

**AUGUR**

**Challenges for Europe in the world in 2030**

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**DIMENSIONS OF WELL-BEING IN EUROPE: ISSUES  
AND SCENARIOS**

**Guglielmo Wolleb**

**Alessandro Daraio**

## Introduction

A well-being (WB) approach radically changes the concept of development and encompasses many factors beyond the economic dimension. It is founded on a society's capability of realizing individual aspirations and human potential and increasing the quality of life, not only nor necessarily connected with income, but to a more complex set of aspects related to how polity, culture, human relations and governance influence people's lives in a specific society; in short, a person's freedom and spectrum of opportunities.

The present working paper aims to clarify how income and other drivers affect well-being outcomes and the quality of life and identify possible future WB trends in different European groups: Eastern, Northern, Southern, Western Europe and the United Kingdom.

Analysis are framed within the AUGUR project which investigates the role of Europe in the world in the next decades elaborating a set of different macro-economic scenarios according to different hypothesis on European governance evolution and the global context.<sup>1</sup> Four European scenarios are sketched:

**E1 Struggling on.** Strict budgetary and financial supervision will limit deficits of European governments with knock-on effects on consumer and business spending. At the same time taxpayer resistance to higher levies make it increasingly difficult to finance spending on social transfers and government services and investment. The evident problems of government have negative effects on investment and employment increasing political pressures to limit migration. Policy in the Eurozone is essentially fire-fighting as the zone is plagued by persistent financial crises.

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<sup>1</sup> The Augur project is based on a model of world economy that provides foresights of the values of some key economic variables up to 2030. Of this model was also drawn up a specific extension on Europe to provide foresights of the values of some variables of well being. (See Massimiliano Tancioni, Well being scenarios for 2030, Background paper of the Augur project, Augur project website, 2012)

This scenario is in line with a global context of reduced government where the pervasive influence of global financial markets continues to increase with a concomitant decline in the ability of national and international government to influence economic and financial developments in all parts of the world, especially in high-income regions. Governments with limited revenues, under pressure to reduce deficits and accumulated debt and facing extensive responsibilities for security and maintenance of the social and commercial fabric, have little choice but to cut welfare services and refrain from potentially controversial interventions in the market economy. Large financial and commercial corporations develop consumer markets in order to maintain and strengthen their profitability and financial security, thereby serving the interests and increasing the wealth of the growing class of private investors. The availability of capital and the distribution of economic growth around the world depend on assessments made by analysts and investors and strategies of corporate management in response to stock market pressures. Financial markets are prone to convulsive crises roughly once every 7 years.

**E2 EU breakup.** This EU scenario assumes a more or less catastrophic turn of events as the European Union breaks up under the stress of conflicts of interest related to the recession and debt crisis. The Eurozone fragments as the worst affected countries exit the monetary union and attempt to re-establish national financial systems and policies following defaults. Treaties are abrogated and European institutions lose much of their influence. There is significant financial disruption.

At global level US-China hegemony would emerge. In China, difficulties to pursue the same pattern of growth as in the past would require policy adjustments favouring higher wages, increased household income, improved government services, reduced pressure on the environment and cooperation with other countries to ensure acceptance of China's increased participation in the world economy and safeguard its external assets.

On the other side of the world the US government has less scope for policy intervention than the government of China. But it may be assumed that the US will continue to pursue devaluation of the dollar through low-interest policies and will find ways to finance federal and state government programs to create new jobs or protect existing ones without a substantial increase in taxation.

**E3 Multi-speed Europe.** An encompassing European process of regionalisation takes off with the help of a rather differentiated set of policies in different parts of a broad Europe. It could especially concern the exchange rate system with a system of national currencies pegged in various ways to a common external reference. This multi-speed approach could help South Europe, East Europe and associated countries to develop new linkages within a broadly differentiated EU.

However, the relationship between the structure of the exchange rate system and the stability of the financial system will be central to the relative success of a multispeed Europe. The exchange rate system might be a resurrection of the ERM, with pegged but variable exchange rates (with narrow or broad bands). Or it might be a system of relatively flexible exchange rates. In both cases, the likelihood of changes in exchange rates will expose the European economy to potentially severe financial instability, with a risk of negative impact on private investment and on public expenditure.

At global level countries in different parts of the world endeavour to strengthen their prospects by forging closer political and economic relationships with their neighbours and more particularly with the largest or strongest country in each region that is most capable of providing leadership and security to the group.

**E4 Towards a Federal Europe.** It assumes movements towards political and institutional federation of core parts of Europe (North, West, East and South) with the aim of creating a powerful central economic government and federal budget, accepting that this implies a reduced role for national governments and political parties. Some countries of Europe (and most likely the UK) may keep a looser relationship with the nascent federal European state. Federalist Europe sustains a common bond market, with clear fiscal support such as hypothecated VAT revenues. Central funds may be used to support an agreed maximum debt/GDP, with excess expenditure being funded through sovereign bonds. There is an agreed level of revenue sharing (tied to defined social expenditures such as unemployment benefit) and labour mobility throughout the Eurozone increases steadily over the period to 2030.

Stronger European integration is complemented by a level of global cooperation that makes it possible for the world as a community to tackle common problems with regard

to financial imbalances, concerted regulation of financial flows with limited regulatory arbitrage, energy security and emissions and development of low-income countries.

A complete description of the assumptions at the base of each scenario, a detailed presentation of the macroeconomic foresights and the background papers are available on the project website (<http://www.augurproject.eu>). In this working paper we shall focus mainly on the two extreme scenarios, the “Break up” and the “Federal Europe”.

Well-being is an intrinsically multidimensional concept; therefore an accurate analysis should involve a number of components including health, education, material living conditions/inequality, community/social capital, governance, lifestyles, social inclusion/employment and security (see the AUGUR WP7 third deliverable “Scenario analysis: public goods and structural policies”).

Four broad dimensions will be investigated in this working paper, namely Health, Education, Employment, recognition and social inclusion, Poverty and inequalities. The analysis focuses on past trends and future broad challenges which European countries will have to face in the next future.

## Health: the challenge of ageing

### *The lengthening of the average life: a conquest and not a threat*

Health represents a crucial dimension of well being and one of the most basic human rights. It plays a major role in determining individual people quality of life and in producing positive externalities for the society and economy as a whole. It also receives a large and rising share of welfare expenditure and is very sensitive to financial constraints in a historical period characterized by the urgency to reduce public debts.

The issue of health in Europe is strictly associated to the demographic challenge of an ageing population. Projections for the following decades for Europe as a whole point to rising shares of population 65 and over and of population over 80 and a shrinking share of working population.

Demographic projections. Age group share (%)

Age group / Year	1990	2000	2010	2020	2030
0-14 years	19,5	17,2	15,6	15,5	14,7
15-64 years	66,8	67,2	67,0	64,3	61,7
65-79 years	10,6	12,3	12,7	14,4	16,6
80+ years	3,1	3,3	4,7	5,8	7,0

Source: Eurostat EUROPOP2010

The ageing of population is mainly determined by two different phenomena. The lengthening of the average life and the fall in the fertility rates.

Life expectancy at birth in 2010 was the result of a long run rising trend concerning all parts of Europe. Since 1990 life expectancy has increased of 5/6 years overall Europe. The values today are around 80 years, with Eastern countries lagging behind with values around 75. Similarly, the expected life at 65 years ranges between 15 and 20 years, as a result of an increase between 2000 and 2010 of a year and a half to two years.

Life expectancy at birth

Bloc/Year	2000	2010	2020		2030	
			Break-up	Federal	Break-up	Federal
Eastern Countries	72.87	75.37	77.85	77.82	80.52	80.48
Northern Countries	78.34	80.63	83.09	83.08	86.23	86.19
Southern Countries	78.81	81.61	84.14	84.12	86.84	86.79
Western Countries	78.29	81.23	83.98	83.97	86.80	86.77
United Kingdom	77.86	80.33	83.06	83.05	86.25	86.21

Source: CAM model

Life expectancy at 65

<b>Bloc/Year</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>
Eastern Countries	15.22	15.80	16.71
Northern Countries	17.94	18.87	19.43
Southern Countries	18.57	19.26	20.36
Western Countries	18.39	19.08	20.14
United Kingdom	17.60	18.50	19.70

*Source: Elaboration on Eurostat data*

For the future, the rising trend of life expectancy at birth is supposed to continue, at a slower pace up to 2020 and at a faster rate up to 2030. According to our model, the average life is expected to increase between a minimum of 2.25 and a maximum of 2.50 years in the various blocs by 2020 and by a maximum of further 3.18 years and a minimum of 2.67 between 2020 and 2030. The average life in 2030 should rise just above 86 in all blocs except the Eastern bloc where should just exceed 80. The trend of average life has a strong path dependency and is insensitive to different economic scenarios. Other official projections confirm the rising trend in the average life but estimate slightly smaller increases.

The gradual but continuous increases in the average life calls for radical changes in our social and economic models. There was in the past the presumption for this increase to meet physiological limits. But now it appears that this presumption was false. By 2030 the coexistence of four generations will start to be the standard situation. This will make our societies more diverse and more complex. From a static point of view, it may be more difficult and more challenging to exploit and enhance human resources with cultural and education background so radically different. From a dynamic point of view, it will be necessary to manage a continuous change of role and positions of people in different phases of their life cycle. But, as problematic it may be, the lengthening of average life must be considered a human great achievement from the well being perspective.

### *Healthy or unhealthy longer life?*

It is however necessary to introduce a basic distinction between healthy and unhealthy life expectancy. First of all, this distinction is fundamental for assessment of individual well being. It makes a deep difference for well being whether the lengthening of the average life is associated with an increase of the healthy or with the unhealthy years of life. But the distinction is also crucial for the society as a whole. One thing is to have a large share of people in good health still able to give a contribution in terms of work, of experience and of emotional relations. Another thing is to have an increasing share of people suffering, in constant need of care and entirely dependent on the health system and/or on family support. Years of healthy life are potential productive factors for the economic system. They raise the issue of a more intense use of aged people in the labour market and of an enhancement of its specific features in terms of accumulated knowledge, experience and contribution in human relations.<sup>2</sup> Years of unhealthy life rise the issue of an increase in the demand for the health system and of financial sustainability considering that the demand for health of an old person is from 3 to 4 times higher than that of an adult.<sup>3</sup> Further, the health status affects the composition of consumption and production overall the economic system and the pattern of resource allocation within the health care system itself.

It is not easy however to answer the question of how many of the additional years of life will be spent in good health. There are conflicting views and not reliable statistical data. Some scholars support the thesis of "morbidity compression", according to which the share of healthy life is increasing thanks to a progressive reduction in the last years of severe disabilities. Other scholars support the opposite opinion of "morbidity expansion" that postulates that some of the decline in mortality is due to more people now surviving serious illness but living longer with consequences. They base their view

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<sup>2</sup> Conventional wisdom consider old people a relatively less productive factor but not always it fully evaluates the potential and actual contribution to the society and economy of their specific human capital.

<sup>3</sup> According to some estimates, "health care costs for 65-75 year olds are 2,5 times greater than those for people under 65 whilst the costs for those over 75 are estimated to be 4,5 times greater". See European Commission, Directorate-General for Research Socio economic Sciences and Humanities, Foresight Monitoring Network, Special Issue on healthcare- Healthy ageing and the future of public healthcare systems, November, 2009, p. 35



on the empirical finding of a diffusion of mild and chronic disabilities and conclude that most of the gained years of life will be spent in poor health. There is finally the third position of 'dynamic equilibrium' according to which increased longevity is linked with a reduction in severe morbidity and an expansion of light morbidity and that, overall, the share of healthy life should remain roughly constant but that the absolute number of years spent in bad health should increase.<sup>4</sup>

The statistical data on years spent in good health unfortunately are not fully reliable. The Eurostat indicator of healthy years of life is measured by self-perceived disability assessed by health survey. People are asked whether they are hampered in their daily activities by any physical or mental health problem, illness or disability. But the self-perception of disability starts in the moment in which one finds out to be ill and begin to heal. This exact moment may change depending on mass screening, early diagnosis, a greater use of prevention. It depends then on the efficacy and efficiency of the health system. The reduction of the number of healthy years of life over time shown by Eurostat statistical data may then be the result not of an objective deterioration in an individual state of health but of an early knowledge of the disease.

To give an idea of the size of the problem, the table below shows the absolute number of years spent in poor health assuming constant the share of healthy life prevailing in 2011 in each bloc according to the Eurostat data. The number of years spent in poor health in 2011 ranges from a minimum of 14,95 in the U.K. to a maximum of 21,69 in Western Europe.<sup>5</sup> By 2030 these values will increase by one year, one year and a half. They would be higher under the hypothesis of "morbidity expansion" and lower under the hypothesis of "morbidity compression".

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4 See Bernd Rachel, Yvonne Doyle, Emile Grundy, Martin McKee, "How can health systems respond to population ageing?", Policy brief 10, World Health Organization- Regional Office for Europe and European Observatory on Health Systems and Policies, 2009 pp. 4-5

5 The inter bloc comparison of these data should also be taken cautiously. The subjective perception of being disable may indeed change in different countries for social and cultural factors.

## Years of unhealthy life expectancy at birth

Bloc/Year	2011	2020		2030	
		Break-up	Federal	Break-up	Federal
Eastern Countries	15.34	15.83	15.83	16.38	16.37
Northern Countries	19.42	20.18	20.18	20.95	20.94
Southern Countries	19.67	20.16	20.15	20.80	20.79
Western Countries	21.69	22.51	22.51	23.27	23.26
United Kingdom	14.95	15.37	15.36	15.96	15.95

*Source: Elaboration on CAM model and Eurostat data*

### *Healthy ageing as a policy priority*

Twenty years spent in bad health represent an heavy burden for people well being, for the impact on the economic and social system, for the sustainability of the welfare system. To deal with this challenge, it has been suggested to consider “healthy ageing” as a policy priority.<sup>6</sup> The lengthening of the average life should cease to be considered a “problem” but it should be considered a conquest and an opportunity. This different approach requires the adoption of a complex set of complementary interventions in different but related dimensions. It becomes important to give priority to scientific research focused on age-related diseases such as chronic conditions, neurodegenerative diseases and mental health disorders. A greater weight should be attached to prevent health problems deriving not only from ageing but also from unhealthy lifestyles rather than spending resources on curing them. It would be appropriate to introduce technical solutions for every day life helping old people to remain self-reliant and to live as long as possible in their homes. It is necessary to implement policies aimed at enabling elderly people to willingly remain in the labour market and at finding the way to enhance their endowment of knowledge and experience. It becomes crucial to find a new balance between informal and formal care,

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<sup>6</sup> See European Commission, 2009, p.33-38

re-defining the role of the family and of the community in this field and, more generally, creating an external social and physical environment that reduces the risk of social exclusion. This bundle of integrated interventions is presented as a “win-win” policy because it improves the well being of people while it softens the financial burden of healthcare expenditure.

### *The risks of a downgrading of the health system*

Insofar we focused the attention on basic indicators of health such as the expected average life and the number of years spent in good health, that are rather insensitive to economic conditions in the short run. The performance of the health system however should be evaluated on the basis of more and more subtle indicators. Waiting times, patient’s satisfaction, skills of professionals, rates of “amenable mortality”, availability of updated technologies for all, number of medical personnel per inhabitant, territorial distribution of health facilities and others indicators should be used to compare the performance of different health national systems in countries with advanced welfare regimes. The availability of these indicators is particularly important to evaluate the risks for the quality and inclusiveness of the health system of different economic and social scenarios in the next decades. A long stagnation associated with the euro break up scenario would have certainly heavy negative consequences on the quality of the health system. Within this scenario, the welfare expenditure is bound to fall both per capita and as a share of GDP in most European blocs. Projecting health expenditure on weighted population for 2020 and 2030- a rough indicator of the

adequacy of the system to respond to the changing needs of the population- <sup>7</sup> the break up scenario shows a substantial decrease in all blocs except in the Northern European countries.

## Health Expenditures on Weighted Population

(2 time young population less than 15 plus working age population between 15 and 64 plus 3 times old population more than 64)

Bloc/Year	2011	2020		2030	
		Break-up	Federal Europe	Break-up	Federal Europe
East Europe	529	404	643	438	792
North Europe	2.585	2.708	3.109	2.735	3.760
South Europe	1.474	1.275	2.065	1.165	2.668
West Europe	2.377	2.231	2.719	2.152	3.169
United Kingdom	2.049	1.460	2.332	1.438	2.763

Rationalization of the health system and measures of social innovation may slow but not prevent a deterioration of the quality of services supplied. The major risks are a loss in the universality of the system, an increased use of private healthcare by better-off and a lowering of the provision of public services that affects particularly the most vulnerable segments of population. The contrast between the break up and the Federal Europe scenario is striking within which a substantially increased level of expenditure would make possible to meet the mounting needs of an aging population.

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<sup>7</sup> We assume in the calculus that health expenditure will evolve in line with the overall public expenditure of the CAM model in different scenarios. The weights for population are 2 for young people up to 15; 3 for people over 64; and 1 for the rest of population

## *Creating the conditions for having the desired number of children*

The second main determinant of the ageing of population is the low rate of fertility in Europe. The lowest rates in 2010 are recorded in Eastern and Southern countries with values around 1,40 and the highest in the UK and Northern Europe with rates just below 2.

### Fertility rate

<b>Bloc/Year</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>
Eastern Countries	1.30	1.28	1.39
Northern Countries	1.69	1.80	1.93
Southern Countries	1.29	1.35	1.43
Western Countries	1.60	1.60	1.68
United Kingdom	1.64	1.78	1.98

*Source: Elaboration on Eurostat data*

None of these rates is sufficient to maintain stable the level of population in absence of emigration but seemingly small variations make a big difference over the long run. A rate of 1,9 will produce a fall in the population of 15% over a century while a rate of 1,3 will result in a population that is only 25% of its initial size.<sup>8</sup>

There are several factors that can explain the overall low rate of fertility in Europe and the very important differences within Europe. There is a wide agreement however that they derive mainly from some characteristics of the external environment. Women choices on the number of children are strongly constrained from specificities of the labour market, of the welfare system and of the family itself. High rates are associated with higher female employment rates combined with higher provision of quality childcare services and higher male contribution to family activities. Women preferences

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<sup>8</sup> See Gosta Esping-Andersen, *The incomplete revolution*, Polity Press, U.K. and U.S.A. , 2009, p.82

everywhere in Europe, in an hypothetical context more friendly to motherhood, hover around two children. This implies in most European countries a gap between the actual and the wished number of children<sup>9</sup>.

This has important consequences for individual and collective well being. The difficulty of having the desired number of children can be considered a limitation of an individual fundamental human freedom. Martha Nussbaum places the opportunity for choice in matters of reproduction among the ten central capabilities.<sup>10</sup> But this is also a case where individual and collective well being coincide. The rise in the fertility rates corresponds to a general European interest to halt in the long run the process of ageing and of decline of population.<sup>11</sup>

The debate on how to increase the fertility rates is rich and diversified. Some of the main obstacles have been however identified. Unemployment and unsecure jobs, disadvantages in women progress of careers, difficulties of reconciliation between family and outside work, low earnings, weak male collaboration in family housework, costly access to the housing market are all factors that contribute to discourage the birth of new children. There is finally some agreement on the guidelines of a policy aimed at giving a substantial freedom of choice on the size of the family. The core of each effective policy lies on its capacity to ensure both women employment and universal high quality childcare services. Reconciliation policies are the crux of the matter. The increase in women participation in the labour market is a new and irreversible feature of the contemporary advanced countries. There are of course wide margins for further increases in many European countries and we should also allow for persistent gaps among countries and regions due to differences in women and family preferences. The basic “stylized fact” remains however that most women want to work, want to derive satisfaction from their work and want to make progress in their working

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9 See Gosta Esping-Andersen, 2009, p.28

10 See Martha C. Nussbaum, *Creating capabilities*, The Belknap Press of Harvard University Press, Cambridge, Massachusetts, and London, England, 2011, p.33

11 We are adopting an European rather than a Global point of view. One may support the thesis that what matters is population growth at world level and that population declines in Europe may well be compensated by increases in other parts of the globe and by huge movements of population between different continents.

careers. Obstacles to the achievements of these ends affect negatively the fertility rate. Difficulties in reconciling outside work with family tasks constrain the choice of having children. Hence, the strategic importance of a high quality provision of childcare public services. That the coupling of high rates of female employment and high rates of fertility represents a feasible equilibrium is shown by the Scandinavian model where almost the totality of women with children work thank also to the support of an high standard supply of childcare public services and where the fertility rate is one of the highest in Europe.

## Employment, recognition and social inclusion

*To raise employment rates to meet the challenge of aging of population*

Employment is another fundamental dimension of well being. It contributes to individual well being in different ways. Employment is the main source of income to access goods and services necessary to achieve decent standards of living. But it is also a necessary condition for social recognition; it gives the individual the perception of participating in a collective purpose and therefore of being part of the society and, as such, recognised with social status and identity. The impact of employment conditions on individual well being also depends on the external context. Non-participation in the labour market in general or of some segments of population in particular, is stigmatized in some cultural contexts, but accepted or desired in others; the social stigma linked to job loss is less pronounced in contexts of high unemployment.

Employment is also a collective good being the architrave of any economic system. It may also be in the present days an effective answer to the great challenge of the ageing population previously discussed. The ageing of population represents a menace for the sustainability of the welfare system in Europe. It implies on one side a mounting pressure on the health and on the pension systems and on the other a diminishing capacity of answer because of a shrinking working age population. The rise in overall employment rates seems a necessary condition to cover the gap between growing needs and decreasing resources.

There are wide margins to rise employment rates in Europe, as suggested by the deep differences among countries of female and old people rates of employment and of rates of unemployment. The Table below shows the employment rates in the main European blocs up to 2011 by gender and the projections up to 2030 within two different scenarios. These rates have been calculated rather unconventionally on total population over 15 rather than on population between 15 and 64. This choice has been made to emphasize that the size of working population cannot be considered constant in a long run perspective with an expected average life in continuous increase and accounting for a rising trend of elder participation in the labour market.

## Employment rate total

Bloc/Year	2000	2011	2020		2030	
			Break-up	Federal	Break-up	Federal
Eastern Countries	46.13	45.81	45.44	50.50	45.02	52.78
Northern Countries	58.79	58.16	55.05	59.15	52.34	59.70
Southern Countries	45.29	45.90	44.67	50.26	44.73	52.70
Western Countries	52.08	53.88	52.18	57.31	50.51	59.06
United Kingdom	57.24	55.97	52.95	58.15	51.70	59.35

Source: CAM model

## Employment rate - males

Bloc/Year	2000	2011	2020		2030	
			Break-up	Federal	Break-up	Federal
Eastern Countries	52.82	52.75	52.49	56.79	52.31	57.28
Northern Countries	63.39	61.85	58.21	62.37	56.71	62.30



Southern Countries	58.43	54.17	53.08	57.69	53.00	57.87
Western Countries	60.43	59.49	56.80	61.37	55.35	61.36
United Kingdom	64.53	61.34	57.82	62.98	57.49	63.42

Source: CAM model

## Employment rate - females

Bloc/Year	2000	2011	2020		2030	
			Break-up	Federal	Break-up	Federal
Eastern Countries	39.95	39.40	38.97	44.71	38.32	48.63
Northern Countries	54.40	54.56	51.94	56.00	48.05	57.15
Southern Countries	33.03	38.05	36.57	43.12	36.67	47.65
Western Countries	44.30	48.59	47.79	53.46	45.90	56.87
United Kingdom	50.48	50.85	48.22	53.45	46.02	55.36

Source: CAM model

The Northern European countries record the highest rate of employment, above 58%. Taking these countries as a benchmark, the gap is of around 13 points with Eastern and Southern European countries, of 4 points with Western Europe and 2 with the U.K. The size of these differences give a rough idea of where and how much is possible to increase in Europe the rate of participation, allowing of course for the fact that people preferences on labour supply may well continue to differ to some extent. The gap in activity rates is much more pronounced among women but in Southern and Eastern countries is substantial also among men. The female rate of activity in these two latter blocs is around 15/16 points lower than in the Northern European countries while the male rate of activity is lower of about 8/9 points. Western European countries register a

gap of only two points among men but of 6 points among women. The U.K. records the same rate of participation among males and a gap of 4 among females. Part of these gaps is imputable to huge differences in the elder rate of activity. In Northern European countries and in the U.K. the work of the elderly is already a widespread phenomenon. Participation to the labour market of people of age between 55-74 has exceeded 42% in the former and 38% in the latter. Southern and Eastern European countries record much lower rates of activity, just above 25%, while Western Europe lies in the middle with a rate of 32%.

#### Employment rate – people 55-74 years old

<b>Bloc/Year</b>	<b>2000</b>	<b>2005</b>	<b>2011</b>
Eastern Countries	25.28	23.26	27.84
Northern Countries	35.96	42.13	42.46
Southern Countries	20.47	23.27	25.81
Western Countries	21.30	25.44	32.08
United Kingdom	31.63	37.40	38.47

*Source: Elaboration on Eurostat data*

Projections up to 2030 of overall employment rates differ radically in the two scenarios considered. The very low rates of growth of the break up scenario would make very difficult increases in employment rates. Southern and European countries would continue to register very much the same levels of today while the other blocs may even experience a fall respect to the present high rates. The higher rates of growth implicit in the federal Europe scenario depict a quite different picture. Southern and European countries would increase substantially the rates of employment partially covering the gap with the other European blocs. Northern and Western European countries and the U.K. would increase further their participation rates that would all align around 59%.

Consequences on well being would be dramatic within the break up scenario. The present coverage and standards of welfare state provisions would be untenable with rates of employment so low. A radical loss in the universality of the system and a

downgrading of services would be the inevitable consequence of a prolonged stagnation. Fiscal consolidation would make necessary heavy cuts in the pension and health systems, would not save the education system and would certainly not consent the building of adequate childcare services where they are not existing. Clear signs of this process of deterioration are already present in various European countries. The Federal Europe scenario, on the contrary, would consent a much better defence of the European social model thank to the new resources created by higher rates of employment. Important reforms of the welfare system would probably be necessary in any case because of the new social needs deriving from the deep transformations of markets conditions and in the prevailing household model. But these reforms could be implemented in a much more favourable economic and political context.

#### *Decoupling growth and employment, if necessary*

The objective of rising employment assumes such central importance for the future of people well being that we should pose the question whether and how it is possible to create employment even in a negative economic conjuncture. Employment rates are partially related to specific cultural, social and economic features of a country which influence participation in labour market. Some of these factors change over time following long run trends rather insensitive to policies or economic conjunctures. Other factors on the contrary are very sensitive to institutional and regulatory changes. The welfare state regimes in particular have an important impact on participation, particularly on female and elder people participation. Diversity of welfare regimes explain much of the present differences in employment rates among European countries. This suggests that increases in employment may derive from appropriate changes in the specific features of these regimes.

Employment rates are also correlated with the economic performance that determines the demand of labour and job attractiveness in terms of wages, labour rights collective bargaining in each country. From a well being perspective, it is important to examine the links between growth and employment and, in particular, the possibility of expanding employment even in a context of slow growth, such as that of the break up scenario.

The relationship between growth, productivity, employment, income and ultimately human development is complex and not necessarily linear. Indeed, even if economic growth is a major determinant in expanding job opportunities, it is not sufficient alone and can be accompanied by employment reduction (jobless growth), just as a significant employment increase can be associated with a moderate economic growth. Looking at past trends, it is possible to appreciate significant differences in the relationship between growth and employment among European countries. These differences in the employment content of growth can derive from a variety of factors such as the level of development of various blocs, the structural composition of the economy, specific labour market arrangements and legislation, targeted public policies. They however suggest the possibility to defend and to raise employment rates even in the likely scenario of stagnant GDP growth. This of course must be carefully weighted for the consequences in terms of productivity, of competitiveness, of lower wages and labour standards. But the possibility of decoupling growth and employment should be seriously considered in a complex labour market, made from high and low productivity sectors, tradable and non tradable sectors, with different exposure to market forces and social vocation, with workers of different ages and different personal and family needs. This line of thought is consistent with the well being approach that recognizes the importance of growth on quality of life and happiness but that on the same time is based on the conviction that the impact of growth on well being is not necessarily positive and straightforward and that objectives of well being can be pursued also independently from growth.

*More flexible and diversified labour markets are needed to increase employment*

But even in the most favourable scenario of Federal Europe, the question of where and how to absorb huge absolute increases of employment deserves attention. The traditional European focus on rising productivity to ensure good quality of jobs in the framework of the knowledge economy, will have to be mixed with focus on rising employment inclusive of less skilled and productive segments. The diversity of labour should explicitly enter the employment strategy elaboration. Hi-tech sectors where productivity gains are ensured by technological progress and require high educated and skilled employment may not be the only way to ensure more inclusive labour market.

Other employment basins may be exploited to enlarge employment opportunities also for segments across the border of labour market. Care giving, personal services, households assistance may be increasing important employment basins in most European countries given the process of ageing and the expediency to rise fertility rates. To support these emerging sectors could be the ground for a win-to-win case between employment necessity for some and welfare needs of others. The expansion of employment in these sectors may require a more flexible labour market with lower wages, less strict regulations and guarantees. The risk of fostering a dualistic labour market is clearly present but various scholars consider a labour market much more flexible and diversified as a necessary condition or a necessary price to pay in order to rise employment rates and to defend the welfare state.<sup>12</sup> Clearly this is a thorny issue from the well being perspective as it is the issue of how much of this new employment must be left to the market and how much to the public sector.

*The quality of work is essential for individual well being*

Insofar, we focused on employment as such as a highly positive component of well being. This is justified in the present period in which we are all concerned with dramatic problems of high and rising unemployment and with the challenge of ageing. From a well-being perspective however work rather than employment should be the core of analysis. This implies first of all a great attention to the problem of quality of work. Irregular employment or wages too low, unsafe conditions of work, bad industrial relations or unsocial environment, job security, low training in the job, poor perspective of career and of personal development, involuntary temporary or part time work, are all factors that can negatively affect the well-being dimension of employment. Different people with different age and skills can be ready in a more flexible labour market, as that envisaged by different scholars, to accept lower job conditions, especially in a temporary perspective, but there are minimum standards below which should not be allowed to go. Otherwise work becomes, as it happens in not a few cases, a source of great misery and sufferance.

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<sup>12</sup> This opinion is for instance expressed by Gosta Esping-Andersen, in "A welfare state for the 21st century", Report for the Portuguese Presidency of the E.U., 2001.

### *The trade offs between work, leisure and other activities*

A second fundamental perspective from which employment and work should be evaluated is the potential conflict with other dimensions of well being. Time spent at work is time subtracted to other human activities. It is not a case that a fraction of the long run gains in productivity have been used for reducing working time rather than increasing wages. This means of course that leisure is a “good” as much as “work” and that each person, according to his preference function, has his own optimal basket of work and leisure. The possibility of getting the optimal basket depends however on a set of individual and social conditions ranging from the level of wages to the divisibility of working time. From the well being perspective then a labour market where people can choose more freely the amount of work to deliver daily or yearly is preferable to more rigidly regulated markets. How the leisure time will be utilized is of course a matter of individual choice. However this choice may produce significant externalities for the society as a whole. It is not socially indifferent to use your own free time drinking beer rather than by volunteering or participating more actively in public life. For instance elder people spend much of their time in activities of care of other elder people or of children giving a valuable support to the working of the welfare system or to adult mothers engaged in the labour market. Public interventions that encourage and support this kind of activities may be “high value for money” policies

The potential conflict between employment and other dimensions should not be seen exclusively from an individual perspective. Increases or decreases in employment rates have important repercussions on the working of the whole social system with ambiguous effects on well being. From a household point of view, an increase in the number of earners produces a considerable increase in the household income and reduces drastically the probability of falling in poverty. It may however conflict with family care and family activities. This can have negative repercussions on people well being when the State or the market fails to provide high quality public services as in some Southern European countries. On old people who may lose the affective component of care; on children who may spend too little time with their parents; on women who may be overloaded by the sum of domestic and outside work. This may

even have a negative impact on the health of people. Work is also associated to stress and effort. It is not a coincidence that the gap in the average life of men and women is narrowing as female employment rates are raising. This example shows also that the ultimate effect on well being of changes in one dimension depends on what happens in other dimensions. A rise in the female employment rate produces unambiguously positive effects in a context of a satisfactory supply of childcare services and of an adequate male contribution to domestic activities while it produces conflicting effects in a context in which women are left alone in providing care. This type of tensions between different dimensions of well being are not an exception in a non-perfect world where the necessary complementarities between State action, Household behaviour and Market working not always exist.

## *Education as a means and as an end of well-being*

### *The alignment of the attainments levels in Europe*

Education is a fundamental dimension of individual and collective well being.

Education impacts on individual well being as a means and as an end. It is a means to acquire an higher social status and greater power in our societies and to enlarge the capacity of exploiting the opportunities offered by the external environment.<sup>13</sup> It is an end because through culture and knowledge one can enrich his own personality and enhance his own capacity to understand and interpret the world.

Education impacts on collective well being because of its potential effects on growth, equality and civiness. Education is one of the most important channels through which to build the human capital of a society, which is a key determinant of economic growth. But education has also an important impact of inequality. It may contribute to inequality if left entirely to the spontaneous mechanisms of social reproduction but it can become a powerful instrument to pursue equality of opportunity, if provided for free and at high standard of quality to all. Finally, educated and informed people are in

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<sup>13</sup> On the role the of "cultural capital" as a means to acquire power and status the mandatory reference is the whole work by Pierre Bourdieu

a better position to give a valuable contribution to the democratic decision making processes.

We identify here three different criteria with which to evaluate the performance of an education system. Attainment, achievement and adequacy.

Basic quantitative statistics on education refer to level of attainment. The number of expected years of schooling is similar in all European blocs being comprised between 17 and 18 years, with the exception of Northern countries with a level over 19. This difference largely depends on higher shares of adults who participate in programmes of formal initial education. The number of expected years of schooling has increased everywhere in Europe in the last decade, with the exception of the U.K. At a slower pace in Western Europe and other old European Union countries and at a much faster one in Eastern Europe. It is plausible that participation in education will continue to increase in the next decades mainly as a result of an increasing share of adults deciding to improve their level of education, getting a diploma or a degree. This further rise of the expected years of schooling would be accompanied by a change in the idea of education, no longer confined to the initial part of people's life but spread through all one's working life and beyond, in the perspective of lifelong learning. In the framework of a longer working life and less stable careers, periods of education would be alternated with periods of employment or would overlap with them. Today around one third of European population aged 25-64 have low education or qualification. There is then wide room for significant "return back to school" of adult people. Paradoxically, low skills workers are those that more would benefit from recurring periods of education but are also those less able to upgrade their skills. Things will improve in the future as the share of skilled workers will gradually increase.

## Indicators on education attainment

Indicators	Expected years of school		Drop-out rate		Tertiary education attainment	
	2000	2010	2000	2010	2000	2010
Eastern Countries	15,43	17,82	14,01	10,51	12,5	28,5



Northern Countries	17,78	19,03	12,6	10,16	29,2	43,2
Southern Countries	16,35	17,46	27,48	22,6	18,9	28,4
United Kingdom	18,9	17,09	18,2	14,9	29	43
Western Countries	16,81	17,34	13,17	11,26	25,4	34,8

*Source: Elaboration on Eurostat data*

The number of expected years of education depends on one side on the legal institutional framework for education, endogenous to each country system, which defines the length of education cycles (but coordination at European level is in progress and the so called “Bologna process” delivered significant results), and on the other side on the participation rates in non compulsory education.

Important disparities exist among European blocs if we look closer at secondary and tertiary education attainment. Northern countries have a well balanced education systems characterised by an high secondary school attainment (low drop-out rate) and a significant share of young graduates. West Europe shows a similar situation but records lower levels of tertiary education attainment. East countries perform satisfactorily on the side of inclusiveness (low drop-out rates) but poorly with regards to higher education. The UK is in a peculiar up-biased position with very high tertiary education attainment but a significant drop-out rate. Southern countries are lagging behind with an impressive drop-out rate on the one hand and low tertiary education participation on the other.

European Union stated ambitious target up to 2020 for both secondary and tertiary education which are unlikely to be reached without relevant additional effort. As for early school leavers most blocs are already close to the target (10%) but the UK and especially the South need impressive progress to reach it. For tertiary education attainment (40%) two blocs are already beyond the threshold, but for the others three, and especially for South and East, the goal is far away.

*But students' achievements are different among countries and within countries*

Indicators on attainment are insufficient to describe education progress throughout Europe: time spent in education is not the best unit to measure education internationally, because the content and the value of one year of school is different across countries and across schools. It is useful to complement data on attainment with data on achievement. Wide disparities, indeed, exist with regards to quality of education, skills and competencies provided (learning outcomes), and adequacy to the job needs and knowledge society requirements. International surveys –OECD's Programme for International Student Assessment (PISA), Trends in International Mathematics and Science Study (TIMSS), Progress in International Reading Literacy Study (PIRLS), etc.- attempt to measure and compare cognitive achievements internationally, with results only weakly correlated with the years spent in school.

The table below show results for European blocs from different PISA surveys<sup>14</sup> testing achievement in reading, mathematics and science by 15 years old pupils; for each year the first column (M) report the mean score registered while the second one (U) represents the percentage of students under level 2 in PISA classification (in other words students with score below a certain threshold).

Indicators on education achievement

Bloc Year	Reading				Mathematics				Science			
	2000		2009		2003		2009		2006		2009	
	M	U	M	U	M	U	M	U	M	U	M	U
Eastern Countries	481	22	493	17	494	20	494	14	501	17	505	14
Northern Countries	516	13	506	14	515	11	507	15	511	15	509	15
Southern Countries	488	19	485	20	472	32	482	20	480	23	488	20

14 OECD (2010), PISA 2009 Results: Learning Trends: Changes in Student Performance Since 2000 (Volume V) <http://dx.doi.org/10.1787/9789264091580-en>

United Kingdom	495	-	494	18	495	-	492	15	515	17	514	15
Western Countries	495	19	498	18	511	18	509	16	509	17	511	16

*Source: Elaboration on OECD data*

In brief, these numbers tell us that mean scores registered in Europe vary among blocs and are usually highest in Northern countries (but it is not the case for the last survey for mathematics and science) and lowest in South. The rank is not the same for the three categories, testifying the existence of different cultural approaches behind each national education system. Over time, the performance of students from South, East and West improved (the table compare the first and the last survey available), while less brilliant results are registered in North countries and, to a lesser extent, in the UK.

These average numbers hide both disparities within each bloc and within countries themselves. The second column drives attention to the bad performer segment of student population. As expected this percentage is inversely correlated with mean score, but the relation is not linear and does not apply in a few cases. The highest percentage of students below the threshold is always registered in South, but it is quite high also in West and the UK. This percentage decreased in every bloc except North over time, but a share comprised between 1 on 7 and 1 on 5 pupils have a poor performance still today.

This aspect of inequality of PISA test scores among students is very important, because of the impact of education on other well being dimensions: job opportunities, future economic wealth, health status, and in some cases political participation in the democratic process. Disparities in education achievement may translate in an exacerbation of inequalities in other economic and social dimensions.

Disparities of achievements may derive from differences in effort or in ability of students and from inequalities of opportunities due to pre-determined circumstances beyond the control of individuals This difference is very important from an analytical point of view even if it is difficult in practice to disentangle the different factors at work. While disparities produced by the diversity of human talent are unavoidable, disparities produced by inequalities of opportunity are unacceptable from the point of

view of social justice and also undesirable from the point of view of an efficient allocation of resources. Research based on PISA results suggests that inequality of opportunity accounts for up to 35% of all disparities in educational achievement -but there are wide differences across countries- and that it is uncorrelated with average educational achievement and only weakly negatively correlated with per capita gross domestic product. On average it is negatively correlated with the share of spending in primary schooling. Family educational and cultural resources (parental education, numbers of books at home, language at home, and cultural possessions) seem to be associated with the largest share of inequality of learning achievement, even if to different extent across countries. Family economic resources (father's occupation, durable assets) also appear as an important source of learning inequalities. Immigration status and the type of area where schools are located are other two relevant factors, whereas the student's gender accounts for a rather limited value<sup>15</sup>.

Inequality in achievements unrelated to the characteristics of individuals indicates a failure of the education system or a limit of its effectiveness. There is some evidence that pre-school years of life when children are assigned almost exclusively to family caring are crucial to the development of cognitive skills of children. To this extent, the education systems are helpless against the emergence of inequalities in learning. However there is also some evidence that institutional settings have an impact on student performance and on the degree of inequality. Some countries have comprehensive school systems aiming to provide all students with similar opportunities of learning, while other countries divide students tracking or streaming them among schools or classes, according to their interests or academic potential. Evidence based on PISA results suggests that the degree of inequality is positively correlated with early tracking, that might actually reinforce the effects of family background on educational achievements.

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15 Francisco H. G. Ferreira, Jérémie Gignoux (2011), The Measurement of Educational Inequality. Achievement and Opportunity, World Bank Policy Research Working Paper 5873

*To adapt the education system to provide the skills required by the labour market*

Comparison of quality and students' achievement in tertiary education is much more difficult, both for conceptual problems -expected outcome of higher education often include occupational competencies, domain-specific cognitive skills, general reasoning and problem-solving skills, non-cognitive development related to psychosocial development, attitudes and values- and for the absence of international comparable data (OECD promoted a feasibility study for an international assessment of higher education learning outcomes, that is still in progress.) The biggest challenge is a better integration in the so-called knowledge triangle (education-research-innovation) to drive societal progress and to improve employability of graduates. A comprehensive education policy cannot ignore the links between high education and employment. Employment rate for high skilled people is in Europe 85% while for low skill workers stands at 50%. This gap is bound to enlarge up to 2020 with the proportion of jobs employing high qualified people increasing more than 30% and the proportion employing those with low qualifications decreasing of 15%.<sup>16</sup> The issue here for the education system is to identify and provide skills and competences which are adequate to the labour market needs and that more broadly enable people to exploit all opportunities of a globalized world.

There is consciousness that, in spite of a growing demand of skilled workers, a large share of population in Europe is not sufficiently skilled, that firms do not fully recognize the value of education, that important mismatches between demand and supply of qualified workers still exist, that the worlds of education, training and work are not close enough. A group of experts working for the Commission identified four broad objectives of policy to deal with these shortcomings. To give the right incentives to people to improve their skills and to employers to make a better use of people's skills; to develop the right mix of skills between job related competences and transversal competences; to make the education and training systems more responsive to the labour market needs; to better anticipate the demand for new skills.<sup>17</sup>

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<sup>16</sup> European Union (2010), *New Skills for New Jobs: Action Now*. A report by the Expert Group on New Skills for New Jobs prepared for the European Commission, <http://ec.europa.eu/social/main.jsp?catId=568&langId=en>

<sup>17</sup> See European Union (2010)

*Create global competences to exploit the opportunities of globalization*

Globalization has a great potential to increase the substantial freedom of persons widening their horizons, enlarging access to knowledge and the products of science and technology, favouring multiculturalism and intercultural views, increasing the opportunities for sharing ideas and promoting joint action, making easier geographical mobility. But the exploitation of these opportunities requires more global citizens. The importance of education lies in empowering people to take advantage of globalization opportunities and in helping them to recognise their role and individual and collective responsibilities as active members of this global community (global education perspective)<sup>18</sup>.

Therefore, globalization and digital revolution are great opportunities but also pose further challenges to education systems calling for “global competence” or the capacity and disposition to understand and act on issues of global significance. This may include the capacity of critically assess questions of global significance, to combine disciplinary and interdisciplinary expertise, to weight perspectives and to understand other groups point of views, to interact with different audiences and to be technology and media literate within a global communications environment, to get involved and take action themselves alone or with others<sup>19</sup>.

There is a lot of room for national and for European policies aimed to include global competence in graduation requirements, to increase teachers capacity to teach about the world, to increase requirements on world language teaching, to overcome normative and cultural obstacles to people mobility and to provide greater opportunities for students to connect worldwide. From this perspective not only teaching and learning in the classroom are important but also a wide range of experiences lived within the education system (inter-cultural exchanges, international student and teachers mobility, etc.) and, beyond it, within the communities and the society as a whole.

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18 Global Education Guidelines Working Group (2010), Global education guidelines, North-South Centre of the Council of Europe

19 Veronica Boix Mansilla, Anthony Jackson (2011), Educating for Global Competence: Preparing Our Youth to Engage the World, [www.asiasociety.org/education](http://www.asiasociety.org/education)

There is ample room to supplement and complement education policies with a large variety of policies in different fields, at local and national level supported by the same strategic vision and aimed at the same ends.

*The downgrading of the education system would undermine equality of opportunities*

What are the possibilities of the education system in the future to maintain and improve its performance in terms of attainment levels, achievements and adequacy? This will depend to a large extent to the macroeconomic and governance scenario that will prevail in Europe in the next decades. The occurrence of the break up scenario is of course the less favourable to the maintaining of the present standards of quality. The education system will be hit by severe cuts that will reduce its capacity to provide universal an high quality services. This is already taking place in various countries, especially in Southern Europe but not only. Which parts of the system will be more hit is not easily predictable because it will depend on the details of the policy of each single country. We can only offer here some scattered reflections on the topic.

One important element of weakness in most welfare systems lies in the inadequacy of childcare services. This has a very negative impact on female employment rates and on the quality of women life, on learning of children and on the fertility rates. It is very unlikely that in a scenario of slow growth and stagnating employment rates, there will be any room for building comprehensive child care services in those European countries where they are at present very weak or inexistent.

A second danger refers to the tertiary education. The risk here is that of a lowering of returns of investment in human capital. A scenario of declining expenditure on research and of stagnating growth and technical progress. may slow down the rise of demand for high skilled and high-educated workers. This may negatively impact on the attainment of tertiary education levels, on the employability of skilled workers or on the rate of emigration of qualified work force in favour of other world regions.

A major impact of the erosion of the education system would certainly be on the equality side. The education system plays a fundamental role in ensuring equality of opportunities. By offering high standards of services to all, it tries to balance inequalities arising from people different social, economic and cultural backgrounds.

Less wealthy people, those with a lower social and cultural capital and a weaker family background, the most disadvantaged segments of population and at higher risk of social exclusion, would be the main losers of a downgrading of a public education system. Wealthy people have today, on the contrary, many possibilities to complement the knowledge acquired in the formal education systems with other forms of formal and informal learning outside the system. They may draw knowledge resources from their privileged social networks, make larger use of private education, and activate various forms of life experiences with an high content of knowledge.

Finally, it should be emphasized that even in the worst scenario, there is some room to defend and improve the standard of the education system through nearly zero costs reforms. In a period of scarcity of financial resources, to try to get the best from the potential of people seems to be a recommendable win-win policy. The adequacy of the system to answer to the new needs of the labour market or to exploit the opportunities offered by globalization depend on methods and content of teaching that can be improved also in unfavourable macroeconomic contexts. As we have argued above, there is an ample set of education policies and of complementary policies implemented at local or national level that can upgrade, widen and renew people knowledge, skills and competences. A better empowerment of people could and should be pursued even within adverse economic scenarios.

## Towards more unequal societies?

### *The redistributive power of different welfare regimes*

The social dimension of well being refers to the social cohesion and degree of inequality of a society. The assumption here is that social cohesion is a collective good from which all segments of population benefit and not only the poorest social groups. Individual and collective well being therefore coincide.

The social dimension of well being shall be analysed through three different indicators. The poverty rate, the deprivation rates, the Gini index. The first indicator refers to the size of poor segments of population in terms of income relatively to the median



income; the second to situations of material hardship; the third finally refers to the degree of inequality over the entire spectrum of income distribution.

The share of people with a disposable income lower than 60% of the national median differs very much in the various European blocs. In 2010, we find at an extreme the Southern European countries where almost 20% of the population is below this threshold and at the other extreme the Northern and Western European countries where only the 12/14% of population is in a similar condition. The U.K. and the Eastern European countries lie in the middle with values between 16% and 17%. Weak signals of deterioration of this indicator emerge since 2008 in North and West Europe and since 2009 in Eastern and Southern Europe.

It is interesting to compare the share of people at risk of poverty before and after social transfers (not including pensions in social transfers). What is striking is that the share of people at risk of poverty before social transfers is very similar in all blocs except in the U.K. and that the ranking changes radically after considering redistribution. The lowest share is found in the Western countries and the highest in Northern Countries but the difference is very small, less than two percentage points. Only the value of the U.K. of 31% is an outlier

The comparison of these two sets of data reveals that what makes the difference is the redistributive power of the State. It is able to bring over 50% of people at risk of poverty out of this condition in Northern Europe, over 40% in West and the UK, around one third in East and only 25% in Southern Europe. These data confirm what we already know from literature about the deep differences in the welfare regimes in the various European countries.

At risk of poverty rates (cut-off point: 60% of median equivalised income after social transfers)

Bloc / Year	After social transfers			Before social transfers		
	2000	2007	2010	2000	2007	2010
<b>Eastern Countries</b>	15,33	17,54	16,87	24,39	26,41	25,01
<b>Northern Countries</b>	11	11,57	12,7	21,32	27,75	27,27

<b>Southern Countries</b>	18,49	19,63	19,13	22,23	24,3	25,83
<b>United Kingdom</b>	19	18,6	17,1	29	29,7	31
<b>Western Countries</b>	12,41	13,86	14,12	21,81	25,14	24,35

Source: elaboration on Eurostat data

### *Not only the poor. People suffering from permanent economic insecurity*

From the well being point of view, it can be useful not to focus exclusively on income poverty. The quality of life can be negatively affected by situations of permanent economic insecurity that are not necessarily linked to a level of income below the poverty threshold.

Some scholars have introduced the concept of social vulnerability as the exposure of a household to the likelihood of suffering economic hardship as a result of negative events.<sup>20</sup> It refers to a situation of economic insecurity where there is a high risk of income difficulties which create psychological malaise and objective difficulties in exploiting the opportunities offered by life. It therefore concerns a wider aggregate than poverty, which consists exclusively of persons that are poor in a given here. Empirical support to the relevance of this concept derives from longitudinal studies on poverty that show that the number of people affected by episodes of poverty over a period of time is much larger than the number of people affected in a single here. Further, a significant part of people who are poor *today* come from income classes that are just above the threshold of poverty and similarly a significant part of people who will be poor *tomorrow* come from income classes that are just above the poverty threshold *today*.<sup>21</sup> There is therefore a share of people, higher than the proportion of poor of a given here, that suffers of a situation of economic insecurity at permanent danger of falling into poverty.

<sup>20</sup> See Costanzo Ranci (ed), *Social vulnerability in Europe*, Palgrave MacMillan 2009

<sup>21</sup> See Salvatore Curatolo and Guglielmo Wolleb, *Income vulnerability in Europe*, in Costanzo Ranci (ed.), 2009

Another way of showing the opportunity of not relying exclusively on poverty data to identify situations of economic insecurity is to examine data on deprivation rates. This indicator expresses the inability to afford some items considered by most people to be desirable or even necessary to lead an adequate life. The *severe* deprivation rate measures the percentage of the population that cannot afford at least four of these items, the deprivation rate at least three items. The share of population suffering from severe material deprivation was in 2010 quite low in all parts of Europe with the exception of Eastern countries where 19% of population was unable to afford at least four necessary items. In the other blocs, the minimum value is recorded in Northern countries with only 2,1% of population and the maximum in Southern Europe with 6,5%. If we look at the wider segment of population suffering from material deprivation (three items non acquirable), the share of people involved is up to three times higher in most blocs. It rises to 16% in Southern Europe, to over 10% in the UK and in the Western European countries and to almost 6% in the northern countries. In the Eastern countries more than one third of population meet difficulties in acquiring at least three necessary items. What is relevant is that most households that suffer of these forms of material hardship have a level of income that is higher than the poverty threshold. This confirms that economic insecurity affects a share of people higher than the share with an income below the poverty threshold.

## Deprivation rates

	Severe material deprivation rate			Material deprivation rate		
	2000	2007	2010	2000	2007	2010
<b>Eastern Countries</b>	35,6	25,7	19,0		41,11	34,43
<b>Northern Countries</b>	7,4	2,8	2,1		6,71	5,59
<b>Southern Countries</b>	7,2	6,1	6,5		14,12	16,32
<b>United Kingdom</b>	5,3	4,2	4,8		10,4	13,4
<b>Western Countries</b>	6,2	4,5	4,7		11,45	11,09

Source: elaboration on Eurostat data

## *Degree of inequality and patterns of distribution differ widely among European countries*

While deprivation rates and poverty rates focus on the weakest segments of societies, the Gini index reflects the degree of inequality over the entire spectrum of incomes. It is the result of a complex set of factors of different nature. Its value depends on demographic factors such as the age and gender composition of population. It is influenced by the size and composition of the families. Market forces such as levels and composition of employment and level and structure of wages affect it. Finally, it is affected by the State redistributive power through the tax system and public expenditure.

OECD statistics give comparable data for the Gini coefficient before and after taxes and transfers. This makes possible an evaluation of the overall redistributive power of the State. The degree of inequality before taxes and transfers is low in the Northern and in the Eastern countries while it is relatively high in Southern countries and in the U.K. The Gini coefficient for the Western European countries lies in the middle.

The degree of inequality in all blocs is significantly lower looking at the Gini coefficients after taxes and transfers. The ranking of the blocs remains the same. The Northern countries and the Eastern countries have the lowest value. But the Western countries, after redistribution, have the same Gini coefficient than Eastern countries. Southern countries and the U.K. have a less egalitarian distribution of income. The redistributive impact of taxes and transfers is particularly strong in northern and western countries where the Gini coefficient reduces respectively of 43% and 39,5%. In the other blocs the reduction is between 33% and 36%.

### Gini coefficient

Bloc / Year	After taxes and transfers			Before taxes and transfers		
	around 2000	mid-2000s	late-2000s	around 2000	mid-2000s	late-2000s
<b>Eastern Countries</b>	0,3	0,32	0,29	-	0,51	0,45

<b>Northern Countries</b>	0,24	0,25	0,25	0,44	0,44	0,43
<b>Southern Countries</b>	0,34	0,34	0,33	0,50	0,54	0,50
<b>United Kingdom</b>	0,35	0,33	0,34	0,51	0,5	0,51
<b>Western Countries</b>	0,28	0,28	0,29	0,47	0,48	0,48

*Source: elaboration on OECD data*

The picture emerging from all these data on social cohesion is of an Europe made up of countries and regions that differ profoundly for degree of inequality, patterns of distribution and rates of poverty. The reasons of these differences have been widely explored in the relevant literature. They refer partly to strictly economic variables such as the level of economic development, the structural composition of production and employment, internal territorial disparities, the cleavage between skilled and non skilled workers and partly to institutional factors such as the redistributive power of the State in general and the Welfare regime in particular.

How social cohesion will evolve in the next two decades depends very much on the prevailing scenario of the world economy.

### *The risk of permanently burying the project of a Social Europe*

The Eurozone break up will cause a significant fall of expenditure in absolute values in all fields of welfare and will start a prolonged period of slow growth. This will certainly cause an increase in the disparities among European countries. Member states more exposed to the debt financing will experience the heaviest cuts in public expenditure and the slowest rates of growth. The southern European countries are at present in the worst situation. The other member states would also suffer from an unfavourable external environment but they should be in the position to better defend the present levels of well being. Eastern countries, or some of them, may continue to experience a relatively higher rate of growth and reduce the present gap in some well being dimensions with the most advanced part of Europe. Each country will follow then its

own process of adjustment with final results that will lead to greater divergence in income levels and levels of social protection. The pathway towards common EU standards and principles rooted in the treaty and in the subsequent Council decisions from Nice onwards will be halted and the national systems will go back towards national or even regional standards. The label of European social model will mask differences much deeper than those already existing today.

*The danger of a loss of the universal character of the European welfare systems*

It is more difficult to predict what will happen within each national state. A common feature of European welfare systems is to produce benefits for all and not only for the poorer segments of the population. The greatest risk of a dismantling of the welfare system is the loss of its character of universality. All, or almost all, therefore, will suffer damage from the downsizing of the welfare system. The share of people that will experience material forms of hardship will certainly increase. People will be in general more vulnerable to negative events. Paying regularly rents, mortgages or bills will occasionally be problematic, holidays will be shorter, the choice of having children discouraged, the formation of a new family delayed, to finance students' education more difficult. The very rich may be able to defend their living standards using private services where public services would no longer be available. But the middle classes would not have the same opportunities and their standard of living would deteriorate. Whether the poorest parts of the population will suffer most or not depends on the details of the policies. Welfare expenditure (and welfare cuts) and taxation may be targeted to protect the poorest part of the population. Measures of relative poverty may then not show a significant deterioration.

The same is true for the overall degree of inequality of the income distribution. The euro break up will be characterized by a prolonged stagnation. But there is not historically a clear cut relationship between rate of growth and inequality. High growth can be associated with rising inequalities when for instance it is mainly driven by productivity growth or with declining inequalities when driven by increases in

employment.<sup>22</sup> By the same token, slow growth can be associated with either more or less inequality. A recent study<sup>23</sup> on the distributional effect of past recessions led to these main conclusions:

- “Recessions reduce real income levels throughout the income distribution and raise poverty rates when these are measured using a poverty line that is fixed in real terms
- The relative poverty line does not need to fall if the poverty line falls sufficiently
- The impact of recessions on income inequality is not clear cut and depends precisely on who is affected by it and where they are located in the distribution in the first instance”

The same study analyses the distributional effects of the present recession from 2007 to 2009. The authors identify factors that make distribution of income more unequal and other factors that make it more equal but they conclude that overall the effect on the degree of inequality was modest and different from country to country. In the medium run the distributional outcome of a protracted crisis may of course be different. Their opinion however is that the consequences for the distribution of household income of government efforts to reduce deficit will depend on how this consolidation is achieved, on the speed at which it takes place and to the pace of economic recovery and that it is impossible to make predictions without knowing the details of the policy.<sup>24</sup>

### *Protect the most vulnerable as a last resort*

As far as future policies is concerned, the best that can be done in a scenario of euro break up in order to preserve social cohesion is to protect the poorest part of population and the segments of population at greater risk of social exclusion.

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<sup>22</sup> See “European inequalities”, edited by Terry Ward, Orsolya Lelkes, Holly Sutherland and Istvan Gyorgy Toth, Tarki, Budapest, 2009, p.14

<sup>23</sup> See “The great recession and the distribution of household income” by Stephen P. Jenkins, Andrea Brandolini, John McKlewright and Brian Nolan. A report prepared for, and with the financial assistance of, the Fondazione Rodolfo De Benedetti, Milan, 22 July 2011, p- 0-i

<sup>24</sup> See “The great recession and the distribution of household income”, 2011, p.2-28

Unemployed, emigrants, ethnic minorities, large households with only one earner (and especially children of these families), lone parents, young workers with unstable jobs. Employment is by far the most effective way to defend people well being. But targeted welfare expenditure, tax exemptions and subsidies can play an important role as well in preserving the standard of living of the more disadvantaged. A full implementation of the Europe 2020 priorities and targets could give a valuable contribution to the end of increased social inclusion.

The opposite scenario of Federal Europe gives some room for developing common social norms and principles. The social systems will remain national in their main features but they will progressively incorporate common standards in several well being components such as health, education, unemployment and social protection, in accordance to their financial sustainability. The larger EU central budget would allow more effective social and territorial cohesion policies at European level. In this scenario, with a governance attentive to political and social cohesion, it would be congruent with the idea of a truly Federal Europe to implement policies to combat European poverty.<sup>25</sup> The target of reducing European poverty would be consistent with the main objectives of the European Union to raise the standard of living and quality of life of all its citizens wherever they live. On the whole disparities among European countries within this scenario could decrease and the European social model would start to acquire concreteness.

At national level, the highest growth is not as such a guarantee for a reduction in the degree of inequality. But it would create the resources for reforms of the national welfare systems that remain urgent even in a more favorable macroeconomic and political context but that can be better achieved in this scenario. The key to combat poverty and to pursue equality is to associate the highest growth with the creation of employment. Increases in employment have a strong potential to reduce inequalities if

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<sup>25</sup> European poverty refers to poverty measured on the basis of the European median income rather than on median national income. This would rise, according to recent estimates, the share of poor people from 16% to 22% of European people and would significantly change their territorial distribution. See Orsolva Lelkes, Marton Medgyesi, Istvan Gyorgy Toth and Terry Ward, Income distribution and the risk of poverty, in European inequalities, 2009, p.33



they are concentrated on initially not working individuals and on workless or low income households.<sup>26</sup>

## Summary and conclusions

There are at least two related merits in the introduction of the concept of well being in the economic analysis. The first merit is to show that the standard indicator of GDP per capita is inadequate to evaluate people standard of living. Countries with the same level of wealth can differ radically in one or more dimensions of well-being. The second merit is to show that well being refers to a multiplicity of dimensions, that are not necessarily correlated each other.

The above analysis on well being in Europe largely confirms these two beliefs. Well being indicators in Europe are clearly related to the level of development of the different blocs. Within Europe wide disparities exist today with respect to several well-being dimensions. There is an area composed by North, West and UK which reached quite high standard because of a long historical trend of progress registered in the last two decades. Other two blocs, South and East -which comprise also some neighbor countries which are not yet Member States- are still in the middle of a catching up process towards European standards with intensity inversely proportional to their initial levels. Nevertheless, these findings do not strictly apply to all dimensions or not to the same extent. Eastern countries do no lag behind for instance if we look at basic education or healthy life expectancy and Southern countries display a much larger gap in economic and employment indicators than in life expectancy or expected years of schooling.

The evolution of the four well being dimensions is very sensitive to the different macroeconomic scenarios of the Augur project. Evolution in the reduced government scenarios is, in all blocs, much less favourable than evolution in the Federal Europe or Multispeed scenarios. But there are differences in the sensitivity of each bloc vis-a-vis the different scenarios. We should expect for instance that blocs with an heavier burden

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<sup>26</sup> See Marton Medgyesi and Istvan Toth Economic growth and income inequalities, in European inequalities, 2009, p..147-148

of debt will suffer most in the reduced government scenarios. On the other hand, lagging regions and countries would benefit the most from expansionary scenarios. The Northern countries would succeed in defending their levels of well being in the negative scenarios but improve them in the favourable ones.

There are differences also in the sensitivity of the various dimensions of well being to each scenario. More exactly, there are dimensions of well being that are resilient to economic growth and dimensions that are much more sensitive. Indicators related to social cohesion and income inequality (deprivation rates, poverty rates, Gini coefficient) respond in the expected direction but very little to changes in the rate of growth of GDP. Health and education indicators follow long run structural trends but are also affected by macroeconomic performance and type of governance. Finally, employment indicators are more clearly correlated with GDP growth but with different intensity according to the various blocs.

An important conclusion of our work relates to the strong interdependency of different dimensions of well being. They are always linked by mechanisms of cross reinforcement and causal effects that may put in motion virtuous or vicious circles. But conflicts may also arise among different aspects of well being. Employment, for instance, is a powerful mean for social inclusion and a fundamental source of income, but it may be detrimental for households' time balance, care giving activities, leisure and quality of life. Policies focused on single aspects and dimensions may result inefficient or eventually deliver side drawbacks on other dimensions hampering the final balance of well being. An holistic approach appears to be suitable but it requires a new narrative of social progress in addition to deeper knowledge on well-being dimensions and their interrelation and a change in policy design and implementation mechanisms.

A policy message of this working paper is that there is room, or that this room must be sought, for improvement of people well-being in different fields even in the prospect of a long period of slow growth. This of course is not an easy task. It requires a strong political willingness and a great capacity of social innovation. It requires in particular a change of perspective in policy making so that all the hopes of improvement in well-being do not fall on hopes for a resumption of sustained growth. Not because more growth is undesirable but simply because it may not come.

Finally, it should be underlined that the necessity to implement policies of rationalisation and social innovation in various domains of the welfare system will still be in place also in the most positive scenarios. The problems posed by an aging population or an inadequate education system do not disappear in the favourable scenarios. But they can be dealt with in a much more favourable context, with less conflicts in the system and less social tensions.