather than a fast move into regular contracts.

Furthermore, these atypical jobs were not additions to employment but were substitutes for regular jobs⁽⁵⁷⁾. This finding suggests that deregulating the labour market does not necessarily lead to an expansion of employment, as often expected, but rather undermines employment quality and earnings, thus increasing socio-economic inequalities.

► **Figure 3.4 Employment Situation of Different Cohorts of People Leaving Education or Training in Italy (at age 30) (%)**



Source: EQUALSOC reproduced in Barbieri and Scherer (2009)

3.3.2 Atypical Work and Fair Pay

Part-time work is associated with lower overall earnings and a lower hourly rate of pay and concentrated in lower paid sectors and occupations. LoWER3 research shows that not only do non standard workers earn less because in general they work for fewer hours but also because they are likely to be paid less for each hour they do work, even when

differences in education and experience are taken into account, which reflects the continued existence of a part time and atypical work pay penalty and represents a “serious flaw” in the labour market⁽⁵⁸⁾. As women are more likely than men to work shorter hours, the part time penalty is associated with the gender pay gap as shown by LoWER3 (see Section 3.4 below).

[57] EQUALSOC – See Barbieri, P. and Scherer, S. (2009) Labour Market Flexibilization and its consequences in Italy, *European Sociological Review* 25 (6):677-692.

[58] INEQ (2009) Europe’s Inequality Challenge, European Policy Brief. P.3.

There is also a connection between the status of the employment contract and risk of poverty that is found in MS with very different labour market structures and overall wealth. For example, the risk of poverty was between two to five times higher between non standard and full time employees in Romania, Finland and the United Kingdom in 2007^[59]. This finding, together with the research from LoWER3, EQUALSOC, PROFIT and INEQ which shows that education and training are not sufficient to redress low pay, suggests that the broader processes shaping labour markets need to be reviewed thoroughly if the MS do not want to see socio-economic inequalities increase further and undermine social cohesion and economic development.

3.3.3 Key Messages and Policy Implications

- **Non standard forms of work have been increasing in all MS.** They provide more flexibility for employers and to some degree for employees but they are associated with widening earnings inequality and the expansion of in-work poverty.
- **The labour market is not functioning correctly as equivalently qualified non standard workers are paid less for equivalent work. The inability of labour to capture an adequate share of productivity gains constitutes a major problem in Europe.** It is important to combat low pay directly as well as finding ways of allowing productivity gains to be shared more equally between capital and labour and between high and low paid workers. To redress market imperfections, the EU and the MS should support labour market institutions as they play a critical role in wage negotiation and

can ensure a fairer and ultimately more effective distribution of productivity gains.

- Lower levels of wage inequality are found in the Nordic and Western European states where trade unions play a greater role in wage determination, in comparison to the UK and Ireland and countries in Eastern and Southern Europe. These MS show that it is possible to combine economic growth and modernisation with lower degrees of labour market inequality and so better reflect European values of growth with cohesion that other states might follow.
- These findings also suggest that it is important to find ways of ensuring security alongside flexibility. **Ways of securing fair remuneration, reflecting skills and productivity are required.** Genuine flexicurity policies with an equal focus on flexibility AND security are necessary.

3.4 Persistent Gender Inequality

As declared by the European Commission, equality between women and men is a fundamental right, a common value of the EU and a necessary condition for the achievement of the EU objectives of growth, employment and social cohesion^[60]. Progress has been made through equal treatment legislation, gender mainstreaming and specific measures for the advancement of women.

On average, the EU has approached the Lisbon 60% target employment rate, rising from 53.7% in 2000 to 58.6% in 2009 in EU-27 countries^[61]. Increasing female employment, including growing participation by mothers, reflects one of the defining economic and social developments of recent decades

[59] EUROSTAT (2010) op.cit.

[60] Employment, Social Affairs and Equal Opportunities Website accessed on March 31, 2010 at: <http://ec.europa.eu/social/main.jsp?catId=418>

[61] Eurostat LFS data, Population and Social Conditions Database.

(LoWER3) ^[62]. However, inequalities remain and are of increasing significance. More and more women are dependent on their individual earnings owing to changes in family composition and an increasing proportion of children spend at least part of their childhood in a single-parent family headed primarily by women (WELLCHI).

3.4.1 Gender, Parenting and Pay

Flexible working enables people, primarily mothers, to balance paid work with caring responsibilities but it is not sufficient to redress gender inequality in employment as these forms of working are not available in all occupations (see *Box 3.5*).

Women's over representation in low paid sectors and occupations and non standard work can partly be attributed to the continuing uneven responsibility between women and men for childcare and domestic work. In particular, parenthood affects women and men differently, the extent of difference varying between MS (see *Figure 3.5*).

Box 3.5 Flexible Work, Precarity and Low Pay

Flexible, part-time and non-standard forms of employment have contributed to raising women's employment rates, in line with securing Lisbon goals.

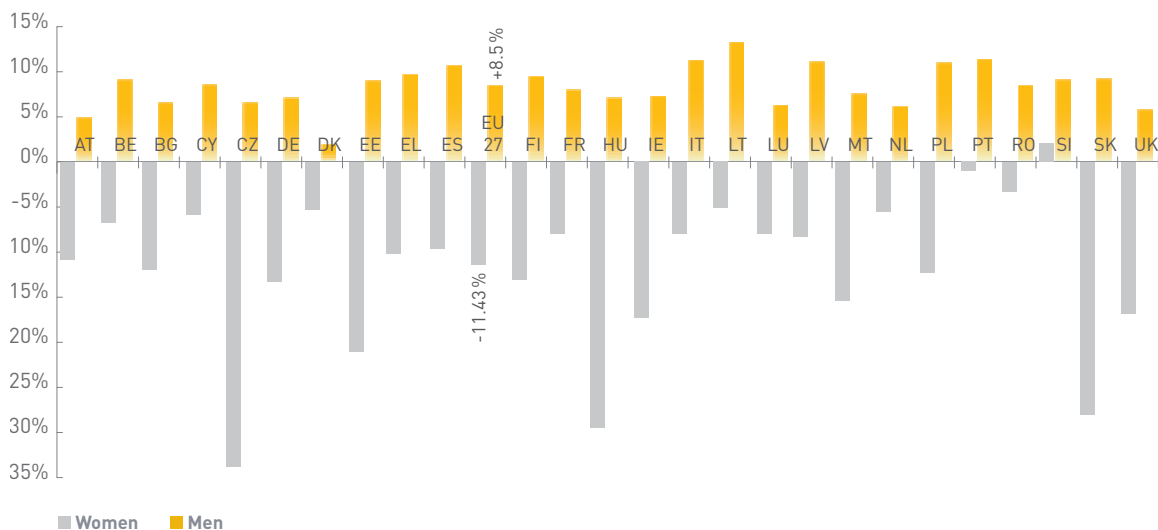
However, flexible jobs are more often found in low paid work and bring higher risks of subsequent unemployment excluding individuals from secure and stable labour market positions with future risks of social exclusion ^[63]. People working non-standard hours are also more likely to be paid less even when in the same form of work (See Section 3.3.2). Women are over represented in flexible and non-standard work so the part-time penalty is equivalent to a gender pay gap. In the UK, for example, 25% of women in high skill jobs downgrade occupationally when they switch to part-time work and for those who change employer to do so, this figure rises to 43%. A woman who downgrades and changes employer simultaneously will experience on average 32% drop in earnings. Reversing these changes leads to less than 50% recovery of the losses. Both the extent of flexible working and the scale of the pay penalty vary among MS, and are lower in the Nordic countries ^[64].

[62] LoWER3: Gregory, M., Beblo, M. Salverda, W. and Theodossiou, I. (2009) Introduction, *Oxford Economic Papers* 61:1-10.

[63] EQUALSOC: Barbieri, P. (2009) Flexible Employment and Inequality in Europe, *European Sociological Review*, 25 (6): 621-628.

[64] LoWER3: Gregory, M., Beblo, M. Salverda, W. and Theodossiou, I. (2009) Introduction, *Oxford Economic Papers* 61:1-10.

► **Figure 3.5 Employment Impact of Parenthood for Women and Men 25-49, 2008 (%)**



Source: EC (2010) Statistical Annex to the Report on Equal Opportunities between Women and Men

NB The graph plots difference in % points in employment rates with presence of a child under 12 and without the presence of children. No data available for SE.

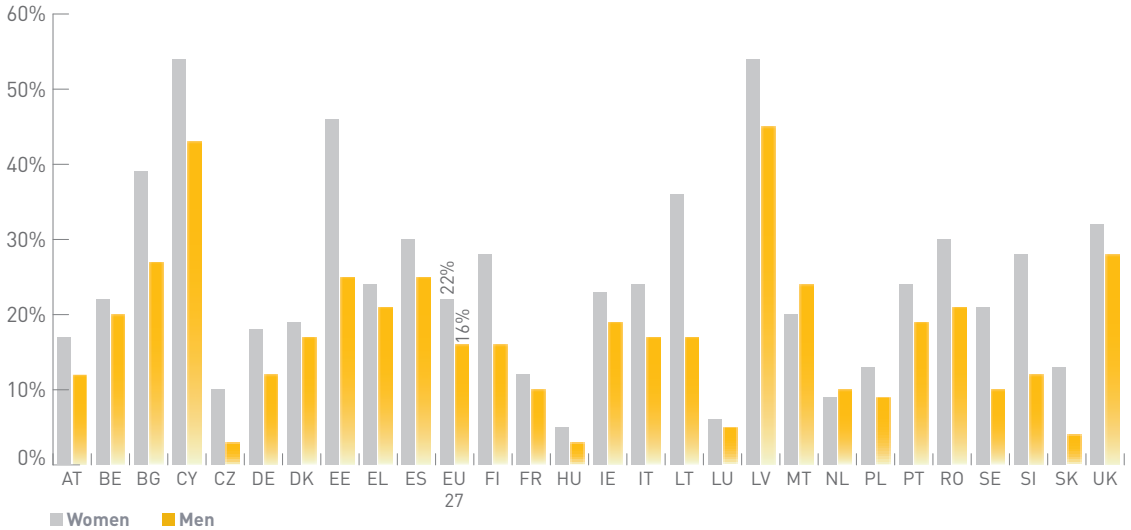
Although work pressures, such as long, unsocial and unpredictable hours, affect women and men equally, gender differences exist in work-life conflict. EQUALSOC finds that, for all the 23 Member States studied, caring responsibilities increase time based conflicts only for women while job insecurity affects strain-based conflicts for men. These findings indicate the deeply entrenched character of gender divisions between caring and bread winning⁽⁶⁵⁾.

Mothers, more than fathers, interrupt their careers through leave and move to jobs with shorter hours. As women's qualifications

match those of men, under-utilising their human capital is socially inefficient (LoWER3). Additionally, Framework Programme 6 research (EQUALSOC; INEQ; LoWER3) confirms that motherhood related career breaks carry substantial and lasting wage penalties, with the size of the penalty rising with the duration of the employment interruption. Institutional environments play an important role as in countries where working motherhood is not supported the wage penalties are higher. These unequal patterns throughout the life-course result in a higher at-risk of poverty rates among older women than older men (see Figure 3.6).

⁽⁶⁵⁾ EQUALSOC: Steiber, N. (2009) Reported Levels of Time-based and Strain-based Conflict between Work and Family Roles in Europe: A Multilevel Approach, *Social Indicators Research*, 93: 469-488.

► **Figure 3.6 At-risk-of-poverty Rate After Social Transfers for Older People (Women and Men Aged 65 Years Plus), 2008 (%)**



Source: EC (2010) Statistical Annex to the Report on Equal Opportunities between Women and Men

The increase in female participation has also been associated with a decline in fertility, owing to the difficulties of combining motherhood with a career. In the Nordic countries and in France by contrast, the increase in female work force participation is associated with an increase in fertility, indicating how state support for working parents and especially working mothers can facilitate both roles. This finding is especially important given the “Europe 2020” objective of raising the overall employment rate to 75 % which is likely to require a higher rate for women than the current 60 %. More importantly for policy makers **this positive association between employment participation and fertility is only found where part-time jobs are of high quality.**

Policy makers can be reluctant to address what might seem to be private “choices” with respect to household gender decisions regarding how best to meet their requirements for income with their desire to secure the best care for their children. However, these private “choices” take place in a context that is shaped by social decisions with respect to parental leave entitlements, labour market regulations and the gender imbalance in pay. The role of women in child-care is associated with life-long disparities in economic status. Rebalancing responsibilities for caring towards fathers may help in addressing the unequal and gendered labour market outcomes.

3.4.2 Key Messages and Policy Implications

- Owing to gender inequalities within employment and women's over representation in non standard work, women and their dependent children are at a greater risk of poverty than men.
- Available, accessible and affordable childcare, together with high quality part-time work are key in allowing the female labour market participation rate to rise without reducing fertility.
- The right to "request" flexible working needs to be strengthened to become a "right to work flexibly" to ensure that shorter working hours are available in a wider range of occupations and that the right has some practical outcome.
- Removing the association between non-standard hours and low pay would contribute to redressing wage inequality and the gender pay gap. Potentially this would also contribute to narrowing the gender division in domestic work and child care by increasing the likelihood of fathers working flexibly.
- Measures for fathers to play a greater role in childcare and school activities through paid paternity and parental leaves should be supported. Policies such as Nordic "daddy" leaves can be instrumental in changing attitudes and practices.
- These measures are necessary in order to prevent motherhood imposing large and lasting earnings penalties on women, as well as to better combine both goals of larger female employment rates and higher fertility rates.

3.5 Persistent Child Poverty and Intergenerational Transmission of Inequality

Socio-economic changes in European societies, outlined above, are associated with persistent, and in some cases growing, patterns of child poverty and an interrelated process of intergenerational transmission of socio-economic inequalities. These patterns imply that existing policies to tackle poverty and inequality are inadequate and point to the need for more effective measures that not only respond to unequal outcomes, but also address processes leading to them. Child poverty is a major social and policy problem because children growing up in poverty face a high risk of exclusion and can be subjected to intergenerational transmission of poverty⁽⁶⁶⁾. PROFIT, for example, finds that education alone cannot overcome family disadvantage as returns from education tend to be lower for people from low income backgrounds.

3.5.1 Child Poverty and Inequality

According to EUROSTAT data, child poverty and exclusion entails inequality of access to resources and opportunities, and is often linked to discrimination. It may restrain children from achieving their full potential, adversely affecting their health, inhibiting their personal development, education and general well-being⁽⁶⁷⁾.

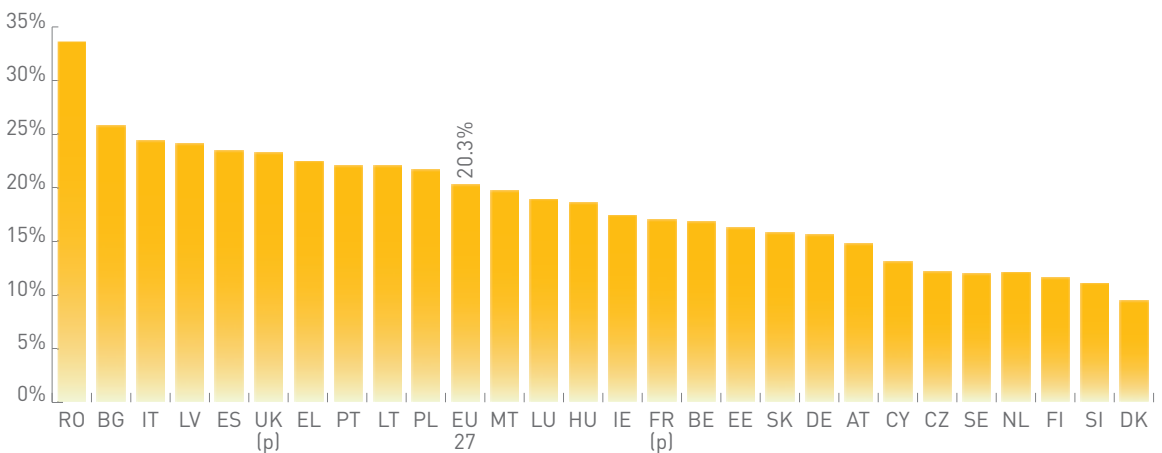
⁽⁶⁶⁾ Based on Eurostat (2010) Combating poverty and social exclusion 2010 edition. A statistical portrait of the European Union 2010, Luxembourg: OOEPEC.

⁽⁶⁷⁾ Based on Eurostat (2010) Combating poverty and social exclusion 2010 edition. A statistical portrait of the European Union 2010, Luxembourg: OOEPEC.

Over the last two decades child poverty has risen in 17 out of 24 OECD countries for which data are available (WELLCHI). The prevalence of child poverty, however, varies among European countries, and variation tends to follow the classification of welfare state regimes ⁽⁶⁸⁾.

As *Figure 3.7* shows, in 2008 the Nordic states had the lowest at-risk-of-poverty rates (with Denmark leading the group at 9%), while Mediterranean and some Central and Eastern European countries had the highest (with Romania reaching 33%).

► **Figure 3.7 At-risk-of-poverty Rate of Children in EU Member States, 2008 (%)**



Source: Eurostat (2010) ⁽⁶⁹⁾

(p) = provisional value

As WELLCHI research points out, child poverty has many causes. In addition to old class inequalities, new social risks increase its complexity. Social change in general, and family change in particular, have been linked to the growth and persistence of child poverty, but its re-emergence in recent years is connected mainly with:

- the shift from industrial societies to service and knowledge-based economies associated with polarisation of employment, the

expansion of pay penalty attached to atypical working in which women are over represented (see Sections 3.2 and 3.3).

- the decline of the male breadwinner model largely through increased participation of women in employment, as well as the emergence of new household forms, particularly single-person households and single-parent households.

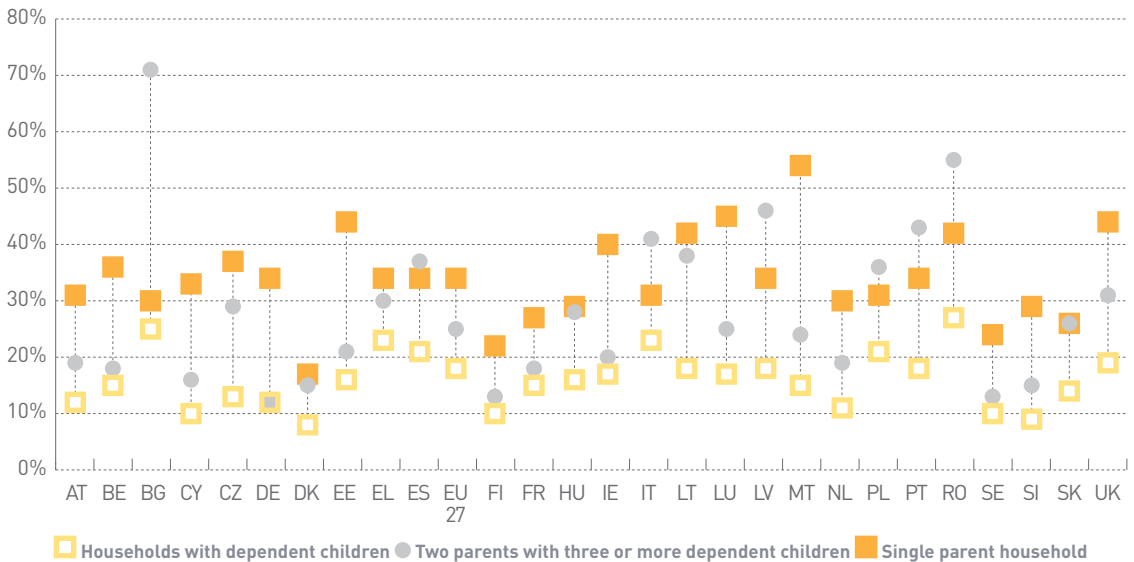
⁽⁶⁸⁾ Esping-Andersen, G. (1990) *The three worlds of welfare capitalism*. Princeton: Princeton University Press; Ferrera, M. (1996) The southern model of welfare in social Europe. *Journal of European Social Policy*, 6 (1): 17-37.

⁽⁶⁹⁾ Population and Social Conditions Social database, accessed on 30.03.2010 at <http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes>

These changes lead to increased reliance on individual earnings, and, as shown in Section 3.4, women are more likely than men to have sole responsibility for their children and, partly as a consequence, to have lower earnings, so that they and their children are more likely to be at-risk-of-poverty. The risk of poverty among children from single parent households was nearly double the average risk of poverty for all households with dependent children in 2007 (34% compared with 18%)[⁷⁰]. This relationship is particularly

disconcerting as there is a growth in the number of children spending at least some part of their life in a single parent family (WELLCHI). The other group most at risk is large family households with two parents and three or more children. As WELLCHI research notes, in population size terms most poor children in the EU live in two-parent households, thus the increase in child poverty cannot be solely attributed to the growth of single-parent families (although in countries like the UK this is significant).

► **Figure 3.8 At-risk-of-poverty Rate of All Children and of Children Living in Households Most At Risk, 2007 (%)**



Source: Eurostat (2010: 46) [⁷¹]

Note: The income reference period concerns the year preceding the survey year for the majority of countries.

Policies modify the effects of changing family forms on children. The lower at-risk-of-poverty rates can be achieved despite having countervailing pressures from high proportions of lone-parent households. For example, in Sweden high rates of lone parenthood (22% of all households with children

in 2001) are less of a factor in aggregate child poverty outcomes than high rates of lone parenthood in the UK (17%) [⁷²]. Clearly countries that devote more public resources to family and children tend to experience lower levels of child poverty. Thus countries spending more on Family/Child Benefits (e.g. DK, SE,

[70] Ibid.

[71] Combating poverty and social exclusion 2010 edition. A statistical portrait of the European Union 2010, Luxembourg: OOEPEC.

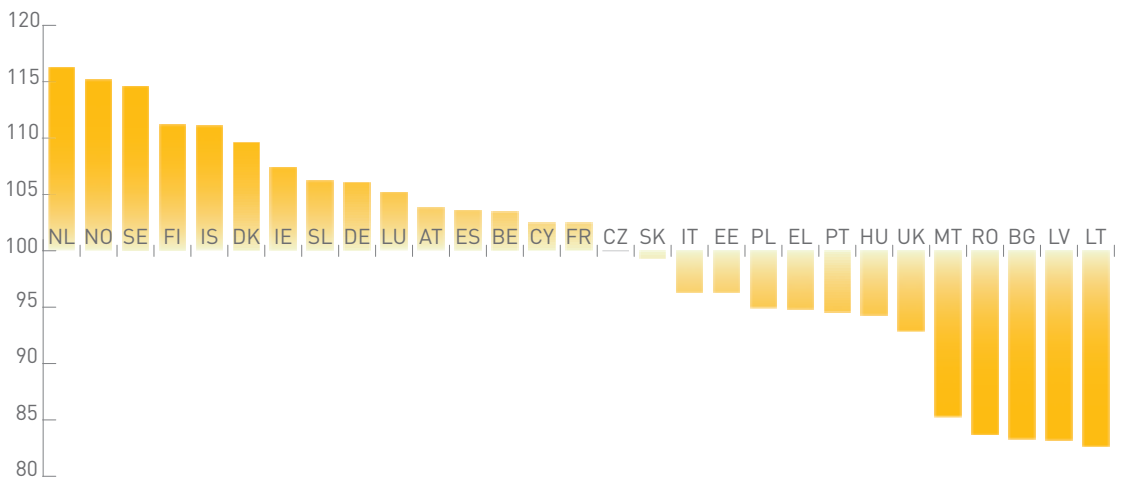
[72] Lehmann, P. and Wirtz, C. (2004) Household formation in the EU – Lone Parents. *Statistics in Focus*. Theme 3 – 5 / 2004.

FI) display lower rates of child poverty than low spenders (e.g. UK, ES, BG)⁽⁷³⁾.

Considering inequality among children in European countries more broadly, WELLCHI has devised an index of child well-being using 43 indicators and 7 clusters (material situation, housing and environment, health, subjective well-being, education, children's relationships, risk and safety), resulting in

a ranking of 27 EU Member States (as well as Israel and Norway) with the Netherlands and the Nordic States at the top of the league table of child well-being, while Malta, Romania, Bulgaria, Latvia and Lithuania are at the bottom (See *Figure 3.9*). WELLCHI finds that "child well-being is associated with inequality; generally more unequal countries have lower child well-being".

► **Figure 3.9 Child Well-being Index and Ranking in the EU**



Source: WELLCHI ⁽⁷⁴⁾

Note: Data from various years based on sample surveys and indicators collected by international organisations.

3.5.2 Intergenerational Transmission of Inequalities

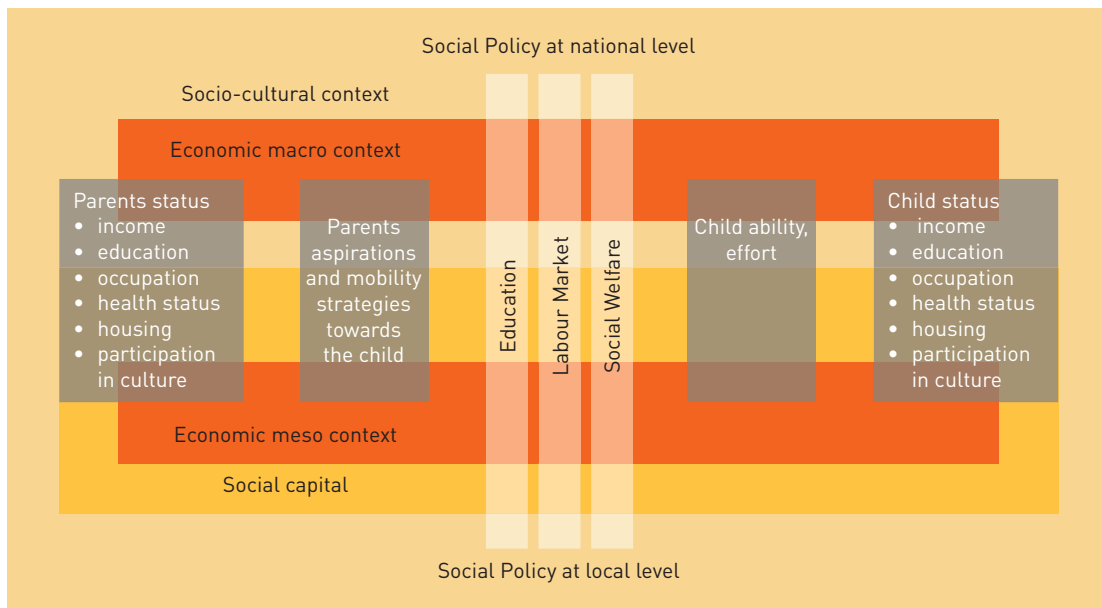
Understanding the processes driving poverty and inequality among children is key to understanding patterns of social mobility and inter-generational transmission of inequality – a task supported by several FP6 projects (EQUALSOC, INEQ, KATARSIS, LOWER3, PROFIT). For example, PROFIT constructs

a model (see *Figure 3.10*) which identifies the connections between the processes occurring in family, state, and economic contexts and how they are mediated through policies relating to education, labour market and social welfare affecting children's status. Whether poverty and inequalities are transmitted inter-generationally depends on how these elements intersect for specific children.

⁽⁷³⁾ Eurostat (2010) Population and Social Conditions Social database, accessed on 30.03.2010 at <http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes>

⁽⁷⁴⁾ WELLCHI: Bradshaw, J. and Richardson, D. (2009) An index of child well-being in Europe, *Child Indicators Research*, 2, 3, 319.

► **Figure 3.10 Analytical Model of Inter-generational Inheritance of Inequalities**



Source: PROFIT (2007) [75]

Income inequality exhibits a strong tendency across generations and is regularly transmitted from parents to children. A disadvantaged family background negatively affects children's opportunities with respect to both educational attainment and wage earnings (INEQ). For example, when children are selected into different schools based on ability and merit (often linked to their socio-economic status), and there is no mobility between these schools, family background becomes crucially important. As discussed in Section 3.2.2, exclusion in education can manifest itself in access, process, and outcome,

and can have a cumulative effect of lasting negative consequences. Education systems which segregate students in such a way reinforce thus existing inequalities, rather than challenge them (KATARSIS, INCLUD-ED).

WELLCHI research points out that early and sustained investment in children and families can help. Early childhood education, care and health, financial transfers and in-kind services are key mechanisms. **A child investment strategy is seen as capable of breaking the cycle of inter-generational disadvantages, thus lessening socio-economic inequalities.**

[75] Policy Responses Overcoming Factors in the Intergenerational Transmission of Inequalities, Final Activity Report.

Box 3.6 Intergenerational Transmission of Poverty and Social Mobility

EQUALSOC supplements survey data, with detailed qualitative research across 8 cities in states representing different welfare traditions – Anglo-Saxon (UK); Continental (DE), Nordic (FI), Mediterranean (IT) and cities in the new MS with more hybrid models (BG, EE, LV, PL). The research shows that 53% of young people (aged 25-29) growing up in poverty remain in poverty. The intersection between family context, state welfare regime and community policies plays a key role in social mobility of young people. Educational, labour market and welfare policies and the ways in which these act in synergy are particularly influential (see *Figure 3.10*).

INEQ analyses EU-SILC (Statistics on Income and Living Conditions) panel survey data from 13 countries: Anglo-Saxon (IE, UK); Continental (AT, BE, LU, FR, NE); Mediterranean (ES, IT); and Nordic (DK, FI, NO, SE). In all countries family composition (living with both parents and number of siblings), parents' educational attainment, and financial situation matter for intergenerational transmission of poverty with a separate effect on education and on earned wages, for example:

- In Continental countries there is a 73% probability that a child of a parent with university degree will attend university, while having parents with lower education decreases this probability to a 20% chance. The effect of educational attainment is compounded by financial distress, particularly in the Mediterranean countries.
- Wages are influenced by parental education, own education and by parental earnings. In general

education leads to higher earnings. However education has a less positive effect on earnings of people coming from low income households. An income family poor background reduces earnings by as much as 6% in all countries, except the Nordic States and the Netherlands

EQUALSOC and INEQ research points to the importance of institutional and policy arrangements. **Low intergenerational earnings mobility tends to occur in countries with high levels of income inequality measured at a point in time, and vice versa.** Nordic countries fall at one end of the spectrum where wages and educational degrees are not related to family background and living standards. In contrast, Mediterranean states fall at the other end where all background variables affect both wages earned and educational levels. Continental and Anglo-Saxon systems fall in between the two extremes with varied influence of family background on either educational or wage outcomes. These conclusions support the established classification of welfare state regimes^[76].

PROFIT and INEQ direct our attention to policy making and implementation and identify key barriers to social mobility (see *Box 3.7*). **The extent to which the transmission of inequality and poverty is perceived by policy makers as an issue for public concern and social policy vary.** In the UK and Germany the reduction of child poverty was specified as a government priority but not in the 6 other countries studied. Indeed, top level officials considered the problem to be a purely private family matter (PROFIT).

[76] Esping-Andersen, G. (1990) *The three worlds of welfare capitalism*. Princeton: Princeton University Press; Ferrera, M. (1996) The southern model of welfare in social Europe. *Journal of European Social Policy*, 6 (1): 17-37.

Box 3.7 Persistence of income inequality [INEQ, PROFIT] ^[77]

- Inadequate awareness of the issue
- "Tolerance" of or limited aversion to inequality
- Insufficient political and institutional opposition to inequality
- Changes in commitment to inequality due to changes in political leadership
- Scarce funding
- Limited or lack of policy coordination
- Inability to address both causes and outcomes of inequality
- Lack of coordination among decision centres at various levels of government

3.5.3 Key Messages and Policy Implications

- The EU Framework Programme projects find that poverty and intergenerational transmission of inequality is considerable in all countries studied, but its levels vary among EU Member States, pointing to the significant role of the welfare state.
- Family change and labour market change represent a key dimension in the well-being of children across the EU, but social and economic policies do not adapt quickly and effectively enough to reflect this socio-economic change. Family composition and employment status are closely related to child poverty. As men's and women's contribution in care and financial support to families takes place within specific institutional environments, policies must address the problems of unequal participation in these spheres.
- Policies must respond more effectively to changing family and labour market patterns. Policy choices must combine strategies facilitating employment among parents in jobs that are of good quality and are well rewarded, strategies effectively redistributing resources to the poor, and strategies aimed at different groups of children with respect to education and care.
- Education and learning policies can contribute to overcoming intergenerational transmission of inequality in addition to policies combating poverty. However, education and learning should be viewed in connection with other social factors related to exclusion (employment, economy, youth, healthcare, justice, housing and social services), include practical and contextual knowledge and address social as well as human capital.

[77] INEQ European Policy Brief 2009: 5; PROFIT, final report.



Conclusion:
**Supporting Strategies
for Sustainable and
Inclusive Development**

4

▶ 4

Conclusion: Supporting Strategies for Sustainable and Inclusive Development

Projects financed by DG Research under Framework Programme 6 support the view that “Europe 2020” cohesion objectives are complementary to the growth objectives, as well as being critical to socio-economic well being.

4.1 Economic Change and Widening Socio-Economic Inequalities

Socio-economic inequalities have increased in the EU and are higher today than in 1980. This increase has happened during a period of economic growth. Economic modernisation and labour market deregulation has resulted in employment polarisation and widening earnings inequalities that have not been offset by social transfers or other policies. Professional and managerial workers have gained from the productivity increases but lower paid workers are more likely to have experienced precarious and intermittent working resulting in an expansion of the in-work poor. Paid employment which has formed a key element of the EES and social policies no longer provides a guaranteed route out of poverty. Poverty is transmitted from one generation to the next and increased education is not sufficient to overcome childhood family disadvantages. Given unequal caring responsibilities, women are more likely than men to be in non-standard employment and at greater risk of poverty. The rise in single motherhood adds to the problem of intergenerational transmission of poverty owing to their constrained opportunities in the labour market and their over representation in low paid work.

This pattern of modernisation at the expense of socio-economic cohesion is contrary to the values and objectives of EU policies. The research projects demonstrate that policies can significantly modify the effects

of socio-economic change. The projects confirm that the Nordic countries, and to a lesser extent the Western European countries that follow a corporatist model of welfare, have less socio-economic inequalities and at the same time consistently outperform other European countries on social and economic criteria.

This pattern of modernisation has also an important social and economic cost for the EU. Countries with large socio-economic inequalities have greater social problems than countries with less socio-economic inequalities, whether we speak about poverty, educational achievements, criminality or other social disorders. Equally important for the EU, socio-economic inequalities run counter to economic growth and innovation by leaving a large part of the population outside the modernisation process and actually putting a break on modernisation.

Preventing the emergence of inequalities is preferable to redressing unequal outcomes and specific policy implications from the research are listed below.

4.2 Holistic Approach to Social and Economic Policies and Redressing Inequality

To combat inequality it is crucial to represent the interconnections between economic change and socio-economic inequality in the formulation of EU economic and social policies.

Economic growth does not enhance social well being equally and less socio-economic inequalities do promote stronger and more sustainable growth as well as other social benefits, including for the better-off. Adapting the innovation paradigm is thus very important. In this regard the research shows that to redress the widening inequalities of recent decades the EU should consider:

- widening measures of economic performance, beyond GDP per capita to include social objectives, perhaps by adopting a capabilities approach as in the UNDP but modified to suit the European context. For example child poverty could be considered as an indicator of social development and economic performance. Prevention should repay intervention owing to the long term adverse effects of child poverty, including transmission to the next generation;
- combating low pay directly to ensure that labour and low paid labour in particular receive a fair share of productivity increases in order to redress inequality overall and prevent work poverty, gender inequality and child poverty. To do so EU and MS should provide support for labour market institutions as they play a critical role in wage negotiation and develop comprehensive and inclusive educational policies to reduce inter-generational transmission of poverty and inequality among children, improve lifelong learning and training opportunities for the unemployed, inactive, and persons at lower educational and occupational levels;
- ensuring that shorter working hours are available in a wider range of occupations without any pay penalty to redress gender inequality and facilitate greater involvement of fathers in the care of their children;
- strengthening the political commitment to reducing social and economic inequality to meet the EU and national goals of social cohesion and social inclusion. To do so the EU could:
 - learn from the experiences of countries where inequalities are least severe;
 - examine the potential impact of a more preventative approach through appropriate social investment strategies;
 - examine the potential impact of an ameliorative approach through appropriate redistributive measures;

- consider ways to modernise and reinforce the long standing values contained in the European Social Model especially as the perceived advantages of the Anglo-US model for economic growth have diminished with the recession and have been associated with rising inequality and less cohesion.

The Framework Programme research in social sciences and humanities convincingly shows that less unequal societies provide more economic and social advantages. This is why the European Union needs to put policies against socio-economic inequalities at the heart of its action, for the benefit of all citizens.



Annex

5

5.1 Further Reading

- Angelini, E., Farina, F. and Pianta, M. (2009) Innovation and Wage Polarisation in Europe, *International Review of Applied Economics* 23 (3):309-325
- Franzini, M. and Pianta, M. (2009) Mechanisms of Inequality, *International Review of Applied Economics*, 23 (3):233-237
- Gregory, M., Beblo, M. Salverda, W. and Theodossiou, I. (2009) Introduction, *Oxford Economic Papers* 61:1-10
- ILO (2008) World of Work Report 2008: Income Inequalities in the Age of Financial Globalisation, Geneva, International Labour Office
- Klasen, S. (2009) Inequality in Emerging Countries: Trends, Interpretations, And Implications for Development and Poverty Reduction, *Intereconomics*, Nov- Dec: 360-363
- OECD (2008) *Growing Unequal. Income Distribution and Poverty in OECD Countries*, Paris: OECD
- Wilkinson, R. and Pickett, K. (2009) *The Spirit Level. Why More Equal Societies Almost Always Do Better*, London: Allen Lane

5.2 List of European Project Titles and Websites Relevant to Inequality 6th Framework Programme

- AIMP-AP - Accurate Income Measurement for the Assessment of Public Policies <http://www.iser.essex.ac.uk/research/euromod/research-and-policy-analysis-using-euromod/aim-ap>
- CAPRIGHT – Resources, rights and capabilities; in search of social foundations for Europe – <http://www.capright.eu>
- DYNREG – Dynamic regions in a knowledge-driven global economy: lessons and policy implications for the EU http://www.esri.ie/research/research_areas/international_economics/dynreg
- EQUALSOC – Economic Change, Quality of Life and Social Cohesion <http://www.equalsoc.org>
- EUREQUAL – Social Inequality and Why It Matters for the Economic and Democratic Development of Europe and Its Citizens. Post-Communist Central and Eastern Europe in Comparative Perspective – <http://eurequal.politics.ox.ac.uk>
- INCLUD-ED – Strategies for inclusion and social cohesion in Europe from education <http://www.ub.es/includ-ed>
- INEQ – Inequality: Mechanisms, Effects and Policies – <http://www.criss-ineq.org>
- KATARSIS – Growing Inequality and Social Innovation: Alternative Knowledge and – Practice in Overcoming Social Exclusion in Europe – <http://katarsis.ncl.ac.uk>
- LLL2010 – Towards a Lifelong Learning Society in Europe: The Contribution of the Education System – <http://lll2010.tlu.ee>
- LoWER3 – The Insecure Perspectives of the Low Skilled in the Knowledge Society <http://www.uva-aias.net/lower>
- PROFIT – Policy responses Overcoming Factors in the Intergenerational Transmission of Inequalities – <http://www.profit.uni.lodz.pl>
- ResIST – Researching Inequality through Science and Technology <http://www.resist-research.net/home.aspx>

Other related projects financed by the Commission

- WELLCHI – The Wellbeing of Children
<http://www.socialsciences.manchester.ac.uk/morgancentre/research/wellchi/index.html>

5th Framework Programme

- CHANGEQUAL – Economic Change, Unequal Life-Chances and Quality of Life
<http://www.nuffield.ox.ac.uk/projects/changequal/>
- DEMPATEM – Demand Patterns and Employment Growth: Consumption and Services in France, Germany, Ireland, the Netherlands, the United Kingdom and the United States (Website not available)
- ECPS – Réseau thématique sur Emploi, Chômage et Protection Sociale: cohésion sociale au défi de la mondialisation et des NTIC (Website not available)
- EDWIN – Education and Wage Inequality in Europe – <http://www.etla.fi/edwin>
- EPICURUS – Societal and Economic Policies to Promote Quality of Life and Well Being: Discrete Preference Identification and Priority Setting in Response to Changes in Labour Market Status – <http://www.abdn.ac.uk/epicurus/index.hti>
- EthnoGeneration – The Chances of the Second Generation in Families of Ethnic Entrepreneurs: Intergenerational and Gender Aspects of Quality of Life Processes
<http://www.ethnogeneration.org/index.htm>
- MAGEEQ – Policy Frames and Implementation Problems: The Case of Gender Mainstreaming – <http://www.mageeq.net>
- MICRESA – Micro-level analysis of the European Social Agenda: combating poverty and social exclusion through changes in social and fiscal policy
<http://www.iser.essex.ac.uk/research/euromod/research-and-policy-analysis-using-euromod/micresa>
- PIEP – Pay inequalities and Economic Performance – <http://cep.lse.ac.uk/piep>
- RegulEducnetwork – Changes in regulation modes and social production of inequalities in education systems: a European comparison (Website not available)
- SOCOHO – The Importance of Housing Systems in Safeguarding Social Cohesion in Europe
<http://www.srz-gmbh.com/socoho/project>

4th Framework Programme

- CHIP – Child Immigration Project – <http://www.b.shuttle.de/wifo/across/p-ch.htm>
- ECCE – European Child Care and Education Study
http://univis.uni-bamberg.de/formbot/dsc_3Danew_2Fresrep_view_26rprojs_3Dhuman_2Fpaeda_2Feleme_2Feurope_26dir_3Dhuman_2Fpaeda_2Feleme_26ref_3Dresrep
- EPIC – The European Political-Economy Infrastructure Consortium –
<http://www.epic.ac.uk>
- GRIT – Growth, Inequality and Training (Website not available)
- PURE – Public Funding and Private Returns to Education. A Cross-Country Policy-Oriented Perspective on Private Benefits of Education – <http://www.etla.fi/PURE>
- SCENESTECH – Systems and the Sociology of Embedded Technologies (Website not available)
- TRANSLAM – Social Integration by Transitional Labour Markets
<http://www.b.shuttle.de/wifo/across/p-tr.htm>
- TRINEU – Trade, Inequality and European Unemployment (Website not available)
- UNIVERSITY ADULT ACCESS – University Adult Access Policies and Practices across the European Union and Their Consequences for the Participation of Non-Traditional Adults
<http://www.pjb.co.uk/npl/bp8.htm>

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There is now compelling scientific evidence that since the mid-1970s socio-economic inequalities have greatly increased in the world and also in Europe. What the research in social sciences and the humanities clearly show is that countries with higher socio-economic inequalities also experience more acute socio-economic problems – whether we are speaking about lower economic growth, more violence, poorer educational achievements, lower civic or electoral participation or higher mortality rates. At the same time, we have experienced sustained economic growth since the 1980s. This means that the kind of growth experienced over the last decades fosters inequalities and, with them, all the social and economic evils that strike the European Union and weaken it as a model for progress and well-being. The way forward is a new socio-ecological model which will have the European democratic values of equity and progress at its heart and make sure that socio-economic inequalities will decline and soon.

