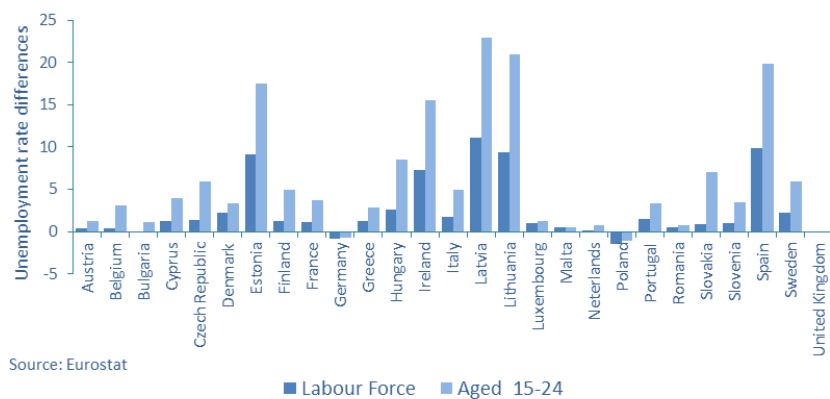




Might fairness be the narrative? A Policy Brief

Andrea Saltelli, Beatrice d’Hombres

Unemployment rates differences, 2009-2007



Source: Eurostat

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A fairness based narrative is tested against existing EU policy objectives as framed in the EU 2020 agenda. We submit that considerations linked to inequity should not be taken as ‘correctives’ to be applied to an agenda dominated by innovation, competitiveness and growth. Fairness, or better its perceived opposite, prevents at present any meaningful European discourse, a state of affairs that the present crisis can only aggravate.

Introduction

In a chapter aptly named “Fairness” Akerlof and Shiller, authors of *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*, argue that the perception of fairness and unfairness are of crucial importance in the functioning of societies.ⁱ At its core the argument of Akerlof and Shiller is that the perception of fairness is a powerful animal spirit, whereby wage setting is driven more by what a person perceives as fair than by the meeting of supply and demand curves. This was already noted by Adam Smith in his *Theory of Moral Sentiments*ⁱⁱ where he warns us of the consequences of resentment (of unfairness) on the fabric of society.

In this brief, we submit that the issue of fairness should be central to the European 2020 project. Inequality and its acute perception by the average EU citizen is a toxic element of today’s European societies and one which seems to be correlated with decreased levels of trust, civic engagement and participation, as well as to a host of other social challenges from poor health to crime, from loss of trust to underage pregnancies (Wilkinson and Pickett, 2009).ⁱⁱⁱ

The functioning of democracies demands a substantial level of trust and civic participation. Low voter turnout at EU elections^{iv} and the drift of younger generations away from our polity are an indication that all is not well. Worryingly, between the last two European elections, not only has turnout decreased but the gap in participation between the youngest cohorts and the average citizen has increased.

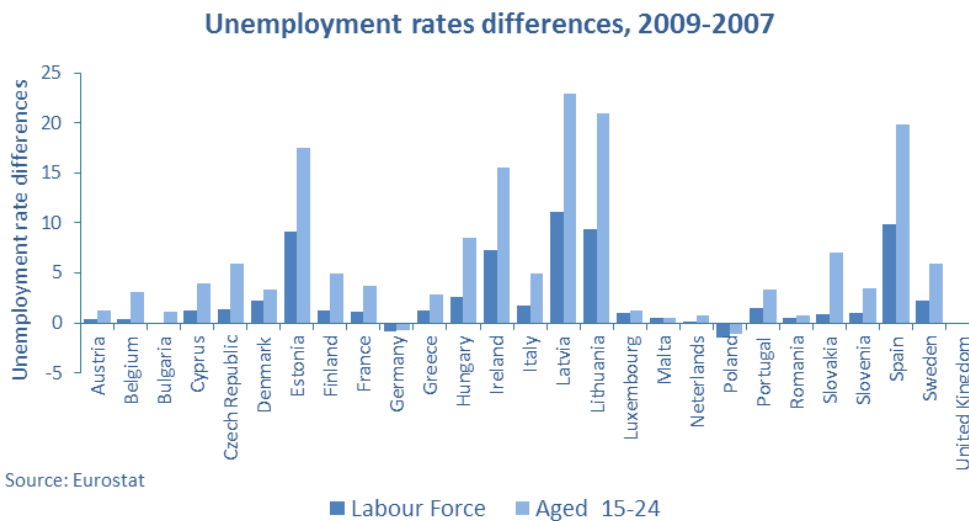
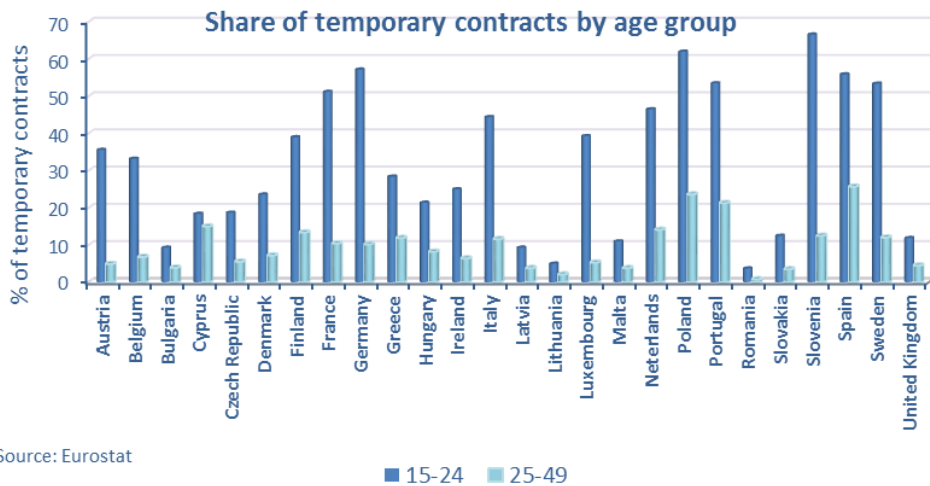
The longer time horizon of the European Commission -- when compared to national elected representatives of Council and Parliament -- enables this institution to undertake in-depth reflections on long term challenges facing our society. It was markedly so in relation to the climate challenge in the first Barroso Commission. In the same spirit, we should ask to what extent could fairness, in its multiple intergenerational as well as social and geographical dimensions, become a unifying theme of its EU 2020 narrative (EC, 2010)?

Could the EU2020 strategy be reframed as a “Fairness” and “Youth” based agenda? We invite the reader to a thought experiment in which one aspect of the EU 2020 agenda, its five benchmarks, is revisited through the lenses of fairness. Because inter-generational fairness is key to our analysis, we could also consider this exercise as a ‘What’s in here for me’ reading of the EU 2020 by a young protester of Syntagma or Puerta del Sol squares.

Employment

75% of the 20-64 year-olds to be employed

Labour market participation and flexibility policies in particular can be judged or looked at according to the notion of a generationally fair labour market. Not only is the EU labour market in several member states split between have and have-nots, but the latter – typically younger generations, end up paying for pension benefits they will never themselves enjoy. Rather than aiming at increasing the labour market participation of the population aged 20-64 to 75%, we thus had better concentrate our attention on reducing the gap existing between permanent contracts whose employees are largely protected from economic shocks and those with temporary contracts whose job is at high risk.



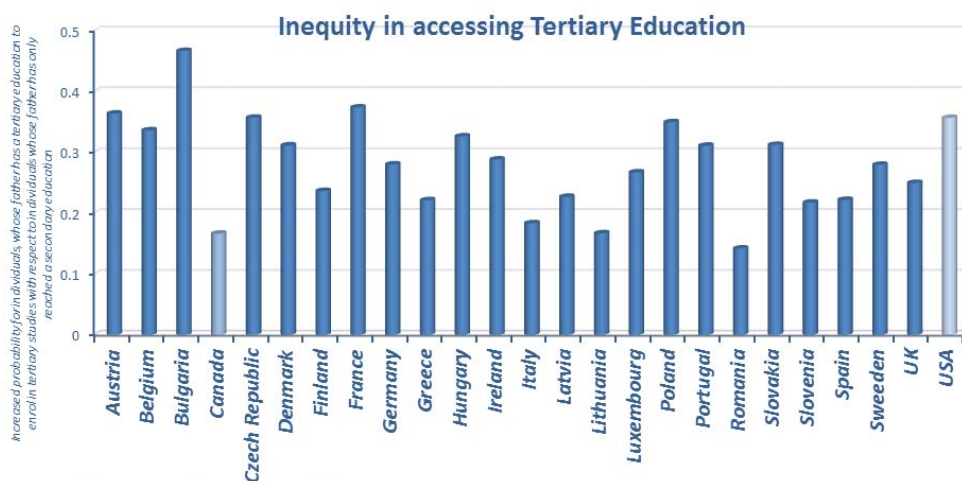
Such a target would surely make more sense in the eyes of the average young EU citizen whose chance of being unemployed has soared by 4.3 percentage points between 2007 and 2009 while the unemployment rate of the labour force has increased by only 1.8 percentage points over the same period^v. The present debate about the sustainability of pension systems is already and naturally framed in terms of inter-generational equity.

Education

40% of 30-34 years old should have completed a tertiary or equivalent education

Reducing school drop-out rates below 10%

Education related objectives of the EU2020 strategy could be better focused on a fairness-based narrative. A crucial aspect of present day educational inequality is undeniably its inter-generational dimension. Non only participation in tertiary education in Europe is still highly dependant on social origins but for several EU countries, such as Germany, Italy, Portugal or Spain, we observe that intergenerational mobility in accessing tertiary education has even worsen for the more recent cohorts (d’Hombres and Nguyen- Hoang, 2011). EU countries exhibit a considerable dishomogeneity on such an important topic (see plot with Canada and US included to give an idea of the spread) as to justify some serious consideration.



Source: d’Hombres and Nguyen-Hoang, 2011

The EU 2020 benchmark reading “at least 40% of 30-34 years old should have completed a tertiary or equivalent education” (EUROSTAT, 2011) ignores the possibility that increasing tertiary education rates can result from the participation of a higher proportion of students from families with a higher socio-economic status. The same argument applies for the benchmark on the proportion of early school leavers.^{vi}

It is also worth mentioning that such an equity viewpoint is rather absent in the political discourse on European universities. The present debate on the reform of higher education in Europe, ignited among other by a recent surge of league tables of university excellence (Saisana et al., 2011), mostly focus on increasing the funding of universities, their autonomy, and the mobility of their staff and students (Aghion et al., 2008). As of late, the idea is gaining ground that what is needed to stimulate universities’ input to growth is to introduce more entrepreneurship courses in the university curricula (Schuurmans, 2011). The European ‘Innovation Union’ initiative has among its actions points ‘new curricula addressing innovation skills gaps’. Maybe injecting into university more students from disadvantaged families would do more to foster EU’s entrepreneurial animal spirits than improving the entrepreneurial know-how of the well off.

Poverty / social exclusion

At least 20 million fewer people in or at risk of poverty and social exclusion

This objective is monitored by the relative 'at risk of poverty' indicator plus two additional non-monetary indicators: persons living in households with very low work intensity and the number of materially deprived individuals. Each Member States is free to decide which indicator is the most appropriate for monitoring progress toward the target.

Of these three indicators only one demands a reduction of inequality. The 'at risk of poverty' indicator is based on a household earning less than 60% of the national median^{vii}, so that improving this benchmark demands redistributive policies. For the other indicators it would be sufficient for a country to grow to improve. As mentioned in the beginning, this gives the impression that the EU 2020 is mostly about innovation and growth, with poverty benchmarks introduced as a corrective.

The fight against poverty and social exclusion should be a consequence of the European strategy and not an objective as such. Ideally the entire EU2020 agenda should militate against poverty.

Climate change / energy

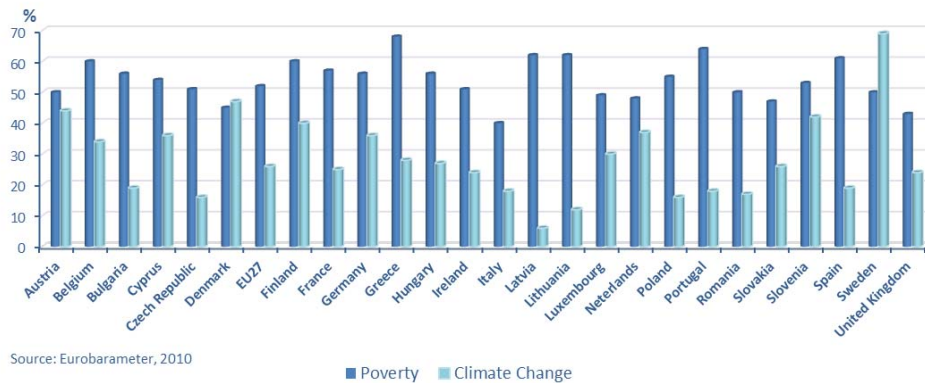
Reduction of the greenhouse gas emissions by 20% compared to 1990

Increase in the share of renewable energy sources in final energy consumption to 20%

20% increase in energy efficiency

If Europe is now 'Toughing it out' (Krugmann 2011) a long period of consolidation of public finances, with an associated decrease in the standard of living lasting a decade or more like in Japan, this will impact our daughters and sons before it impacts our grand children. The problem here is not tomorrow's children but today's young, and one wonders how relevant to them greenhouse gas emissions are.

What Europeans believe
Priority which should be given to the European Parliament



We do not have ahead of us a future of innovation-driven growth and prosperity but a challenge to negotiate among generations how to get out of the present crisis. According to The Economist (5/10/2011), a debate on shifting priorities between environmental and social modernizers animates the UK government^{viii}. In a recent Eurobarometer survey the majority of respondents (52%) report that the top policy priority of the European parliament should be to tackle poverty and social exclusion. Comparatively, 26% of them consider combating climate change as the key problem to be addressed. Whilst environmental sustainability is obviously relevant, the focus on climate does not sound as today's challenge to a majority of EU citizens.^{ix}

We will not discuss here nor energy intensity indicator neither the renewable energy target, although on the latter, that includes bio fuels, an increasing debate is likely, given its trade off with food security issues in a world reaching seven billion inhabitants by October 2011 (UN 2011).

Innovation and Research

3% of the EU's GDP should be invested in R&D

Could this target be refocused as functional to young researchers and innovators? No funding would thus be given to universities and research departments of EU enterprises if not for moving young researchers among EU countries. The geographical focus of ERA (EU 27 and associated countries) would become a generational one: the loci of the scientific mobility would not matter as far as young researchers are the protagonists; in this respect US, China^x and North Africa^{xi} are – for different reasons – highly valuable geographical partners.

According to Colin Macilwain (Nature, 25 May 2011) the EC next framework programme will struggle to meet the competing goals of 'innovation' and 'cohesion'. "The cohesion objective] could pull Framework money away from excellence and the expansion of the ERC. This fight will be at the heart of the coming tussle over FP8. It is a fight that rich member states are likely to win, and so keep research funding largely separate from cohesion goals." We believe that a possibility to overcome such a conflict among objectives is simply to focus (e.g. to devote a substantial share of CSFRI) on young researchers, wherever they are, and ask of them the best research, wherever this can be performed. Put the best human capital where the best institutions are. This may still favour the best universities, but not to just run business as usual. They would be called what they do best: to nurture human capital for the entire European Union. The Nature editorial concludes: "Geoghegan-Quinn is right to demand drastic change, but wrong on the direction it should take. Instead of chasing the impossible goal of an 'Innovation Union' by broadening the Framework's reach, Europe should look to the model of the US National Science Foundation, further develop the ERC, and focus more on backing the best people with the best ideas in engineering, the humanities and all branches of science."

We would just insert 'young' between 'best' and 'people'.

Conclusions

The European project does not enjoy a good press at present. Europe is seen to ask more sacrifices from the countries whose sovereign debt is unsustainable and more transfer from those whose counts are in order. Neither appreciates and the crisis plays in the hands of populist parties. The sudden realization of the euro fragility is confronting EU policymakers with a very difficult analysis of the balance between punishments and incentives along the road to fiscal sustainability (De Grauwe, 2011). If some kind of new deal is in order, this will need to be perceived as fair by EU citizens.

The same emergence of the term 'indignation' in the public discourse is symptomatic^{xii}; indignation arises out of the perception of injustice, as noted by Adam Smith. Although we have not touched it here, one of the key demands of today protesters is for less corruption and more accountable political establishments, and thus for more quality in our institutional arrangement, another area where the perception of unfairness is acute.

An EU narrative with fairness at its centre-stage is possible to engage present-future generations back into our polity, as well as to fight the perception that the EU Institutions are more sensitive to the more organized. A reading of today's Europe in terms of powerful distributional coalition and politically dispossessed non organized majorities, following Mancur Olson, is all but implausible. In large part of today's Europe it appears that incumbents incumb too well and entrants don't enter at all.

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ⁱ A reminder of Akerlof and Shiller's point was in January 2011 the controversy pitting carmaker FIAT against its blue collars in Mirafiori, one of FIAT's factory. In a recent referendum the workers behaved irrationally – accordingly to most non declaredly left-leaning commentators; they risked losing their job by approving by a very tight margin a set of new governance rules in the factory. They did so as they perceived the deal as unfair. As noted by Stiglitz, (2010) General Motor workers were given by president Obama a harsher deal than the one the same Obama offered to bankers, thus we cannot dismiss this episode as a local hitch.

ⁱⁱ “Resentment seems to have been given us by nature for a defense, and for a defense only. It is the safeguard of justice and the security of innocence. It prompts us to beat off the mischief which is attempted to be done to us, and to retaliate that which is already done, that the offender may be made to repent his injustice, and that others, through fear of the like punishment, may be terrified from being guilty of the like offence.”, p. 79 of edition Dover Philosophical Classics, 2009.

ⁱⁱⁱ Whatever the econometric simplicity of the analysis provided by these authors, which is debated on blogs, they were successful in putting inequality on the agenda using statistical information (see also Saltelli et al., 2011).

^{iv} The average participation at the last EU election was equal to 43%, while the participation of 18-24 year olds was only 29% and the one of 55+ year olds was around 50%. In 2004, the participation rate for the two age groups 18-24 and 55+ years olds was respectively 33% and 59% (see - EUROPEAN ELECTIONS 2009 Post-electoral survey).

^v The results of the Commission work on the employability benchmark show a scaring difference in opportunities among EU countries for what concern the chance of obtaining a job (even temporary) up to three years after a secondary or tertiary diploma (Garrouste, 2011). In Italy Economists Alesina and Giavazzi warn that a generation ‘disillusioned and disheartened is being created which will not commit itself to the quest for a better future (Il Corriere, May 10. 2011)

^{vi} Educational aspirations and the probability of being an early school leavers are across Europe again widely dependent upon the family background, as revealed by the latest ICCS survey (Villalba et al, forthcoming).

^{vii} At risk-of-poverty rate after social transfers (total, females, males): Share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income after social transfers. From Eurostat quality profile.

^{viii} Could a similar debate take place in the European Commission? The European ‘Beyond GDP’ process, has environmental concerns at its core, considerably more than the French-funded Stiglitz, Sen, Fitoussi report.

^{ix} Just to offer an example of other possible responses one could mention: improving consumer and public health protection, combating terrorism while respecting individual freedoms, an agricultural policy that is environmentally friendly and contributes to the global food balance, coordinating economic, budget and tax policies, a security and defence policy that enables the EU to face up to international crises, a common energy policy intended to ensure the EU's energy independence, an immigration policy implemented in consultation with countries of origin, a

foreign policy that enables the EU to speak with one voice on the international stage, a R&D policy that ensures competitiveness and innovation and the assertion of a European social model.

^x See Reinhilde Veugelers's brief 'A G2 for Science?', Bruegel 2011

^{xi} See Joseph Stiglitz's recommendation of "a special allotment of fellowships – Fulbrights, or even better, a new set of "democracy fellowships" to bring larger numbers of Tunisians to study in Group of Eight countries", Financial Times, May25, 2011.

^{xii} In France the term has been brought to attention by Stéphane Hassel. Joseph Roth use the word as title of one of his last novels – though this latter tells a story about the Korean war, its young protagonist sounds disturbingly close to our present.

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