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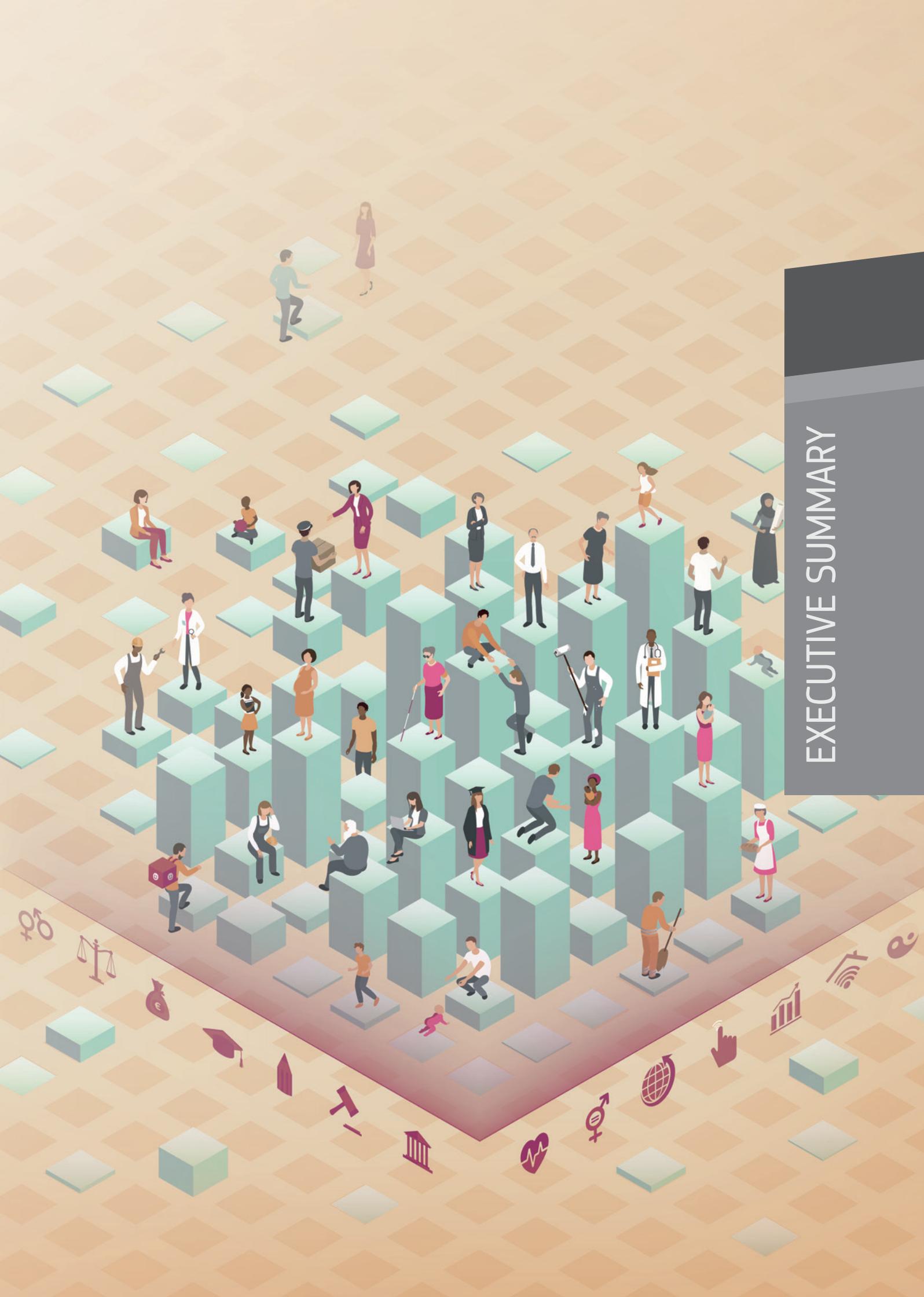


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EXECUTIVE SUMMARY



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Europeans are, on average, better educated and live healthier, longer and more prosperous lives today than at any point in the past. However, this view on average achievements obscures large disparities, both within and between European countries. The income of the richest 20% of households in Europe is on average 5 times higher than that of the poorest 20%, and up to 8 times higher in some Member States. Most indicators of well-being display a social gradient according to education level, occupation, income and social status. The Great Recession has reinforced existing socio-economic divides. Vulnerable groups – those with low education levels, the unemployed and individuals with a migrant experience – have largely borne the brunt of the resulting economic downturn and austerity programmes. Southern European countries were hit particularly hard.

Growing disparities on multiple socio-economic dimensions have contributed to a sense of unfairness and discontent in Europe. Recent data show that 38% of Europeans do not believe that they are treated fairly and 41% do not agree that they have enjoyed equal opportunities in life. Fairness is a subjective phenomenon, but the far-reaching consequences of perceptions of unfairness warrant a closer look at its drivers and underlying dynamics. The present report analyses some of the most pertinent dimensions of fairness in relation to the agenda for a fair, inclusive and social European Union.

Chapter 2 describes Europeans' perceptions of fairness and how they vary across countries and socio-economic groups. The chapter also

discusses how perceptions of fairness relate to the functioning of society and to individual well-being. *Chapter 3* presents some stylised facts on income inequality for the whole EU before, during and after the Great Recession. The dynamics of income inequality are shown for the entire income distribution as well as for different income sources in the EU as a whole, but also for three macro-regions. *Chapter 4* discusses inequality of opportunity – a key structural inequality in society – through the study of persistence of educational attainment levels across generations. The analysis goes beyond most existing evidence by considering persistence across three generations rather than only two. The second part of the chapter explores individual perceptions of social mobility and beliefs about equality of opportunity. After the examination of inequality of outcomes and opportunities in Europe, *Chapter 5* provides some perspectives and evidence on welfare state arrangements and tax-benefit systems: the distributional impacts of tax reforms, individual tax evasion behaviour, corporate tax avoidance behaviour and aspects of social protection in changing labour markets. *Chapter 6* concludes.

Perceptions of fairness vary widely across EU countries and socio-economic groups

While about half of all European adults think that life is generally fair, perceptions of fairness are rather low in many countries of Southern and Eastern Europe: only 39% in Bulgaria and Cyprus, 36% in Croatia and 26% in Greece think that life is generally fair. By contrast, corresponding figures are much higher in the Benelux, Western European and (especially) Nordic EU Member States.

Perceptions of fairness do not only vary across countries and macro-regions but also by socio-economic characteristics. Individuals with higher education and income levels are more likely to perceive life to be fair, compared to the unemployed and elderly (see Figure 1).

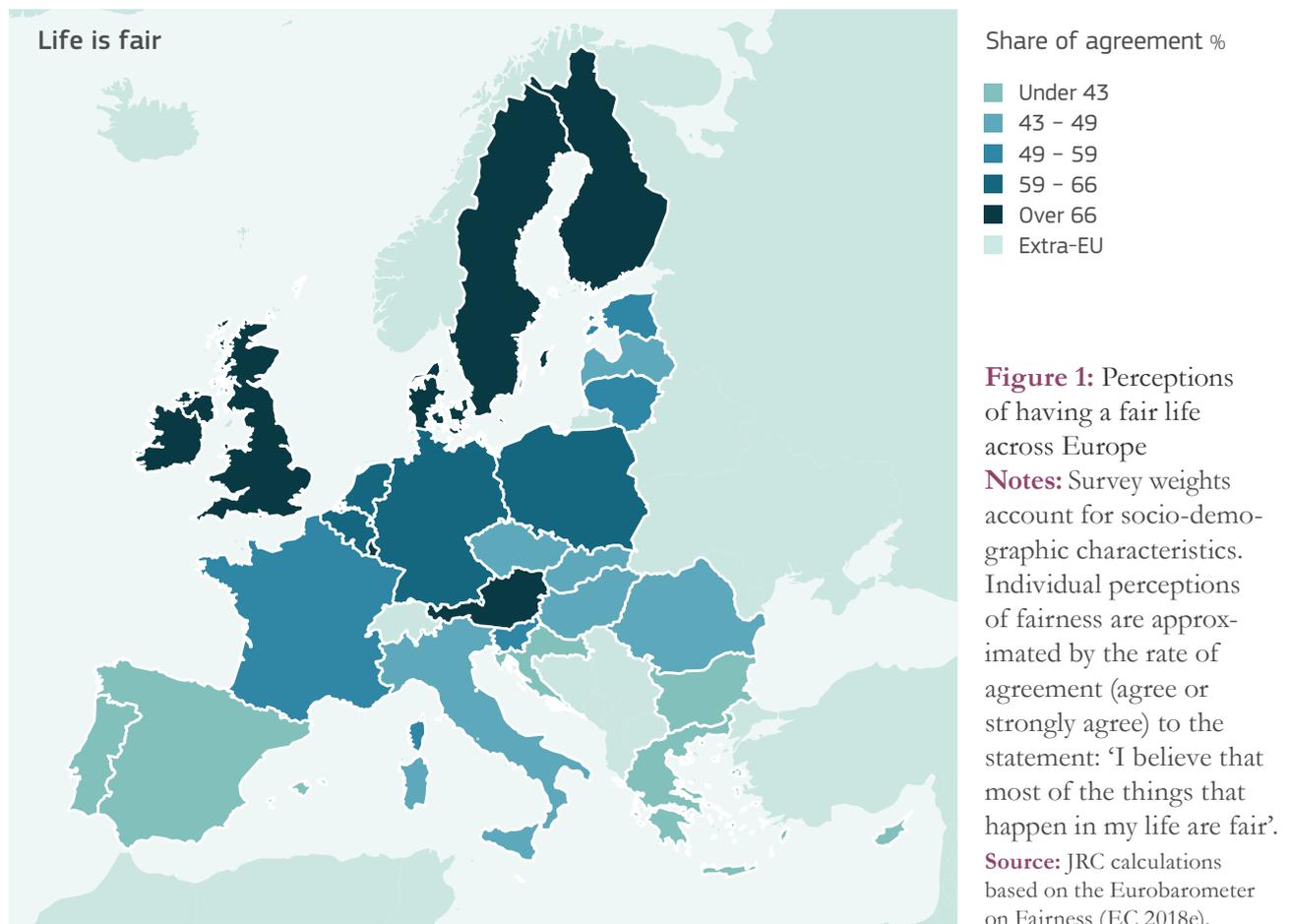
At the country level, perceptions of fairness correlate more strongly with people's beliefs about income inequality than with actual levels. This is because individual assessments of fairness are filtered through a dense net of perceptions, preferences, values and beliefs. People tend to misperceive inequalities, and differ in terms of the level of inequality they consider acceptable.

Perceptions of unfairness need to be heard and acted upon, since fairness is linked to general well-being. *Chapter 2* argues

that the advantages of a fair and inclusive society need not come at the cost of less efficient economies and weaker growth. On the contrary, fairness and inclusivity can foster competitiveness and growth.

Income inequality at EU level has been stable since the Great Recession, but increased in Southern Europe

EU-wide labour income inequality across the EU was quite stable after 2007, while inequality of household incomes even decreased. In North-Western Europe, household income levels decreased proportionally among all income groups. Income inequality in this macro-region was stable and relatively low. By contrast, inequality in Southern Europe increased significantly from 2007 onwards, peaking in 2014. People at all income levels experienced income losses; for the poorest 10% in Southern Europe, incomes decreased by at least 30% between 2007 and 2014.



The rise of income inequality across Southern Europe is mainly due to a growing income gap between median earners and the poor. State and intra-household redistribution prove to be important insurance mechanisms against income shocks (see Figure 2).

Incomes converged across EU macro regions

Between 2007 and 2016, income levels in the EU converged. In Central and Eastern Europe, the countries with the lowest income levels in 2007, incomes increased in almost all percentiles of the distribution, while Southern Europe experienced a large income reduction and a rise in income inequality. Varying patterns of income change and income inequality were likely caused by different exposure and sub-sequent reactions to the financial crisis.

Educational inequalities are passed on across generations

In Europe, individual fortunes often depend on family socio-economic background. A child born to a parent with a tertiary degree is on average 43 percentage points more likely to obtain a tertiary degree him- or herself compared to someone born to less highly educated parents. The persistence of social status of this kind has a dynastic component: If grandparents are included in the analysis, the advantage increases by 9 percentage points on average in the EU (see Figure 3).

Social mobility differs between European regions. In Eastern, Western and Southern Europe, the persistence of educational attainment across generations is stronger than in Northern Europe and the Baltics. In Northern Europe, the offspring

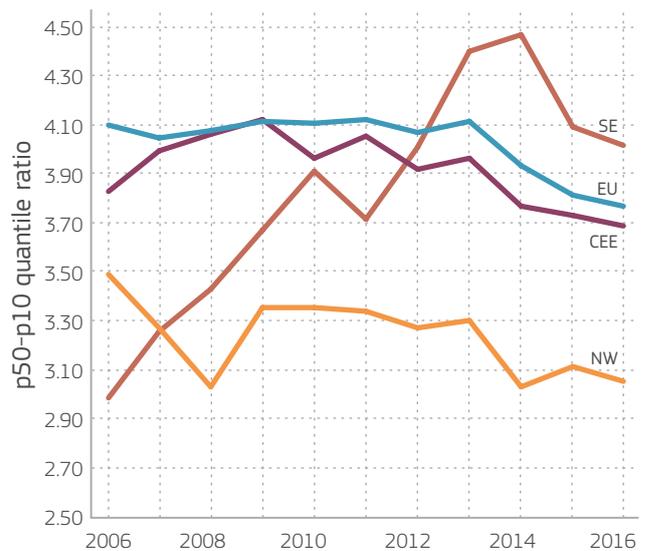


Figure 2: Income inequality in the bottom half of the annual gross labour income distribution (p50-p10 ratio), EU and macro-regions, 2006-2016

Notes: *North-Western EU (NW)*: AT, BE, DK, FI, FR, DE, IE, LU, NL, SE, UK; *Southern EU (SE)*: CY, EL, IT, MT, PT, ES; *Central and Eastern EU (CEE)*: BG, CZ, EE, HU, LV, LT, PL, RO, SK, SL. Unit of observation is the individual; sample of all 25-60-year-olds with non-zero work-related income, in PPS at 2015 prices.

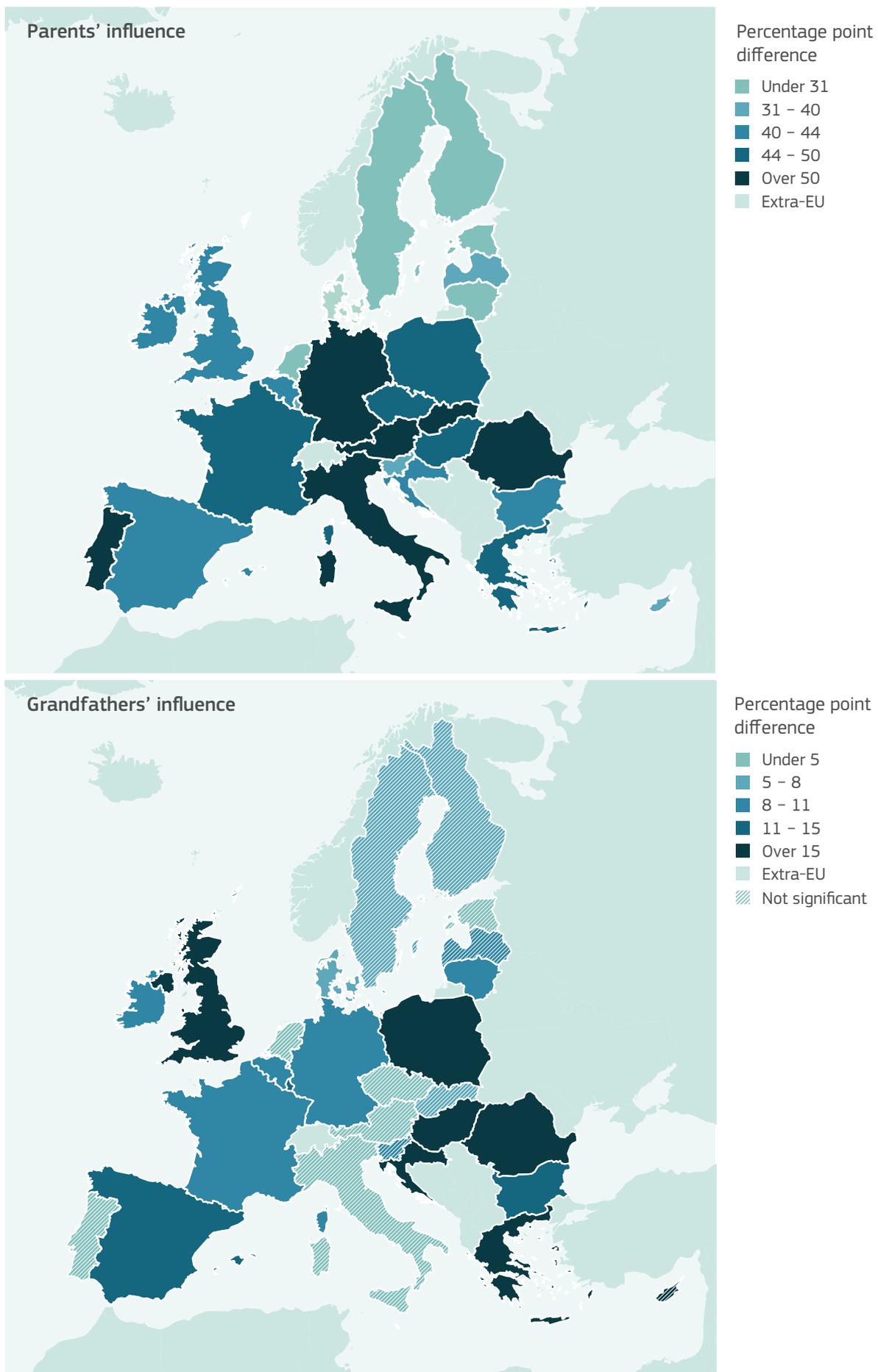
Source: JRC calculations based on EU-SILC data.

of more highly educated parents and grandparents have on average a 24 percentage points higher probability of completing higher education relative to those with less highly educated parents and grandparents. This figure increases to 57 percentage points in Southern Europe, indicating low levels of social mobility. Educational persistence has not changed substantially across birth cohorts, suggesting that limited progress has been made in ensuring equal opportunities in Europe.

Figure 3: Parents-to-child (top) and grandfathers-to-child (bottom) transmission of higher education

Notes: Percentage point difference in higher education attainment by parental (top) and grandfathers' (bottom) education: the darker the shading, the higher the transmission of educational attainment. Countries in which the effect is not significant are shaded with diagonal lines. Percentage point categories refer to distribution quantiles. Results are based on the estimation of linear probability regression models. Besides the two indicators on the higher education attainment of parents and grandfathers, all estimates include gender and 10-year age cohort indicators. Higher education is defined as ISCED levels 4 (post-secondary non-tertiary education) to 8 (doctoral level). Survey weights account for population size and socio-demographic characteristics

Source: Colagrossi et al. (2019a).



The experience of upward mobility strengthens belief in meritocracy

Since individual decisions are largely based on attitudes, beliefs and perceptions, subjective information can complement objective indicators of social mobility like changes in educational attainment. In the EU, 33 % of individuals consider that they have moved up the social ladder compared to their parents, while about 23 % consider that they have moved down. The share of respondents reporting upward mobility varies between 41 % in Northern Europe and 31 % in Southern Europe. About half of the respondents identify themselves as being on the same level of the social hierarchy as their parents. Data also show that individuals with a perception of upward social mobility are less inclined to believe that success in life is a consequence of family circumstances and are more likely to attribute it to individual effort (see Figure 4).

Welfare states in the European Union are under pressure

The social model of European welfare states is unique in providing collective insurance against risks which are only insufficiently insurable in the market. Most welfare states in Europe spend more than 50% of their budgets on social protection, health and education.

Structural changes driven by technological developments, globalisation and demographic change create new demands and challenges for existing welfare states. Across the European Union the traditional full-time, open-ended employment relationship is becoming less common, while atypical work forms, such as temporary jobs, part-time work, casual work and solo self-employment, are becoming increasingly important. Between 2002 and 2017 the share of atypical workers in the EU has risen by 4 percentage points, from 38 % to about 42%. This workforce often does not contribute to or benefit from basic social protection (see Figure 5).

Tax policy can be a lever for greater equity and efficiency

Central and Eastern European economies with flat personal income tax schedules could achieve greater equity and efficiency by moving towards more progressive personal income tax schedules.

Wealth is more unequally distributed than market incomes, but is left largely untaxed in most EU economies. The redistributive effect of wealth taxes, as currently designed, appears to be negligible.

Tax evasion and tax avoidance are major concerns for EU Member States' fiscal policy: for example, in the web-based economy there is a mismatch

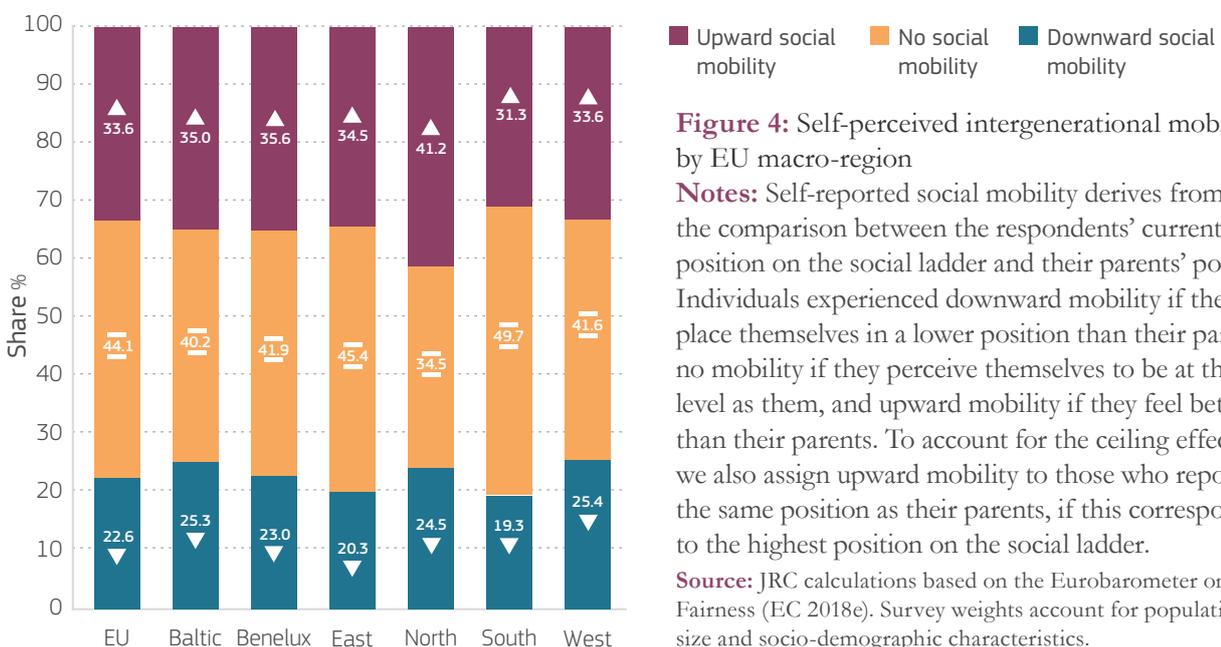


Figure 4: Self-perceived intergenerational mobility by EU macro-region

Notes: Self-reported social mobility derives from the comparison between the respondents' current position on the social ladder and their parents' position. Individuals experienced downward mobility if they place themselves in a lower position than their parents, no mobility if they perceive themselves to be at the same level as them, and upward mobility if they feel better off than their parents. To account for the ceiling effect, we also assign upward mobility to those who report the same position as their parents, if this corresponds to the highest position on the social ladder.

Source: JRC calculations based on the Eurobarometer on Fairness (EC 2018e). Survey weights account for population size and socio-demographic characteristics.

between the place where economic activity occurs and the place where profits are reported. Tax avoidance is facilitated by a corporate taxation system which is not adapted to today's fluid and intangible economies.

Similarly, tax evasion violates basic principles of tax justice. All this limits the capacity of welfare states to uphold their part of the social contract. Policy interventions targeting tax evasion and tax avoidance have the potential to foster fairer societies and raise additional revenue for the provision of welfare services and public goods.

The JRC agenda for social fairness in Europe

Moral considerations of fairness and justice are relevant to many facets of life. From within-family

relative bargaining power and resource sharing to community interactions, from the local provision of public goods to the mitigation of and adaptation to climate change, questions of responsibility, distribution and redistribution are omnipresent.

With the intention of contributing to a broad, European-wide debate on fairness, this report presents and synthesises recent research findings on perceptions of fairness, European-wide income inequality, persistence of educational attainment, social policy and taxation.

Other central issues such as gender and environmental inequalities are tackled in current and future JRC research.

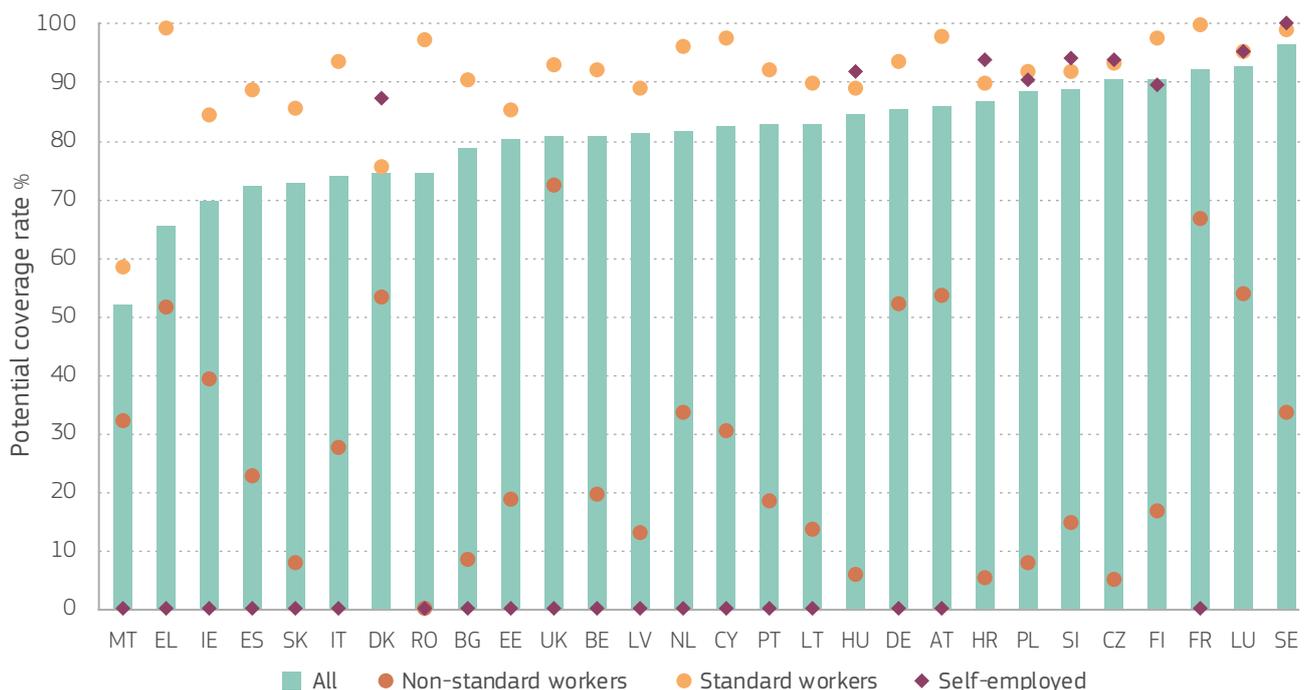
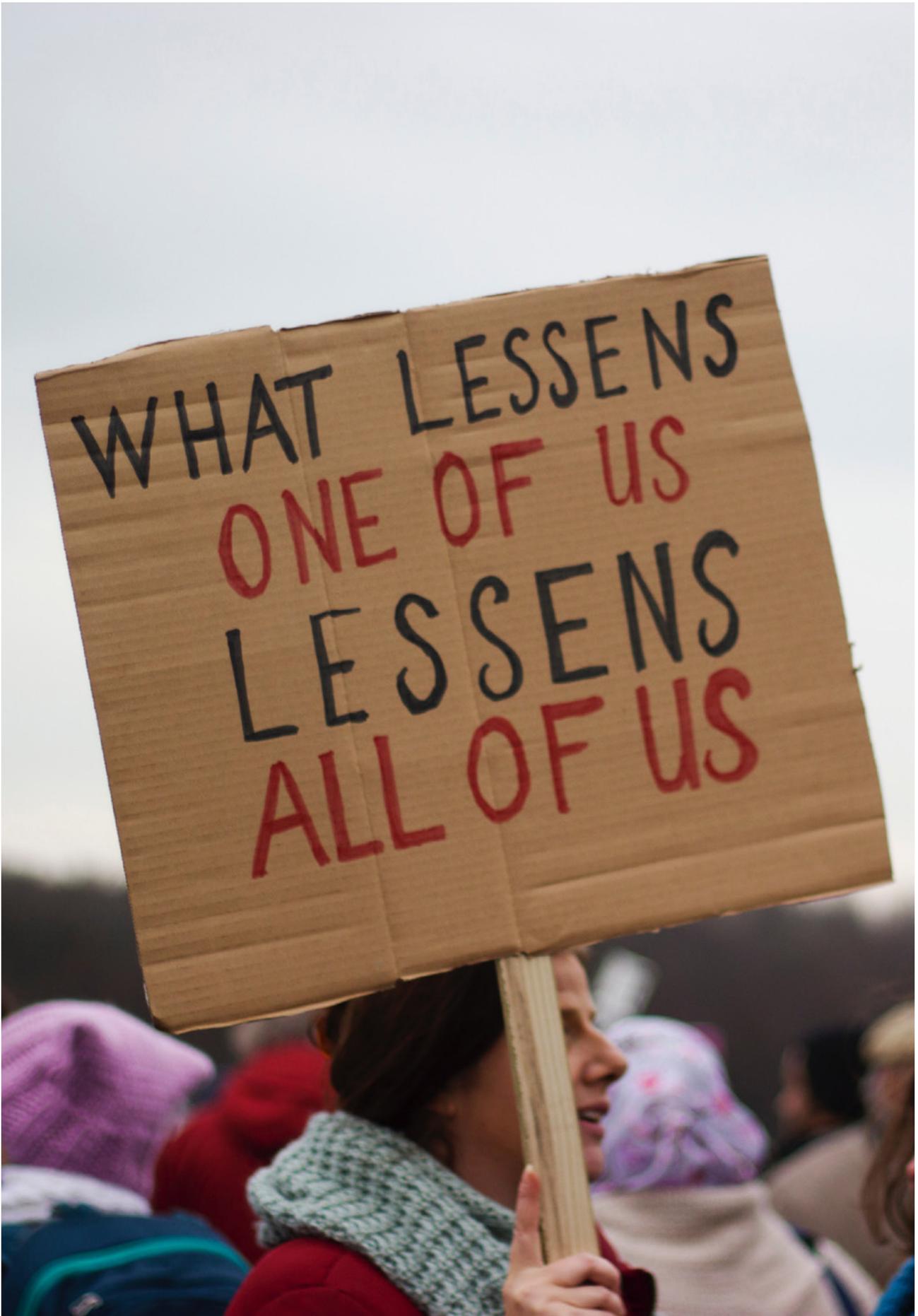


Figure 5: Potential coverage of unemployment insurance schemes in the EU (% share by type of worker)

Notes: The figure shows each EU Member State's potential coverage rate from their existing unemployment insurance for the entire working population (all), non-standard (atypical) workers, standard (typical) workers and the self-employed. Potential coverage measures the proportion of workers who would be covered by unemployment insurance schemes in the event of unemployment, based on their previous work history (months of work during the previous year). Non-standard workers refer to individuals with low work intensity, i.e. with weekly working hours less than one-third of the country median or with working hours equal to the weekly median but less than one-third of the year (i.e. four months). Standard workers refer to individuals with weekly working hours more than one-third of the country median, and self-employed individuals are those who have self-employment income.

Source: Jara and Tumino (2018).



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