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European Inequalities: Social Inclusion and Income Distribution in the European Union

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This book, as its authors state, summarizes four years of research on the topic of social inclusion and income distribution. The research has been carried out within the European Observatory on the Social Situation and Demography that was established in 2005 by the European Commission's Directorate-General for Employment, Social Affairs and Equal Opportunities, and as such can be viewed as an (more or less official) assessment of the level of inequalities within each EU Member State and across the whole of the European Union. The book might be of interest to policymakers across Europe, as well as to researchers who are interested in the topic of income distribution and poverty, since it provides a good comparison on the previously mentioned topic among all EU Member States.

The authors undertook the task of assessing the overall level of income inequality and consequently identifying the level of poverty risk as well as recognizing the social groups that are most severely affected by inequality in income distribution.

In that way, they try to establish the level of social inclusion or exclusion across the European Union.

The data used for the analysis in this book is mainly obtained by the EU-SILC (European Union Statistics on Income and Living Conditions) survey. The findings are laid out in nine chapters, each covering a different topic that touches (deals with) the concept of social inclusion (exclusion).

In Chapter 1, as a starting point in their overview on the state of social inclusion across the EU, the authors analyze income distribution for each EU Member State, thus providing the ranking of those countries with a high inequality in income distribution (Gini index over 30 percent - Baltic states, Poland and Hungary, Southern European countries, and Anglo-Saxon countries), low inequality in income distribution (Gini index below 25 percent - Sweden, Denmark, and Slovenia), and the rest of the EU Member States that fall in between these two markers of the level of inequality in income distribution. Furthermore, the authors try to establish a more suitable approach for tracking differences among people in the EU Member States according to their living standard by adjusting a disposable income in terms of purchasing power standard.

In that way, they are able to establish the means of monitoring the process of elimination of inequalities between the EU Member States, and moreover to highlight the fact that a disposable income of a significant number of people in the richer part of the European Union (mainly the old Member States) falls below the EU median income, which demonstrates the presence of, if not poverty, then a state very close to it, even in the richest EU countries.

Chapter 2 seeks to examine the factors that lie beneath the risk of poverty and inequality in income distribution that were analyzed in the first chapter. Therefore, the authors took on a task of examining variations in the risk of poverty among people in respect to their age, gender, education, household structure, and their employment status. As expected, groups that face a greater risk of falling into poverty are children and the elderly over 65 years of age. Considering household structure, those living in one-person households and those with a higher number of children in their households, as the authors point out, are at a greater risk of poverty than others living in households with fewer children. Gender is a considerable factor as well, since women are more likely to fall into poverty than men. Employment status and education level are, as the authors show, more important factors, since they are better in explaining overall inequality in income distribution and the risk of poverty, and are seen here as a way out of poverty.

Chapter 3 deals with vulnerable groups (people with migrant backgrounds or ethnic minorities). Although problems arise considering data and its accuracy, the authors are able to show that people with migrant backgrounds across all age groups are more at risk of poverty and have a lower income level than people born in the country in question. The overall analysis is overshadowed by lacking data that does not differentiate between migrants and people who are born into migrant families (unless they live in the same household), with a notable exception of the United Kingdom that keeps a record of such characteristics as ethnicity. Moreover, the example of the UK indicates that ethnic background is an important factor in assessing inequalities in income distribution and the risk of poverty among different ethnic groups, thus indicating the need of an analysis that would include wider, cultural factors in order to better understand the problems that lead towards social inclusion or exclusion as it may be the case here.

In Chapter 4, the authors analyze income distribution and the risk of poverty at a regional level, trying to asses whether there is a significant difference in income level and the risk of poverty among different regions in the EU Member States. Their findings confirm the assumption that an unequal distribution of income and, in line with it, the risk of poverty are more present in certain regions of a country than in others. Such findings just emphasize the importance of the regional aspect of income distribution and the risk of poverty, and point to the need of developing regional policies in order to cope with the problems of the social inclusion of certain groups.

In Chapter 5, the authors deal with material deprivation as an alternative measure of the level of social exclusion instead of using more usual means of measuring people's standard of living, such as income. Income and income distribution, as the authors rightly point out, do not take into account accumulated savings or overall wealth (although capital receipts are taken into account when measuring income) or income in kind. On the one hand, income provides for objective measurement and can be put in numerical relations among different income groups. Material deprivation, on the other hand, is a more subjective measure that takes into account the ability of people to afford certain consumer products, such as a decent meal, washing machine, color TV, or a car. In addition, the authors use people's capacity to pay bills and face unexpected expenses as financial indicators of deprivation. The analysis shows that (although mainly in the new Member States) a significant amount of people, whose income is above the poverty threshold, report that they are not able to afford at least one of the previously mentioned products. As a conclusion, the authors point rightly to the fact that income-based indicators for measuring the level of poverty in the EU Member States should be supplemented by indicators of material deprivation.

Ironically, the book was released in 2009, the year of recession and global economic decline. Nevertheless, Chapter 6 deals with economic growth and its relation to inequality in income distribution. At its very beginning, the authors remind us of Kuznets's classical work which claims that "at the initial stages of the development process, inequality rises with growth; then, at later stages, inequality starts to decrease with further expansion of the economy" (p. 131). This view is broadened with more recent studies that point to the conclusion that it is not growth itself that brings lower levels of inequality in income distribution, but the way in which it folds out. The authors confirm their assumption that the link between economic growth and income inequality is far better corroborated if economic growth is based on an increase in employment and not solely on a rise in productivity. Therefore, their analysis shows that, although the new EU Member States recorded respectable rates of economic growth in the last decade, its effect on a decrease in the inequality of income distribution was not as great as it was in the old EU Member States (notably Ireland, Spain, and Portugal) that have recorded comparable rates of economic growth since that growth was mainly fueled by a rise in productivity. The difference is that the economic growth of the old EU Member States was propelled by an increase in employment, whereas growth in the new EU Member States, as mentioned previously, was a consequence of a rise in productivity.

Chapter 7 deals with redistribution and its effects on income distribution and, consequently, on the risk of poverty. Firstly, the authors present a general overview of the effects of taxes and benefits on the inequality of income distribution by providing measures of the inequality (for each country in question) of income distribution (expressed as the Gini coefficient) for income before it is taxed and benefits are added and income after it has been taxed and benefits added. By doing this, the authors are able to show that taxes and benefits have a complementary role in decreasing the level of income inequality. Moreover, they are able to show that the contribution of benefits in absolute terms is substantially higher than the contribution of taxes across all countries. Nonetheless, if public pensions are regarded as separate from benefits, then effects of benefits and taxes on decreasing the inequality of income distribution are similar to a great extent. On the other hand, the authors point out that benefits in general reduce the risk of poverty across Europe from 30-50 percent to 10-20 percent. Moreover, they show that benefits play an especially important role in reducing the risk of poverty of children and the elderly over 65 years of age.

In a way, Chapter 8 extends the topic of the previous chapter by analyzing distributional effects of publicly funded childcare. The authors are able to do so by treating publicly subsidized childcare as a benefit in cash and not solely as a benefit in kind. Therefore, they simply add the value of publicly subsidized childcare to income. This inclusion of publicly subsidized childcare in the definition of income, as the authors show, has a tendency of decreasing inequality in income distribution, although, as the authors state, it appears that this kind of benefit goes mainly to high- and middle-income groups. Moreover, depending on what indexes are used, the effects of distribution might lead to false conclusions. Since adding childcare benefits to income raises the poverty threshold and, therefore, more people end up below the poverty line, it can point to the conclusion that the abolishing of publicly subsidized childcare might decrease the level of income inequality. Nonetheless, the authors speculate that the effects of publicly subsidized childcare are not greater since low-level income groups do not use publicly subsidized childcare as much as the middle- and high-income groups due to the fact that middle- and high-income groups have more to gain from publicly subsidized childcare in the sense of taking up better paid jobs. Also, they point to the fact that this static analysis of the effect of childcare on income distribution lacks a temporal dimension, meaning that the effects of publicly subsidized childcare would be greater and more visible in a dynamic analysis.

Chapter 9 deals with the development of different policies affecting income distribution across the European Union with the addition of two candidate countries, Croatia and Turkey.

The authors detect four tendencies in policy changes over the last five years, and those are:

1) lowering direct tax rates and simplifying tax structure;
2) making work pay;
3) supporting families on low incomes;
4) increasing the adequacy and sustainability of pensions.

On the one hand, lowering taxes and simplifying the tax structure, as the authors notice, has led to a more unequal distribution of income. On the other hand, however, incentives in making work pay, supporting families on low income, and making pensions sustainable and adequate are decreasing the level of inequality in income distribution across the chart. Here we should mention the notable exception of Germany and Italy, that took a different approach to the incentive to "make work pay" by decreasing social benefits in order to make low-paid jobs attractive.

In general, the concept of social inclusion or exclusion as it is defined in this book is somewhat vague and narrow. By stating that social inclusion or exclusion is "a multi-dimensional view of poverty and deprivation, which includes non-monetary as well as monetary aspects" (p. 210), the authors are not able to make the necessary leap from analyzing income inequality to assessing the level of social inclusion or exclusion. The book deals in a great part with an analysis of income distribution, which is a monetary aspect, whereas material deprivation is considered to be a non-monetary aspect of social inclusion or exclusion, although it deals with the ability to afford certain consumption products, which is by default expressed in monetary terms. In that way, social inclusion or exclusion, which is a complex social phenomenon and a scientific concept as well, tends to be almost reduced to inequalities in income distribution and patterns of consumption, which clouds the multiple problems/factors arising from such a social phenomenon. On the other hand, the authors are to a certain extent condemned to such an analysis due to the data available. Nevertheless, as Chapter 3 shows, there is a need for a wider analysis that would include other social and cultural factors. Therefore, this book gives a thorough review of inequalities considering income distribution and the consequences it has on the risk of poverty across the European Union, but lacks in explaining other factors that are equally important when speaking of social inclusion.

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