

## Inequality, unemployment and contemporary Europe

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John Dewey, the philosopher and educationist, has argued that serious decisional problems involve a kind of “struggle within oneself.” “The struggle,” Dewey explained, “is not between a good which is clear to him and something else which attracts him but which he knows to be wrong.” Rather, “it is between values each of which is an undoubted good in its place but which now get in each other’s way” (Dewey and Tufts, 1932, p. 175). If a private dilemma is a struggle within an individual, a social dilemma is one between different values each of which commands public concern and can reasonably compete for our respect and loyalty. The tension involves divergent demands made on the society by principles that cry out for our attention (with good reason), and yet conflict with each other in such a way that we cannot satisfy them all.

The subject of economic and social inequality involves many such dilemmas. The conflict that has received most attention concerns the contest between aggregative and distributive considerations. Substantial economic or social inequalities are not attractive, and many find severe inequalities to be downright barbaric. And yet attempts to eradicate inequality can, in many circumstances, lead to loss for most, or even for all. This kind of conflict can arise in mild or severe form, depending on particular circumstances.

This particular issue has received a fair amount of professional attention, and rightly so, since it is an important conflict. Many compromise formulae have been suggested to evaluate social achievements by taking note simultaneously of aggregative and distributive considerations. A good example is Tony Atkinson’s concept of “equally distributed equivalent income,” which adjusts the aggregate income by reducing it in the light of the extent of inequality in income distribution, with the “trade-off” between aggregative and distributive concerns being given by the choice of a

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parameter that reflects our ethical judgment (Atkinson, 1970, 1983; see also Kolm, 1969; Sen, 1973; and the annex by Foster and Sen in Sen, 1997a). Despite its importance, however, that conflict is not the focus of this article, largely because the main issues are, by now, well understood and have been well seized in evaluative writings and in policy discussions.

A different type of conflict – a different class of “inner struggle” – will be considered here. This is the conflict between the different variables in terms of which inequality may be assessed. Inequality of incomes can differ substantially from inequality in several other “spaces” (that is, in terms of other relevant variables), such as well-being, freedom, and various aspects of the quality of life (including health and longevity). We may be interested in inequality in each of these variables, but their rankings can conflict with each other, and the policy implications they have may also be significantly different. It can, for this reason, be argued that the central issue in the study of inequality is not so much the value of equality in the abstract, but “equality of what?” (as argued in Sen 1980, 1992).

A person with high income but no opportunity of political participation is not poor in the usual sense, but still does lack an important freedom. Someone who is richer than most others, but suffers from an ailment that is very expensive to treat is clearly deprived in an important way, even though she would not be classified as poor in the usual statistics of income distribution. A person who is denied the opportunity of employment but given a hand-out from the State as “unemployment benefit” may look much less deprived in the space of incomes than in terms of the valuable – and valued – opportunity of having a fulfilling occupation. In fact, as the study of the Belgian unemployed by Schokkaert and van Ootegem (1990) has shown, the unemployed may feel deprived because of the lack of freedom in their lives, and this goes well beyond just the lowness of incomes. There are other ways in which deprivation of different kinds requires that one look beyond the limits of income poverty.

The important issue to note here is not only the need to go beyond income poverty, but also the conflict between distinct inequalities judged in different spaces. For example, income inequality may substantially diverge from inequality of political freedoms, and health inequality can differ from both. We do have reason to attach importance to each. This kind of conflict is not between aggregative and distributive considerations; rather it is between different “spaces,” in terms of which both aggregate achievements and inequalities are to be judged. The choice of the “evaluative space” is extremely important for normative judgments and can have much relevance for policy decisions (discussed in Sen, 1992).

## Relevance of space

There are three distinct reasons for concentrating on this type of “inner struggle.” First, the conflict between inequality in different “spaces” has often been neglected in the academic as well as policy literature. Indeed, if

you announce that you are working on economic inequality, it is quite commonly assumed that you are studying income distribution.<sup>1</sup> The fact that economics has much to say about factors other than income that influence people's well-being, or freedom or quality of life, is largely ignored in this narrowing of the understanding of economic inequality.

Second, in the context of European policy-making, this contrast can be quite significant. For one thing, the development of unemployment in Europe makes the perspective of income distribution rather limited, since unemployment causes deprivation in many other ways as well. The loss of income caused by unemployment could, to a considerable extent, be compensated, as far as the affected *individual* is concerned, by unemployment benefits and other forms of income support (though for the society, such compensation is achieved at considerable fiscal costs and possibly incentive effects). In terms of *income distribution*, an income received through a governmental transfer payment is much the same as an income earned through employment. But unemployment has many other serious effects even for the individual (on which more presently), and the identification of economic inequality with income inequality impoverishes the understanding and study of economic inequality.

Given the massive scale of unemployment in contemporary European economies, the concentration on income inequality alone can be particularly deceptive. Indeed, it can be argued that at this time the massive levels of European unemployment constitute at least as important an issue of inequality, in its own right, as income distribution itself. This question will be taken up later.

## Health problems and inequality

The important issue of health care and medical insurance also takes us well beyond income inequality. Even when the two go together, which they may or may not do, health inequality raises issues of a very different kind from income inequality. For example, post-reform Russia has seen a sharp increase both in *income inequality* (along with a fall in average income) and also a sharp increase in *health inequality* (along with a fall in average longevity). These developments are not entirely unrelated, but they are not so closely linked as to be sensibly seen as two aspects of the same problem.

The health crisis in Russia, in particular, involves the breakdown of hospital systems and medical services, along with psychological dejection and alcoholism. Even when the economy picks up and average income goes up and income inequality falls, many of the causal antecedents of high morbidity and mortality will still survive in Russia, given the crisis in its

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<sup>1</sup> For example, when lecturing as a guest speaker at a university some years ago, I found that the title I had chosen for my talk, "Economic Inequality", had been changed to "Income Inequality." When I inquired about the reason for this shift, my host's response was, "What's the difference?"

medical system. The fact that Russian men have a substantially lower life expectancy at birth (now fallen to 57 years) than do, say, Indian men (61 years) is not primarily a matter of income poverty, since Russians are still substantially richer than the Indians. The answer involves organizational matters that require us to go beyond income considerations (on which see Drèze and Sen, 1989).

Inequality in Europe cannot be sensibly studied in terms of income distribution statistics, despite the importance they have. Since public expenditure patterns on health, education and other fields are undergoing serious re-examination at this time (along with scrutiny of cash transfers such as pensions and benefits), the importance of distributive and aggregative considerations in spaces other than income has to be kept firmly in view. These have to figure more explicitly in European public debates on inequality, which have tended to concentrate mostly on income distribution statistics.

## Political disparities

The issue of political debate draws attention to an inequality of another kind, to wit, that of political participation. This is, of course, one of the central entitlements of individuals living in a democracy, and the "social choice" perspective would make us ask some very basic questions on the equality or inequality that obtains in this field. Barriers to participation are not only iniquitous in themselves, but they can have far-reaching effects on inequalities of other kinds, which are influenced by public policy and by the political process (on this, see Sen, 1995).

The extent of participation does vary between social and cultural groups, but on top of that there is also a peculiar anomaly in much of Europe whereby legally settled immigrants do not have the political right to vote because of the difficulties and delays in acquiring citizenship. This keeps them outside the political process in a systematic way. Not only does it reduce the political freedom of the settled immigrants (for example in a country like Germany, where acquiring citizenship is very difficult even for the legally settled long-run residents of Germany), it also makes social integration that much more difficult.

Largely through a historical accident, Britain has substantially escaped this problem. This is because the right to vote continues to be determined in the United Kingdom in terms of imperial connections (not British citizenship): any citizen of the Commonwealth immediately acquires voting rights in Britain on being accepted for settlement. Since most of the non-white immigrants to Britain have come from the Commonwealth countries (such as India, Pakistan, Bangladesh, the West Indies, Nigeria, Kenya, Uganda, etc.), they have had the right of political participation in Britain immediately on arrival on a permanent basis. This has made the political parties quite keen on wooing the immigrant vote, and this clearly acted as a brake on the early attempts at racist politics in Britain.

This is certainly among the reasons why Britain has, to a great extent, been able to avoid the persistence of racist extremism that one finds, for example, in Germany, despite the best efforts of many visionary political leaders and committed citizens. The political incentive to seek support from immigrant communities (rather than targeting them for attack) has been a factor of some importance both in the political freedom and in the social integration of immigrants in Britain. The French situation comes somewhere in between the British and the German. It is interesting to speculate whether making the entitlement to political rights easier would tend to make the immigrant communities in Germany and France less prone to systematic attack in electoral politics.

This is a hard subject to speculate on without further research, but it is mentioned here to illustrate how very different the considerations of inequality in the broader sense may be, compared with its being confined to the narrow box of income distribution. If we are really concerned with inequalities that matter, we have to take an interest in disparities in political and social position, in addition to other aspects of inequality, of which income distribution is a part.

## Contrasting Europe and America

The third reason for emphasizing the need to focus on the “evaluative space” is the possibility of learning from comparative pictures of inequality in the United States and western Europe. An exclusive focus on income inequality tends to give the impression that western Europe has done very much better than the United States in keeping inequality down and in avoiding the kind of increase in income inequality that the United States has experienced. In the “space” of incomes, Europe does indeed have, on the whole, a better record in terms both of levels and of trends of inequality, as is brought out by the careful investigation reported in the OECD study, *Income distribution in OECD countries*, prepared by Tony Atkinson, Lee Rainwater and Timothy Smeeding (OECD, 1996). Not only are the usual measures of income inequality higher in the United States than is the case, by and large, on the European side of the Atlantic, but also income inequality has gone up in the United States in a way that has not happened in most countries in western Europe.

And yet if we shift our gaze from income to unemployment, the picture is very different. Unemployment has dramatically risen in much of western Europe, whereas there has been no such trend in the United States. For example, in the period 1965-73, the unemployment rate was 4.5 per cent in the United States, while Italy had 5.8 per cent, France 2.3 per cent, and West Germany below 1 per cent. By now all three of these European countries – Italy, France and Germany – have unemployment rates around 12 per cent, whereas the US unemployment rate is still below 5 per cent. If unemployment batters lives, then that must somehow be taken into account in the analysis of economic inequality. The comparative trends in income

inequality give Europe an excuse to be smug (an opportunity that seems to be too frequently seized in somewhat insular discussions in Europe), but that complacency can be deeply questioned if a broader view is taken of inequality.

The contrast between western Europe and the United States raises another interesting – and in some ways a more general – question. The American social ethics finds it possible to be very non-supportive of the indigent and the impoverished, in a way that a typical western European, reared in a welfare state, finds hard to accept. But the same American social ethics would find the double-digit levels of unemployment, common in Europe, to be quite intolerable. Europe has continued to accept worklessness – and its increase – with remarkable equanimity. Underlying this contrast is a difference in attitudes towards social and individual responsibilities — an issue that would call for some comment.

## Unemployment and its relevance

There are three further questions related specifically to unemployment – the central dilemma for some of the most prosperous countries in Europe. We have to ask, first, what exactly is so bad about unemployment? What are the ways in which it makes lives harder, aside from its association with low income? Second, how does the Euro-American contrast referred to here relate to the respective “social philosophies”? How do these attitudinal differences correspond to different views of individual responsibility and social support? Third, how should we evaluate the claims of these different – and conflicting – approaches in terms of the needs of social policy in Europe at this time? What are the pros and cons of the divergent approaches to social and individual responsibility?

The joblessness that plagues Europe today inflicts damages in many different ways, and we have to differentiate between the different concerns. At the social level, the fiscal cost of unemployment benefits is one of the bigger burdens on European economies. But even at the individual level of the unemployed person, the penalties of unemployment can be enormously more serious than income distribution statistics may suggest. The analysis that follows draws on Sen, 1997b.

The separate problems are, of course, interrelated, but each is significant in its own way, and they have to be distinguished from one another. Their negative effects are cumulative, and they act individually and jointly to undermine and subvert personal and social life. The need to distinguish between the different ways in which joblessness causes problems is important not only for a better understanding of the nature and effects of unemployment, but also for devising an appropriate policy response.

What, then, are the diverse penalties of massive unemployment, other than its association with low income? The list would have to include at least the following distinct concerns.

(1) *Loss of current output and fiscal burden:* Unemployment involves wastage of productive power, since a part of the potential national output is not realized because of unemployment. Since this is such an obvious issue, it needs no elaborate discussion (but see Okun, 1962 and Gordon, 1984). But the point to be stressed is the need to look not only at the income loss of the unemployed, but also the impact that a lower volume of aggregate output has on others. Indeed, in so far as the unemployed and their families have to be supported by the State, the resources to be transferred have to come from slimmed-down aggregate production. So unemployment hits the incomes of others in two distinct and mutually reinforcing ways: it cuts down the national output and it increases the share of the output that has to be devoted to income transfers.

(2) *Loss of freedom and social exclusion:* Taking a broader view of poverty, the nature of the deprivation of the unemployed includes loss of freedom which goes well beyond the decline in income. A person stuck in a state of unemployment, even when materially supported by social insurance, does not get to exercise much freedom of decision. Attitudinal studies, for example by Schokkaert and Van Ootegem (1990) of the Belgian unemployed, have brought out the extent to which this loss of freedom is seen by many unemployed people as a crucial deprivation.

The recent interest in the notion of "social exclusion" has helped to highlight the absence of freedom of deprived people to enjoy opportunities that others can readily use. Unemployment can be a major causal factor predisposing people to social exclusion. The exclusion applies not only to economic opportunities, such as job-related insurance, and to pension and medical entitlements, but also to social activities, such as participation in the life of the community, which may be quite problematic for jobless people.

(3) *Skill loss and long-run damage:* Just as people "learn by doing," they also "unlearn" by "not doing" – by being out of work and out of practice. Also, in addition to the depreciation of skill through non-practice, unemployment may generate a loss of cognitive abilities as a result of the unemployed person's loss of confidence and sense of control. The relation between motivation and competence is not easy to quantify, but empirical studies (for example, by Lefcourt (1967) and Lefcourt, Gronnerud and McDonald (1973)) have shown how strong this effect can be in practice.

(4) *Psychological harm:* Unemployment can play havoc with the lives of the jobless, and cause intense suffering and mental agony. Empirical studies of unemployment, for example by Jahoda, Lazarsfeld and Zeisel (1933), Eisenberg and Lazarsfeld (1938), Bakke (1940a, 1940b), and Hill (1977), have brought out how serious this effect can be. Indeed, high unemployment is often associated even with elevated rates of suicide, which is an indicator of the perception of unbearability that the victims experience (see, for example, Boor, 1980 and Platt, 1984). The effect of prolonged joblessness can be especially damaging for the morale (see, for example, Harrison, 1976). The connection between

psychological suffering and motivational impairment has been illuminatingly – and movingly – analysed recently by Robert Solow (1995).

The suffering of the unemployed does, of course, relate *inter alia* to the economic hardship associated with it, although the force of that suffering has been to a considerable extent reduced since the bad old days of the 1930s, through the provision of unemployment benefits and other forms of social support. Had low income been the only reason for suffering as a result of unemployment, it could be claimed (as some European commentators do) that unemployment is no longer such an evil because of plentiful support by the State. Indeed, some even claim that the hard-working American poor person who accepts low-paid employment may have more reason for suffering on this count than the “generously provided for” European unemployed person who is well supported by the State.

This argument is not only rather smug and somewhat of an apologia for not trying to cure unemployment, it is also, in general, unconvincing because of the presumption that large transfers of income of this kind can be effected with relatively little cost and can be continued indefinitely without other damaging effects on the economy. More immediately in the present context, it is specifically unconvincing as a response to the issue of “psychological harm,” because the suffering generated is not just a matter of low income, but also of other deprivations, including the loss of self-respect and the dejection associated with being dependent and feeling unwanted and unproductive.<sup>2</sup>

Youth unemployment can take a particularly high toll, leading to long-run loss of self-esteem among young workers and would-be workers (such as school-leavers) (see, for example, Gurney, 1980; Ellwood, 1982; Tiggemann and Winefield, 1984; and Winefield, Tiggemann and Goldney, 1988). There is some considerable evidence, based on American studies (for example, by Goldsmith, Veum and Darity 1996a, 1996b), that this damaging effect is particularly severe for young women (see also Corcoran, 1982). It has to be examined whether a comparable pattern applies to Europe as well. Youth unemployment has become a problem of increasing seriousness in Europe, and the present pattern of European joblessness is quite heavily biased in the direction of the young, including young women.

(5) *Ill health and mortality*: Unemployment can also lead to clinically identifiable illnesses and to higher rates of mortality (not just through more suicide). This can, to some extent, be the result of loss of income and material means, but the connection also works through dejection and a lack of self-respect and a collapse of motivation generated by persistent unemployment (see, for example, Seligman, 1975; Smith, 1987; and Warr, 1987).

(6) *Motivational loss and future work*: The discouragement that is induced by unemployment can lead to a weakening of motivation and make

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<sup>2</sup> That the role of work in human life is not confined just to earning an income was extensively discussed by Marx (1844, 1845-46, 1875).



the long-term unemployed more resigned and passive. Some have argued against this by suggesting that the unemployed may go into a more spirited response to overcome the problem (for example, under the theory of "reactance" outlined by Brehm, 1966). There is, however, considerable evidence suggesting that the more typical effect, especially of long-term unemployment, is one of motivational decline and resignation. This can yield a hardening of future poverty and further unemployment, as has been well illustrated by the investigations by Darity and Goldsmith (1993).

The motivational loss resulting from high levels of unemployment can be very detrimental to the search for future employment. On the basis of his pioneering study of unemployment in the Welsh coal mines in the 1930s, Eli Ginzberg noted that the "capacities and morale of the unemployed had been so greatly impaired by years of enforced idleness that the prospect of returning to work was frightening" (1942, p. 49). (On this issue, see also Solow, 1995.) Recent studies suggest that this motivational impact may be particularly significant for young women (see Goldsmith, Veum and Darity, 1996a, 1996b).

This general issue also relates to the composition and variation of what counts as the "labour force." The impact of prolonged unemployment can be severe in weakening the distinction for people of working age between being "in the labour force but unemployed" and being "out of the labour force". The empirical relevance of the distinction between these states (and possible transitions from the former state to the latter) can be important for the future of the economy as well as the predicaments of the particular persons involved.<sup>3</sup>

(7) *Loss of human relations and family life:* Unemployment can be very disruptive of social relations (see, for example, Jahoda, Lazarsfeld and Zeisel, 1933; and Hill, 1977). It may also weaken the harmony and coherence within the family. To some extent these consequences relate to the decline of self-confidence (in addition to the drop in economic means), but the loss of an organized working life can itself be a serious deprivation. In addition, a crisis of identity can be involved in this kind of disruption (see, for example, Erikson, 1968).

(8) *Racial and gender inequality:* Unemployment can also be a significant causal influence in heightening ethnic tensions as well as gender divisions. When jobs are scarce, the groups most affected are often the minorities, especially parts of the immigrant communities. This worsens the prospects for easy integration of legal immigrants into the regular life of the mainstream of society. Furthermore, since immigrants are often seen as people competing for employment (or "taking away" jobs from others), unemployment feeds the politics of intolerance and racism. This issue has figured prominently in recent elections in some European countries.

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<sup>3</sup> See the studies presented by – and the debates between – Clark and Summers (1979), Heckman and Borjas (1980), Flinn and Heckman (1982, 1983), and Goldsmith, Veum and Darity (1996a, 1996b).

Gender divisions too are hardened by extensive unemployment, especially because the entry of women into the labour force is often particularly hindered in times of general unemployment. Also, as was mentioned earlier, the discouraging effects of youth unemployment has been found to be particularly serious for young girls, whose re-entry into the labour market after a substantial bout of unemployment may be seriously impeded by early experiences of joblessness.

(9) *Loss of social values and responsibility*: There is also evidence that large-scale unemployment has a tendency to weaken some social values. People in continued unemployment can develop cynicism about the fairness of social arrangements, and also a perception of dependence on others. These effects are not conducive to responsibility and self-reliance. The observed association of crimes with youth unemployment is, of course, substantially influenced by the material deprivation of the jobless, but a part is played in that connection also by psychological influences, including a sense of exclusion and a feeling of grievance against a world that does not give the jobless an opportunity to earn an honest living. In general, social cohesion faces many difficult problems in a society that is firmly divided between a majority of people with comfortable jobs and a minority – often a large minority – of unemployed and “rejected” human beings.

(10) *Organizational inflexibility and technical conservatism*: The possibility that the nature and form of technological change have greatly contributed to unemployment and its persistence in Europe has been analysed and investigated in the recent literature (for example, by Luigi Pasinetti, 1993). The impact of technology on unemployment is indeed important to investigate, but there is also a connection that goes the other way – the influence of unemployment in restricting the use of better technology. In a situation of widespread unemployment, when displacement from one’s present job can lead to a long period of joblessness, the resistance to any economic reorganization involving job loss can be particularly strong. In contrast, when the general level of unemployment is quite low and displaced workers can expect to find other employment readily enough, reorganization may be less resisted.

It is possible to argue that the United States economy has benefited from its relatively high level of employment in making reorganization and rationalization easier than in Europe. While the workers in an enterprise may have good reason to prefer, in general, not to have to change employment, the penalty of losing one’s job is enormously larger when the alternative is just unemployment, possibly for a long stretch of time. Unemployment can thus contribute to technological conservatism through organizational inflexibility, thereby reducing economic efficiency as well as international competitiveness. The same applies to other types of organizational changes, such as raising the retirement age because of an increasing span of healthy life, since any such change appears to be very threatening in an economy that already has much unemployment. This

question of interdependence will be revisited below in connection with policy issues.

## Diagnosis and policy

With the high levels of unemployment that have now become the standard state of affairs in Europe, the social costs of these penalties are indeed heavy. These costs diminish the lives of all, but are particularly harsh on the minority – a large minority – of families severely afflicted by persistent unemployment and its far-reaching damages.

This sad state of affairs calls for economic reasoning as well as political responsibility and leadership. On the economic side, there is need to consider employment policies in relation to different ends, including demand management and macroeconomic considerations but also going well beyond them. The market economy signals costs and benefits of different kinds, but does not adequately reflect all the costs of unemployment, which – as has just been discussed – arise in several different ways. There is thus a need for public policy that takes into account those burdens of unemployment which are not well reflected in market prices. This suggests the case for considering incentive schemes of various kinds that may increase the inclination to employ more people, as has been investigated recently by Phelps (1994a, 1994b, 1997), Fitoussi (1994), Fitoussi and Rosanvallon (1996), Lindbeck (1994) and Snower (1994), among others. Unemployment also calls for a scrutiny of the possible effectiveness of dedicated public action that operates not just by adjusting the effective prices, but by creating more opportunities for appropriate training and skill formation, for more research on labour-friendly technology, and for institutional reforms that make the labour market more flexible and less constrained.

## The aged and the rising dependency ratio

Taking a compartmentalized view of problems of work, reward and security can produce social concerns that are artificially separated from each other. One example is the much-discussed problem of the rising ratio of older people in Europe as well as America, and indeed in much of the world. This is often seen as imposing an increasingly unbearable burden on the younger people who have to support the old. But a greater life span typically also goes with longer years of working ability and fitness, especially in less physically demanding jobs. One way of dealing with the rising age-composition problem, then, is to raise the retirement age, which would help to reduce the rise in the dependency ratio (the ratio of dependent people to those at work). But this may make it harder, it is thought, for younger people to have employment. Thus the employment problem is at the very root of the age-composition issue as well.

For one thing, a fall in the rate of unemployment would immediately reduce the dependency ratio if that is calculated as the ratio of dependent

people to those *at work* (rather than those *of working age*). But more substantially, an expansion of job opportunities can absorb not only the unemployed young, but also the able-bodied people who have been forced to retire prematurely.

These problems are thus interdependent. The interrelations involve both actual job opportunities and also social psychology. In a situation where unemployment is a constant threat that worries many people, any proposal to raise the retirement age appears to be threatening and regressive. But since there is no basic reason why employment opportunities should not adjust, when there is time and flexibility, to the size of a larger labour force (as the retiring age is raised), there is no immovable obstacle here. We do not tend to assume that a country with a larger population must, for that reason, have more unemployment since there are more people looking for work. Given the opportunity to adjust, availability of work can respond to the size of the working population. Unemployment arises from barriers to such adjustment, and must not end up "vetoing" the possibility of raising the retiring age and thereby increasing the work force.

The long-term structural problem of rising age-composition simply has become, to a considerable extent, a prisoner of the present circumstances of high levels of unemployment in Europe. Not surprisingly, there has been little difficulty in raising – indeed removing – the age of compulsory retirement in the United States, since it has so much lower levels of unemployment than Europe. This does not, in itself, eliminate all the problems of rising age-composition (particularly the greater cost of medical care for aged people), but lifting the age of retirement can greatly help to reduce the burden of dependency. When the diverse effects of unemployment are considered, it can be seen how far-reaching its penalties are.

Taking note of different types of costs associated with unemployment is important in searching for proper economic responses to this large problem. This is because the enormity of the harm created by unemployment can be easily underestimated when many of its far-reaching effects are ignored.

## Europe, America and the requisites of self-help

Given the serious and many-sided nature of the unemployment problem in Europe, the need for a political commitment to deal with this issue is particularly strong at this time. It is certainly a subject in which the European Union can provide a forum for commitment. There has recently been much discussion in Europe on the need for coordinated reductions in budget deficits and in public debts. The Maastricht Treaty has specified a particular requirement for the ratio of deficit to the gross national product (GNP), and a somewhat less strict norm for the ratio of public debt to GNP. The connection of these conditions with the announced plan to inaugurate a single European currency is easy to appreciate.

While there is no officially declared "event" that calls for an all-round reduction of unemployment in Europe, the social urgency of such a move

would be hard to deny. The different penalties of unemployment bite hard into individual and social lives across Europe. Given the high magnitude of unemployment in virtually every country in the European Union, an appropriate response can sensibly be a European commitment, rather than a purely national one. Also, given the free movement of people between different countries in Europe, the employment policies certainly call for some coordination. There is, in fact, as yet no articulated commitment to reduce unemployment in the way that the resolve to reduce budget deficits has been affirmed. There is also relatively inadequate public discussion on the penalties of unemployment. The role of public dialogues on the formation of ethical and political commitments, especially dealing with deprivation, can be quite central (on this see Atkinson, 1996 and forthcoming).

It is interesting to contrast the types of political commitments that get priority in Europe with those that rule in the United States. On one side, there is little commitment in American official policies on providing basic health care for all, and it appears that more than 30 million people are, in fact, without any kind of medical coverage or insurance in that country. A comparable situation in Europe would be, I believe, politically intolerable. The limits on governmental support for the poor and the ill are too severe in the United States to be at all acceptable in Europe. On the other hand, in the United States double-digit unemployment rates would be political dynamite. I believe that no American government could emerge unscathed from doubling the present level of unemployment which, incidentally, would still keep the US unemployment ratio below what it currently is in Italy or France or Germany. The nature of the respective political commitments differs fundamentally.

The contrast may relate, to some extent, to the fact that the value of being able to help oneself is much higher in America than in Europe. This value does not translate into providing medical care or social insurance for all Americans; its domain is different. The tendency to ignore poverty and deprivation in public policy-making is peculiarly strong in American self-help culture. On the other hand, denying employment hits at the very root of having the opportunity of helping oneself, and there is much more public engagement on that issue in the United States. Thus the American self-help culture provides a much stronger commitment against unemployment than against being medically uninsured or against falling into deep poverty.

The contrast is worth examining at this time. Europe is increasingly being persuaded to put more emphasis on people's ability to help themselves, rather than on the State doing things for them. While this shift of emphasis can be overdone (it would be sad indeed for European civilization to lose the basic protections of the welfare state against deep poverty or the absence of medical care), a major rethinking on these lines is important, necessary and overdue. The need for greater emphasis on self-help will tend to receive more support in Europe in the years to come.

In examining the requirements of a greater role for self-help, nothing is as important as a big reduction in European unemployment from its enormously high level. Such unemployment does, of course, create a heavy burden of transfer payments on the State. In addition, a situation in which a person, especially a young person, has a high probability of being jobless is not the best preparation for a psychology of independence. A school-leaver who cannot find a job and falls immediately into the necessity of being supported by the State is not being particularly encouraged to think of being self-reliant.

There is, I would even argue, a basic political schizophrenia in wanting people to rely more on themselves and, at the same time, finding the present levels of European unemployment to be "regrettable but tolerable." When jobs are nearly impossible to get for particular groups of workers, to advise "self-help" can be both unhelpful and cruel. To be able to help oneself, anyone needs the hands of others in economic and social relationships (as Adam Smith (1776) noted more than two centuries ago). The opportunity of paid employment is among the simplest ways of escaping dependency.

In terms of public values and private virtues, Europe – like the rest of the world – is very much at the crossroads now. The old value of social support for people in adverse circumstances is weakening very fast – possibly too fast – with the growing insistence on the importance of self-help.<sup>4</sup> And yet the political and economic implications of having a society in which people can help themselves are not adequately seized. Employment opportunity is a crucial link in the chain.

It is not my contention that the American balance of social ethics is problem-free; far from it. The United States, in its turn, has to come to grips with the problem that the self-help philosophy has its serious limits, and that public support has an important role to play in providing, in particular, medical coverage and safety nets. The fact that some American jobs are low paid is often pointed out, and certainly things can be improved in that respect.<sup>5</sup> It can, however, be argued that a failing that is possibly even more important than low pay is the American neglect of the need to develop health care for all – rich and poor – and also better public education and the ingredients of a peaceful community life.

These neglects are among the factors responsible for high levels of mortality among socially deprived groups in the United States. For example, African-Americans – American blacks – have a lower chance of reaching a mature age than the people of China, or Sri Lanka, or the Indian state of Kerala (see Sen, 1993). The fact that these people from the Third World are so much poorer than the United States population (and also poorer than the American black population, who are more than 20 times richer in terms of

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<sup>4</sup> For a reasoned critique of proposals to "roll back" the welfare state, see Atkinson, 1997; on related issues, see also Van Parijs, 1995.

<sup>5</sup> The need for simultaneously increasing employment and take-home pay has been addressed particularly by Fitoussi and Rosanvallon (1996) and Phelps (1997).

per capita income than, say, Indians in Kerala), makes the comparative disadvantage of African-Americans in survival particularly disturbing.

Incidentally, the much higher death rates of American blacks compared with American whites can be statistically established even after correcting for income variations within the United States. The mortality differentials are not connected only with death from violence, which is the stereotype that the media often portray to explain the lower longevity of African-Americans. In fact, death from violence is a big factor only for younger black men, and that, again, is only a partial explanation of the higher mortality of that group. In fact, the severe mortality disadvantages of American blacks apply sharply also to women and to older men (35 and older).<sup>6</sup>

## A concluding remark

The fact that America has skeletons in its cupboard is not a good reason for smugness in Europe, nor a good ground for ignoring the very important lessons that can be learned from the more robust respect for employment in American social ethics and its impact on pro-employment policies. Europe has to give more acknowledgement to the real requirements of the philosophy of self-help, to which it is increasingly attracted without seizing the social requirements associated with that approach. Tolerating enormously high levels of unemployment certainly goes against the foundations of a society in which self-help is possible. The penalties of unemployment include not only income loss, but also far-reaching effects on self-confidence, work motivation, basic competence, social integration, racial harmony, gender justice, and the appreciation and use of individual freedom and responsibility.

The big issue that has to be addressed is the possibility of combining the more successful features of each type of approach. For example, European experiences in health care have positive features from which the United States can learn (as indeed, it would appear, can contemporary, post-reform Russia). On the other hand, the respect for individual freedom and flexibility that are implicit in the positive American attitude towards employment has much to offer Europe. The fact that European policy leaders are increasingly attracted towards a self-help philosophy is understandable, since that philosophy has many fine features and can be very effective if suitably grounded on a social background that makes self-help possible. But that social grounding calls for special attention and a policy response. Increasing employment cannot but be at the very top of the list of things to do. It is amazing that so much unemployment is so easily tolerated in contemporary Europe.

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<sup>6</sup> On this see Sen, 1993, and the medical references cited therein.

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