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Protecting social inclusion and mobility in a low growth scenario

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Protecting social inclusion and mobility in a low growth scenario

Working Paper no 100

Author: Gunther Tichy (WIFO)

June 2015

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Protecting social inclusion and mobility in a low growth scenario

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Protecting social inclusion and mobility in a low growth scenario

Gunther Tichy (WIFO)*

Abstract

The unusually rapid economic growth during the second quarter of the previous century led to a marked reduction of sustained exclusion and discrimination against groups of persons. However, in the 1980s and 1990s, growth rates in industrialised countries began to drop; the different types of real and, more importantly, perceived social exclusion once again increased and became socially critical. The economic policy of the EU and its member states has, however, not dealt systematically with the problem of exclusion, instead addressing it only in isolated, individual steps, with the main focus being efficiency and the bolstering of growth. This, however, cannot be expected to take place to such an extent that a "trickle down" effect would automatically reduce exclusion; there must be an active and innovative anti-exclusion policy. This report attempts to outline which problems have been neglected in the WWWforEurope concept, for which problems solutions have been proposed, and for which problems solutions still need to be worked out.

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Protecting social inclusion and mobility in a low growth scenario

Gunther Tichy (WIFO)

The unusually rapid growth during the second quarter of the previous century led to a marked reduction of sustained exclusion and discrimination against groups of persons (social exclusion). Prosperity increased, unemployment declined, distribution of earnings became more equitable, poverty declined, the population became healthier and life expectancy increased. The success of the economy and, as a result, the currency union meant the forgetting of those reforms which the proponents of integration had foreseen in order to secure it. However, in the 1980s and 1990s, (per capita) growth rates in industrialised countries began to drop below the historically typical values of 1½ to 2%; the different types of real and, more importantly, perceived social exclusion once again increased[1] and became socially critical. In the 2015 Global Risk Report of the World Economic Forum, unemployment or underemployment, large-scale involuntary migration and profound social instability are listed as the greatest European problems (in that order). The economic policy of the EU and its Member States has, however, not dealt systematically with the problem of exclusion, instead addressing it only in isolated, individual steps, with the main focus being efficiency and the bolstering of growth. This, however, cannot be expected to take place to such an extent that a "trickle down" effect would automatically reduce exclusion; there must be an active and innovative anti-exclusion policy.

This report attempts to outline which problems have been neglected in the WWWforEurope-Concept, for which problems solutions have been proposed, and for which problems solutions still need to be worked out. It presupposes that:

- a successful anti-exclusion policy cannot rest on isolated individual actions, but instead the many diverse aspects of exclusion have to be addressed with a broad and consistent bundle of instruments;
- some of the diverse trade-offs and areas of conflict are over-estimated, or can be weakened with the right combination of instruments;
- low growth for wealthy, developed countries is the normal state, and that attempts to solve current problems by increasing potential growth will not prove highly sustainable;
- slow growth makes reduced unemployment a problem that can only be alleviated through the massive implementation of a broad and consistent bundle of instruments;
- the danger of exclusion increases when growth is low, due to the possibility of a vicious circle – low growth → social exclusion → further reduction of growth → further exclusion;
- inclusion can even help increase efficiency with the application of the right combination of instruments;

[1] Exclusion due to unemployment increased in the course of the expansion of employment potential despite increasing employment, and the increasing geographical mobility (migration) of job seekers has both inclusion (employment) and exclusion (immigration problematics) aspects.

- the Welfare State can indeed be compatible with globalisation in this way, and financing problems can be overcome, above all if social policy takes the entire life cycle into account;
- the significance of redistribution must be increased within the EU with respect to the currently dominant efficiency/competition orientation[2];
- due to the heterogeneity of the Member States and their institutions, an adaptation of competencies would be advantageous in certain areas: more centralisation where spill-overs are decisive, and more subsidiarity where this is not the case;
- increased migration will presumably become one of the central problems of the future, for which neither the EU nor the Member States are yet prepared;
- aspects of involuntary mobility should be afforded more attention.

1. Social cohesion and social inclusion

Fundamentally, the concepts of social cohesion and social inclusion are both promoted by the European Union. However, no widely accepted definition exists;[3] several concepts overlap each other. In Berger-Schmitt and Noll (2000, 13) "[t]he concepts of social cohesion, social exclusion and social capital are all closely related to each other, and there are further concepts as social inclusion, social integration and civil society which could be mentioned in this context as well." According to Berger-Schmitt (2000, 2f) "[s]ocial cohesion is viewed as a characteristic of a society dealing with the connections and relations between social units such as individuals, groups, associations as well as territorial units" (McKracken, 1998). The sociologist Emile Durkheim was the first to use the concept of social cohesion. Woolley (1998, 2-5) distinguished three paths to social cohesion: absence of social exclusion, interactions and connections based on social capital, shared values and communities of interpretation based on group identity." In this sense, social inclusion can be considered an element of the broader concept of social cohesion.[4]

In this project, Andreasson et al. (2013) derived a definition of social cohesion by using a principal-component factor analysis covering 16 indicators used to measure social cohesion in the previous literature for 40 different countries. The results suggested that social cohesion is a multidimensional concept, consisting of five orthogonal components or distinct dimensions: labelled social divisions (homicide, inequality, ethnic fractionalization), modern values (social trust, tolerance, gender equality, life satisfaction, self-expression), traditional nationalism (national pride, family and religious values, respect for authority), institutional commitment (institutional trust, political discussions and political demonstrations), and fairness as merit (preference of reward based on performance vs. more equality).

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[2] This is not, of course, the case for the problem countries at the southern periphery and most of the new Member States; however, the definition of efficiency must be completely revised: for it to be measured based on labour productivity while neglecting externalities leads to the creation of false incentives.

[3] This is a consequence of differing national social concepts: the term social exclusion, promoted by French sociologists, focuses on relational issues, while the Anglo-Asian tradition focuses on distributional issues (Berger-Schmitt, 2000, 4f).

[4] See Annex tables.

The EU terminology is somewhat different. Cohesion is used primarily in the context of *regional* aspects: "The cohesion policy (or regional policy) of the European Union provides a framework for financing a wide range of projects and investments with the aim of encouraging economic growth in EU member states and their regions." (http://www.euractiv.com/regional-policy/eu-cohesion-policy-2014-2020-linksdossier-501653) Social exclusion, otherwise, is distinguished from poverty; the European Platform against Poverty and Social Exclusion, one of seven flagship initiatives of the Europe 2020 strategy, is due to deliver "actions across the whole policy spectrum such as the labour market, minimum income support, healthcare, education, housing and access to basic banking accounts." (http://ec.europa.eu/social/main.jsp?catId=961)

This paper follows EU terminology in applying the term cohesion predominantly to regional contexts, but considers poverty – contrary to the EU definition – to be an important element of social exclusion. Social exclusion is considered the process in which individuals or entire communities of people are systematically blocked from various rights, opportunities and resources that are normally available to the rest of the society, and which are fundamental to social integration. Social inclusion, therefore, has to establish a level playing field, providing equal *starting opportunities,* irrespective of descent, gender or region, enabling everyone to work his way up, and providing a wide set of options. As to the ambiguity of the concept and its unavoidable reliance on value judgments, it is impossible to define a *fair level* of social inclusion. Among the majority of the population, nevertheless, a general unspecified consensus prevails that a *greater degree* of social inclusion would be desirable, regardless of small groups defending their privileges and regulatory rents. As some of these small groups have considerable political and economic power, and market forces generally tend to act against inclusion, and the achievement of this goal is a matter of fierce political controversy.[5]

2. Slow growth, exclusion and inadequate policy

During the period of rapid growth up to the mid-1970s, social inclusion was in the largest sense an important goal of economic policy in almost all countries, and cohesion was a goal of the EU; the rapid increase in potential and corresponding mobility not only facilitated the financing of inclusion-securing redistribution, but also in part even automatically reduced differences through the development of opportunities to participate. Rapid growth meant greater horizontal, vertical and regional mobility, making it possible to improve the situation for everyone.

Contrary to the hopes of some, a return to the 'good old days' of strong growth is highly unlikely (and to a degree not desirable). As historical experience shows, the economy only grows by more than 1½% per capita and year during highly specific catching-up periods (Tichy, 2014a;

[5] In addition to ethical considerations, it is about the concentration of power in state and society: "In recent U.S. elections, billionaires have poured extensive resources into supporting their favored candidates and causes. In addition, wealthy individuals have bankrolled advocacy campaigns at the state level – for example, in support of same-sex marriage and marijuana legalization or in opposition to Obama's health care reform and higher taxes on the wealthy. Aided by friendly Supreme Court rulings and the rising cost of election campaigns, affluent people have discovered that they are in a strong position to influence policy responses to a variety of different issues." (West, 2014).

2014b)[6]. This, however, also means that, from the perspective of inclusion, this reduced growth potential should in all cases be fully used – at least in the medium term.[7] While slow growth may relieve environmental problems, it further reduces the potential for continued inclusion; in fact, slow growth increases uncertainty, decreases chances for newcomers and may reduce mobility. As a result there is a danger of even markedly increased exclusion. This is true at the level of individual exclusion (unemployed, poor people, disabled people), professional exclusion (unskilled labour) and community exclusion (immigrants, refugees, religions; see, for example, Wilkinson and Pickett, 2009). Under the elements of individual exclusion, unemployment takes priority because of its psychological ramifications and the fact that effective alleviating measures have yet to be developed; and the hope of an automatic reduction in unemployment as a result of an age-related shrinking labour force potential is possibly countered by ever increasing immigration (necessary in order to secure pensions).[8] Also suffering from a similar lack of effective instruments are efforts to reduce gender exclusion and integrate minority groups (immigrants in general, Muslims, asylum-seekers). The heavily discussed problems of inclusion/exclusion resulting from the rebuilding and financing of the Welfare State appear comparatively less difficult in terms of conceptual design.

Does this mean that low growth makes social inclusion generally impossible? Strong interest groups claim a negative impact of equal distribution on incentives and investment; in doing so, they ignore the positive effect on demand of the retrieval of talent and the increased formation of human capital, the improved life satisfaction of the majority of the population as well as the impact of sound policy and the complexity of the interrelations. Despite a vast theoretical literature on the link between inequality and growth, no general consensus has emerged, but one should be careful not to assume that there is a big trade-off between redistribution and growth. It is true that low growth is detrimental to social inclusion, but it is also true that social exclusion reduces growth even more. The danger of vicious circle of low growth → social exclusion → further reduction of growth → further exclusion, a.s.o. arises. Acemoğlu and Robinson (2012) emphasize that economic success is mainly dependent on inclusive economic and political institutions. Only a functioning democratic and pluralistic constitutional state with secured property rights is in a position to make the most out of the ideas and talents that tend to be equally distributed throughout a population. Only under these conditions do entrepreneurs and citizens have incentives for the investments and innovations required to secure prosperity, as the incumbents must fear creative destruction. It is precisely these, however, who make

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6 Recent American growth does not contradict this assessment. The apparently higher growth is due to population growth: GDP/capita increased by 2,1%/year in 1995-2010 and by 1,4% since, despite the fracking boom; PO/cap expanded by 1¾% in 1990-2007 and by ⅓% since (Reifschneider et al., 2013). In the short term, growth may be faster, in the USA and even more in the EU, as long as a PO gap exists: According to Ball (2014) the loss in potential varies greatly across countries. For 2015, the loss ranges from almost nothing in Switzerland and Australia to over 30% in Greece, Hungary and Ireland. The average loss for the 23 OECD countries in the sample, weighted by the sizes of their economies, is 8½%.

7 Because the EU economy is currently in a period of sustained under-utilisation, to achieve a normal output higher growth rates are not only possible, but necessary.

8 Instead of a quantitative lack of labour force, the result is a qualitative lack, which would significantly amplify the exclusion problems.

better use of the economic and financial resources of a country. The corresponding potential has by no means been completely exhausted in the Member States.

In the last two decades the complex interplay of growing inequality and slow growth resulted in a loss of cumulative growth by up to 10 percentage points (OECD, 2014a).[9] The biggest contribution to the impact of inequality on growth was the increasing gap between lower income households and the rest of the population; but the negative effect applies to all those in the bottom four deciles of the income distribution, not just the poorest income decile. These findings suggest that sound policy can overcome the negative impact of low growth; indeed it must not (just) be about tackling poverty, it also needs to be about addressing lower incomes and income/wealth distribution more generally. The contributors to Working Area 1 of this project similarly found that this trade-off can be much reduced by focusing on equal opportunities and designing policies to minimize moral hazard in cases where the insurance of social risks is involved. Countries which are able to improve the equality of educational achievement of young cohorts over time tend to have higher growth rates of income per capital, an effect additional to that implied by the accumulation of human capital (Crespo Cuaresma et al., 2013a).

Contrary to widely held beliefs, reduced growth and world-wide (exogenous?) trends in income and wealth distribution contributed more to the downward pressure on social harmonisation than globalisation, the ageing of the population or economic integration. Neither national nor EU *policy acted directly and actively against increasing exclusion*: instead, EU policy concentrated on increasing efficiency[10] and hoped for a trickle-down process, which was not realised anywhere. Neither inclusion nor cohesion come about by market forces; in addition to a redefinition of goals,[11] they require increasing significance of inclusion and an active policy, especially enforcing redistribution and investment in human capital. The trend of increasing *cohesion* has likewise broken away. The crisis demonstrated that the European cohesion policy was unfit for a globalised age and that markets should not be given too much leeway in destabilising a heterogeneous but highly interdependent region such as the EU. The Europe 2020 Strategy proceeds towards a better long-term vision, even if it does not represent a sea change in terms of governance and does not discuss potential (implicit) trade-offs and simultaneities, or ways to overcome them. It emphasises several relevant points, but it is neither a comprehensive nor a consistent strategy and its overriding goal is still economic growth (Thillaye, 2013). This growth should indeed be sustainable and conducive to social cohesion,

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9 Mueller and Stratmann (2003) in contrast hold that unequal distribution reduces democratic participation which is related to larger government sectors, which in turn lead to slower economic growth. They also present evidence of the 'capture' of government by upper income groups in Latin and Central American countries.

10 The heavy weight which efficiency bears among the Commissions' goals is more the result of regulatory capture by industry lobbies than of ideology; the small personal base of the Commission almost forces a reliance on the expertise of the lobbies.

11 The Commission and national governments at best did lip service to new targets ("beyond GDP"), ignoring the debate on the increasingly problematic distribution of wealth. "A huge gap arose world-wide between the middle-class and the super-rich" (Druyen, 2009). Similarly to the beyond-GDP debate, the new literature differentiates between wealth and prosperity. While "wealth" covers all quantitative variables that are in some way measurable, the concept of "prosperity" goes beyond the sum of material possession to include research in its qualitative use and its individual preconditions, which have as their goal the establishment of philanthropic behaviour and responsible action.

but the social component is not explicitly targeted. The distribution policy of all dimensions must attain a greater weight in national as well as EU policy to work against the trend of exclusion.

In addition to the strategy's conceptual frailty, *serious implementation problems* exist. Irrespective of the complete disregard of the goals of the Europe 2020 Strategy in the course of the financial crisis (Aiginger et al., 2013), the EU-Council and Commission proposed reforms and improvements of existing arrangements, and edited a large number of guidelines and announcements, but realised little, not least due to lacking competence. The much discussed open method of coordination did not meet expectations, and the incorporation of the Europe 2020 strategy into the European Semester has had mixed, if not detrimental effects so far (Thillaye, 2013).[12] It was beyond the means of the Commission to overcome the fear of a loss of sovereignty and the resistance of national interests, long established benefits of incumbents, stakeholders and lobbies. This is the result not least of widely held concerns and an over-assessment of several trade-offs. It is the goal of this paper to downsize the resistance against an exclusion-reducing policy by demonstrating that some of the widely held concerns are incorrect, and that some of the alleged trade-offs do not exist at all, as well as that quite a lot of economic and social goals are compatible with others and sometimes even support each other. Where trade-offs or incompatibilities exist, the paper attempts to search for strategies to combat the resulting problems.

3. Exclusion on the labour market

Exclusion on the labour market appears in five dimensions: exclusion of the unemployed, of outsiders not belonging to the core group of continually employed, of women and immigrants; and in a lack of participation and exclusion from decision-making in companies and politics.

3.1 Unemployment

The psychologically and income-related strongest restriction for social inclusion originates from unemployment. Numerous studies show that the loss of a job severely reduces life satisfaction, far beyond the related loss of income: Boarini et al. (2012, 21) estimates for OECD countries that "not being unemployed and not having health problems are associated with a change in life satisfaction roughly equivalent to an eight-fold increase in income." Under the current institutions, the expected 1½-2% growth is not enough to prevent the continued increase in unemployment and the resulting exclusion of parts of the population, which has already become significant in many countries.

Unemployment rates in EU-member countries range from 5% (Austria) to 28% (Greece), youth unemployment (15-24) from 8% (Germany) to 58% (Greece) and long-term unemployment from 18% (Sweden) to 70% (Slovakia). In contrast to public (or published) opinions, neither

[12] The success of the European Semester has been limited: only approximately one eighth of all proposals have actually been implemented.

globalisation nor a lack of competitiveness nor widespread redundancies are the crucial cause of unemployment: the EU has continuing surpluses and employment is higher than during the positive cycle of 2000, even if lower than in 2008. Of greater impact is, on the one hand, the persistently strong growth of labour force potential (immigration and increased female employment), and, on the other hand, rapid productivity progress (Vogel et al., 2015) and reserved preparedness for innovation (Licht and Peters, 2014). The *big differences among EU countries* have been enhanced by the different impact of the financial crisis, but prevailed long before this. They are caused by differences in the economic and institutional structure of the respective countries, as well as by differences in wage policy, skill level, labour market policy, economic growth, demography, and to an extent taxation.

To tighten this quantitative exclusion problem of unemployment, trade liberalization additionally increases *wage inequality* both in the short run and in the long run. In the short run, wage inequality is mainly driven by inter-sectoral wage inequality, and in the long run by an increase in the skill premium (Lechthaler and Mileva, 2013).[13] Low-skilled workers in routine occupations suffer the most from globalisation, while well-educated and flexible workers in non-routine occupations stand to gain the most (Asatryan et al., 2014).[14] Cluster presence enhances the ability of economic activities to deliver high performance and is significantly related to higher wages, but unlikely to be able to substitute weak business environment conditions (Ketels and Protsiv, 2013).

Given the significant differences in the level and structure of unemployment, as well as the institutions in the Member States, the possibilities and prospects of central measures at the EU level should not be overestimated; the requirement of significantly differentiated approaches in policy can often only be realized at the national or even merely regional level (Sauer et al., 2015). Many of the popular global proposals bypass the problem: for example, attempts to solve the current problems *at the EU level* by *increasing potential growth*, which would prove largely unsustainable go against other components of welfare[15]. Even the *strengthening of price competitiveness*, which is above all demanded by the Commission, can (and should) be a strategy for individual countries with related problems, but not for the EU as a whole, which in any case achieves current account surpluses. Similarly, the restriction of immigration demanded by popular movements promises little success, not only because there is (as elsewhere) a lack of ways to enforce it, but also because it violates the spirit of an economic union. However, even when the means to fight unemployment tend to be situated in the national sphere, there is a limit to the social diversity that can be accommodated in a monetary union; an agreement on

[13] Autor et al. (2013) show that increased trade with China goes hand in hand with a decrease in the share of manufacturing employment, and that local labour markets exposed to Chinese imports suffer higher unemployment and lower wages.

[14] Inequality measures tend to have different dynamics: the skill premium reacts only slowly while wage inequality across sectors jumps on impact and then slowly recedes.

[15] But even if faster growth does not ensure the sustainable elimination of unemployment, EU austerity policy should also be reconsidered, along with the debt ceiling, which also limits the expansion opportunities of countries that do not have financial difficulties.

objectives – and less on the methods of achieving the objectives – is therefore essential. An improved and binding European Semester could be helpful in achieving this.

Promising measures at the national level include the removal of institutional rigidities, more productivity-oriented wage setting, an increase in matching efficiency, a reduced burden on labour, specific forms of working time reduction, and an interconnected education and training policy, which conceptually speaks to welfare, employment and inclusion aspects at the same time. All these instruments have been and are being applied nearly everywhere, but in an unsystematic, uncoordinated way and by different policy carriers. It would be crucial to combine them in a nationally tailored, consistent policy.

Downscaling EU-wide unemployment by *reducing institutional rigidities* in product and labour markets is widely considered a key *instrument* for minimising exclusion on the labour market (Sachs and Schleer, 2013); in particular those countries with the highest unemployment also have the highest regulation density. The impact of such reforms, however, depends crucially on the country-specific regulatory framework and the specific form of deregulation, thus questioning the relevance of best-practice policies in this field. But even if lowering employment protection and unemployment benefits is not the trivially expected silver-bullet road to success, such reforms would be beneficial in some countries (Sachs and Schleer, 2013; Busl and Seymen, 2013). Increasing matching efficiency in France e.g., through similar measures as by the German Hartz reforms and increasing the consumption tax in order to create room for reducing employers' social security contributions, might have significant positive effects on the overall macroeconomic performance in general and the unemployment rate specifically (Busl and Seymen, 2013). This appears to be true to a higher degree for countries at the southern periphery. Asymmetrical forms of deregulation, which over-proportionately deregulate time contracts, usually increase exclusion by creating dual labour markets.[16]

A more productivity-oriented wage would be a second element of improved policies of member countries. A considerable part of the dominant unemployment goes back to violations of this principle – upward or downward. A wage policy that is based on aggregate productivity growth and takes the goals of competitiveness, employment and distribution into account, at least in tendency, is most likely in countries with strong comprehensive labour unions that take care of outsiders, either in the form of pattern bargaining (lead of exposed sector) or peak level bargaining coordination (national all-encompassing union). Experience in countries with such

[16] In general, labour market regulation – above all restrictions on layoffs – tend to lower productivity due to restricted mobility and the delayed adjustment of employment (Blanchard and Wolfers, 2000); however, distribution becomes more uniform (Jahn et al., 2012). In addition to labour productivity the total factor productivity declines (Autor et al., 2007; Bassanini et al., 2009; van Schaik and van de Klundert, 2013) as firms, especially those in allocation-intensive sectors reduce investments; companies with financing constraints are particularly affected (Cingano et al., 2010). Accordingly, general deregulation tends to increase productivity, especially in the allocation-intensive industries, but without significantly affecting wages (Boeri, 2011; OECD, 2012), which can increase profits. A liberalisation limited to the deregulation of temporary contracts, however, lowers productivity (Bassanini et al., 2009), especially when the share of temporary contracts exceeds a certain proportion (Hirsch and Mueller, 2012). The Spanish reforms that loosened the regulation of temporary, but not regular contracts, deteriorated allocation and productivity (Dolado and Stucchi, 2008). This depends not only on the reasons given above, but also on the one hand on the fact that operating as inter-company training was neglected (Brunello, 2006), and on the other hand, the fact that the position of the described low-wage industries relatively improved.

institutions shows lower labour conflicts or conflicts about distribution, lower friction losses and reduced cyclical fluctuations. Thus, corporatism turns out to be a crucial institutional advantage (see Germany, Austria, Benelux, Finland vs. Italy, Portugal, Spain and France), with corresponding repercussions at the regional level. Despite the proven benefits of harmonized wage negotiations, the EU speaks for decentralized wage setting (Vandenbroucke, 2014, 9). In the context of the Euro Plus Pact (European Council 24/25 March 2011, 16) it has been claimed to "review the degree of centralization of wage bargaining" and in the context of the European Semester, the Commission tried this by putting pressure on member countries. The countries for which the institutional requirements for a central wage are missing often struggle with distribution-related higher unemployment, and attempt to compensate for the social consequences for vulnerable groups with minimum wages. Strongly *productivity-oriented wage setting* would be a second element of an improved policy in the Member States. A not insignificant part of prevailing unemployment can be attributed to transgressions of this principle – both upwards and downwards. A wage policy that is oriented towards *overall economic productivity* growth[17] and at the same time considers the goals of competitiveness, degree of employment and distribution can be most likely found in countries with strong comprehensive labour unions that take care of outsiders, either in the form of pattern bargaining (lead of exposed sector) or peak level coordination bargaining (national all-encompassing union).[18] Experiences in countries with such institutions show lower labour conflicts or conflicts over distribution, lower friction losses and reduced cyclical fluctuations. Thus, corporatism turns out as a crucial institutional advantage (see Germany, Austria, Benelux, Finland vs. Italy, Portugal, Spain and France), with corresponding repercussions on the regional level. Despite the proven benefits of harmonized wage negotiations[19], the EU speaks for decentralized wage setting from (Vandenbroucke, 2014, 9). In the context of the EuroPlus Pact (European Council 24/25 March 2011, 16) it has been claimed to "review the degree of centralization of wage bargaining" and in the context of the European Semester the Commission tries to exert pressure on member countries. The countries which lack the institutional preconditions for central wage setting have higher unemployment due to distribution-related struggles, and try to compensate for the social consequences for vulnerable groups through by *minimum wages*. Minimum wages are crucial as an instrument of minimum labour standard below which no employment relationship is considered socially acceptable (Eurofound, 2013), and the experience in Anglo-American countries demonstrates that they are not detrimental to employment (Bofinger, 2014 and the literature cited there); they are, however, not an instrument appropriate for reducing unemployment, and the conventional rule of 60% of the national median wage is in general

[17] The problem with a productivity-oriented wage policy in the EU is the widely differing level of productivity. Faggio et al. (2010) find evidence that productivity inequality has increased, apparently linked with new technologies. Existing studies have typically underestimated this phenomenon because they only focus on the manufacturing sector where inequality has risen much less and which has shrunk rapidly. Most of the increase in individual wage inequality can be accounted for by an increase in inequality between firms (and within industries).

[18] Parallel to this, of course, there must be adequate facilities for employers.

[19] However, increasing resistance is arising through the erosion of collective agreements, especially in Germany, and the formation of radical and blockade-capable factions.

considered too demanding for the EU collectively, given the heterogeneity of the member countries (Eurofound, 2013).

A third conventional instrument for reducing unemployment is to *increase the matching efficiency* (for example through diverse Hartz reforms, including lowering the unemployment benefit ratio). Although this lowers the unemployment rate (fostering welfare and inclusion), it also amplifies the pressure to take a less suitable job (less well paid or part-time, welfare-reducing), thus signalling a trade-off. Forced matching efficiency reaches its limit where there is a lack of appropriately trained workers. The traditional attempt to attract professionals from outside the EU has so far – unlike in the US – proved of little use, partly because of the level of education in the traditional immigration countries, but also because of the still inadequate and problematic issue of (Janger and Nowotny, 2013) training certificates, and because of the increased aversion of the population to immigrants.

An up to now far too little used tool for reducing unemployment is the incremental *shift in factor inputs in favour of labour* through their reduction in tax burden at the expense of capital and resources (Rengs et al., 2015). The high burden on labour relative to other factors of production through taxes and social contributions contributed significantly to high and increasing unemployment, along with the efficiency-maximizing strategy of the EU and the one-sided strategy of entrepreneurs focused on increasing labour productivity. In relation to the mutual interweaving of different goals and instrument bundles required in this paper, this instrument is afforded a special role: it cuts the excessive dependence of the financing of the welfare state on employment and wage increases, while having a positive effect on social inclusion and the environment. However, in this area the simultaneous proceeding by Member States is necessary: the low tax burden of (highly mobile capital) was above all due to the discharge of tax-theoretical efficiency considerations, which however are increasingly losing their significance in the simultaneous action by Member States and the (currently being discussed, international) measures against tax evasion and money laundering.

The *reduction of working hours* is continually demanded and occasionally also introduced as a way to reduce unemployment, however its various embodiments and effects are not discussed as much as they should be. The undifferentiated shortening of weekly working hours contributes very little to a long-term, general reduction in the unemployment rate[20] and has few other effects. Implicit working time reductions, such as through (well-specified) educational leave or paternity leave, however, can have significant positive side-effects on human capital, productivity and competitiveness, as well as on family and women's employment. Part-time work and work sharing could help alleviate unemployment, but also raise difficult and hitherto unresolved issues of the retirement benefits of part-time employees. A special form of (temporary) reduction of working time successfully applied in Germany and Austria was cyclical,

[20] In contrast to the short term: "[T]he widespread adoption of working time accounts, which permit employers to avoid overtime pay if hours per worker average to standard hours over a window of time. We find that this provided disincentives for employers to lay off workers in the downturn. Although the overall cuts in hours per worker were consistent with the severity of the Great Recession, reduction of working time account balances substituted for traditional government-sponsored short-time work." (Burda and Hunt, 2011)

publicly subsidized short-time work. Beyond a temporary reduction in the unemployment rate, it has longer-term advantages, since, due to the lack of redundancies, the human capital of firms and employees is retained and can be drawn upon again quickly.

Active labour market policy is ultimately a widespread element of employment policy, which has as its goal the immediate inclusion the losers of modernisation and globalisation. If growth is slow, the share of shrinking industries is inevitably higher, so that the share of workers made redundant or in need of retraining also increases. In line with this theoretical recommendation, Asatryan et al. (2013) find that countries open to free trade spend more on active labour market policies. The main argument in favour of compensating the losers of globalisation, apart from potential fairness considerations, is that only compensation may render globalisation sustainable. If a majority of voters do not benefit from globalisation, they will support measures to protect domestic firms from foreign competition. Such measures risk annihilating the overall gains from globalisation. Compensation policies should target workers in branches exposed to import competition. Rather than subsidising unemployment, compensation policies should strengthen the incentives of displaced workers to seek re-employment and improve their chances of success.[21] Worker subsidies are preferable to employment subsidies paid to firms: the best policy entails taxing firms and subsidising workers (Kopasker et al., 2013). The worker subsidies proposed by Asatryan et al. (2013) are restricted to losers of globalisation, because an extension to all unemployed would outstrip the gains of globalisation. Kratena and Sommer (2014) extend the argument to granting worker subsidies to specific “green jobs”, combining the advantages for employment and environment. Hiring subsidies for older workers can reduce this specific form of unemployment (Boockmann et al., 2012).

The successes of active labour market policies are theoretically and empirically controversial. This mainly depends on the different measures which are often conceived of ad hoc and with regard to short-term employment effects. Usually, however, there is a lack of any connection to a long-term concept for training and education policy; active labour market policy can do little when basic education (long-term approach) is lacking. In this respect, a quantitative and qualitative expansion of EU-internal training facilities for skilled labour would be a key contribution to the reduction of qualitative unemployment. Moreover, not least because of the massive immigration of low-skilled workers it is necessary to (re-)train the least-skilled unemployed. Contrary to popular opinion, this is not a zero-sum game: re-training not only expands production possibilities, but also consumption by employees, and thus subsequently leads to a further demand for labour.[22]

In the long run, sound skill and education policies are key instruments for both increasing the benefits of globalisation and making it more inclusive. Although ‘one-size-fits-all strategies’ should be avoided, given the specific strengths and weaknesses of EU countries’ education systems, a particular focus ought to be set on the early phase within a consistent life-cycle

[21] Unemployed persons participating in training after 1½ years have a 10% higher employment rate (Fitzenberger and Speckesser, 2005).

[22] Nor are old and young workers substitutes but rather complementary; thus, early retirement is also not a measure for reducing youth unemployment (Kalwij et al., 2010).

orientation. *Early childhood education programmes* targeted at children of disadvantaged background are a particularly promising tool for reducing the inequality of educational and labour market outcomes (Asatryan et al., 2014). The re-distributional and efficiency effects of these instruments differ greatly.

To reduce critical high youth unemployment, measures have primarily been implemented to combat a qualification mismatch by reducing drop-out rates, increasing the quality of professional training through better (dual) training in operation and introducing more practically oriented curricula at universities; intensive career counselling and job placement to reduce linguistic and psychological barriers to mobility and active labour market policy are used in a more targeted way. In some countries it will also be necessary to formulate a national agenda to combat youth unemployment and establish cooperative relations between unions and employers (Berlingieri et al., 2014).

3.2 Other forms of exclusion on the labour market

Unemployment, however, is only one form of exclusion on the labour market, even if it is the most serious. A second is the *outsider problem*. The gap between the relatively secure jobs of incumbents and the insecure situation of outsiders grew even wider as a consequence of a *flexicurity* policy deployed to reduce unemployment. Even if this widely recommended instrument may help increase total employment, it promotes the formation of dual labour markets, restricting permanent and secure jobs to incumbents. Newcomers, such as school leavers, workers who lost their jobs in declining industries, and immigrants are restricted to temporary and low-paid jobs. This prevents the acquisition of skills, reduces mobility, hinders the integration of immigrants, and may even bring about a lost generation (Tichy, 2014c). Furthermore, contract limitation severely lowers job satisfaction (Chadi and Hetschko, 2013).

A third, somewhat different problem of exclusion, which should be mentioned in passing in addition to unemployed and outsiders, is *participation.* Blinder (1990), Kruse und Blasi (1995) as well as OECD (1995) emphasise the positive influence of *employee participation* on life satisfaction. Frey and Stutzer (2000) point towards the satisfaction-increasing effects of *political participation*, with Swiss direct democracy serving as an example. The importance of *participation in society* has been worked out for the U.S. by Putnam (2001), for Great Britain by Donovan and Halpern (2002, 26), and by Helliwell (2002, 13) for a large number of quite different states, with membership in clubs**,** tax compliance and trust showing a markedly positive contribution to life satisfaction.

The fourth and fifth problem of exclusion, *gender problems* and the *exclusion of immigrants* will be treated in sections 5 and 7.

4. The importance of the European Welfare State

The Welfare State is a fundamental element of European national states' identity, ensuring the compatibility of capitalism and democracy; it belongs to the core of the European model and

should be an essential constituent of the European vision. Given Europe's heterogeneity, a *union of welfare states* rather than one European welfare state will prevail (Vandenbroucke, 2014). The paradigm of the Welfare State depends on two elements: compensating for exclusion, but even more important and forward-looking, investing in inclusion, guaranteeing each individual genuinely equal opportunities for self-realisation. Acting as shield against actual as well as subjectively felt insecurity[23] the net of social security has always been denser in small, open economies, which are more exposed to idiosyncratic shocks (Rodrik, 1998; Asatryan et al., 2013). Reduced growth and new social risks tend to increase the eagerness for more safeguarding. The social risks of life course have become fundamentally less predictable, along with the presumed negative impact of globalisation on the Welfare State, the demographic challenge of ageing, the increased impact of unemployment (Corneo, 2014[24]), the reduced chances to get ahead (Chauvel and Schröder, 2014[25]), the increased political uncertainty (Frieling et al., 2014) or the increased disparity of incomes within and between the EU-member countries.[26]

According to the beliefs of politicians and the media, growing globalisation requires a retrenching of the Welfare State in the industrialised countries, and EU pressure on debt reduction has, at least in states in need of renovation at the periphery, actually led to a sometimes considerable reduction in social spending. The pessimism about the compatibility of the Welfare State and globalisation is in part supported by the economic literature. Based on a predominantly formal-theoretical analysis, Razin et al. (2011) emphasize that globalization, ageing and the immigration of unskilled labour must lead to distribution-orientated, "larger pro-tax coalitions"; as well as that the rising costs of the Welfare State caused unsustainable levels of public debt or high tax burden, which limits competitiveness and the ability of countries to attract and/or retain industries. Despite the warning against the possible consequences of the collision of problematic events, the model ignores important elements of the European model and neglects the possible reactions of economic policy. Other models and empirical observations are not in line with the incompatibility hypothesis. Molana and Montagna (2006) emphasise that synchronised expansions of social security are more welfare-enhancing and reduce competitiveness less than unilateral ones. While affecting trade patterns and income distribution, capital mobility interacts with welfare state policies in increasing welfare, even when capital flows out of the country that initiates the shock. Using panel data for 18 OECD countries and measuring the extent of social welfare policies by the public social-expenditure/GDP ratio,

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23 "Wenn die Menschen heute Angst haben, seien das in erster Linie Verlustängste, keine Zukunftsängste in dem Sinne, dass die Menschen Angst davor hätten, was die Zukunft an Ungewissem brächte. Ursache sei die ständige Drohkommunikation, die in der Gesellschaft über die Medien geführt werde." (Sloterdijk, 1999, 75) "Die heutige Krisenangst nährt sich aus dem Untergang einer alten Ordnung, die nur für eine sehr kurze Zeit bestand." (Bertram, 2001).

24 Corneo (2014) illustrates the potential uncertainty resulting from growing and increasingly persistent unemployment: only 2% of those born in 1935 experienced a year of unemployment by the age of 40; but among those born in 1963, it was already 28%. And uncertainty is perceived more and more intensely (Slovic, 1999). In the USA as in Europe, political uncertainty was 50% higher than in previous years during the last five years (Frieling et al., 2014).

25 See section 2.1.

26 Trade liberalisation increases income inequality in the short term (inter-sectoral) and long term (skill premium) (Lechthaler and Mileva, 2013).

Görg et al. (2009) find strong support for the conjecture that redistributive social welfare state policies are valued by multinationals, as they signal a government's commitment to social stability. In this regard, the Welfare State can enhance competitiveness and may even attract foreign investment. Higher inequality may help economic performance in the short term, but trigger a vicious spiral of higher inequality, reduced growth, still higher inequality, etc. Given appropriate policy, the total effect of higher inequality tends to be negative (Halter et al., 2014).

Notwithstanding all the headwinds, the Welfare State survived in Europe. The usual distribution gauges (Gini-coeefficient, poverty rate, share of the top 10% and 1%) have deteriorated less in most EU Member States than in other OECD countries, and (with a few exceptions) still lie significantly below in absolute terms. "European welfare states did not become the sort of lean welfare states that European central bankers and fiscal policy authorities in Frankfurt and Brussels hoped EMU would deliver; instead they became 'active welfare states' at higher-than-before levels of employment, some even with a competitiveness bonus attached to the new policy mix! The experience of welfare recalibration in Austria, Finland, Germany, and the Netherlands, moreover, shows that a common currency can be made perfectly compatible with generous and inclusive welfare provision and balanced budgets." (Hemerijck, 2014) The "perfectly", however, cloaks the fact that the current conditions of several welfare states and even more so their convergence are not without problems, even if these are fundamentally resolvable. Irrespective of the differing ideological basis – Nordic, Central European and Mediterranean versions – welfare states have expanded quantitatively, without serious attempts to remove elements that are no longer mandatory; slow growth is not the only reason that they have to come up against financial limits.

These limits are especially underlined by high-income groups, as health, education and social protection spending increases have a stronger negative effect on their well-being than on low-income groups' life satisfaction (Knoll and Pitlik, 2014). The resistance of the well-to-do to the Welfare State raises further problems, resulting from its insufficiently controlled quantitative expansion. For founded historical reasons the welfare states refrained from means testing. With increasing welfare, however, a more sharp-edged concentration of the restricted means on the needy would have been required. The benefiting insiders and the well-to-do objected to such reforms (Aiginger et al., 2012).[27] The challenge for policy is to redesign the welfare state in such a way that it provides a similar level of inclusion in an environment of lower growth. The tasks range from a clear distinction between transfers and insurance benefits (such as the co-insurance of family members, family benefits) and an adjustment of the retirement age to an increasingly symptom-free life expectancy and the training of the unskilled (because of the need for skilled labour, for example, due to its greater tax power) to a focus of the social system on the truly needy, orientation and needs rather than general facts (such as child, single-income, single-parent, etc.) and to a shift of focus from preventive to activating social policy; the aim is to base the benefits more on life cycle. The hypothesis of the incompatibility of globalisation and

[27] The well-to-do would probably agree to a reduction of their benefits if their contributions were reduced as well, or if they were exempt from compulsory insurance altogether; but the welfare state cannot survive if it is restricted only to the needy and the at-high-risk.

the Welfare State overlooks the fact that the ageing of the competitors of the EU, America and Asia, will be affected to a similar extent. It also overlooks the fact that the problem will become much less severe after 2050, when the baby boomer generation of the sixties is no longer a burden on the system. Assuming that there are corresponding appropriate adjustments and ongoing reforms, the European social model is also affordable. The Nordic evidence shows that people are willing to pay for fair social benefits, and that social security provides more stability, which in turn increases productivity and restricts the migration to low-wage countries.

Reforms of the Welfare State hit on a serious trade-off between people who interpret their life course as not at their own disposition and those who are self-confident. The former report a substantially more positive attitude toward income equalisation and government intervention. A higher quality of public administration and low confidence in major private companies amplify preferences for redistribution and the intervention of people under such an external locus of control. Social trust is generally only associated with higher support for redistribution and government intervention if the perceived quality of administration is high and confidence in companies is low. In a society with a high share of independent, self-confident, active citizens on the other hand, it is easier to introduce reforms which require a substantial overhaul of the welfare state with a stronger focus on personal responsibility and provision (Pitlik and Kouba, 2013). Views of fairness based on merit, in contrast to equality, and to some extent social divisions, are found to have a positive effect on economic reforms (Andreasson et al., 2013). The huge disparity in the performance of European welfare states affords some convergence – which is not the same as harmonisation. It therefore appears necessary to develop a coherent conception of a Social Union as a support of national welfare states at a systemic level, not as a separate pillar (Fernandes and Maslauskaite, 2013*).*

4.1 Social justice and inclusion

Social justice, inclusion and cohesion are exposed to strong resistance, subjectively as well as objectively. According to Eurobarometer 2011 62% of the EU population felt that the single market only benefited big companies, 51% that it worsened working conditions, 53% believed that it bore few advantages for the underprivileged. Even if the attribution of these failures to integration is superficial, the feelings about at least some of these facts are correct. The wage share decreased everywhere, the personal income distribution shifted drastically towards the top one or ten percent; the incomes of young people born between 1960-75 in France, Spain and Italy are 25-20% below the trend experienced by the previous generation; in Italy they earn even less than their parents, and the losses carry forward to later years (Chauvel and Schröder, 2014). In Europe most people, independently of their situation, would prefer fairer distribution (Alesina, 2001; Kuhn, 2010); Alesina and Giuliano (2009) show that Eastern European countries are the most pro-government redistribution, followed by Latin America and Northern European countries. Asian countries, the US, Australia and New Zealand are in the lower end of the

distribution.[28] Indicators as social justice, access to labour market and education, prevention of poverty, generational justice, social cohesion or health reveal a strong North-South gradient within Europe and stronger effects on the young population. Region of birth (respectively place of residence and work) is still one of the most powerful factors having an impact on differences in income and general life perspectives, as the discussions in Working Area 5 of the project revealed.

Achieving social justice is not only a question of fairness. Unequal societies are exposed to more crime, more diseases (Wilkinson and Pickett 2009)[29] and a lack of capacity to aspire (Appadurai, 2004). And, as mentioned earlier, unequal distribution, in stark contrast to conventional wisdom, does not reduce incentives.

Note: Incomes refer to household disposable income, adjusted for household size.
Source: OECD Income Distribution Database (http://oe.cd/idd).

Instruments to improve social justice and inclusion can address primary distribution or redistribution. The most important lever to improve the *primary distribution* is the generation of equal opportunities; social investment in education of all stages (Vandenbroucke, 2014), including further education, reduction youth unemployment and integration of immigrants are the most important drivers. Decentralisation of wage bargaining may work in the opposite direction (see the arguments in section 3.1); minimum wages are crucial as an instrument of

[28] Alesina et al. (2001), based on the happiness or life satisfaction questions in the US General Social Survey 1981-96 and the Eurobarometer 1975-92, find that individuals are less satisfied the more unequal the distribution of earnings becomes; in Europe, the effect is more pronounced, but it turns out to be significant in the USA. In Europe, less equal income distribution, to the extent of an increase in the Gini-coefficient by 10 percentage points – results in the equivalent of a transition from the Austrian to the Italian distribution or from the Danish to the English - a decline in the proportion of the very content from 26½% to 21% and an increase in the dissatisfied from 19½% to 25%. Understandably, in Europe, it is particularly the life satisfaction of the poor and those with a skewed income distribution, who consider themselves to be 'left'.

[29] Wilkinson and Pickett (2009) claim that for each of eleven different health and social problems: physical health, mental health, drug abuse, education, imprisonment, obesity, social mobility, trust and community life, violence, teenage pregnancies, and child well-being, outcomes are significantly worse in more unequal rich countries.

minimum labour standards below which no employment relationship is considered socially acceptable, but less so as an instrument to improve distribution (Eurofound, 2013).

As to *redistribution,* the usual arguments for improving the distributional effects of the tax system apply. Taxation of labour is high in most countries and not overly progressive, taxes on wealth or inheritance are rather low, irrespective of the fact that most of the wealth results from inheritance, not from income and savings (Kotlikoff and Summers, 1981). Cutting social expenditures in general is neither necessary nor helpful, but an adaptation of the system to the new realities of increased life expectancy, higher and more concentrated wealth as well as changed needs of a wealthier society is required. Due to the heterogeneity of the systems, tailor-made adaptations are required. The generous Nordic welfare states[30] and the liberal British one are said to work better than the Central European one (Hemerijck and Schludi, 2000; Scharpf, 2000). In contrast to Nordic solidarity, with a willingness to pay for a generous system, and British uncritical acceptance of the highest income inequality among European states (OECD, 2014a), most mid-European systems are torn between generosity and financial constraints, due to reform inability caused mainly by the vested interests of social partners (Scharle et al., 2015).

4.2 Exclusion by means of poverty

Around 25% of people in the European Union were at risk of poverty or social exclusion in 2013; 10% suffered from severe material deprivation. Problems associated with the risk of poverty and social exclusion are manifest to varying degrees across the Member States (EC, 2014, 464). A clear north-south divide exists that has further intensified in recent years. While the wealthy countries of northern Europe have also been significantly affected by the crisis, countries such as the Netherlands, Sweden, Finland, Luxembourg and Austria continue to be clear leaders in international comparison in terms of poverty prevention. The Netherlands and Finland were even able to make gains over the last five to seven years, somewhat reducing the share of their populations at risk of poverty and social exclusion. Despite the crisis-driven deterioration in employment and unemployment figures, poverty rates in Sweden, Luxembourg, Austria and Denmark remain comparatively low – not only in terms of relative poverty, but also with regard to the extent of severe material deprivation in particular. Bulgaria and Romania fall clearly at the tail end of the comparison. In these countries, 48% and 40% of the population are at risk of poverty or social exclusion according to the usual definitions.

For subgroups of the population the results are even worse: The share of children (0-17) at Risk of Poverty or Social Exclusion was 28% in 2013 in the EU28, 11% suffered from Severe Material Deprivation. In Bulgaria 46% and in Romania 34% of children and youth are affected by Severe Material Deprivation. Contrary to widely held perceptions, the poverty of the elderly (65+) is less of a problem: The Risk of Poverty or Social Exclusion in EU countries was 18%

[30] Even if income inequality increased more than the European average in Finland and Sweden, the level still belongs to the lowest ones (OECD, 2014a).

(2013), markedly below the average of the total population, and 7% suffered from Severe Material Deprivation. A large North-West South-East divide, however, exists, and problems of sustainability of pension finance tend to threaten most countries.[31] A serious problem is the *in-work poverty-rate* of persons with full-time jobs but an income below 60% of the median: 7% in EU, about 10% in Poland and even more in Greece (11%) and Romania (13%), but less than 3% in Denmark and Finland).

Poverty reduction in the future, like social policy in general, will likely have to deal more with fighting the causes rather than mitigating the consequences. The point is to break the vicious circle, which forces certain groups into poverty and keeps them there. Poverty can never be completely avoided, but it is important to attempt to help those affected (also due to own responsibility) break out again.

4.3 Exclusion by means of ill health

The health system is in general less exclusive in most EU countries than other elements of social justice, with no apparent tendency to deteriorate. The Healthy Life Expectancy mounted to 61,8 years on average, with peaks in Malta (71,9 years) and Sweden (70,7) and troughs in Estonia (55,2) and Slovakia (53,3).[32] The typical north-South decline does not apply in this case: Malta, Spain, Greece, Cyprus or Bulgaria lie above the EU average, Denmark, Germany or Finland below. Life expectancy as well as healthy life expectancy are continuously increasing: a seventy-year-old today corresponds to a sixty-year-old in 1971 and fifty-year-old in 1931. Contrary to the medicalisation thesis (Niehaus, 2006), explaining the additional years by increasing health expenditures, according to the compression theory (Martins et al., 2005), morbidity decreases with increased life expectancy;[33] the medically intensive and expensive last stage of life is delayed to a high age (Zweifel et al., 1999, 8). The Adult Disability Dependency Ratio (ADDR: number of adults at least 20 years old with disabilities divided by the number of adults at least 20 years old without them), die, unlike the commonly used Old Age Dependency Ratio (OADR), is nearly constant in most countries, considers this shift (Sanderson and Scherbov, 2010). From the perspective of the ADDR, the need for care, nursing homes and

[31] Southern European weaknesses which tend to reduce the political-economic feasibility of long-term reforms are: a low effectiveness in poverty protection, high inter-temporal discounting and uncertainty avoidance, a poor information level of the population and deeply shattered trust in national institutions. At least for those countries where the trust in national elites, public administration and the democratic system is almost fully eroded, a strong European involvement in guiding the reform process may help to foster acceptance. Of course, this only holds as long as the EU institutions have a trust advantage over national institutions – which empirically seems to be the case for some Southern European countries. Furthermore, there is a clear priority for a particular reform of the Southern European Welfare State which should accompany the otherwise required cutback of benefits and privileges. This priority relates to a system of an effective poverty protection. Without a credible minimum insurance system it is unrealistic to expect that important groups of the population are willing to give up their old privileges. Finally, an important challenge is to win the support of current outsiders whose reform supporting potential is so far not being realized (Grabas and Nützenadel, 2013).

[32] Inclusion indirectly increases longevity: Inclusion in form of employee participation (Kruse und Blasi, 1995; OECD, 1995), political participation (Frey and Stutzer, 2000) or participation in society (Putnam, 2001; Donovan and Halpern, 2002; Helliwell, 2002) are fundamental contributors to life satisfaction and, indirectly to longevity, with which life satisfaction is highly correlated (Guven and Saloumidis, 2013).

[33] The literature speaks about compression of morbidity or rectangulation of the probability of survival.

care beds (and the resulting health costs) will increase much less significantly with the ageing of the population than the media and interested parties currently would have one believe based on the OADR; as a result, there could be significant mistaken investments in care facilities.

The health costs, however, increase disproportionately even at a constant ADDR, because new, more complex therapies and medications are constantly being developed;[34] In the 2008/2012 period they rose by 3½%/year in the EU, more than three times as quickly as nominal GDP, and even more significantly in affluent countries such as Ireland (15%), Luxembourg, Germany and the UK (over 5%). In the wake of the crisis, many European Governments have (at least tried to) curb spending on healthcare services; in the Baltic and southern European crisis countries, health spending declined absolutely. In the face of rising unemployment and financial strain, there is an increased need for certain healthcare services, while decreased disposable income has made access to healthcare more difficult for many households in the EU.

For decades there have been attempts to get world health costs under control – with limited success. From deductibles to flat-rate fees for head physician duty, waiting lists or age limits for certain services, there is an extensive range. The organization of the hospital system, from the number of hospitals/inhabitants to hospital beds/inhabitants and general or specialized physicians/inhabitants to the interaction between doctors and ambulances varies greatly from country to country – hence the cost. In an international comparison there would have to be a sufficiently large sample of alternatives to gain ideas about the efficiency of individual approaches. Determining best practice methods appears so crucial because of rising health costs could reinforce tendencies towards exclusion in the form of a dual-class health care system. Another danger of exclusion could develop at the regional level. Since the 1990s it has been shown, for example in Germany, that doctors preferred to settle in urban areas, and that rural areas are (especially in eastern Germany), under-served (Kuhn and Ochsen, 2009).

Important measures for lowering health care costs and exclusion are prevention and rehabilitation. The participation rate could be increased by 10%-points (Kalwij and Vermeulen, 2006). However, preventive care should be more broadly conceived than usual: for example, the housing situation affects health more than income and education (Angel and Bittschi, 2014); upbringing also has a positive effect on health, and tertiary education has an additional positive effect on life expectancy (Ricci and Zacharidis, 2007). Trade-offs between inclusion by means of better health and other objectives are not known, except with financing. Considerable research is needed, however, on the question of which of the many possible measures best and most cost-effectively achieve the goals of preventive health care.

4.4 Social cohesion

Andreasson et al. (2013) define social cohesion, as mentioned earlier, as a multidimensional concept, consisting of five distinct dimensions, which they labelled Social divisions, Modern

[34] The increase in the number of hip replacements obviously has less to do with ageing than with the fact that the operation has become routine.

values, Traditional nationalism, Institutional commitment, and Fairness as merit. Bertelsmann Stiftung (2014) composes a social-cohesion-and-non-discrimination index aggregating six elements: Social inclusion,[35] Gini coefficient, Non-discrimination,[36] Gender equality in Parliaments,[37] Integration policy,[38] and the NEET rate. According to this indicator, Sweden, the Netherlands, Finland, Denmark, Luxembourg and Germany perform best. Tendencies toward discrimination and polarization are effectively prevented in the still comparatively egalitarian societies of the Nordic countries. However, even in these small and homogeneous countries, income polarisation is increasing (except in Finland); moreover labour market and educational opportunities are narrower for people of foreign origin than for natives. While all EU member states face the challenge of providing equal opportunities for participation to people with immigrant background, a number of EU countries also show tendencies toward discrimination of specific minorities. This is particularly true with regard to the Roma, who are subject to significant restrictions and discrimination in Hungary, Romania, Bulgaria and Slovakia. These population groups broadly lack equal opportunities for self-realisation.

As this paper sticks to the EU definition of cohesion as a primarily geographic concept, the problems of social exclusion in the narrow sense are relegated to the special sections 6.2 and 6.3. Geographic cohesion, such as mobility and inclusion, is most likely impaired by slow growth. In fact, the convergence within the EU has not come to a halt, it has turned into divergence. This has happened despite intensive efforts by the Commission and significant funding in the convergence programme. The fact that only part of the funding was used and part was wasted on poor investments reflects poor planning competence on the part of the recipients, and indicates that the entire concept needs to be revised.

5. The intricate problem of gender equality

“Although a more individual design of welfare policies is clearly recognizable, … [Plantenga, 2014] illustrates the large gap between the implicit assumptions of the adult worker model and the actual reality of most European Member States. Only a few countries, with the Nordic ones as the most well-known examples, have developed a system of child care arrangements that seems to be based on the assumption that fathers and mothers will both be fully engaged in the labour market. Other countries have invested in policies which allow for large interruption in labour force participation or which allow the combination of work and care by introducing part-time working hours. Overall, the actual policy design does not indicate a high profile of gender equality.” The lack of gender equality is expressed less in higher unemployment than in low

[35] Sustainable Governance Indicators 2014, expert assessment (indicator P8.1) “To what extent does social policy in your country prevent exclusion and decoupling from society?”

[36] Sustainable Governance Indicators 2014: Expert assessment (indicator D3.3) “How effectively does the state protect against different forms of discrimination?”

[37] World Bank Gender Statistics Database.

[38] Sustainable Governance Indicators 2014: Expert assessment (indicator P12.1) “How effectively do policies in your country support the integration of migrants into society?”

wages. In the European average, women earn 17% less than men, with the difference less marked in the Scandinavian and former Eastern states.

At least four groups of arguments explain the persistence of discriminations. First, perceived role models: Schneebaum et al. (2014) demonstrate that the educational attainment of girls and migrants relative to their parents is less mobile than for boys and natives. Further, the immobility of educational attainment is enhanced by the intersection of these identities: migrant girls are the least educationally mobile group and are especially likely to follow their mothers' educational footsteps, while native boys are the most mobile, especially compared to their mothers. The second explanation is the high share of part-time employment, partly explained by the limited supply of full-time jobs, and partly by the limited supply of child-care institutions. A third explanation can be found in the family-support policy of several countries. Fourth, the famous gender-job satisfaction paradox (Kaiser, 2007) comes into play. Irrespective of the fact that the majority of women are disadvantaged compared to men in the labour market, female workers show a significantly higher level of job satisfaction in the vast majority of the EU countries. Only Denmark, Finland and the Netherlands display gender-job satisfaction equality. Objective (socio-economic and institutional) determinants of labour market statuses and subjective (assessed and evaluated) perspectives are mutually complementary. The more restrictive the labour market access and process is for women, the more likely a gender-job satisfaction paradox is to persist.

Using a longitudinal dataset comprising 25 678 individuals from 13 European countries (56% women) surveyed in SHARELIFE, Leoni and Eppel (2013) found that women with favourable initial conditions, such as high socio-economic status of parental home, good childhood health conditions and high cognitive skills, are more likely to reconcile care for their children with continuous employment over the life-course. Controlling for observable and unobservable characteristics, the statistical difference in health status between full-career mothers and home-centred mothers disappears. Women who combined motherhood with continuous employment are healthier at mature age than those who were only marginally or intermittently employed. Whereas members of the Southern European welfare regime (Italy, Spain, Greece) are characterised by a very strong presence of women who have never been in paid employment, the majority of women with and without children is continuously employed in the Nordic (Sweden, Denmark) and Eastern European regimes (Poland, Czech Republic, East Germany). Even in the presence of more than three children, it is very uncommon in Northern Europe to withdraw from the labour market. Home-centred mothers, in contrast, as well as those with marginal work experience have, on average, more children, are less educated and live in poorer households than those with more employment. Mothers with intermittent employment exhibit similarly high levels of education and household income as full-career mothers, but are characterised by a higher number of job changes and unemployment spells, as well as by a higher incidence of part-time employment (Leoni and Eppel, 2013). Plantenga (2014) indicates that the labour market effects of a maternal leave might indeed be positive, but only if the leave period is not too long.

Negative trade-offs zwischen gender equality and other goals are not known; above all if they are understood as equal opportunities. Prosperity and inclusion could even be increased by a higher participation rate and a greater supply of skills. However, there could be a certain danger that during low growth women could be pushed to the unattractive fringe areas of the labour market or completely excluded during high unemployment. In addition, apart from increasing the participation rate, the previously used instruments to achieve gender equality have not been very successful. Some financial incentives promoting families are actually counter-productive by making the employment of mothers less attractive without achieving their desired (although in this context irrelevant) goal of increasing fertility (Bujard and Passet, 2013). Quotas only partly work in certain segments; the expansion of child care facilities (including full-time school) has proved to be more successful. In the labour market, it would be important, not only but especially for women, to develop and promote models with high time flexibility. Perhaps the most challenging problem of the current redesign of the Welfare state is that family support policies can only to a certain extent been redesigned in accordance with employment policies. Although some women participate on an equal footing with men, the 'dual earner, gender specialized, family model', which is geared towards greater, but not full equality, seems more feasible (Plantenga, 2014). Hammer et al. (2013) emphasise that a reform of the welfare system needs to take into account not only public transfers but also private transfers, in particular the services produced within the households for own consumption as e.g. childcare, cooking, or cleaning.

6. The consequences of low growth for mobility

One of the awkward drawbacks of slow growth is the petrification of structures. As new chances arise more slowly if at all, everyone sticks up for his existing task. A vicious circle threatens: As reduced fluidity has harmful consequences for productivity, for real wages and employment, especially for young workers and the less educated (Davis and Haltiwanger, 2014), growth and in consequence mobility is reduced further, growth declines even more, and so on. By international standards mobility of any kind is considered too low in the EU; the recent increase in regional mobility reflects involuntary search primarily, triggered off by recession rather than by improved conditions.[39]

6.1 Intra-industry and inter-industry mobility

Mobility in general increases employment and productivity, and mobility-raising actions are definitely beneficial in most EU member countries. Mobility eases the matching process, transfers human capital to the firms which can use it best, and the concourse of widely different

[39] In the US mobility is higher but declining. Job reallocation rates fell more than a quarter after 1990. The declines cut across states, industries and demographic groups defined by age, gender and education. Younger and less educated workers had especially large declines (Davis and Haltiwanger, 2014).

experience may increase innovation.[40] Increased mobility is not without cost, however: Job tenure increases productivity-boosting firm-specific skills, at least up to tenure of 14 years (Auer et al., 2005),[41] which may go lost by changing the job, especially if to another industry. Even more important in the long run is the fact that firms refrain from investments in the human capital and even the skills of their staff, if they suspect that the trained employees switch to their competitors. The optimal overall economic level of mobility indeed tends to be lower than the microeconomic one.

This ambivalent role of mobility shows up clearly in the context of dual labour markets, promoted in the last decades by implementing flexicurity (Tichy, 2014c). Dual labour markets definitely increase volatility (Saint-Paul, 2002): The share of time contracts expands (Berton and Garibaldi, 2012), and the cyclical volatility increases considerably (Messina and Vallanti, 2007). This, however, comes at the cost of unemployment fluctuations almost a quarter stronger (Costain et al., 2010), increased exclusion of outsiders and reduced life satisfaction (Chadi and Hetschko, 2013).

Given the relatively low level of intra-industry and inter-industry mobility in the EU and the importance of mobility for allocation and competitiveness, further mobility-promoting policies are adequate nevertheless. No serious problems of exclusion stemming from intra- and inter-industry mobility could be detected within the EU countries. Accompanying actions to further the formation and advancement of skills and human capital are recommended. This refers to inter-firms programs for the employees, but to tertiary education as well: In contrast to the USA little effort can be detected in most EU countries to interest foreign students in domestic appointments. Quite to the contrary: frequently they are forced to leave the country after receiving their diploma; paradoxically labour market policy tries to attract qualified foreign personnel with green cards or similar instruments after having expelled the graduates.

6.2 Social (vertical) mobility (inherited social status)

More problematic than the impact of slower growth on intra- and inter-industry mobility is its impact on *social mobility* (inherited social status): the tendency to pass the social status to the off-springs increases, cutting off their chances to aspire. The relationship between parental educational or socio-economic background and offspring educational and wage outcomes is positive and significant in practically all countries for which evidence is available (Causa and Johansson, 2010). Even worse: inequality of educational attainment as well as the corresponding gender gap has decreased substantially over the past 50 years (Crespo Cuaresma et al., 2013a). Across Europe, Southern European countries and Luxembourg evidently rank as relatively immobile, while the Nordic countries are found to be more mobile. This not only concerns the generation of the parents. Based on the Socio-Economic Panel (SOEP) Sixt and Fuchs (2008) demonstrate that a high educational level of grandparents

[40] In Silicon Valley the share of the foreign born is nearly three times higher than the US average at 36%.

[41] Blakemore and Hoffmann (1999) as well as Kramarz and Roux (1999) for France estimate an 0,4% increase in productivity of an additional year of tenure.

increases the chances to achieve tertiary education, even if parents' educational level is lower. Financial status of the parents or transfers (e.g. BAföG in Germany) do not change this pattern (Kloß, 2014). For the off-springs of immigrants social and educational inheritance is even stronger (Schneebaum et al., 2014; Kloß, 2014).

Intergenerational social mobility has positive effects on economic growth through the promotion of talents and the allocation of abilities in the economy. Countries which are able to improve the equality of educational attainment of young cohorts over time tend to have higher growth rates of income per capita (Crespo Cuaresma et al., 2013a). Lacking social mobility, potential misallocation of talents and skills may lead to inefficiencies, with negative consequences for growth (Galor and Tsiddon, 1997). Similarly, a positive association exists across European OECD countries between persistence and inequality (Causa et al., 2009), and a weaker one between intergenerational persistence in wages and poverty rates (based on a measure of household disposable income). Thus, public policies aimed at removing obstacles to intergenerational social mobility may improve the allocation of resources, thereby increasing growth.

Public policies such as education and early childcare play an important role in explaining observed differences in intergenerational social mobility across countries. Several empirical studies have documented a negative influence of early tracking policies on equality in educational achievement (e.g. Hanushek and Woessmann, 2006; Sutherland and Price, 2007). Systems that start grouping students early in their educational curricula tend to be associated with larger socio-economic inequalities, with no associated gains in average performance. Insofar improved education policy, quantitatively from pre-school to tertiary education and from vocational training to life-long learning, qualitatively focussing on early school leavers and the educational performance of students with a low social background,[42] is the very instrument, bringing about inclusion, reduced unemployment and increased growth at the same time.

Altzinger et al. (2015) recommend four policy measures to reduce the negative impacts of intergenerational persistence in economic outcomes: universal and high-quality child care and pre-school programs; later school tracking and increased access to vocational training to reduce skill mismatch and facilitate technological development; integration programs for migrants; and simultaneous investment in schooling and later social security programs.

6.3 Geographical mobility and cohesion

Geographical mobility comprises three different types, hardly to disentangle statistically but with significantly different motivations, social consequences and challenges for policy. The first type is mobility with the intention to find a better job. The second one is mobility to escape misery and unemployment (find a job at all), and the third one is to fly war, persecution and natural disasters (searching for asylum). As to their unequal importance and the different problems they raise, the second and third form of mobility will be dealt with in section 7.

[42] Viry et al. (2014, 10) refer to the influence of a student's social background on his or her educational performance.

Mundell (1961) stressed the need for high labour and capital mobility as a shock absorber within a currency union, and a sizeable stabilising effect of outside migration in the Eurozone has been verified empirically (Jauer et al., 2014, 20). The EU was aware of the importance of mobility from the very beginning. According to its principle of freedom of movement, geographical mobility is one of the central elements of the Common market. About 14 mill. EU citizens work or live in other EU countries. The share of foreign born is highest in Luxembourg, Cyprus, Austria, Ireland, Belgium and Sweden (above 15% of the population), lowest in Finland and in the new member countries (below 5%). Asylum seekers comprise less than ½ million (1% of population). Quantitatively intra-EU migration is roughly equal to immigration from the rest of the world; irrespective of some slowdown in the course of the crisis it has roughly doubled since 2004. Mobility increased markedly after the enlargements 2004 and 2007: Three quarters of intra-EU mobility refer to emigration of citizens of the new member countries (EC, 2014). According to EC estimates (EC, 2014) geographical mobility increased EU's GDP by about 1%, but raised problems of acceptance of foreigners in most countries, unfortunately escalating recently. Ethnic diversity reduces mutual trust at least temporarily; in the long term this need not be the case according to Putnam (2007), but this does not happen automatically.

Compared with other economic areas, geographic mobility rates are still relatively low in the EU, both *within* and *between* member countries: Within and between mobility rates across US states (even if declining) or Australian territories are two to three times higher.[43] Significant cross-country differences exist, with the lowest mobility in the Southern European countries, and an about fourfold higher rate in countries such as France, Ireland, the Netherlands, Sweden or the UK (Bonin et al., 2008). EU's Integrated Guidelines for Growth and Employment 2005-2008 (EC, 2005) call upon Member States to "improve matching of labour market needs through the modernisation and strengthening of labour market institutions, … removing obstacles to mobility for workers across Europe within the framework of the EU treaties…". This is of special importance as to EU's goal of cohesion and its specific definition in predominantly geographic terms. Heinz and Ward-Warmedinger (2006) stress indeed that, apart from evident language barriers, there are still administrative barriers to free mobility, such as less than full transferability of qualifications and labour market experience.

Bertola (2014, 30) points toward some disadvantages of mobility. "When an integrated economy is hit by a negative aggregate shock, labor market rigidities can support aggregate demand along with coordinated expansionary fiscal and monetary policies. Within that economy, however, countries or regions may need to adjust to a structurally new situation. … In the longer run, rebalancing international positions through better competitiveness requires a decline … of relative nominal wages when the exchange rate cannot be devalued (…). These considerations justify different mixes of 'micro' and 'macro' labor market flexibility in different circumstances." (Blanchard, Jaumotte and Loungani, 2014). The case for micro-flexibility needs to be based on the structural and permanent rather than demand-driven and temporary character of the shocks

[43] In the USA the share of persons who lived in a different state a year ago is 3%, almost ten times the share in the EU; the employment rate of migrants in contrast is higher in the EU (Jauer et al., 2014, 14).

that trigger recessions; macroeconomic flexibility plays a crucial role in coordinating country-specific reform and wage adjustment trajectories. The distinction between the micro and macro dimensions is useful, but nuanced in a world of increasing international integration. Within Europe's economic and monetary union, countries' lack of macroeconomic policy tools makes them similar to regions within traditional Nations, or Federal States. This makes micro-aspects of labour policy particularly important, but the member countries' political and policy competence on most tax, social, and labour market aspects still assigns an important role to macro policy aspects in these fields. While adjustment may call for changes of international wage differentials within an integrated economic area, in the absence of an area-wide policy framework the resulting labour mobility can be destabilising. Clearly, national pension systems would collapse in countries experiencing mass out-migration of active workers."

Geographical mobility is only one, and not necessarily the first best instrument on the low road to achieving *cohesion*, and it is a problematic one, if it is involuntarily driven by national or regional differences in unemployment. It is, however, the only one feasible in the short run, as the first best instrument, the high road to achieve cohesion – moving workplaces (jobs) rather than people – is no easy task. The research of Area 5 revealed that convergence processes in currency unions are extremely heterogeneous, highly discontinuous and strongly concentrated; only a broad based program and patience can help to improve convergence. Human capital and innovation have been carved out as the main predictors for the propensity of a region to catch-up. Substantial non-linearities in regional convergence processes imply that growth strategies based on increasing human capital investments and innovation capacities are the most likely to be successful in triggering convergence in monetary unions (Aiginger, 2013; Aiginger et al., 2013; Firgo and Huber, 2013). The experiences of 259 regions in 21 European countries with within country GDP per capita and labour productivity growth, suggest that variables associated with pro-active, growth oriented strategies are consistently more important predictors of successful regional development than variables related to austerity for a range of measures of successful development (Aiginger et al., 2013). Employment protection has an impact on unemployment rate disparities only when wages are inflexible (Huber, 2013). The finding of a robust negative impact of many institutional variables on regional unemployment rates question the assumptions made by many analysts' that the large regional disparities in the EU are primarily caused by institutional factors. Rather it seems that these disparities may be more closely linked to differences in amenities, specialisation and productivity between regions (Huber, 2013). For a successful catch up accessibility and centrality are essential (Camaioni et al., 2013). Clusters of more central and more accessible regions are quite different from those clusters composed by more peripheral and lagging behind regions. Thus, geography still deeply affects both the economic performance of regions and their main socio-demographic trends (both in urban and rural areas). National approaches to rural and peripheral areas should be substituted by broader approaches, encompassing all the different territorial levels of the analysis.

Geographical mobility, the low road to cohesion, entails at least two complexes of problems. The first focuses on *brain drain and congestion/depopulation* aspects. Intra-EU migration is a one-way road from the periphery to the core countries, and it regards particularly the better

skilled: The share of highly qualified in intra-EU migration increased by 13 percentage points between 2008 and 2011 (Boll and Leppin, 2014). Furthermore, inter-sectoral and inter-regional linkages redirect a large part of the effects from rural regions and from primary and secondary sectors to urban and tertiary sectors (Bonfiglio et al., 2014). This raises a serious trade-off among two concepts of convergence: Convergence of EU regions and convergence of EU citizens' living standards. Migration towards the core and the centres most likely increases living standards and productivity, but vacates the periphery and may create problems of congestion, at least as to housing and urban traffic in the core.

The second, related complex is the *trade-off between intra-EU mobility and structural reforms*. Emigration, the low road to reduce unemployment, reduces pressure and incentives to use the high road of structural reforms.[44] Without serious structural reforms, however, the countries at EU's southern periphery will never succeed to survive as competitive members at equal eye level, not to speak of members of the currency union.

A third complex is the *exclusion of immigrants*: The unemployment rate of this specific group is higher, their employment rate lower, they have unskilled, low-paid jobs and frequently work in jobs below their skill level, they live in the least attractive quarters, and they are widely excluded from democratic participation. These problems, which do not only prevail even in the second and third generation but tend to accelerate, are discussed at the end of the next section.

7. Inclusion of migrants

At first sight, immigration may show up as a win-win situation. The well-to-do countries are in need of workers due to population ageing, and the population of the less well-to-do countries is in need of employment and improvement of their economic and financial situation. Further advantages may arise from the fact that culturally more diverse regions are on average more innovative, which translates into higher growth and better economic performance (Dohse and Gold, 2014a).[45] Especially those countries which are able to reduce the inequality of educational attainment of young cohorts tend to have higher growth rates of income per capita (Crespo Cuaresma et al., 2013a). The problem, however, is that quite often the 'wrong' persons migrate: The receiving countries may not receive the skills they hoped for, and the sending countries may lose the most dynamic part of their labour force. Moreover, if the number of immigrants and the cultural and religious differences become too big a trade-off between advantages and problems of integration arise; cultural diversity than turns out as an obstacle to innovation and growth. Whether the positive or negative consequences if immigration prevail

[44] Emigration to EU27/EFTA from Romania, Lithuania and Bulgaria comprises about 1¼% of the population, from Poland and Hungary ¾%, from Portugal and Greece ⅓%, for the other countries 1/10% or even less (Jauer et al., 2014, Annex 3).

[45] Growth of foreign workers with an educational background in science, technology, engineering, or mathematics (STEM) by 1 percentage point of total employment increases growth in the wages of US-native college-educated workers by 7 to 8 percentage points. STEM workers increase total factor productivity and skill-biased productivity: "[I]nflows of foreign STEM workers may explain between 30 and 50 percent of the aggregate productivity growth and 4 to 8 percent of the skill bias growth that took place in the U.S. between 1990 and 2010." (Peri et al., 2014)

depends on the quantity and the type of immigration, growth and dynamics of the economy, as well as on integration policy. The integration of the asylum seekers is most challenging, partly because of large cultural differences and traumatic experiences of the immigrants, partly due to the fact that they are not allowed to work in most countries during a long and deterring period of registration.[46] The misery- and unemployment-driven immigrants from Romania, Bulgaria, and especially the Muslims from Turkey and parts of the former Yugoslavia pose difficult integration problems, as to their low skill on top of cultural and religious differences. Rather smaller problems arise with the immigrants from Asia and with the unemployment- and wage-driven immigrants from EU's Southern periphery and from Poland; they are fairly skilled and have a less diverging cultural background.

7.1 The importance of migration

Standard gravity-models explain migration flows by variables such as GDP differences, distance or bilateral population (Crespo Cuaresma et al., 2013b). Geographical distance appears to be a larger barrier when the country of origin belongs to a low-income group and the network effects are significant only for migration flows originating in developing countries. A common colonial history of two countries multiplies migration flows by roughly three within the group of high-income countries and for South-North migration flows. Sprenger (2013) finds that for EU migration per capita GDP at the destination and at the origin country as well as the unemployment rate of the receiving and the sending country prove to be significant determinants. Insufficient integration and low skills cause above average unemployment rates and below average employment rates of the foreign born. Horvath and Huber (2013) found a robust negative impact of ethnic networks on unemployment probabilities of the foreign born and a positive one on employment probabilities. Ethnic diversity, otherwise, impacts positively on unemployment probabilities and negatively on employment probabilities. A higher share of employed of the same ethnicity increases employment prospects and in general facilitates labour market integration, while diversity hampers it through negatively impacting on the selection of migrants into employment and unemployment. Female and EU migrants profit more from ethnic networks but more highly qualified migrants are more negatively affected by diversity. Segregation at the country level is irrelevant.

[46] Contrary to the impression conveyed by the media the share of asylum seekers relative to population is highest in Sweden, Austria, Norway, and Denmark, not in the countries of entry.

*Annual cross-border and within-region mobility as a percentage of total population, 2010**

*Or latest year available.
Note: Figure shows population mobility for Australia, Canada and the United States and labour mobility for the EU.
Source: *OECD, 2012 (data from the Australian Bureau of Statistics; Eurostat, Population Statistics; Statistics Canada; US Census Bureau, American Community Survey)*

Sectoral distribution of working population by country of birth

Source: *EU-LFS, annual data, 2011*

Source: Eurofound (2014)

Irrespective of Castles and Miller (1993), who postulated the “New age of migration” already more the two decades ago, the amount and the importance of immigration are still underestimated in most countries. EU policy should be prepared of the fact that the flow of immigrants may continue to increase markedly over the years to come. Up to now, however, the share of migrants in the population of EU27 has reached no more than 6¾%, though varying from about 23% in Cyprus, 16% in Austria and Ireland to less than 3% in the Eastern periphery;

in Frankfurt, Munich or Vienna the share is between 20% and 25% and rapidly growing.[47] It was not only in countries with a high percentage of immigrants that cultural divergence and loss anxiety of the the losers of modernisation[48] resulted in a trade-off between economic sense and acceptance. The negative attitude has various causes: natives in countries that receive predominantly refugee migrants are relatively more concerned with immigrations' impact on social issues such as crime than on the employment effects, and natives in countries with mostly economic migrants are relatively more concerned about losing jobs to immigrants. However, the results also suggest that natives may view immigration more favourably if immigrants are selected according to the needs of the labour markets. Possible benefits of such a policy are that it may moderate social tensions in regard to migration and contribute to a better economic performance of the respective countries (Bauer et al., 2001). Especially low skilled incumbent workers – even if foreign born – are in fear of social dumping, as they are concentrated in a few industries and, according to Eurostat, a working hour in the Baltic or in Bulgaria costs less than one fifth of one in Germany or Belgium, not to mention Eastern European countries outside the EU or African ones.

Many of the widely held public concerns about immigrants are unsustainable. First, immigrants only have a minimally negative effect on the wage level of the domestic labour force (Longhi et al., 2004, 472; Kirby et al., 2008; D'Amuri et al., 2010); instead they tend to compete with older immigrants, whose wages they suppressed by ½% (D'Amuri et al., 2010). Second, contrary to widely held beliefs, immigrants are a gain rather than a loss to the social system. Huber and Oberdabernig (2013) found that most of the differences in welfare receipt by native and migrant households by observable characteristics such as size of the household as well as age and education of its head and income in some countries. In contrast, significantly lower net contributions of migrant households to the state budget persist in many countries even after controlling for observable factors. This results primarily from lower incomes of migrant households, and consequently lower tax payments. A similar result was obtained by Bonin (2014).[49] Third, there is a lack of willingness to integrate, on both sides. A German poll (8200 interviewed) revealed a persistent, across the board negative, attitude against Muslims, and an acceptance of those foreigners only who command German (97%) or have a German citizenship (79%); 40% of the respondents postulate a command of German without any accent, and 37% demand German ancestors (Foroutan et al., 2014). This implies an unfair, distinctly one-sided view of integration by the domestic population, i.e. craving for a complete adjustment of the foreign born. Besides the lack of natives' tolerance, individuals in diversified societies

[47] Historically seen, these are also relatively high values. In 1880, at a time of strong attraction of the city of Vienna, the share of immigrants reached 19% (without immigration from the provinces and thus "foreign born"), two-thirds of them originating from Bohemia and Moravia.

[48] The aversion is expressed most emphatically in the new German provinces which have a low percentage of foreigners, but a high percentage of losers of modernisation. A particularly "negative view of immigrants" (Marek, 2011) can be found in the following countries: Austria (16% foreigners), Germany (12%), Hungary (4%), Ireland (16%) und Great Britain (12%).

[49] Sinn (2015) objected: From 3300 Euro which an average German migrant pays more than he receives, one has to deduct the share of general government expenditures, each citizen causes, e.g. defence or roadworks (5100 Euro). This, however, is problematical (if not incorrect) as additional citizens, foreign born or not, cause not average but only marginal cost.

tend to shut themselves away (Putnam, 2007), and this tendency is enforced by fear of fundamentalism and terrorism of uprooted foreigners in our days. On the other hand is it part of US-American experience that a large part of underprivileged minority population refuses integration, repudiates "acting white" (Fryer and Torelli, 2005), reflecting the disappointed expectations of the still excluded second and third generation of the foreign born. In addition integration is made difficult through "territorial apartheit" (Hollande) in the form of a concentration of immigrants in vertain districts with inadequate infrastructure (Harlem, Banlieu, Chinatown, …).[50]

7.2 The labour market/immigration nexus as the EU's most demanding problem

The combination of immigration and unemployment will turn out as the most demanding problem for the EU in the years to come for at least three reasons. The first and most evident: The share of foreign born and their not-integrated off-springs, which is already high in some countries will continue to increase. The fertility rates of the foreign born will remain above average, and slow growth may scale up the unemployment problems in less wealthy (EU and non-EU) countries, thereby increasing the number of foreign job seekers. In addition failing states, religious and tribal conflicts in Africa as well as the struggle for hegemony in Asia may inflate the number of job and asylum seekers in the future. Crespo Cuaresma et al. (2013b) expect that the relative increase in migration flows to Europe in the next 35 years by source country is to be heterogeneous. Migration flows from Central and Eastern European countries to EU15 economies will remain roughly constant, but the U-shaped relation between current income levels and expected increase in migration flows points towards a changing source country composition of immigrants, as in particular migrants from countries with currently low income levels are expected to significantly increase their share in total migration to Europe.

Secondly, the expectation of a shortage of labour due to population ageing may prove wrong. It may happen that immigration in a politically unstable low growth era over-compensates the reduction of domestic population in working age quantitatively, thus aggravating rather than reducing the labour-market problems:[51] A serious lack of skilled personnel may coexist with a serious oversupply of unskilled workers.

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[50] Add to this the activity of some Imams employed by foreign organisations: „Imame in Österreich sind – zusätzlich zu ihrem problematischen Rechtsstatus und migrationsbedingten Herausforderungen – in ihrer Moscheegemeinde häufig mit Situationen konfrontiert, für die sie weder theologisch noch praktisch gerüstet sind. Dies ist auch ein wesentlicher Faktor, warum der Beitrag der Imame zur gesellschaftlichen Integration der von ihnen betreuten Gläubigen ein eingeschränkter ist. Zu diesem Ergebnis kommt eine empirische Untersuchung der Universität Wien, durchgeführt von einem Forscherteam unter der Leitung von E. Aslan." (Pressebüro der Universität Wien, Forschung und Lehre vom 27.1.2015)

[51] This contradicts most of the available forecasts. However, one should not overlook the fact that, based on these prognoses, unemployment should have long since dropped due to the decline in the population of working age; however, the (unexpected) increase in immigration continually delayed this point; rather than shrinking, as forecast, the total population increased and the population of working age continuously increased. Caution therefore dictates that a scenario of continued quantitative excess labour should be taken into account in the planning of economic policy.

As hostility against immigrants and asylum seekers particularly comes from modernisation losers (i.e. low skilled), and this will, thirdly, increase hostility even more. Ruist (2014, 15) found "that macroeconomic conditions do have a sizeable impact on attitudes to immigration. The estimates imply that the number of individuals in the average European country in 2012 who opposed all immigration from poor countries was approximately 40% higher than it would have been if macroeconomic conditions in that year had been as good as they were in 2006. As further evidence that the estimated correlations between worsening macroeconomic conditions and more negative attitudes to immigration indeed reflect increased perceived economic threat among natives, similar-sized or even larger effects are estimated on perceptions regarding the economic impact of immigration." The EU's principle of freedom of movement will be charged as the cause of the problem. Insofar a serious trade-off between freedom of movement and (at least notional/felt?) welfare of the residents may arise. According to Putnam (2007) an additional trade-off may arise, at least initially: internal solidarity may decline sharply, making redistributive Welfare State arrangements more precarious.

The Commission and national governments will have to prepare a well-designed and far-reaching program to convince the public and the media of the necessity and the advantages of immigration and to refute popular prejudices, to render integration possible. As cultural diversity is a distinct and unavoidable aspect of migration that must be taken into account when designing policies, local actors should be incorporated into the design and implementation of (future) integration policies to take adequately into account the regional heterogeneity in diversity effects observed (Dohse and Gold, 2014b) – and, as should be added, populations unavoidable preoccupations. One important aspect is preventing the creation of a ghetto. This danger is especially great, because those not integrated into the dominant society (never mind the housing market) network among themselves and seek the "cultural identity" in the culture of their ancestors.

Efforts at persuading and convincing the residents are of high priority, but must be based on facts, if effective at all. A clear migration framework will have to be developed, the management of admission criteria will have to be improved, and a dynamic approach to migration management should be adopted (OECD, 2014b). Immigrants, whether from within the EU countries or asylum seekers must be made *employable* (in terms of the host country) and quickly acquire a working knowledge of the host country's language. They need not only command the terms they need at their work place, integration affords the ability to communicate with the administration and the neighbours. Even more important than training and retraining of adult men is the integration of children and women. Obligatory preschool education is the most important element for childrens' linguistic and social integration, but enables employment and thereby integration of women as well. A particular problem is the relatively high proportion of foreign-born second generation immigrants with very poor school grades, as well as premature school leavers which are not given access to vocational training in market terms; for them own programmes or training workshops should be designed to introduce them to higher-skilled occupations. It is true that this would require considerable effort, but this is as essential from a labour market policy perspective as it is to prevent political and religious radicalization. Furthermore, the Commission and national governments must ensure that the safeguards

against dumping and social-benefit fraud are clearly formulated and the regulations observed thoroughly; anecdotal evidence suggests that this is not always the case,[52] thus alleviating residents' fears.

Asylum seekers, more than other immigrants, will turn out to be one of the biggest unsolved problem of the EU. Their share will certainly increase over-proportionally due to the world's political disorder, but even more so due to the changing reality of refugees. The Geneva Convention had an eye for the educated dissident from the Soviet Bloc, not the frequently illiterate immigrant escaping natural disasters,[53] war, terrorism or misery in general, seduced by criminal facilitators, boding an Eldorado in the 'West'. The explosion of asylum seekers is furthermore stimulated by the restrictive immigration laws of the 'rich' countries precluding legal immigration (with a visa), and the home countries' desire to reduce unemployment and receive remittances. Despite several attempts, the ruling regulation – not only of EU – is far from coping with the new reality; to some extent all efforts to dam up the flood will prove futile in the foreseeable future. The EU can only try optimise her internal regulations. The Schengen obligation of the country of entry to act as a gateway and bear all the related problems, is an unfair and unsustainable solution, which obligates the countries differently as to their geographical position within or at the borders of the EU. The registration procedures differ from country to country and are long, complicated and sometimes unfair.

8. Towards a consistent concept of social inclusion in a low-growth environment

The material collected in this paper proves that many of the widely held concerns about an exclusion-reducing policy are not sustainable, and that some of the alleged trade-offs don't exist; quite a lot of the economic and social goals are compatible with others, and sometimes even support each other. Some of the trade-offs and incompatibilities can be alleviated using carefully selected strategies. Several of the existing trade-offs, on the other hand, have not found adequate attention, and conventional wisdom and vested interests tend to ignore the complex interrelations. It is true, e.g. that low growth is detrimental to social inclusion, but it is also true that social exclusion reduces growth even more. It is true that globalisation and ageing confront the welfare state, but it is also true that reforms rather than retrenchment can ensure its survival; equality tends to support growth. It is also true, on the other hand, that the problematics of the labour-market-immigration-trade-off have not yet become completely conscious. The EU needs immigrants to fill the labour and pension-funding gaps, however it ignores the fact that the anticipated immigrants can at best quantitatively, not qualitatively, fill it;

[52] Although the Commission sought to take action against dumping (EC, 2012 March, Draft directive, adopted by EParliament 16th April 2014; Entsenderichtlinie: posted workers - Social abuse directive dated 29th April 2004), there was a lack of enforcement. See, for example, the conditions in German slaughterhouses (Die Welt, 07.27.2013: Deutschland ist Europas Schlachthaus).

[53] Climate experts announce that by the end of this century between 150 and 200 million individuals will be environmentally displaced (Myers, 1997).

at the same time, the increasing distance or aversion between the two population groups is not afforded enough attention.

The ambiguity of the concept of social inclusion and its unavoidable reliance on value judgments preclude fixing a *fair level*. The majority of the population, nevertheless, concurs that a *greater degree of social inclusion* would be desirable; exclusion always has been a problem and its burden has increased in the last decade or so. The expected slow growth will almost certainly fuel further exclusion, even if it may tend to alleviate environmental problems. Policy inevitably has to counteract. As yet EU paid mainly lip service to social inclusion, concentrating on efficiency enhancement and stability instead. It did not act directly and actively against social exclusion in general and even less so against exclusion induced by reduced growth; her cohesion policy was unfit for a globalised age. The Europe 2020 Strategy proceeds towards a better long term vision, even if it does not take care of the implicit trade-offs. It emphasises several relevant points but it is neither a comprehensive nor a consistent strategy; its overriding goal is still economic growth. Most of the inclusion-relevant competencies are national, indeed, the EU institutions for implementation are weak. A considerably higher cooperation among Commission and member countries governments or a delegation of some competencies to the Commission will prove unavoidable.

8.1 Slow growth and inclusion need not be mutually exclusive

The results of the WWWforEurope project recommend assuming that, apart from a recovery phase after the current financial crisis, growth rates of over 1½ to 2% will be unlikely. Such slow growth tends to lead to a substantial increase in exclusion, above all through unemployment and inequality. Even if exclusion in the EU is still lower than elsewhere, this would mean a significant limitation of the welfare of the population, and - in contrast to the published opinion – in addition reducing growth. In the last two decades growing inequality in fact reduced cumulative growth by up to 10 percentage points (OECD, 2014a); the impact of inequality on productivity is rather strong indeed. In this respect, the economic policies will have to give top priority to avoiding the threatening vicious circle of low growth→ social exclusion → further reduction of growth→ further exclusion → a.s.o. The vicious circle is strong and can work fast, but the preceding sections have shown that increased exclusion can be prevented with appropriately adjusted instrument combinations, even at low growth.

8.2 Approaches to reducing exclusion on the labour market

The second conclusion from the inclusions research of the project is a re-evaluation of the unemployment problem: unemployment does not increase because job are increasingly lost due to globalization and high cost – in fact, employment tends to rise, but rather because labour supply increases more quickly than jobs can be created. Furthermore, it was revealed that some of the instruments strongly recommended by stakeholders and the media are of little use:

- Strengthening price competitiveness through cost reduction can indeed be a strategy for individual countries, but not for the EU as a whole, as the EU nevertheless continually achieves current account surpluses.
- The acceleration of growth is – at least in the short term – probably not be achieved with the existing tools and would – if successful – encounter trade-offs encounter with other goals, especially environmental and climate objectives.
- Reduction of labour unions' bargaining power and the decentralisation of wage policy as suggested by the Commission is detrimental in countries with social partnership, hard to implement and probably ineffective in others, even if decentralisation may contribute to wage inflation in countries with competing labour unions.
- An undifferentiated reduction in working hours presumably only reduces the unemployment rate in the long run just a little; part-time work or labour sharing could contribute to a solution, but raises difficult and unresolved issues of the retirement benefits of part-time workers. Specific forms of working time reduction, however, such as education or paternity leave, would at least have other welfare-enhancing benefits.

Key among the *available instruments* to minimise exclusion on the labour market is the reduction of labour taxes, compensated primarily by taxes on emissions and financial transactions.[54] This will reduce capital-, energy-and material-intensive ways of production in favour of more labour-intensive ones. Reduction of bargaining power, of product market regulation and bargaining coordination seem to be unemployment-reducing in the majority of countries (Sachs and Schleer, 2013; Kratena and Sommer 2014); it may, however, increase employment at the cost of increasing exclusion and reduced welfare, thus questioning the relevance of best-practice policies and suggesting a careful approach (Busl and Seymen, 2013). To avoid the exclusion of outsiders policy must foreclose dual labour markets. To *combat youth unemployment*, measures are primarily implemented to reduce a qualification-related mismatch by reducing the drop-out rate and improving the quality of training through better (dual) training in businesses and more practice-oriented curricula at universities; at the same time, more intensive career counselling and job mediation should lower language-related and psychological barriers. *Early childhood education programmes* targeted at children of disadvantaged background are a particularly promising tool for reducing inequality of educational and labour market outcomes (Asatryan et al., 2014).

Even if unemployment is the dominating exclusion on the labour market, quantitatively as well as qualitatively, the exclusion of women, of immigrants and asylum seekers becomes apparent mainly at the labour market. A further element of exclusion is lack of participation in firms, which tends to reduce life satisfaction and productivity (Blinder, 1990; OECD, 1995; Kruse und Blasi, 1995).

[54] A prevalent argumentation proposes to finance the reduction of labour taxes with reductions in government's spending. This argumentation is rejected by two arguments: Firstly government's outlays should be reduced whenever they are regarded as unnecessary; secondly and more important: the switch from taxation of labour to environment has a double dividend, enhancing employment and reducing emissions.

8.3 The Welfare State is not a phase-out model

A second highly pleasing conclusion of the project besides the lack of an unavoidable and un-removable incongruity between growth and equality is a *rehabilitation of the Welfare State*: instead of impeding competitiveness it can even enhance it and attract foreign investment. No trade-offs with other goals show up besides financial sustainability;[55] quite to the contrary: Unequal societies are exposed to more crime (Laspa, 2013), more diseases and a lack of capacity to aspire (Appadurai, 2004); social justice is not only a question of fairness. The huge disparity in the performance of European welfare states, however, affords some convergence – which is not the same as harmonisation. It seems necessary to develop a coherent conception of a Social Union as a support of national welfare states at a systemic level, not as a separate pillar (Fernandes and Maslauskaite, 2013). Elements of such a Union are fixing some qualitative minimum standards, their transferability among member countries, and risk pooling by at least some elements of fiscal transfers, as e.g. the proposed elements of acommon unemployment insurance.

Instruments to improve social justice and inclusion within the European welfare states are the protection against risks (and even uncertainty) as unemployment, illness and ageing. The often demanded retrenching of the welfare state is neither necessary nor appropriate; essential, indeed, are nation-specific adjustments in consequence of higher and more concentrated wealth, changed needs of a wealthier society, and new risks. Outstanding in most countries is a concentration of transfers and benefits in kind to the needy (instead to the whole population), the adjustment of old-age benefits to increasing life expectancy, and a redirection from curing to prevention. Insofar it is preferable to act on equality of chances and primary distribution rather than on redistribution: Generation of equal opportunities, enabling strategies, social investment in education of all stages, including further education, support of employability and mobility and integration of immigrants are the most important drivers. As to *redistribution* the usual arguments as to improve the distributional effects of the tax system apply. Taxation of labour is too high in most countries and not overly progressive, taxes on wealth or inheritance are rather low, irrespective the fact that most of the wealth results from inheritance, not from income and saving (Kotlikoff and Summers, 1981).

8.4 Children and working poor as target groups in poverty prevention

Poverty has a particularly excluding effect in affluent societies. Apart from the financial burden, combatting it does not affect any of the other goals – quite on the contrary: a tentative consensus exists in the growth literature that inequality can undermine progress in health and education, cause investment-reducing political and economic stability, and undercut the social consensus required to adjust in the face of major shocks (Berg and Ostry, 2011). Especially in the less-developed Member States, there is still much to be done in this regard; in the more

[55] Particularly the mid-European welfare states are torn between generosity and financial constraints.

prosperous ones it is about improving the situation of marginalized groups: children, working poor, could be helped by minimum wage (Eurofund, 2013), as well as migrants and especially asylum seekers and – with certain restrictions – single parents. Contrary to the published opinion, the project shows that the risk of poverty of older people in the EU is below average; children instead form a much greater risk group than older people.

Exclusion due to illness is a rather minor problem in the EU, not least as the rapidly increasing life expectancy and in particular the rapidly increasing symptom-free life expectancy in the EU show. Action, however, is required to deal with rising health care costs; contrary to the conventional wisdom this is due less to the ageing of the population than to technical and medical progress. This results in the second problem: the risk of a dual-class society in which advantaged parts of the population have at least easier or quicker access to expensive therapies due to their social status or wealth. Given the diversity of the organization and the cost of health care, only tailored national solutions are once again possible. On the other hand, it is precisely these differences which make it possible to learn from the experience of the Member States. Important measures, reducing health care costs and exclusion, are prevention and rehabilitation. The participation rate could be increased by 10%-points (Kalwij and Vermeulen, 2006). Also, education has a positive effect on health, tertiary education, and life expectancy (Ricci and Zacharidis, 2007).

In the field of *geographic cohesion*, the EU has not been very successful so far. Despite considerable efforts in the context of the convergence programme, a new divergence originated and grew. The fact that a significant part of the foreseen cohesion funds was not retrieved also shows the frequent investments in prestige projects, that the lack of success is less due to lack of money than to the lack of ideas and expertise, especially in the less-developed countries. A revision of the (geographical) cohesion policy seems essential.

8.5 The deep-seated problem of gender equality

Despite widespread public debate, gender equity is still a European problem with a clear North - South divide, whether in terms of salary levels, operating hierarchy or generally in top positions. Although some women participate on equal footing with men on , the “dual earner, specialized gender, family model”, which is geared towards greater, but not full equality, seems more feasible (Plantenga, 2014). Nevertheless, Leoni and Eppel (2013) found that women with favourable initial conditions, such as high socio-economic status of parental home, good childhood, health conditions and high cognitive skills, are more likely to reconcile care for their children with continuous employment over the life-course. Perhaps the most challenging problem of the current redesign of the welfare state is that family support policies can only to a certain extent been redesigned in accordance with employment policies.

Negative trade-offs between gender equality and other goals are not known, especially if they are regarded as equal opportunities – except of course the traditional idea that the woman should be primarily responsible for child rearing. Prosperity and inclusion could even be increased through a higher participation rate and a greater supply of skills. However, there

could be a certain danger that during low growth women could be pushed into unattractive fringe areas of the labour market or completely excluded during high unemployment. In addition, apart from increasing the participation rate, the previously used instruments to achieve gender equality have not been very successful. Some financial incentives promoting families actually become counter-productive by making the employment of mothers less attractive (Bujard and Passet, 2013). Quotas only partly work in certain segments; the expansion of child care facilities has proved to be more successful. In the labour market, it would be important to develop and promote models with high time flexibility, not only but especially for women. Hammer et al. (2013), applying the aggregate NTA life cycle concept allowing for flexible age limits and age-specific levels of economic dependency and including unpaid household work, find large cross-country differences in age- and gender-specific levels and type of production activities, consequently in the organisation of the resource reallocation across age. The results indicate that a reform of the welfare system needs to take private transfers into account, in particular the services produced within the households for own consumption (e.g. childcare, cooking, cleaning, etc.), in addition to public ones.

Ultimately, however, as in other areas, efforts to raise awareness will have to be increased: from a more modern, effectively equal image of women and a broader range of attractive and socially accepted professions to greater career awareness amongst women themselves.

8.6 Increasing mobility

Mobility rates are still relatively low in the EU, between firms and industries as well as within and between member countries; the envisaged low growth threatens to reduce mobility even further. This is problematic, since operative and inter-industry mobility not only facilitates the matching process but is also an important prerequisite due to the convergence of different experiences. However, mobility does not only carry benefits: with changes in business and especially industry, human capital can be lost and in-house training is limited if their utilization is not secured in the own business. *Geographical* mobility can reduce the differences in unemployment within the EU, and facilitate the matching process of specialists. It is, however, only one, and not the first best instrument to achieve *cohesion*, and it is a problematic one, if it is involuntarily driven by national or regional differences in unemployment. Brain drain and congestion/depopulation can be and are objectionable side aspects. The first best instrument to achieve cohesion is still moving workplaces (jobs) rather than people, but this works in the long run only.

Among the instruments used to alleviate mobility between firms and countries are: the respective applicability of financial and social benefits, the better and more rapid recognition of professional training certificates, the removal of possible disadvantages for children when switching schools, and training for those freed in shrinking industries. With respect to social mobility (inherited social status) it is above all important to improve preschool and school education, reduce drop-out rates and develop alternatives for youths with limited formal preparedness to learn (drop-outs). Several empirical studies have documented a negative influence of early tracking policies on equality in educational achievement.

8.7 Integration of migrants: the biggest problem of the future

EU policy should be primed to the fact that the flow of immigrants may increase markedly over the years to come. In light of the shrinking population of employable age, this should be seen in a positive light, and can contribute to quantitative growth (EC, 2014). Furthermore, Huber and Oberdabernig (2013) as well as Bonin (2014), contrary to wide held public belief, adhere to the fact that migrants contribute positively to the welfare state. Most of the differences in welfare receipts by native and migrant households are explained by observable characteristics. However, two problems, for which up to now only unsatisfactory solutions have been proposed, have not been discussed enough. First, there is the problem of a quantitative over-supply of unqualified immigrants of first, second and third generations, coinciding with an increasing lack of qualified labour. Second, with the increasing share of foreign born resistance or even hostility of residents increases considerably. Efforts at persuading and convincing the residents to a more open minded attitude are of high priority, but are challenging and must be based on facts, if effective at all. A clear migration framework will have to be developed, the management of admission criteria will have to be improved, and a dynamic approach to migration management should be adopted (OECD, 2014b). Immigrants, whether from within the EU countries or asylum seekers must be made *employable* and quickly acquire a working knowledge of the host country's language. They need not only command the terms they need at their work place, integration affords the ability to communicate with administration and neighbours. The formal recognition of foreign training and training certificates as well as the quantitative and qualitative expansion of EU-internal training facilities for specialised workers of foreign background are indispensable elements of a functioning integration policy. To avoid the serious problems of second and even third generation's inherited or even declining social status, it is important to insist on kindergartens with language training and integrated schools until the age of 14. The Commission and national governments must ensure that the safeguards against dumping and social-benefit fraud are clearly formulated and the regulations observed thoroughly; anecdotal evidence suggests that this is not always the case, thus alleviating residents' fears.

Asylum seekers are another big unsolved problem of the EU. The ruling regulation obligates the country of entrance to allow or reject asylum, an unfair solution, which obligates the countries differently as to their geographical position within or at the Schengen borders of the EU. The registration procedures differ from country to country and are long, complicated and sometimes unfair. More rapid immigration procedures, integration programmes and work permits are important instruments of the integration and acceptance of asylum-seekers.

8.8 Elements of a consistent network of instruments

As already emphasized several times, each instrument affects multiple objectives and the desired and undesired side effects can become severe or hinder each other. To counteract the effects of inclusion – decreasing slow growth, packages of measures must be carefully compiled and the main and side effects analyzed and perfectly coordinated. The complexity of this task is multiplied when in addition to inclusion other elements of sustainable work-wealth-

welfare policy are taken into account. In the following the most important instruments of a policy of inclusion and their effects are put together.

By far the most important element of an inclusion policy, without regard to the growth rate, is *training policy* in the broader sense, with the focus, depending on the level of development, on secondary, vocational or tertiary education. Related training and further education reduces unemployment, especially among young people, and enables the integration of migrants and asylum-seekers, ensuring the competitiveness, improves personal distribution improved, and can, if conceived accordingly, also contribute to gender equality. Problems only exist in the financing costs and the long effect lag.

Second to inclusion-improving measures, the different forms of *distribution policy* should be mentioned. For the *primary distribution,* apart from the structural (industrial) policy, wage policy is of special importance. Contrary to the Commission's view, a coordinated wage policy by responsible social partners contributes to fairer distribution as well as competitiveness; however, without a functional social partnership and with a fragmented union structure there can be distribution conflicts. In the area of *secondary distribution*, monetary transfers reduce the risk of exclusion due to poverty, family relationships, unemployment, old age or accidents, and support reintegration. Transfers in kind reduce exclusion due to illness or, as in the case of free kindergartens and all-day schools, on the one hand, the exclusion of women, and on the other exclusion through inherited social status. Given the high cost of financing, however, a more subtle design is required to achieve high accuracy.

Tax policy, by relieving labour at the expense of emissions, can significantly reduce unemployment while at the same time improving personal and functional distribution, and beyond this improving the quality of the environment. The *deregulation* of product markets can contribute to growth and employment, the sound regulation of labour markets towards higher employment and the more equitable distribution of insiders and outsiders; sound regulation, however, does not mean simple deregulation, but rather a fine tuning of flexibility and security. *Active labour market policies* can reduce unemployment, on the one hand by improving matching efficiency and creating qualitative criteria for the job search, and on the other hand through search incentives. As with the other instruments, in light of the considerable costs there must be increased efforts to ensure accuracy.

Table 1 **Instrument-Goal-Relations**

INSTRUMENTS	GOALS					
	Unemploy-ment	Distribution	Competition	Gender	Human capital	Integration of migrants
Education	+	+	+	+	+	+
Primary distribution	+	+	+	?		
Secondary distribution of monetary services	(-)	+	(-)	+		+
Services in kind		+		+		+
Tax policy	+	+	+	+		
Deregulation of product	+	-	+			
labour market	+	+	+	?	?	+
Active labour market policy	+	+	+	(+)	+	+

Table 1 summarizes the effects of the individual instruments on the different goals. They render transparent the fact that nearly every instrument has an effect on several goals, and that the simple Tinbergen rule (one instrument per goal) falls short in complex situations. Table 2 attempts to provide an overview of the diverse trade-offs, their founding and the respective counter-arguments. Together they offer an overview of how corresponding instrument-goal combinations can be devised so as to maximize their effect and minimize undesirable side-effects.

Table 2 **Trade-offs and counter-strategies**

TRADE-OFF of … with	ARGUMENT	COUNTER-ARGUMENT/COUNTER-STRATEGY
Globalisation		
Welfare state	Competition-preventing, unfinanceable	At best only partly exists; social stability promotes competitiveness and investments
Low growth		
Unemployment	Despite ageing as a result of immigration	Tax unburdening of labour, training, educational
Mobility	Regional counteracting of unemployment	disadvantages for emigration countries
Welfare state		
Globalisation	See above	See above; no retrenching but partial redesign
Capital mobility	Exmigration due to tax pressure	No empirical evidence; irrelevant at approximate parallel steps of the EU
High employment		
Flexicurity	Time contracts increase employment	True, but lead to the exclusion of outsiders and decreased welfare
Deregulation	Increases employment	Depends on country-specific institutions von; costs through exclusion and welfare
Decentralisation of wage policy	Lowers labour costs	Contrary evidence in countries with social partnership
Reduction of wages	Strengthens price competitiveness	No strategy for EU-current-account surplus!
Higher matching eff.	Lowers unemployment	increased pressure to assimilate
Redistribution		
Incentives	Negative influence	No empirical evidence; at best U-shaped
Taxation	Loss of price competitiveness	Depends on the type of taxation
Geograph. cohesion		
Mobility of persons	Optimal allocation	True, but brain drain and over-ageing in emigration areas and acceptance problems
Mobility of capital	Optimal allocation	Would be preferable to the mobility of persons
Social cohesion	Exclusion through efficiency orientation	Training
Gender equality		
Unemployment	Higher participation raises unemployment	Wrong hypothesis of the prescribed Besch volume; use of the talent pool
Family support	…	Some financial incentives of family support make the mother's employment less attractive
Mobility		
Growth	Absolute precondition for growth	True within limits, but possible impeding of welfare and human capital formation
Structural reform	Migration reduces pressure to assimilate in both countries	……..
Freedom of movement	Perceived well-being of residents	……..
Immigration		
Welfare state	Additional financial burden	Positive contribution of immigrants to social security
Fiscal burden	Fin. burden through low tax benefit	Correct, but resolvable through integration and education
Social cohesion	Distributed by cultural difference	Correct, but resolvable through Integration and education
Democracy	Limitation of national sovereignty through deep integration	……..

9. Outlook

The economic and monetary integration of the European states with their differing language, histories and institutions was and is an ambitious project. Measured in terms of material growth, competitiveness, distribution or environmental protection, this experiment has been able to hold up to the development in the USA. What is unavoidably slower, however, is the decision-making in such a decentralised organisation, which resulted in the EU slipping behind during the financial crisis; however, the widely predicted collapse ("doomsday warnings"), voiced not least by US economists, did not take place. The WWWforEurope-research showed that the European economic and social model underlying the EU was indeed 'globalisation-resistant', with certain adaptations: the Welfare State, inclusion, cautionary principle and a small advantage in environmental protection have not hindered the EU in the concert of competition.[56] European integration, however, remains an open construction site, which is not at all surprising considering its relative youth (consider the time it took for the USA to grow together). Expansion to the East has significantly increased the heterogeneity of the EU and the financial crisis put to the test the need to develop rapid solutions. The mix of institutions was improved under the pressure of the challenges, but the climate amongst the members worsened. Unemployment and immigrations present further new challenges for the EU. The research results of the WWWforEurope project show that these challenges need in no way result in a forsaking of the European model. A rethinking of the trade-offs and the systematic combining of target instrument bundles enable the reduction of exclusion under the new conditions.

[56] Beyond these 'inclusion-relevant' elements, the European Model differs from its U.S.-counterpart especially in the dominance of the real sector over the financial one, the dominance of value creation over value extraction (shareholder value) and the role of government (Lazonick and O'Sullivan, 2000; Tichy, 2005).

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Annex

Table 1: Goal Dimensions of Social Cohesion: Reduction of Disparities, Inequalities and Social Exclusion within a Society

Dimension / Life Domain	Regional Disparities of ...	equal opportunities / inequalities between women and men, generations, social strata, disabled, citizenship groups concerning	Social Exclusion
Population			
Households and Families		- engagement in housework and childcare - existence of family relations	
Housing	- housing conditions	- housing conditions	- homelessness - poor housing conditions
Transport	- access to / quality of transport	- access to transport	- no access to public/private transport
Leisure, Media and Culture	- availability of facilities and goods in the area of leisure, media and culture	- leisure time - access to media, recreational and cultural facilities	
Social and Political Participation and Integration		- availability of social relations and social support - social and political activities and engagement	- social isolation - social discrimination
Education and Vocational Training	- access to education and vocational training - investment in education	- educational enrolment and qualification	- lack of completed education and vocational training
Labour Market and Working Conditions	- employment opportunities and risks	- employment opportunities and risks	- long-term unemployment
Income, Standard of Living, and Consumption Patterns	- income level and standard of living	- income level and standard of living	- poverty
Health	- availability of health care facilities - health status	- health status	- permanent health impairments
Environment	- state of environment		
Social Security		- social insurance coverage, benefits	- lack of social protection
Public Safety and Crime	- crime rates	- becoming a victim of crime	
Total Life Situation	- quality of life index	- quality of life index - overall subjective well-being	- multiple deprivation

Source: Berger-Schmitt (2000)

Table 2: Goal Dimensions of Social Cohesion: Strengthening the Social Capital of a Society

Dimension / Life Domain	Availability of Social Relations	Social and Political Activities and Engagement	Quality of Social Relations	Quality of Societal Institutions	European-Specific Concerns
Population					
Households and Families	- social relations within households	- care for old-aged household members	- between household members		
Housing					
Transport					- transport connections between European Countries - frequencies of journeys between European Countries
Leisure, Media and Culture	- membership in leisure organisations	- activities in leisure organisations			- dissemination of cultural products across European Countries
Social and Political Participation and Integration	- existence of personal relations - membership in political and social organisations	- frequency of personal contacts - support within informal networks - civic engagement in public realms	- outside the household	- political institutions - church/religious institutions - social institutions	- European Identity - social relations and attitudes to other EU nationals - similarities in basic values and attitudes - social and political activities at the European level
Education and Vocational Training				- educational institutions	- exchange of pupils, students - teaching and dissemination of European languages
Labour Market and Working Conditions		- participation in the area of working life	- at the work place	- labour unions - labour offices - labour courts	- connections between European Countries in working life
Income, Standard of Living, and Consumption Patterns					
Health				- system of health care	
Environment					
Social Security				- social security institutions	
Public Safety and Crime				- legal system	
Total Life Situation					

Source: Berger-Schmitt (2000)

Project Information

Welfare, Wealth and Work for Europe

A European research consortium is working on the analytical foundations for a socio-ecological transition

Abstract

Europe needs change. The financial crisis has exposed long-neglected deficiencies in the present growth path, most visibly in the areas of unemployment and public debt. At the same time, Europe has to cope with new challenges, ranging from globalisation and demographic shifts to new technologies and ecological challenges. Under the title of Welfare, Wealth and Work for Europe – WWWforEurope – a European research consortium is laying the analytical foundation for a new development strategy that will enable a socio-ecological transition to high levels of employment, social inclusion, gender equity and environmental sustainability. The four-year research project within the 7th Framework Programme funded by the European Commission was launched in April 2012. The consortium brings together researchers from 34 scientific institutions in 12 European countries and is coordinated by the Austrian Institute of Economic Research (WIFO). The project coordinator is Karl Aiginger, director of WIFO.

For details on WWWforEurope see: www.foreurope.eu

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	Aston University	ASTON	United Kingdom