Growing Inequalities' Impacts

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Executive Summary:

1) Executive summary

Richer countries face an uphill battle to keep economic inequality in check. Income inequality has been trending upwards – with discrepancies across data sources and not in all countries, or to the same extent. Increases often occur in relatively short spells. This raises the issue whether often proposed uniform and long-run structural drivers of inequality (such as globalisation or skill-biased technological and organisational change) are mediated, moderated, accelerated or perhaps up to a point even replaced by other changes. Here one can think of demography, institutions or even outright policy making. In turn these may relate to political and cultural changes.

Naturally, inequality can be regarded as problematic in itself. Apart from that, the major question addressed in the research project was then if rising inequality should be a cause of concern because of its impact on other outcomes of general importance: health and educational attainment, social cohesion and inclusion, intergenerational mobility, crime, democracy and political participation, and values. The GINI evidence varies across domains and countries, which may reflect deeper factors. Increases in inequality over time are not robustly linked to worsening social outcomes but that may change as higher quality longitudinal data become available and techniques that allow testing causal relations. The fundamental role of social stratification more broadly conceived is manifest however, across most of the social domains. Income inequality on its own may be too narrow and specific a focus to fully capture this very complex set of phenomena. If the concern is not with income inequality itself but with its potential negative social impacts, redistribution of income may not always be the obvious way to address those. Even if lower levels of income inequality create a setting that is conducive to better (distributional) outcomes for health, education, social connectedness etc., a strategy of income redistribution is unlikely to be very cost-effective. Direct interventions to improve health, education or social cohesion outcomes, and to reduce social gradients in those outcomes, are probably much more efficient. That said, people at the very bottom of the income distribution do face very real consequences from having insufficient financial resources. Financial poverty does affect health, material living conditions, social ties etc., although the effects are not just a result of financial constraints. Financial poverty also affects child development and later chances in life. Thus the empirical evidence signals a clear imperative of redistributing income to alleviate poverty and promote equality of opportunities. The need for aimed at preventing situations of economic disadvantage from arising does not relegate direct redistribution to the background.

Focusing on the upper tail of the income distribution, the findings with respect to political behaviour underpin deep concerns about the way in which increasing income inequality can lead to greater political influence for the better-off, and especially the rich, which feeds in turn into policies which further increase inequality. Such a dynamic may be one of the factors contributing to the economic crisis, which poses important risks for the life chances of the young and disadvantaged in many of the countries studied here. This brings the state and its redistributive role centre-stage. A substantial role for the state is compatible with a well-functioning and dynamic economy, where high and rising levels of inequality are not an inescapable fact of life. Higher employment, productivity and social cohesion are achievable but this requires collective action, with an associated price in terms of income retained for personal consumption. The best performers among the rich countries in terms of employment, economic and social cohesion...
have one thing in common: a large welfare state that invests in people, stimulating and supporting them to be active and adequately protecting them when everything else fails. This continues to offer the best prospect for rich countries pursuing growth with equality.

Project Context and Objectives:
2) Project context and objectives

a) Treat inequalities with care

The ‘new’ inequalities relate to areas – incomes, earnings and wealth – that are the subject of an immense literature, spanning from measurement issues, passing through inequality accounting and decomposition by subgroups, up to causal models of inequality generation. So from the very onset we try to be as precise as possible about the nature of inequality in many dimensions across the project:

- to whom it relates: household or individual – and how the two are related;
- what it involves: individual incomes or household income, or wealth – and how these are defined and measured: by source such as wage earnings, transfers, pensions and capital income, before or after tax, including or excluding social transfers and provisions such as health care or child care which in some countries or for some groups or income bands are publicly supported or even provided;
- what it concerns: a static cross-section view or a dynamic approach related to mobility over time and even lifetime outcomes;
- how far back in time it goes: a long-term approach is desirable for the focus on changes but also for methodological reasons more generally – i.e. for generating sufficient variation that can be analysed – but there may be a trade-off between the period that can be adequately covered and the effort required for gathering additional data;
- how inequality is measured: by a single indicator such as Gini or the coefficient of variation (in cross-section descriptive analysis), by decomposing according to income sources and/or recipients (also in cross-section and/or in time series analysis) or by providing measures of intertemporal association (intergenerational elasticities, rank correlations) as a measure of the degree of inequality of opportunities.

The main advantage of these measures comes with their simplicity (a single number providing information for the entire distribution), but arguably less complex measures, such as a set of decile ratios or grouped positions by e.g. percentiles or broader bands such as low, intermediate and high, or the median-to-mean ratio, may provide important additional information enabling a more refined analysis of causes and impacts depending on relative position in the dispersion. In recent years concern has also been shown for the possible polarisation of the income distribution which in some cases is related to, but distinct from, ‘traditional’ inequality.

This defines the task of a uniform approach to income inequality, for two different ‘drivers of inequality: i) incomes, earnings and wealth, and ii) education.

b) Impacts

Increasing inequalities in earnings and household incomes and an increasing fracturing of employment into “good” versus “bad” jobs have not by any means been seen universally across the OECD, but where they occur they may have deep-seated social impacts, at the individual, household and societal level. The remarkably wide range of potential negative social impacts which have been advanced in research and debate include increases in poverty and deprivation, in stress and unhappiness, in gender inequalities, in family breakdown and teenage pregnancy, in childhood disadvantage and educational failure, in health inequalities, in crime and disorder, in polarisation and increasing fragmentation between communities, ethnic groups, regions and social classes. A programme of research on these potential effects is central to the theme, and its first task is to delineate the channels of influence and the causal relationships via which
such social impacts could arise. This involves drawing on a variety of disciplinary perspectives, but the aim is to underpin the empirical analysis with a theoretical framework which provides coherence across the different areas to be investigated. This framework focuses on how increasing economic inequalities between individuals driven primarily by market forces, with education and the labour market as key arenas, may be compounded by what is happening at the household level, with an accumulation of advantages or disadvantages leading to growing polarisation and feeding through to a variety of societal effects. Given the range of areas and the complexity of the underlying relations, clearly setting out the channels of influence which have been hypothesised or asserted and putting them within an analytic framework is an important contribution in itself. The hypothesised relationships are empirically investigated in a comparative perspective. The Country Reports provide an important vector here. In doing so, a priority is to empirically link the individual with his or her household. Changes in the distribution of earnings and of jobs (good or bad) have their immediate effects on the individuals concerned, but many of the hypothesised effects have also to be seen from a household perspective. This gives rise to a range of tasks concerning impacts of economic as well as educational inequalities on: i) living standards, poverty and deprivation, and “risk”, ii) gender inequalities and the family, iii) health and health inequalities, iv) inter-generational transmission, wealth and housing, v) social cohesion.

Rising income/wealth inequalities, and stable or declining educational inequalities, may have severe repercussions on outcomes in the sphere of politics and values. The set of outcomes that we add upon the already broad set of social outcomes highlight important potential outcomes of changing inequalities. With regard to political and cultural impacts we aim to understand i) the impact on various forms of political and social participation; ii) the relationship between changes in inequality and legitimacy, and iii) examine the effects of such impacts on macroeconomic performance.

c) Policies

The above research on impacts as described in previous sections is developed to produce clear, concrete implications for policy in the wide range of areas to be covered, addressing a set of specific policy issues:
- Why should (European) policy care about (rising) economic inequality? What, if any, are the consequences for competitiveness, growth and social cohesion (viz. the Lisbon Agenda)?
- Does rising economic inequality constrain the capacity for effective collective action and the scope of feasible/sustainable policy alternatives, especially in the social and economic sphere?
- How can policy respond (if it should) to rising economic inequalities?
- Is the redistribution of income (through regulatory constraints on market→income inequality, or actual redistribution) a sensible and cost-effective social-cohesion strategy, even if it creates a setting conducive to better (distributional) outcomes in terms of health, education, political participation etc.?
- If limiting income inequality, especially compressing the lower end of the income distribution is desirable, be it in its own right or as a means to another end, how is it then best done?
- How can policy respond in other ways?
- What policies can promote equality in educational attainment?
- What other non-income policies can promote equality of opportunity?

Of course, understanding the contribution that policies have made to the increase in inequalities is also critical both for the analysis and the validity of policy implications that can be drawn. Note that policy inferences account also for the country results, which puts the focus on the factual role of policy in relation to inequalities on such aspects as social cohesion, political participation, democratic values, social norms, institutional trust, and support for the welfare states and redistribution.

There was a time when European welfare states had explicitly stated redistributive ambitions. Reducing
income inequality was considered a legitimate policy objective in its own right. Over the past decades, however, such egalitarian ambitions have given way to more complex aspirations framed in terms like social inclusion. Equality of opportunity is now deemed rather more relevant than equality of outcomes. Yet ‘old-style’ outcome inequality reduction seems to have re-entered via the back door in the guise of the social indicators adopted by European governments to help gauge progress in the field of social inclusion. However, little justification is given. Lower relative poverty and income inequality seem to be considered desirable goals for their own sake. A limited degree of income inequality is widely seen to be a core attribute of the European Social Model and a key dimension on which Europe distinguishes itself from the United States and other advanced economies. But why should we be concerned about income inequality and relative poverty in a more substantive sense? Why should we direct prime policy attention and resources to the reduction, or at least containment, of income inequality? One reason is of course that lower inequality and income poverty may be conducive to better outcomes on other dimensions than income: for example material deprivation, health, education and housing outcomes. The project investigates a range of such potential social impacts including in the areas of poverty and deprivation, in happiness and social welfare, in gender inequalities, in family breakdown and teenage pregnancy, in childhood disadvantage and educational failure, in health inequalities, in crime and disorder, in polarisation and increasing fragmentation between communities, ethnic groups, regions and social classes. This provides one set of answers to why one should care about increasing inequality, but the relationship between inequality and growth is of central importance. How should the objective of limiting income inequality relate to the objective of promoting income growth? This is arguably even more important when applied to countries where large sections of the population still lack the very basic provisions, and where the aggregate wealth of the country does not suffice to meet such needs through redistribution. So readdressing these issues now is particularly relevant in the context of the recent enlargement of the EU.

This boils down to three fields of research: i) constraints imposed by rising economic inequality, ii) effectiveness of redistributing income, and iii) an integrated approach to policy.

Project Results:

3) Main results

The collaborative research project has come at a time of ever more pervasive worries about growing inequalities in rich and not-so-rich countries, their consequences for society and the potential for collective action to counteract these trends and effects. The worsening of the income distribution in most of the advanced economies in the last 30 years has been a main reason behind the resurgence of the debate on inequality.

As early as the 1980s, influential writings were already predicting a growing divide between ‘winners’ and ‘losers’ in post-industrial advanced economies. De-industrialisation, economic globalisation and technological progress played a central role in such claims. Standardised mass production, it was argued, was giving way to specialty production in rich countries, with profound implications for the relative fortunes of more versus less-skilled workers in those countries. The winners, estimated at roughly a third of the population, would be those with the talents and education to compete and thrive in the global economy, with the costs being borne by the less-skilled.

Looking back over the past 20 to 30 years from where we stand now, the biggest ‘winners’ have turned out to be even more of an elite group than the top third of highly educated and talented workers, or so it appears. The fiercest debate today is about the disproportionate income gains made by the Top 1 per cent, and the even more extreme gains by a tiny group at the peak of that elite segment. The Great
Recession, in the meanwhile, may have made the rich temporarily somewhat less rich in some countries – see World Top Incomes Database – but it is deeply affecting the daily lives of the unemployed and the poor and the prospects for the future of many of the employed.

Against the backdrop of such debates and concerns, this project first re-examines claims that inequality is inexorably on the rise, and that this is part of a general trend across developed economies. We systematically map income inequality trends at various levels, and elaborate on earnings and wealth, in 30 countries over the past three decades, complementing existing analyses. Jointly with this mapping we endeavour to shed additional light on the drivers of inequality, the forces underpinning observed trends, with a special focus on education and its tremendous expansion in recent times.

The GINI project has devoted much of its attention to investigating the impacts of increasing inequality across core domains of social and political life. Wilkinson and Pickett have prompted much interest in this issue with their book The Spirit Level, which argues that income inequality is harmful to society in a range of ways. Societies with higher income inequality are judged to have lower levels of social cohesion, higher crime rates, higher mortality rates, worse health, more educational inequalities, lower social trust, and lower political involvement. While their claims have been the subject of much academic debate and at times strong criticism, on methodological and empirical grounds, they have resonated remarkably in the wider societal debate. Thus the question of what impacts there are from income inequality on other spheres, if any, has been a major concern of underlying research.

A third major component of the project research has been policy. What has policy done to restrict – or perhaps endorse – the growth in market-income inequalities? What, if anything, can policy do to counteract that growth? What can policy do to make sure that those at the lower end of the income distribution obtain a share of economic resources that allows for a decent life in a rich society? Here the project looks in particular into employment, social protection, social investment and education, which are core elements of European Union policy objectives and strategies at national and supra-national level. In addition to the headline targets of an employment rate of 75 per cent and tertiary educational attainment by 40 per cent of the young generation, the Europe 2020 Agenda contains clear poverty and social inclusion targets. Together with the European’s recent Social Investment Package of 2013 aimed at human capital investments, these are a cornerstone of an effective policy to combat poverty and social exclusion in Europe complementing the effects of growth and employment.

Below we concisely sum up the key findings in the different fields and the broader messages coming out of this project. We will also mention remaining research questions and possible avenues for further research and end with reflections on what this means for policy.

Before starting that, the first and central point to be emphasised is the richness of the 30 country case-studies themselves for 25 EU member states – all 27 except Cyprus and Malta – together with the USA, Canada, Australia, and Japan, and including also South Korea, which joined the GINI project with the financial support of the Korean Science foundation. Anyone reading even a selection will be struck by just how varied country experiences have been, and convinced of the importance of understanding the national context in trying to explain them. All too often, the quest to identify over-arching trends and fundamental driving forces serves to shift the focus away from this variety, and runs the risk of both mischaracterising and misunderstanding what is actually happening. So the first message is that this Final report can be no substitute for reading the individual country studies. None the less, it is worth standing back and looking across the 30 countries covered, and in what follows we draw out some striking features, beginning with trends in inequality and then turning to its impacts and the role of policies, ending with some final reflections.
a) Income, Earnings and Wealth Inequalities

As a point of departure evidence from the 30 country studies indicates that income inequality has increased in most of the developed world from the 1980s, albeit with some variation in timing and magnitude. The over-arching analysis finds that inequality in household (equivalised) disposable income did increase over the thirty-year period as a whole in many countries, but it is clear from that analysis and reinforced in the individual country studies that, even where this was the case, the extent and timing of that increase varied a great deal, that some countries saw stable or declining inequality, and that each country has its own tale to tell. The studies bring out that the extent to which countries have sought to temper the pressures faced or deal with their consequences varies quite widely. We see evidence that strong institutions can stave off upward pressures on wage inequality through widespread collective wage setting agreements (with Belgium being an example), and strong welfare states can successfully redistribute through taxation and cash transfers, although this has weakened in some of the usual exemplars, the Nordic countries. Some countries managed to keep inequality down but with poor fiscal discipline and expenditure levels that were not sustainable as has come to light in the current crisis (an example being Greece). The scale and timing of increases in inequality have also reflected macroeconomic fluctuations and shocks, political change (particularly but by no means only in Eastern Europe), and demographic factors. The recent economic crisis could well give rise to a further upward shift in inequality, witnessed on previous occasions in many of the cases, although this may not be immediately visible, as a result of the varying macroeconomic impacts of recession, differences in the nature and intensity of ‘austerity’ measures, and uncertain medium-term prospects for both the macro-economy and for retrenchment strategies. We track changes by groupings of countries: Continental European welfare states (5), Nordic countries and the Netherlands (4), English-speaking liberal countries (5), Mediterranean countries (4), Asian countries (2), and Central and Eastern European countries (10). The most dramatic increase in inequality was experienced by some transition countries (Bulgaria, Estonia, Lithuania, Latvia, Romania and Hungary) and, to a lesser but still significant extent by the Nordic countries, most notably Sweden and Finland. In some of these countries the increase was sudden and large (like in the Baltics, Bulgaria and Romania), in others it accumulated gradually over time (the Nordic group, Netherlands). Over time it seems possible indeed that countries shift between inequality regimes. This means that the over-time variance can be large enough so that countries at the end of the period will belong to different segment of the international league than they belonged to at the beginning of the period. One example is that of the Nordic countries. This group of countries has long been celebrated as the countries with the lowest levels of inequality in Europe. After decades of gradual but incessant increase of inequality they no longer belong to the lowest division of the inequality ‘league table’. Also, some of the transition countries like the Baltics, Romania or Bulgaria witnessed very large changes that have put their inequality levels in a different range. Table 1 Change in inequality levels (Gini coefficient values) during three periods

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<td>above 0.350 Estonia, Portugal, Romania, United States Latvia, Lithuania, Portugal, Romania, United Kingdom United States</td>
<td>Latvia, Lithuania, Portugal, Romania, United States</td>
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<td>0.301 to 0.350 Greece, Spain, United States Australia, Bulgaria, Canada, Greece, Hungary, Ireland, Italy, Korea Latvia, Lithuania, Romania Spain, United Kingdom Australia, Bulgaria, Canada, Estonia, Greece, Ireland, Italy, Korea, Poland Spain</td>
<td>Latvia, Lithuania, Romania, Spain, United Kingdom Australia, Bulgaria, Canada, Estonia, Greece, Ireland, Italy, Korea, Poland, Spain</td>
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<td>0.251 to 0.300 Australia, Canada, Denmark, France, Germany (West), Italy, Japan, United Kingdom Austria, Belgium, Denmark, France, Germany and Germany (West), Japan, Luxembourg, Poland, Netherlands, Sweden Austria, Belgium, Denmark, Finland, France, Germany and Germany (West)</td>
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The resulting picture of the inequality scene is summarized in Table 1. It shows the countries in terms of their inequality levels during three different parts of the 30-year period scrutinised here: 1980-1984, 1996-2000 and 2006-2010. To smooth out measurement uncertainties and cyclical trends, values for the Gini coefficient are averaged for these periods. The table shows a clear upward trend in general. No country had a Gini above 0.35 in the first period, whereas five countries had reached this level of inequality in the latest period, three of them belonging to the post-communist bloc. There were nine countries in the first half of the eighties with a Gini value below 0.25 but the number of countries with this low level of inequality then declined considerably, so only the Czech Republic, Slovakia and Slovenia (and Eastern Germany) were at that level in the latest period. The Nordic countries by then cluster together with the Continental European welfare states in the 0.25-0.30 range of Gini coefficients. The findings challenge the view that changes at country level over time do not disturb long-standing country rankings. The previously homogeneous group of Central and Eastern European countries ends up, after transition, spread over the full spectrum of inequalities in Europe, while the low-inequality Nordic countries experience very substantial increases in inequality. We conclude that while structural constraints and dependency on historic trends condition inequality developments, one also has to look at institutional and policy differences in seeking to explain diverging paths of inequality.

When looking at the sources of variation in this respect more broadly, we find that the thirty-year period can be split into two main sub-periods: in the first one earnings are the main driver of increasing inequality in income, in the second one, reduced redistribution by the State and the shift from labour to capital become the main drivers. Sometimes, regional inequality growth lies hidden behind a stable national outcome (Belgium); also, increasing inequality at the top and bottom tails of the income distribution may not show up in the standard Gini coefficient (Spain, Greece, Ireland), or a stable outcome at beginning and end of the period may be the product of decline followed by increase (France). An assessment of causal explanations that are found in the literature shows that the focus on long-run ‘equilibrium’ stories such as international trade and technical change presents some significant empirical puzzles. A more convincing story that takes into account a broader set of stylised facts, suggests a role for structural imbalances related to international relations and the global distribution of capital, and also for ideological changes that shape policy orientations. The same factors seem to be closely intertwined with the increase of instability of the global economy that paved the way to the financial crisis. The linkage between an unequal world and an unstable world is a strong argument in favour of reducing the sources of inequality. Finally, there may also be a causal channel running from the financial crisis to inequality. As a response to the crisis strong fiscal consolidation is put in place, through increasing indirect taxation, cuts in public spending and other measures that tend to increase inequality. As long as the national or international fault lines that created inequality and financial instability persist, the timing and the way in which fiscal consolidation has been implemented will result in a higher level of inequality, without addressing its main underlying causes. GINI subsequently dwells on two important issues which are not captured in the above focus on income inequality (and which were examined in addition to the GINI country studies): first, the effects of earnings from labour on the income distribution, and, second, the distribution of wealth, a dimension of riches which
is significantly different from that of incomes. Annual earnings in the labour market are by far the most important contributor to household market incomes. In a cross-country perspective of 25 European countries based on the EU-SILC survey data, the inequality of these earnings also drives the distribution of household incomes to a large extent and at all levels: not only for market incomes but also after transfers, after taxation, and after equivalisation in relation to household size and composition. This labour effect concerns the inequality over the distribution as a whole, as measured by the Gini coefficient, but particularly also the top shares in the income distribution which were already mentioned above.

We consider how income generated by individuals in the labour market links to the household earnings distribution, how household earnings inequality compares to labour market inequality, and how joint labour supply is organised across household. The main conclusion is: households do in fact enhance labour market inequality, slightly more than doubling it, primarily by working more hours as a result of household joint labour supply which occurs higher up the income distribution. Interestingly, this enhancing effect is rather similar across the 25 countries with only a few exceptions. So, households do make an important contribution to the level of inequality in earnings within all countries but they add relatively little to cross-country variation. As a result, between countries the initial individual wage inequality is decisive, its cross-country differences are substantial and these are amplified by the household contributions. Investigating the organisation of joint labour supply across households as can be distinguished by the number of earners (single, dual and multiple) in a household we find multiple earning – and the corresponding hours worked – strongly concentrated at the top of the income distribution. The interest was in the effects of the number of earners (which, interestingly, showed many more multiple-earner households in certain eastern European countries) and not their explanation and therefore not in their individual characteristics such as being a formal partner, age, education or gender. The incidence of dual earners and multiple earners respectively differs significantly between countries, but the two are largely complementary to each other, which helps mitigating the inequality effect. Thus the composition of the household population by earners differs between countries while at the same time the aggregate contribution of household earner demographics to inequality is much the same across the countries.

Wealth is an important dimension of inequality receiving far less attention than income or earnings, partly because of very limited data availability and quality but also because it has been regarded as less important than income when looking at the well-being of households. While income and expenditure are typically analysed separately from each other, wealth cannot be fully understood without accounting for the opposite side of the balance sheet: debt, if only in terms of assessing current liabilities and financial well-being. In addition, studying wealth is complicated by its varied nature – housing, capital, business ownership – and the lack of information about often highly important elements such as pension entitlements; studying wealth inequality can be complicated also by the presence of negative values. Though the comparison of cross-country indicators of wealth inequality is cumbersome, there are two straightforward facts to be noted. First, wealth inequality is high relative to income inequality. Second, it increased over the last decades in some countries and in the few years since the Great Recession in other countries. The reasons for this increase can be found in the growing importance of financial assets, of debt in some countries, and of extreme wealth (billionaires), and in the developments of income taxation. Our examination also highlights that an insightful analysis of wealth inequality needs to take into account the income position of households. The distribution of wealth over income is less dispersed than the wealth distribution itself, with the exception of the USA. This can be explained by the role played by debt, which is clearly linked to income.

As the stock of wealth reflects the accumulation of historical inequalities between households and gives an
indication of how current inequalities will project into the future, it can convey more information about the financial well-being of households than an exclusive emphasis on the financial flows of incomes. There is also evidence that wealth is a driver of socio-economic inequalities, over and above income and education, through a “wealth-effect”. As higher-quality comparable wealth data become available it is likely that this topic will attain more prominence in the future.

b) Educational Inequalities

Educational inequality is a well-known key driver of income and other socio-economic inequalities and is further investigated. Educational inequality can be measured according to three main indicators of individual education: the number of years of schooling completed by individuals, the levels and types of qualification achieved by them, and their test scores that capture actual competences. The first and the last are the more comparable across countries, while the second is more reliant on the institutional design of the education system, which is country specific. While all three indicators define inequality within each generation, inequality of opportunities can be assessed by looking at the distribution of educational attainment in one generation relative to the same distribution in the preceding generation of its parents. Over the last century, most rich and not-so-rich countries have achieved almost universal attendance at secondary schooling (saturation). Therefore a core issue facing educational policies in advanced economies is the further expansion of schooling at tertiary level, where social origins are still strong determinants of educational opportunities.

At tertiary education level, countries are still very different, and cross-country convergence is far from being realised. Up to the oldest generations the Nordic, Eastern European and Anglo-Saxon countries have higher participation rates while, in spite of growth, Continental European countries remain behind and do not catch up. This difference mainly relates to dual systems, as found in Germany and elsewhere, that for a long time have constrained access to tertiary education while promoting higher secondary vocational training. The persistence of cross-country differences and the absence of convergence to a “common European model” are also witnessed by the lack of a common pattern of development. While some still claim that there is an inverted U-shaped relationship between income inequality and economic development, no such relationship is found in the data on educational inequality in Europe. If anything, inequality in schooling (measured by the Gini index computed over the years of schooling) is rising among the youngest cohorts in many European regions.

Despite a declining trend in educational inequality, we do not observe an analogous trend in earnings inequality, even though the two measures are positively correlated (though at a varying degree of explanatory power). Among the possible explanations of these diverging trends, one main factor concerns the distribution of competences in the adult population. Unfortunately, for the vast majority of European countries we do not have repeated observations on the level of competences of the same individuals, and scholars are forced to make heroic assumptions about the stability of the distributions over different age cohorts. However existing datasets (like IALS, ALL or the forthcoming PIACC) provide snapshots of the distribution in representative samples of the population, which allow decomposing the relative contribution of social origin, schooling and labour market experience in the formation of competences.

c) Social Impacts

Increasing inequalities in income, wealth and education may be regarded by many as objectionable in themselves, but another core concern to which they give rise is the potential negative impact they may have on a very wide and diverse range of social problems. We have examined the relationship between income, education or wealth inequality and a range of outcomes, including poverty, family formation, trust, crime, health, housing and intergenerational mobility. There are indeed sometimes striking correlations at
the country level between income inequality levels and aggregate indicators of social outcomes in the domains just listed. There is considerable debate about whether such correlations reflect a causal relationship, the joint determination of these outcomes and inequality by other underlying factors, or a purely spurious relationship. While there has been interesting debate and speculation about potential channels of influence, strong channels of causal transmission from increasing inequality to these social outcomes have not been convincingly demonstrated in the literature.

The first main focus of attention here is on a range of outcomes brought together under the broad banner of 'social cohesion', such as poverty and deprivation, the family, crime, trust, and social capital. In addition to looking at overall outcomes, we have looked at social gradients and other measures of inequality. The empirical relationship between income inequality and poverty depends in the first place on how poverty is defined and measured. When poverty is measured vis-à-vis relative-income thresholds, poverty and income inequality are seen to be strongly associated with each other, but one still cannot simply 'read off' trends in poverty in a particular country, or rankings compared with other countries, from conventional summary inequality measures. When the focus is instead on poverty vis-à-vis thresholds that are fixed in purchasing power terms, or on material deprivation, the major factor accounting for differences across countries and change over time is countries’ average income levels. Income inequality contributes little extra to explaining cross-country differences in deprivation once this is taken into account, though changes in inequality over time may have some impact on trends in deprivation. Average income levels and deprivation both influence subjectively-assessed levels of economic stress, but deprivation seems to have the greatest impact where national income levels are high and inequality is low.

As far as family-related features such as fertility, marriage and divorce, lone parenthood, etc. are concerned, many of these are not characterised by a distinct and consistent social gradient across countries. Even where they are, income inequality per se does not seem to play a major role in accounting for differences across countries, and trends in income inequality explain little of the dramatic changes in family life seen in many countries in recent decades. The relationship between income inequality and crime is particularly difficult to assess empirically, partly due to the variability in crime statistics across countries and over time. There is some evidence for a relationship between income inequality and levels of violent crime, but crime rates in many countries have fallen when income inequality was increasing, notably in the USA, and income inequality is clearly only one of a complex set of factors at work. Patterns of punishment, however, bear a much clearer relationship to income inequality and welfare regimes. Some social-psychological features such as levels of social solidarity and trust are associated with inequality levels in a bivariate context, but when appropriate control variables are introduced and multi-level and longitudinal forms of statistical analysis applied the relationship is weak or non-existent. While there is some evidence of a negative association between income inequality and self-reported happiness, it is limited and not clear-cut. Overall, the findings with respect to inequality and various aspects of social cohesion highlight the importance of seeing income inequality as only one facet of social stratification more broadly conceived.

Next the focus turns to the relationship between income inequality and health, the topic of some of the most active debates and research on the social impacts of inequality. Research in this field in the course of the GINI project looked inter alia at the relationship between self-assessed health, income and material deprivation, using longitudinal data for Spain. The results show at the general level that individuals’ relative position in the income distribution, in terms of the gap between their income and others, has a negative effect on health, while absolute income level does not (controlling for this gap). However, with the more detailed focus on poverty it is actual material deprivation that has a negative effect on health rather
than one’s deprivation level relative to others’. Where individuals suffer financial difficulties, lack basic necessities, live in poor housing and go without key durables this is bad for their self-assessed health, but relative income also matters. This provides an important perspective on the ‘absolute versus relative income’ debate.

Another study, of the relationship between mortality rates and poverty rates across rich countries, uses pooled cross-sectional time-series models to identify a significant relationship between child poverty and infant/child mortality. Interesting differences are found between welfare regime types, with Nordic regimes outperforming other regime types in terms of limiting infant and, to a lesser extent, child mortality; however, a number of other regime types outperform Nordic regimes when it comes to adult mortality.

The fracturing of jobs into “good jobs” and “bad jobs” has accompanied the general upward trend in inequality in many countries. The link between job quality (working conditions and employment relations) and health has received far less attention than that between income and social gradients despite the fact that employment relations and conditions form the conceptual basis of many social classifications. There is accumulating evidence that adverse working conditions are related to poorer health, particularly the mental health of workers, and that low pay is related to poorer physical health. This is an important area of research not just for understanding the social determinants of health inequalities but also the social impacts of and behind recent inequality trends.

Poor housing conditions are detrimental for health but the overall relationship between inequality and housing is complex and could run in both directions. The literature in this area explores relationships between inequality and house prices, housing quality, access to different tenure types and status competition encouraging households to make riskier investment decisions. Homeownership rates have tended to rise across much of Europe in recent decades (except in Germany). Governments have tended to encourage homeownership, even among low-income households – a subject of much recent debate in the USA - and ownership rates have been affected by property value developments, demographic change, mortgage market deregulation and building activity. Increases in income inequality can drive up house prices as higher income households can afford to pay more. Increasing house prices can benefit existing owners but can also prevent low income households entering the housing market, or mean a fall in the quality of the houses they can afford to buy. There is some evidence from the USA that increasing income inequality results in low-income households experiencing more crowding and leading to increases in house prices. Research reported in GINI has focused specifically on the relation between income inequality and access to housing for low-income households. The effect of income inequality in countries at a similar level of economic affluence is found to operate through the absolute level of resources, while in countries at different stages of economic development, differences in affluence determine access to housing. Higher inequality was found to be positively related to the likelihood of experiencing crowded housing conditions for low-income owners.

The growth in income inequality across many countries over the last 30 years and the variation in inequality across countries at a point in time have led analysts to question whether higher inequality is associated with lower rates of intergenerational mobility. The evidence on cross-country variation in intergenerational income mobility suggests it is negatively correlated with income inequality. The evidence from within-country studies analysing the effects of changes in inequality on intergenerational mobility are less clear-cut. For the UK, for example, economists find falling intergenerational income mobility as inequality increased, but sociologists dispute this pointing to estimates of stable social class fluidity over the same period. Evidence for the USA suggests that intergenerational mobility remained fairly stable as income inequality increased. Recent contributions to the intergenerational mobility literature present new
evidence on intergenerational mobility in the top of the income and earnings distributions. Using a large dataset of matched father-son pairs in Sweden, intergenerational transmission is found to be very strong in the top of the two distributions, more so for income than for earnings. Sons’ IQ, non-cognitive skills and education are all found to be unlikely channels in explaining this strong transmission. The greater persistence in income than earnings suggests that it is the capital-income component that drives this finding. Results suggest that Sweden, known for having relatively high intergenerational mobility in general, is a society where transmission remains strong in the very top of the distribution and that wealth is the most likely channel. These findings are important particularly as a number of countries have experienced increases in concentration of income, earnings or wealth at the very top of the distributions over recent years. In a similar vein, GINI project studies have looked at the effects of parental wealth holdings, financial assets and housing equity, on children’s outcomes in early adulthood, including educational attainment, labour force participation, earnings and homeownership. For all these outcomes positive associations were found with parental wealth, which operate over and above the influence of parental education and income. These results suggest that wealth plays an important part in the way parents’ financial position can influence their children’s future lives.

Many of the range of social outcomes examined have an important gender dimension, as of course do many of the factors underpinning income distribution and inequality. Patterns of labour force participation play a central role in household income from the market, and over the period since 1980 on which the project has focused there have been dramatic increases in female labour force participation in a substantial number of countries, as well as a degree of narrowing in wage differentials between men and women. While these will have impacted on power and control over resources within the household, potentially influencing the consumption and living standards of women versus men within households at a particular level of income, the focus here – as in most analysis of income inequality and its impacts – has been on the household as the income recipient unit. Using household income, adjusted to take differences in household size and composition into account, as the measure of household financial resources and living standards in this fashion assumes the sharing of resources within each household such that all household members are at the same standard of living. None the less, the extent and nature of the social impacts of increasing income inequality among households could well have differing implications for men versus women, and this was incorporated into the analysis of social outcomes in domains where it might be expected to be important. In terms of poverty and deprivation, there was substantial variation in the gender patterning of observed trends, linked inter alia to the age and household composition profiles of the households adversely affected which themselves varied a good deal across countries. The family is the social domain in which gender aspects are clearly central, but is also the area in which the linkages with income inequality were found to be particularly weak. Divorce/partnership dissolution can have particularly serious effects on women’s living standards, but neither the rate of divorce/partnership dissolution nor duration of marriage was found to be associated with levels of or trends in income inequity. Lone parent households are often (though by no means always) at particular risk of poverty, but neither births outside marriage nor the proportion of sole parent households were found to be significantly correlated with income inequality. In a context of generally declining fertility rates as inequality often increased, the only family-related variables that were seen to be strongly correlated with income inequality were teenage births and early marriage/family formation. As far as other social domains are concerned, for health gender inequality in life expectancy has narrowed as life expectancy has increased for both men and women, the gains have been greater for men who started with lower life expectancy, but any linkages to income inequality in that narrowing are difficult to trace. Child poverty was found to increase the risk of infant and
child mortality but the results were very similar for boys and girls. There do seem to be some importance differences between men and women when assessing the impact of income and material deprivation on self-assessed health. Absolute income levels are important for determining men’s health (i.e. higher income men report better health) but not women’s health. On the other hand material deprivation in terms of basic necessities was found to have a greater effect on women’s health than men’s health which suffered more from deprivation in terms of financial difficulties. In the case of crime, women are generally the victims rather than the perpetrators of violent crime, and imprisonment – which was found to have increased in a significant number of countries with some potential linkage to income inequality – also predominantly affects men. For social participation and cohesion, gendered patterns in the variation across countries and trends over time as inequality varied were not highlighted in the project’s country reports.

d) Political and Cultural Impacts
Important societal consequences of inequalities may be found in the political and attitudinal spheres. If political attitudes and behaviours become more strongly stratified between status groups in unequal societies, inequality may have far-reaching effects on what people believe is fair, how they participate in politics and associations, and what they vote. And, perhaps even more important, if such strongly stratified political behaviours and opinions are reinforced by the distribution of incomes, there may be severe consequences for the legitimacy of the political system of Western societies.

Several economic and sociological theories formulate a link between income inequality and redistributive preferences, which are examined. When inequality increases, people with falling incomes will obviously express increased needs for social redistribution. However, some theories also highlight that under circumstances of rising economic uncertainty (of which inequality is only one aspect) it is not only the social groups with falling incomes but also the less well-off facing uncertainties who may opt for higher levels of social spending. People’s expectations, their social context or values and their views on the reasons of poverty (whether it is due to lack of individual effort or to luck in life) may have a significant impact on the individual preferences for social policy.

When the evidence about macro and contextual determinants of redistributive preference is analysed, it turns out that higher inequality is associated with stronger preferences for redistribution. In addition, it is found that the structure of inequality (i.e. the relative distances between the various incomes groups) matters for the determination of the demand for more social spending. The deeper the poverty is, the larger the demand for redistribution is. However, while higher inequality induces a larger strain on the state, the existing (pre-crisis) size of the state may constrain its further growth and the extension of redistribution, not only in terms of the public budget but also in terms of the attitudes of the public. Also, support for policies depends on the form of the proposed redistributive programs (cash or in kind, assistance or insurance type), and the potential targets (which segments and social groups are considered as the needy), as well as on the institutional setting (whether its education, unemployment benefits, or health spending, to name a few).

If people have preferences concerning the level of inequality, then their desired level of redistribution will depend also on the difference between the level of inequality perceived and the level of inequality desired. Consequently, the information people have about the level of existing income inequality and the values they hold about the acceptable level of inequality are important inputs to the formation of redistributive preferences. Cross-sectional studies show that perceived level of inequality is to some extent higher in countries with higher income inequality, and accepted levels of inequality also tend to be higher. Results exploiting inter-temporal variation in inequality and attitudes show that attitudes towards inequality seem to
respond to changes in actual inequality: discontent with inequalities increases when inequality is rising. Discontent with the level of inequality however increases only moderately with the rise of inequality, which might result from the increase in individuals’ accepted levels of inequality when actual inequality is on the rise.

Political participation is one of the most important factors that can have a large effect on the level of redistribution. Higher educated people are more likely to vote, and, if voter turnout decreases – and it has been decreasing dramatically in most European countries - it is likely that the turnout for lower-educated, lower-income people will decrease relatively more, as observed in, e.g. the UK. Lower-income people are more likely to support greater redistribution, and therefore a diminishing turnout might influence politics to reduce the aspired level of redistribution, which in turn might affect the resulting level inequality. This has an impact on political choices (regarding redistribution) but can also affect legitimacy and approval of democratic procedures.

As said, rising inequality may have important repercussions on the legitimacy of democracies in European and other Western societies. Inequality, according to the research carried out in the GINI project, systematically affects both public opinion and the orientations of political parties. It appears that positive attitudes towards democracy are negatively related to the level of inequality in a society. Individual-level income is positively related to support for democracy, a relationship that holds regardless of the level of income inequality in the country. Importantly, in established democracies, the gap between rich and poor in terms of their support for democracy increases as inequality rises. This increasing polarisation occurs not so much because the poor are less supportive of democracy than the rich in unequal societies, but mainly because the rich are much more supportive of democracy in egalitarian societies. This finding also has implications for electoral politics. If governments hope to increase democratic values, they must convince the wealthier part of society that an egalitarian society may be in their own interest.

In addition, as inequality rises, people tend to be less concerned with societal responsibilities such as politics and civic participation. However, there is also evidence that higher inequality is associated with a stronger work ethic. In unequal societies people tend to think that well-being is the responsibility of individuals themselves rather than of government or society as a whole. These findings are consistent with the idea that the level of income inequality found in a particular society largely reflects public opinion. That is, high levels of income inequality are largely a function of limited policies of redistribution, which in turn reflects the idea of individuals’ own responsibility. Such a pattern of increased reliance on one’s own efforts, and less on others, may be detrimental to the ‘social contract’ underlying collective social policies. In that sense, high levels of trust and solidaristic sentiments can serve as a protective factor, with policies to combat increasing inequality more likely to be supported, and their erosion can heighten the risk of further increases.

Importantly, the salience of the redistribution issue mentioned above is of paramount importance. Inequality appears to influence public opinion on redistribution only when inequality is a significant political issue. Salience is not guaranteed, however, because those who benefit most from redistribution—i.e. those on low incomes —often feel they have little say in politics and thus tend to be less engaged. Of particular concern to the salience issue is the legitimacy of political decisions. The gap in participation between the rich and poor, or between the well-educated and the poorly educated, is larger in unequal societies than in egalitarian societies. This would mean that, in more unequal societies, there is a larger gap between public opinion on redistribution and actual political decision-making on this issue, simply because redistribution is a less important issue. A misrepresentation of public opinion (especially of people
belonging to the lower parts of the income distribution) could invoke further gaps in political participation between the advantaged and the disadvantaged. As income inequality rises, politics could become more strongly the domain of the well-educated and the better off.

Finally, we also explored how transnational forms of governance may be affected by inequality. In this regard, it is clear that inequality has direct repercussions both for how political parties position their public platforms and commitments, and for public opinion on European integration. Political parties tend to be more concerned with the protection of workers against globalisation when inequality is high. Globalisation has winners and losers, and the ‘losers’ (i.e. low-skilled workers) need protection. Not surprisingly, there is evidence that the losers have become increasingly critical of European integration. It is particularly interesting that parties on the far right of the political spectrum have become especially affected by inequality. Centre-left and centre-right parties, however, have become less protectionist or nationalist, illustrated by more modest anti-globalisation positioning irrespective of the level of inequality. The general effect of increasing inequality, however, has been to dampen enthusiasm of parties and publics to embrace supra-national integration.

Together with the range of other findings, the bottom line of our research is that inequality poses substantial dangers to democracy and openness in national political life, highlighting the importance of policies and measures that may redress inequality.

e) Redistributive and Educational Policies

Observing the debate on how to reduce income inequality and what is arguably its most problematic manifestation, poverty, one is struck by how widely opinions vary about the relative merits of alternative courses of action. On some key issues views are in effect diametrically opposed. This is perhaps nowhere more true than when it comes to the role of work, particularly paid employment. An important section of opinion basically holds that more people in work equals less people in poverty and, by implication, that an elaborate welfare state with large-scale redistributive efforts is not a prerequisite for a low level of poverty, provided that enough people have jobs. The idea that, ultimately, the best and most sustainable egalitarian strategy is an employment-based strategy has long been advocated and is scrutinised. The basic argument has common-sense appeal. People who are not in work tend to occupy the lower strata of the income distribution. If more jobs become available and low-income people take up these jobs and improve their incomes, the result is a selective rise of incomes at the lower end and thus a reduction in income inequality and consequently in the share of the population in poverty relative to the median. An alternative view holds that we are increasingly confronted with a trade-off between employment (that is, non-government employment) and income equality. The idea here is that high levels of non-subsidised employment can in present-day economic circumstances only be achieved at the cost of a large low-paid (service) sector and more ‘poverty in work’. Such arguments are in line with an important stream in the academic and popular literature on the effects of economic globalisation and skill-biased technological change on the labour market position of less qualified workers in rich countries. Research does suggest that this picture of a uniform shift away from low skilled work needs nuance. Technological change, real as it is, has not simply entailed a demand shift away from lower-skilled labour and towards higher-educated workers. There has been job growth in both the highest-skilled (professional and managerial) and lowest-skilled occupations (personal services), with declining employment in the middle of the distribution (manufacturing and routine office jobs) as a result. While the dynamics in the different segments of the labour market are complex, the overall picture does add up to one of increasing inequality.

What is also clear is that past employment growth in Europe and elsewhere – and we should not forget that there have been very strong net employment gains prior to the Great Recession – did not deliver the
hoped-for declines in poverty and inequality. In fact, the contrary was true for the most part. Employment growth, where it occurred, did not primarily benefit poor people, and this happened in a context of eroding income support as provided through social insurance and social assistance. The overall redistributive impact of the tax/benefits systems also declined. The reasons why job growth did not benefit the poor are complex. Policy options exist to make sure that the poor partake more when new job opportunities arise. Active labour market policies can play an important role here. But we should be under no illusion. When it comes to improving the plight of persons with the weakest profiles in terms of skills, experience and aptitudes, active labour market policies appear to have their limits. There are simply no examples of countries that achieve low poverty just by having well-functioning labour markets without extensive direct income redistribution mechanisms. The Nordic countries stand out in having high employment rates in combination with low poverty rates and overall inequality levels. It should not be forgotten that precisely these countries also spend heavily on direct income transfers, including towards those already in work. The combination of work and welfare state income is more pervasive there than anywhere else. In addition, income support provisions for those with no work attachment are among the most generous and adequate from the point of view of poverty relief. The European Commission recently stated that social protection is an additional cornerstone of an effective policy to combat poverty and social exclusion in Europe, complementing the effects of growth and employment. It is important that this does not remain a vague intention. Minimum-income protection levels have declined. Policy makers can, if they have the political support, bring about a (partial) reversal by bringing social safety nets to a higher level. Important voices argue however that policy should shift from fighting symptoms to tackling in more comprehensive and radical ways the root causes of exclusion, low earnings and limited upward mobility. Within the social-investment strategy public services are a key instrument. Some actually advocate a drastic reallocation of social expenditures towards such services, and then especially those services that support families in coping with the work-family life balance, and those that enhance human capital. The social-investment strategy intends to sustain a skilled and flexible labour force, which can easily adapt to the constantly changing needs of the economy and thrive in it. Optimally, it brings both an increase in economic efficiency as well as a reduction in inequality and poverty, or so it is claimed. In-kind provisions of all types matter if societies are to be made more egalitarian. The mounting empirical evidence on child-care services and early childhood education brings out very diverse results, with some cautionary notes. In most countries the actual use of child-care services remains socially stratified. This is even the case in countries where the consumer cost of such services is close to zero for those on the lowest incomes. Other parameters do matter, such as access, availability and quality of the services. Moreover, if quality of childcare is not similar within a country and low-income families typically mainly use lower-quality care, then this may hamper egalitarian outcomes in the longer run. As a result investment in equal quality is also important, as are connections with other policy domains, such as complementary parental leave systems and the quality of the regular school system.

As already mentioned, educational policies are effective in reducing educational inequalities, even if some reforms are more effective than others, irrespective of whether inequality is measured within generations or across generations. Policies that broaden the access to secondary and tertiary education are the most effective in reducing inequality in schooling. By matching age cohorts from different datasets we have established that competences acquired when in school are as important as years of schooling in shaping earnings inequality later on in the labour market. This throws up the question which policies are capable of reducing educational inequalities along either the quantity dimension (years of schooling) or the quality dimension (competences acquired in school). When considering the first dimension (schooling) we claim
that some policies (like expansion of compulsory education or financial support in college) have a clear impact of inequality reduction, mostly through raising the bottom tail of the distribution of intended attainments. However, other policies (especially those aiming to expand the autonomy of educational institutions) may have more uncertain effects on inequality, since they foster differentiation among schools and universities, thus boosting the attainment of financially better endowed students at the risk of leaving behind students from more disadvantaged backgrounds. Conversely, when looking at the other dimension (competences) there is consensus in the literature that postponing the age of tracking in the educational system contributes to reducing the dispersion of competences. This contrasts with policies aimed at raising the degree of standardisation of inputs (i.e. reducing the degree of school autonomy) and/or introducing central examinations, which seem less effective in reducing educational inequality in competences. In addition, the vocational orientation of the secondary school system, which stimulates retaining in school the least motivated students (who often are also students with poorer cultural backgrounds) and therewith reduces the dispersion in competences in the adult population.

We have also highlighted the possibility that policies increase inequality because they raise the selectivity in admissions to education. In addition, we have investigated what drives the adoption of different educational policies within countries, and found support for the notion that progressive parties favour the expansion of access to education as a means to reduce income inequality, while conservative parties disregard the necessary homogeneity of public education, supporting policies that lead to school differentiation and competition.

The evidence and narrative embedded in the country studies is suggestive of an ideological shift across many of these rich countries towards freer markets, smaller welfare states, less regulation and less institutional power for unions, although this was not universal. Such welfare state retrenchment could be accelerated during the current economic crisis as countries grapple with balancing budgets and reducing public debt. The neo-Conservative governments of the 1980s, in particular the UK and the USA, reacted to the ‘threat’ of globalization and increasing trade with low wage economies in the global south by large-scale privatisation of state-owned enterprises and utilities, accompanying efficiency drives, rolling back the welfare state, reducing the power of institutions such as trade unions and embracing monetarist supply-side economics. Perhaps further fuelled by the collapse of Soviet-led communism, these policies, which some refer to collectively as the “Anglo-Saxon model”, found favour with many governments. Elements can be seen in the way governments reacted to the 1990s recessions that hit the Nordic countries and Canada and to a certain extent in Japan and Korea following the Asian financial crisis.

While welfare state retrenchment and deregulation may be reflected in an increase in inequality across the income distribution, it may also over time underpin the growth in a powerful elite (including the “supranational super rich”) with an increasing share of income and wealth, sometimes accompanied by a disengagement of less powerful more disadvantaged groups from the political process as seen in plummeting voter turnout in a number of countries.

There are global forces at play which have put pressure on earnings inequality across rich countries, but the evidence clearly demonstrates that governments can react to these pressures in different ways, substantially affecting the extent to which they lead to increasing inequality in household incomes. Income inequality has far-reaching consequences for peoples’ lives, and for society as a whole. We did not find strong evidence that increasing income inequality is associated with such negative social outcomes as more crime, more family breakdown, less trust and greater social immobility, at least in the relatively short term. The long-term effects of greater inequality remain to be seen, and will need to be carefully studied and monitored. In any case, it is been repeatedly demonstrated across the country studies that inequality
in income is strongly associated with inequalities in other dimensions, including health, and these deep-seated social gradients are in themselves highly undesirable.

The country case studies provide evidence of a plethora of welfare policies both in the raising of revenue and its expenditure that are designed to (sometimes indirectly) reduce such differences between individuals and families. Cash transfers are used directly to assist those in receipt of low market incomes and the taxes funding these transfers and other public spending to varying degrees reduce market income inequality. In terms of broader social policies, publicly funded health and education are designed to raise population health and education, and to limit the extent to which income determines the level of health and education that people enjoy. These policies, and the welfare state more broadly, collectively create a corrective buffer, smoothing out differences between people and weakening the link between income from the market and other outcomes. The extent to which countries are successful in achieving this will also be reflected in the relationship between income inequality and negative social consequences. The depth and breadth of the material represent a valuable resource on which further research can and will build, demonstrating the importance of properly understanding the national and institutional context and the role of policies in seeking to describe and understand the way inequality broadly conceived has evolved and is evolving.

f) Further Research

The evolution of income inequality throws up the interesting question where the groupings of countries that we established at the face value of their trends in income inequality, can be linked to shared underlying factors and thus stand up to further scrutiny. Similarly, it is important to see how the examples found of episodic instead of gradual changes in inequality, that bring inequality to a seemingly structurally different level over a short period, relate to possible factors driving such rapid changes and to tease out the implications for a broader understanding of inequality trends and explanations.

The findings on the contribution of earnings inequality raise some important questions for further research. First, they underline the role of household earner demographics as a contributor to earnings and income inequality, in conjunction with the distribution of employment in relation to household joint labour supply. Beyond the effects of part-time employment in relation to dual earning, multiple earning in itself deserves more attention, also in relation to the role of single-person households which seem to abound where multiple-earner households are few. In addition, there is a case for enquiring into the explanation of dual and multiple earners, bringing in e.g. the strong rise in female employment participation, esp. in old member states while in new member states the transition often affected existing high levels of female participation negatively. This includes examining the effects of pay correlation between household members in a comparative framework. In addition, it seems commendable to analyse the relationship in the opposite direction and look at the effect that the household dimension of labour supply and earnings may have on labour market inequalities, going beyond the perspective of the individual that is so central to the common analysis of these inequalities. For example, as a result of household joint labour supply a specific part-time segment of employment may be growing where a full-time worker ‘can no longer go’ and where the motives of labour supply and the rules of labour-market competition may differ. Finally, the rise in individual educational attainment may affect household labour supply and shift the boundary of household joblessness upwards along the educational distribution if educational homogamy concentrates labour market success among a smaller fraction of households. With regard to the role of wealth and wealth inequalities there is still a long way to go for the systematic collection of internationally comparable and more comprehensive data. This can serve a more complete description of levels and trends with an improved country coverage, but should allow also a deeper analysis of the contributions of individual and
household characteristics.

With respect to the generation of inequality in individual earnings as a result of educational attainment, there are at least two lines of research that are in their infancy: one concerns the formation of competences and their connection to the labour market; the other deals with modelling the institutional design of educational systems. Social scientists still know little about the role of cognitive and non-cognitive abilities, except for the fact that when they are partially observed these measures appear to be strongly correlated with labour market outcomes (employability, earnings, prospect of career). It is not yet clear how these abilities are formed and whether (and when) they start decaying over the life cycle. We do not even know whether there is some assortative mating based on these traits. Most of our ignorance derives from lack of appropriate data, despite their collection in other research fields, and a priority for the future is that research progress in this direction. The other major knowledge gap relates to cross-country differences. The vast literature on the varieties of capitalism has proposed various classifications of national economies according to scope and size of welfare systems. The equivalent effort with respect to educational systems is less developed. The existence of tracking versus comprehensive systems of secondary education is well-recognised, but it is more complex to combine various dimensions and cover the whole range from pre-primary to tertiary education. The underlying issue here is whether there is a spontaneous convergence towards a unified model for educational systems in advanced countries, or whether it can be encouraged by means of imitating best practices. Here the literature seems not to have achieved a unanimous consensus. In seeking to capture and understand the ways in which increasing inequality may impact on social outcomes that are central to individual and societal well-being, further research might usefully take as its point of departure the message emphasised here, that at a focus on income inequality per se, especially as captured by single summary indicators such as the Gini coefficient, is unduly narrow. Adopting a broader stratification perspective incorporating (at least) social class and education, while much more complex to implement, is likely to be productive in moving forward a contentious set of interlinked debates that risk being trapped down a succession of blind alleys. To make significant progress, it will be important to develop and use longitudinal and multilevel data that allow causal processes to be properly explored. It will also be helpful to focus even more on mechanisms and on specifying testable hypotheses. This is a challenging task because of the data requirements and necessary modelling sophistication. Indicators of some social outcomes also need to be elaborated and combined into validated reliable indices where possible, since at present undue reliance has to be placed on specific individual items. In certain key domains, notably the study of deprivation and of the intergenerational transmission of advantage and disadvantage, the scope for comparative analysis is increasing but will continue to be constrained by the pace of improvement in the availability of harmonised data.

The research reviewed suggests a number of areas where future research could improve our understanding of the relative importance of various drivers and the dynamic relationship between inequality and social outcomes. For health it was shown that relative income and absolute material deprivation are associated with poorer health outcomes in one country. It would be interesting to see if this finding can be replicated across countries and whether changes in relative income and absolute material deprivation over time are associated with a deterioration in health outcomes. A better understanding of the link between adverse working conditions and health and how recent trends in income inequality have been accompanied by changes in job quality is also important for developing policy recommendations to limit avoidable poor health.

The relationship between inequality and intergenerational mobility describes how inequality in one
generation is imprinted onto the fortunes of the next generation. Recent research that seeks to establish the transmission processes and identify policies that increase mobility needs to be fostered. The increase in concentration at the top of income and wealth distributions observed in a number of countries appears to be greater cause for concern if the results for Sweden are indicative of a broader trend towards rich dynasties. To explore this social phenomenon further requires high quality longitudinal data.

Concerning the impact of inequality on political outcomes GINI has mostly looked at citizen’s attitudes and behaviours, and the legitimacy problem that arises from a stratification in politics among the population. It is however possible that the political consequences of increasing inequalities extend beyond individual outcomes, implying that there may be other channels through which inequality threatens the legitimacy of the political system. Some of these alternative routes could be studied in future research. One line of research that could be fruitful is to study how money can ‘buy’ political influence in different systems, and to study whether inequality enhances the opportunities for the top-income groups to mobilise their political power in this way. In the United States, the exceptionally high costs involved in running for elections is likely to induce a power difference between the rich and the poor that cannot be observed by just looking at attitudes or political participation in population surveys. It will also be important to study the extent to which, among European countries, differences in how political parties are funded and in how elites are able to mobilise their political interest through financial contributions run in parallel with inequality levels in societies.

Another possible future line of research on political outcomes of inequality concerns the process of public opinion formation, and how different organisations are able to influence the population’s viewpoints on poverty, meritocracy, and the redistribution of resources. It is interesting to see that opinions on inequality largely reflect factual inequality levels. It is possible that think tanks, public intellectuals and non-governmental organisations play a key role in how the attitudes are formed, and it would be relevant to study whether inequality is related to the level of influence that these parties are able to exert.

Several key challenges in the area of policy research remain. Boosting employment rates continues to be a prime policy objective in many countries, in part driven by the idea that ‘the best protection against poverty is a job’. We know that employment growth has so far not delivered better outcomes in terms of reduced poverty and inequality. We know in part why this is but the many and complex underlying causal dynamics have not been fully charted. One important question is why joblessness at the household level tends to be so persistent even in a context of high labour demand. The relative role of economic mechanisms, for example financial incentives of tax and benefit systems as these operate at the household level, versus more sociological mechanisms, for example the effects of educational homogamy, social capital or neighbourhood effects, needs to be explored more systematically. Another crucial question is how we can improve minimum income provisions for those unable to make a decent living through the labour market. The adequacy of minimum income protection leaves much to be desired almost everywhere, but at least a number of countries manage to combine relatively high minimum-income protection levels with well-functioning labour markets. What are the key conditions for generous income protection to be compatible with low chronic dependence? Particularly what is the role of activation, empowerment, monitoring and sanctioning policies? Income support provisions that supplement low earnings appear to work relatively well in some settings although relatively little is known about their longer terms effects, for example on wages, mobility and skill formation. There continues to be a lively debate on whether low income targeting actually enhances or reduces the redistributive impact of policies. New evidence suggests that targeting may not be so bad, but the optimal level for various policies and in various settings still remains to be determined. Attaching requirements to benefits is also increasingly in vogue. There is a growing literature
on conditional cash transfers (CCTs) in developing economies but the short and longer term effects of various conditions still require further exploration, especially in the context of advanced economies. Human and social investment is now high on the policy agenda. It seems entirely sensible that policy should focus on tackling in more comprehensive and radical ways the root causes of economic disadvantage. The range of policies that are discussed under the heading of social investment is very broad and it is impossible to discuss here the many research questions that remain open. One clear research priority concerns the social stratification in the take up and longer-term effects of many of such social investment policies. Child care services, for example, tend to have more beneficiaries towards the top of the income distribution. Even where childcare is not scarce, of good quality and provided almost free of private costs for people on low incomes, the effective take-up remains skewed towards the higher income groups. This may have less to do with the design of the policy itself than with the context in which the policy is embedded. In addition to the social stratification in take-up, there is evidence of social gradients in the longer term effects. This may have to do with quality differences in the services people of various means have access to but many other factors appear to be at play as well.

Potential Impact:

4) The potential impact

a) The main policy conclusions from the project

• The best performing countries in terms of economic, employment, social cohesion and equality outcomes have in common a large welfare state that invests in people, stimulating and supporting them to be active and also adequately protecting them and their children when needed.
• Household joblessness is a key driver of poverty and deprivation, and policies need to ensure that the poor benefit from new job opportunities, including by active labour market policies.
• For those with the weakest profiles in terms of skills, experience and aptitudes this will not suffice, and where social safety nets have been significantly eroded they need to be renewed.
• As well as dealing with symptoms, policy needs to tackle the root causes of exclusion, low earnings and limited upward mobility in more comprehensive and radical ways.
• However, resourcing policies that impact on inequality and poverty in a structural way over time should not be at the expense of policies of proven effectiveness in direct poverty alleviation and inequality reduction, especially in times of high unemployment.
• In-kind provision of services, all the way from early childcare and education through housing, healthcare and personal social services, matter greatly if societies are to be more egalitarian. As well as the cost, access, availability and quality of these services also substantially influence social gradients in utilisation and benefits.
• In relation to education, policies such as expansion of compulsory education and financial support to attend third-level institutions have a clear inequality reduction impact, mostly through the raising of the bottom tail of the distribution of intended attainments.
• Other policies, for example expanding the autonomy of educational institutions, have more uncertain effects on inequality, since they foster differentiation among schools and universities, boosting the attainment of better endowed students at the risk of leaving behind students from weaker backgrounds.
• Postponing the age of tracking contributes to a reduction in the dispersion of competences, and a reduction in the inequality in educational achievement by social origin.
• Centralized exams make the distribution of competences more egalitarian.
• Increasing the degree of standardisation of inputs is less effective in reducing educational inequality.
• Social stratification in voter turnout needs to be addressed to prevent the potential undermining of
legitimacy of democracy in the long run.

b) The main dissemination activities
The Concluding Conference of the project, a Summary of results for circulation, and a special workshop organised by DG Employment, Social Affairs and Inclusion were the three main conduits for dissemination of the results.

1) First and foremost the results of the project were presented for public discussion at the Concluding Conference held on 4-5 June 2013 in Amsterdam. The programme included a Policy Address Promoting Social Cohesion and Solidarity at a Time of Growing Inequalities, by the European Commissioner for Employment, Social Affairs and Inclusion, Mr László Andor. The conference was attended by 84 persons.

2) Second, a Summary of Results of GINI was circulated at the conference and posted at the project website. It listed the Analytical findings as follows:
(http://www.gini-research.org/system/uploads/543/original/GINI_1-2_ResultsOutput_201309.pdf):.

A. THE GROWTH OF ECONOMIC INEQUALITY AND ITS DRIVERS
• Income inequality increased in most OECD countries over the last 30 years, though with differing timing: the 1980s-1990s saw a large increase in Anglo-Saxon countries, while the 1990s-2000s saw more increases in Northern European Countries.
• Some countries for which inequality was stable or fell still saw an increase in top income shares. Consumption inequality has been less volatile.
• The sources or ‘drivers’ of increasing income inequality include.
  o Redistribution from labour to capital (with a fall in the median labour share of 5 points from the 1990-late 2000s).
  o Increasing earnings inequality (especially important for the 1980s and first half of the 1990s) – although returns to education did not increase everywhere.
  o Increasing part-time work and other forms of flexibilisation of labour market.
  o Some demographic factors.
  o Taxes and benefits, notably changes in personal income tax regimes, including reductions in top tax rates and the introduction of flat tax structures, while benefits tended to become less effective in the second half of the period.
• A robust explanation of the evolution of inequality needs to explain both episodic increases and more consistently increasing trends across countries. Explanations based on labour market factors have limitations. Technical change has a role but returns to education display a mixed pattern over time and across countries and does not account easily for increases in top shares.
• Globalization may also play a role, affecting returns to low-skilled workers and facilitating capital flows which sustained asset price bubbles and helped increase top shares, with international competition for top managers also increasing their remuneration.
• The policy consensus towards pro-market reforms may also have been a significant factor, underpinning greater targeting in welfare policies, reductions in capital taxation, labour market reforms, and rapid growth and increasing rewards in the financial sector.
• Inequality has displayed a variety of immediate impacts in the economic crisis, which will need careful empirical scrutiny; increasing inequality may itself have played a role in the expansion in debt that contributed to the crisis.

B. EARNINGS, EMPLOYMENT AND HOUSEHOLD INCOME INEQUALITY
• Annual earnings in the labour market are by far the most important contributor to household market
incomes. In cross-country comparison earnings inequality largely drives household income inequality.

- This is also true for the income share of the top decile, because households with labour earnings are overrepresented higher up the distribution. In several countries (e.g. Baltics) the top income share is entirely made up of earnings while in a few others (Greece, Italy) there is an important role for self-employment incomes at the top.

- Comparing households and corresponding employees, household inequality is about twice as large as among employees on an annual basis. Towards the top of the earnings distribution households work more paid hours. The effect is rather similar across the 25 European countries.

- This similarity means that in explaining cross-country differences in income inequality the initial national individual labour-market earnings inequality is decisive. Its cross-country differences are substantial and these are amplified mainly by the combination of labour supply by its members, and to a much smaller extent also by the correlation of (hourly) pay between those members, which bring higher, or lower, earnings together in the household. The two effects offset each other somewhat.

- The annual earnings of individuals are much more unequal when looked at in the labour market and ignoring their relationships to households than when they are related to their households. This is due primarily to the higher inequality of individual annual hours worked, which is largely compensated for by households when they combine individuals with different hours. In this perspective households mirror existing (hourly) wage inequality and at the same time significantly diminish the inequality of annual labour market outcomes by means of their combination of longer and shorter hours worked.

- This works out very differently across countries. In CEE countries multiple-earner households play a much larger role than elsewhere, especially at the top of the earnings distribution, reinforced by the small role of part-time employment.

- Extensive multiple earning in households helps to keep in-work poverty in check; the poverty rate among CEE multiple-earner households is as low as in the Nordic countries and the Netherlands.

C. WEALTH INEQUALITY AND ACCUMULATION OF DEBT

- In recent decades wealth has gained importance relative to income, due to the evolution of asset prices and macroeconomic dynamics, and wealth inequality and polarization increased during the 1980s and 1990s.

- The measurement of wealth and wealth inequality faces analytical challenges posed by inter alia the role of debt and of negative wealth, the significance of relative and absolute differences in wealth holdings, and the treatment of pension entitlements, but these do not fully explain cross-country differences in wealth inequality.

- The level of wealth inequality varies widely across countries for which data are available, with the UK, USA, France and the Scandinavian countries reporting the highest levels, and the East Asian countries, Spain, Ireland and Italy the lowest. Recently, the wealth inequality ranking of some countries has changed considerably.

- Social expenditure is an important driver of the cross-country variation in wealth inequality, with low spending on housing policies and old age pushing poorer households to accumulate some savings. The level of debt (mortgages and educational loans) is another important driver of wealth inequality. Demographic factors play a comparatively small role. The labour market and the distribution of earnings explain the level of wealth inequality in the USA better than in other countries, where inheritance can provide a better explanation.

- The evolution of capital, financial assets, debt, their fiscal treatment and the superstar phenomenon seem better at explaining trends over time. The evolution of capital compared to labour and their
respective returns and the weakening of taxation of capital contribute to increased wealth inequality, and the ‘superstar’ phenomenon contributes to the increase of top wealth shares.

• The relationship between income and wealth inequality is not straightforward. Four groups of countries are identified: 1) low wealth inequality with high income inequality (Mediterranean and East-Asian countries); 2) high wealth inequality with low income inequality (Scandinavian countries and France); 3) high wealth inequality with high income inequality (Anglo-Saxon countries); low wealth inequality with low income inequality (Finland, Czech Republic and Austria).

• The distribution of wealth over households ranked by their income is less dispersed than if ranked only by their wealth, except in the USA. Such differences may be explained by the role played by debt. A proportion of the households with very low measured income have significant wealth, especially in some countries.

• Further improvements are needed in the measurement of wealth and for its comparability across countries.

D. SOCIAL IMPACTS: POVERTY, DEPRIVATION AND SOCIAL COHESION

Increasing inequality in recent years has led to a sharper focus on linkages between income inequality and range of social outcomes, with concern that increasing income inequality might be a key driver – as crystallised in Wilkinson and Pickett’s The Spirit Level. The GINI research project has invested a great deal of effort into gathering and assessing evidence regarding the extent to which increasing inequality leads to more divided societies with worse outcomes for all citizens.

• From a methodological perspective a key message is the need to move beyond simple correlations between levels of income inequality and the extent of specific social problems to specifying and testing causal mechanisms with appropriate data and models.

• The relationship between income inequality and poverty depends on how poverty itself is defined and measured. Poverty measured vis-à-vis relative income thresholds is strongly related to income inequality, but one still cannot simply ‘read off’ trends in poverty or rankings compared with other countries from conventional summary inequality measures.

• When the focus is on poverty vis-à-vis thresholds fixed in purchasing power terms, or on material deprivation, the major factor accounting for differences across countries and change over time is average income levels rather than income inequality.

• Average income levels and deprivation both influence subjectively-assessed levels of economic stress; deprivation has the greatest impact where national income levels are high and inequality is low.

• Many family-related features such as fertility, marriage and divorce, lone parenthood, etc. do not display a distinct and consistent social gradient across countries, and income inequality per se does not seem to play a major role in accounting for differences across countries or the dramatic changes in family life seen in many countries in recent decades.

• The relationship between income inequality and crime is particularly difficult to assess empirically due to the variability in crime statistics. There may be some relationship between income inequality and levels of violent crime, but crime rates in many countries have fallen when income inequality was increasing. Patterns of imprisonment bear a much clearer relationship to income inequality and welfare regimes.

• Levels of social solidarity and trust appear to be at most weakly related to levels of income inequality.

• While there is some evidence of a negative association between income inequality and self-reported happiness, it is limited and not clear-cut.

• Overall, the findings with respect to inequality and various aspects of social cohesion highlight the importance of incorporating income inequality as only one facet of social stratification more broadly
conceived, rather than concentrated purely on that one aspect of socio-economic inequalities.

E. SOCIAL IMPACTS: HEALTH, HOUSING, INTERGENERATIONAL MOBILITY

New evidence under the ‘social impacts’ theme assesses the relationship between inequality and health, housing and intergenerational mobility, reflecting to differing degrees long-term differences between individuals.

In terms of the relationship between income and health hypotheses have been put forward focusing on the role of absolute income, relative income and income inequality, and the project analyses find that:

• In rich countries it is relative income (the gap between own and others’ income) that is important in predicting levels of self-assessed health not absolute income. However, it is absolute rather than relative levels of material deprivation that have a negative association with health.
• There is a significant relationship between mortality and poverty for infants and children and an interesting divergence between regime types in relation to infant/child and adult mortality, with Nordic regimes most effective at reducing infant mortality (to a lesser extent child mortality), but Southern European regimes associated with lower adult mortality rates.
• There is evidence that adverse working conditions are related to lower health, particularly the mental health of workers, and low pay is related to poorer physical health.
• Poor housing conditions are detrimental to health but the overall relationship between inequality and housing is complex and can run in both directions.
• Homeownership rates have risen across Europe over the last few decades which appear to some extent to have been encouraged by governments as a means of shifting a greater share of the burden of welfare away from the State.
• Governments’ encouragement of low-income households to become homeowners coupled with poor financial regulation and cheap credit are seen as significant triggers to the current economic and financial crisis.
• Increases in income inequality can drive up house prices and lead to over-crowding among low income households and there is some evidence that this has occurred.
• Housing also plays an important role in determining the relationship between parental wealth and children’s outcomes both in terms of their education and their adult outcomes in the labour market. Evidence suggests that there are positive wealth-effects.

On the relationship between inequality and intergenerational mobility the evidence is split.

• Cross-country studies show a clear relationship between higher cross-sectional inequality and lower intergenerational mobility.
• The limited evidence available from across time studies within countries where the findings are less conclusive.
• Recent increases in concentration at the top of the income distribution in a number of countries may influence future trends as ‘stickiness’ at the top of the income distribution, even in countries such as Sweden with relatively high levels of intergenerational mobility, appears to be leading to rich dynasties.

F. RISING INEQUALITIES: WILL ELECTORATES DEMAND GREATER REDISTRIBUTION?

As many European countries have faced growing inequalities over the past few decades, the impact of these trends on attitude change and political behavioural responses in various EU member states is of prime importance. In particular, the extent to which rising inequality leads to increased levels of redistributive claims and to which inequality relates to levels of political participation and voting patterns is challenging national governments of the Member States under conditions of austerity pressures.

• The general policy conclusion of the project is that in addition to the objective situation, the perceptions
of the citizens about the extent and change of inequalities are crucial.

- It is clear that at the micro level redistributive preferences are partially driven by rational self-interest (negatively related to income and material position and with assumptions about future economic prospects of the individuals). The better is the material position and the better are the prospects of the individual, the lower the support for redistribution will be. In addition, however, redistributive preference also depend, to a non-negligible extent, on general attitudes related to the role of personal responsibility in one’s own fate and on general beliefs about causes of poverty.
- In addition, the structure of inequality (i.e. the relative distances between the top, the middle and the bottom income groups) matters for the determination of the demand for redistribution. The deeper the poverty is, the larger the redistributive taste is. This adds to the general finding that in countries having higher levels of aggregate inequality the general redistributive preference (of the rich, of the middle and of the poor) is higher.
- If people have preferences directly with respect to the level of inequality, then their desired level of redistribution will depend also on the difference between the level of inequality perceived and the level of inequality desired.
- Attitudes towards inequality seem to respond to changes in actual inequality: discontent with inequalities increases when inequality is rising. Discontent, however, grows only moderately with the rise of inequality, which might be the result of some rise in individuals’ accepted levels of inequality when actual inequality is growing.
- The empirical evidence between inequality and political participation points to a negative relationship between the two. However, whether increasing inequality reduces turnout or diminishing turnout increases inequality is not clear from the reviewed literature. This makes it difficult to formulate policy conclusions. Given that political participation is a key pre-requisite of the proper functioning of political democracy, it is important to keep participation at a high level and to ensure that citizens have proper information about the level and change of inequalities.

G. INEQUALITY, LEGITIMACY AND THE POLITICAL SYSTEM

- Larger inequalities are related to greater social gradients in political and social participation.
- Also civic values, personal attitudes towards democratic governance, and attitudes towards the European Union are more strongly stratified by income and education groups in more inegalitarian societies.
- There is a complex relationship between the salience of economic redistribution in the political arena and income inequality. It appears that income inequality is larger in those societies where redistributive issues are relatively unimportant in people’s political identification and self-placement. But through larger social discrepancies in electoral participation in more unequal societies, the voices of low-income groups are underrepresented in parliaments. Such processes may reinforce a decline in the relevance of redistributive issues in the political arena.
- Larger social cleavages in support for democratic governance and participation in the political system could have severe impacts on the legitimacy of politics. Not only are individuals more dispersed in their orientations dependent on their education and income, but ultimately such dispersions could question the legitimacy of the political system as it is currently organized.
- In more unequal societies people have relatively strong values in favour of ‘hard work’.
- In unequal societies the ideology develops more strongly towards individual achievement and less towards the community.

H. INCOME INEQUALITY, INSTITUTIONS AND POLICIES
Opinions vary about how best to reduce income inequality and poverty, especially when it comes to the role of work. One perspective is that an elaborate welfare state is not necessary provided that enough people have jobs, while others see employment growth being contingent on a large low-paid service sector and more ‘poverty in work’.

• The popular picture of a uniform shift away from low skilled work needs nuance. There has been job growth in both the highest-skilled and lowest-skilled occupations, with declining employment in the middle. While the dynamics in the different segments of the labour market are complex, the overall picture does add up to one of increasing inequality.

• Past employment growth in Europe and elsewhere - and there were very strong net employment gains prior to the crisis - did not deliver the hoped-for declines in poverty and inequality. Employment growth did not primarily benefit poor people, and this happened in a context of eroding income support through social insurance and social assistance.

• Active labour market policies can help ensure the poor benefit more when new job opportunities arise, but for those with the weakest profiles in terms of skills, experience and aptitudes such policies have their limits. Declining minimum-income protection levels are thus problematic. There are no examples of countries that achieve low poverty just by having well-functioning labour markets without extensive direct income redistribution.

• Policy can be re-oriented towards tackling more effectively the root causes of exclusion, low earnings and limited upward mobility. The social-investment strategy aims to sustain a skilled and flexible labour force, which can easily adapt to the constantly changing needs of the economy and thrive in underpinning growth and reducing inequality. However, this should not be pursued at the expense of policies of proven effectiveness in direct poverty alleviation and inequality reduction, especially in times of high unemployment.

• In-kind provisions of all types matter greatly if societies are to be made more egalitarian. The mounting empirical evidence on child care services and early childhood education brings out very diverse results, and in most countries the actual use of child care services remains socially stratified, even where the cost is close to zero for those on the lowest incomes. Other parameters such as access to, availability and quality of the service do also matter.

• The best performers among the rich countries in terms of economic, employment, social cohesion and equality outcomes have one thing in common: a large welfare state that invests in people, stimulating and supporting them to be active and also adequately protecting them and their children when everything else fails.

I. EDUCATIONAL INEQUALITIES AND EDUCATIONAL POLICIES

Educational inequality can be identified according to the number of years of schooling completed by individuals, the levels and types of qualification achieved and test scores capturing actual competences. The first and the last are the more comparable across countries, while the second is more specific to the institutional design which is country specific. Inequality of opportunities can be assessed by looking at the distribution of educational attainment conditional on the distribution among parents.

• Over the last century, most of the countries in our sample have seen the achievement of almost universal attendance of secondary schooling (saturation). Thus the main issue facing educational policies in European countries is whether they should pursue further expansion of schooling at tertiary level. At this stage, social origins still characterise educational opportunities.

• The persistence of cross-country differences and the absence of convergence to a “common European model” highlight the lack of a common pattern of development – there is no inverted U-shaped relationship
between educational inequality and development in Europe.

- Despite a declining trend in educational inequality, an analogous trend in earnings inequality is not seen, despite the positive correlation among the two. Among the possible explanations of these diverging trends, one key factor concerns the distribution of competences in the adult population. Existing datasets (like IALS, ALL or the forthcoming PIACC) provide snapshot of the distribution in representative samples of the population, which allow a decomposition of the relative contribution of social origin, schooling and labour market experience in the formation of competences.

- The GINI project has shown that competences acquired when in school are as important as years of schooling in shaping earnings inequality later on in the labour market.

- Policies to reduce educational inequalities can operate along either the quantity dimension (years of schooling) or the quality dimension (competences when in school). Policies like expansion of compulsory education or financial support to college have a clear inequality reduction impact, mostly through the raising of the bottom tail of the distribution of intended attainments; postponing the age of tracking contributes to a reduction in dispersion of competences, and the vocational orientation of the secondary school system, by retaining in schools the least motivated students, also reduces the dispersion in competences in the adult population.

3) Third, as another channel of dissemination five Policy Papers have been written for DG EMPL and were presented at a special seminar at the DG on 6 June 2013:

1. Francesco Bogliacino, The inequality content of some of the Europe 2020 flagships
2. Virginia Maestri, A supplementary measure of income poverty including housing: advantages and risks, measurement challenges and policy implications
3. István Tóth, Time series and cross country variation of income inequalities in Europe on the medium run: are inequality structures converging in the past three decades?
4. Abigail McKnight, Material deprivation over the economic crisis – does a re-evaluation of ‘need’ affect measures of material deprivation?
5. Ive Marx, Jeroen Horemans, Sarah Marchal, Tim Van Rie and Vincent Corluy, Towards a better marriage between job growth and poverty reduction

These papers can be found at the GINI website as www.gini-research.org/PP1 to -PP5.

List of Websites:

a) The address of the GINI public website: www.gini-research.org

b) GINI contact details: gini@uva.nl

c) GINI project logo:

d) Internet spread of GINI Discussion Papers and Reports

The posting of the papers and reports at the GINI website from August 2011 has been linked as a series to the RePEc data set of similar series in the discipline. So far 67 Papers have been picked up: State-of-the-art Review, four Work Package Reports and 62 Discussion Papers. Their abstracts have been viewed 3260 times while 2871 downloads have been made. Policy Papers and Country Reports will be added.

e) Publications as reported below sub C question H.14.
Note that not all of those are foreground of the GINI project in a formal sense. Many scholars joined the project for writing Discussions Papers, but only some received a grant for supporting the necessary research for drafting the paper, while the grants also left them free to publish at their own will.

f) GINI at a Glance:

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