



EU-ASIA DIALOGUE

*Shaping a Common Future for Europe and Asia –
Sharing Policy Innovation and Best Practices in Addressing Common Challenges*

Social Cohesion

Addressing Social Divide in Europe and Asia



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Centre in Singapore

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Preface

The world has never been as wealthy, and yet as divided, as today. This has resulted in discussions in Europe and Asia on how to overcome these inequalities and maintain cohesive societies. Often, cohesion is defined as the absence of violent conflicts. Following this definition, many countries in Europe and Asia have achieved cohesiveness and the European Union is even engaged in promoting and subsidizing cohesion among its member states. Nevertheless, in Europe, one can also still observe inequality, injustice, intolerance, discrimination and exclusion, all of which indicate a lack of social cohesion. While social cohesion has a strong economic component, the discussion should also not neglect the social and political aspects of communities.

To achieve economic growth without an increase in income disparities and inequalities is a special challenge for policy makers worldwide. While the overall economic performance of a country might be positive and proven through various indicators, new divides may arise. This results in discussions and sometimes tensions concerning an extension of the welfare state, benefits for the poor and financial programmes to support those who are not benefiting from the growing prosperity. However, in times of budgetary constraints such demands can often not be met or can be met only through massive taxation and debts. This will limit the state's capacity in the long run and imbalanced policies can even increase such divides. Maintaining the welfare state in such a situation will be one of the biggest challenges for the future and will impact social cohesion in these countries tremendously. The financial crisis in some European states has demonstrated this very well. As a result of this crisis, many people lost their jobs and the income disparities increased. At the same time countries had to follow a strict austerity course due to their high debts resulting from mismanagement in previous years and external factors. This development threatens social cohesion in the respective countries and the European Union as a whole. Since there is a strong division between those countries being strongly hit by the crisis and those hardly affected, their policy approaches differ greatly, resulting in misunderstandings and an erosion of political trust. The European Union is aware of this danger and has several mechanisms in place to tackle the challenges; the most important being the Regional Cohesion Policy, which aims at levelling differences between and within the countries.

The situation is significantly different in the Asian region. Most Asian countries have experienced rapid economic development through strong liberalization of their economies, but lack social protection policies. Labour rights, protection and assistance in times of unemployment, comprehensive health care and pensions systems are not in place. Thus, disparities in terms of standard of living and income are much bigger than in European countries. Also, the disparity in economic achievements and prosperity between the Asian countries is at another

scale altogether. For instance, the ASEAN member states include some of the wealthiest states in the world (Singapore and Brunei), but also some of the poorest (Myanmar and Lao PDR). Balancing these differences in view of the aspired ASEAN Economic Community in 2015 will certainly be one of the biggest challenges as this community will increase the economic interconnectedness of this region. Despite this, the social cohesion of a number of these countries is perceived as being higher than that of European welfare states.

A reason for this is that social cohesion cannot be understood only in economic terms. Over the past years, the definition of social cohesion has been broadened to include several other aspects influencing social relations in a society. Such topics are political participation, rights of minorities, integration of new arriving immigrants, access to social services, and a feeling of belonging, to name a few.

Social inclusion, social capital and social mobility were introduced as key pillars of this widened concept. Social mobility is closely connected to a country's education system. Does it allow equal access for all or does it benefit only the higher classes? Is social mobility determined by heritage and eventually blocked through the community system? Does patronage occur to lift people into influential positions? These are some of the questions which need to be answered to enhance social mobility. Social capital concerns questions of contacts and relationships which can function as social protection measures and self-help alliances to balance missing policies. Finally, social inclusion concerns both aspects of income and the psychological feeling of belonging. Initiatives need to be introduced to give the various groups of society a voice and enable them to participate in the political process. Justice, equal opportunities and compensation policies can help to increase this feeling of belonging further. Ensuring equal access and fair opportunities will however be more successful than compensation approaches alone as this will also require less financial resources.

In general participatory initiatives have the potential to increase social cohesion. Civic engagement can complement the role played by the state. This is of crucial importance in times of limited budget and lack of good governance. There are also other stakeholders when discussing social cohesion. Development banks, trade unions and even the business sector through corporate social responsibility programmes enhance the social cohesiveness of societies.

Finally, diversity should not be seen as a problem only. It can be an opportunity for innovation, creation of ideas and advancement of society as a whole. It is thus important to avoid social divides, but to maintain a society's diversity while preventing any inequality and injustice.

In this context there is a great opportunity for exchange on policies which have worked and lessons learnt. Numerous countries in Asia and Europe have introduced policy initiatives to address various aspects of social cohesion. Many of these initiatives tackle different sub-topics of this sometimes vague concept. While the policies themselves are often not transferable, they can still provide ideas and could be adapted to local circumstances.

In order to contribute to the understanding of the current developments on social cohesion, this publication includes papers with perspectives from Europe and Asia. What is the current situation in Europe and Asia? What aspects of social cohesion threaten peaceful living

together? Can both regions cooperate in addressing this matter? Who are the key stakeholders and what initiatives are in place? These and other questions will be addressed in this publication.

The first paper by **Maria Socorro Gochoco-Bautista, Dalisay S. Maligalig** and **Maria Nimfa F. Mendoza** discusses the current situation with regard to polarization, inequality and social protection in Asia. The authors apply the method of Zhang and Kanbur to measure polarization. Based on this they provide an overview of the polarization in Asian societies on different levels. They conclude by analyzing the policy implications of this situation.

Yeo Lay Hwee and **Nurhidayah** take a closer look at the situation in Singapore, a country characterized by huge number of immigrants and income disparities. They show how the country has managed masterfully to achieve a high level of cohesion, but how current developments threaten this status, resulting in demands to address the issues at stake. After analyzing these emerging divides, the authors highlight the policy responses.

Topics connected to social cohesion have been a pressing issue since the last elections in Malaysia. **Helen Ting Mu Hung** discusses key features of these developments and addresses the recent developments with regard to social inclusion, social capital and social mobility. She shows what challenges the country faces and how they might be resolved.

Qian Jiwei highlights the importance of social policies and in particular public service provision in China. These services are believed to help level the divides in the Chinese society, but were long criticized for limiting the access to certain groups. Qian explains the reform of the system since the 2000s and what achievements have been made through the provision of such basic public services.

South Korea has seen fast economic development in the second half of the 20th century. This growth has been accompanied by various social, economic and political conflicts. **Andrew Eungi Kim** shows how these cleavages have become more intense in recent years and the effects of strong liberalization of the economy. This is analyzed by paying close attention to the policy responses from the government.

Claire Dhéret shifts the perspective from Asia to Europe and looks at how the economic crisis has affected social cohesion within the European Union. After providing an overview of the status of social cohesion in Europe, she analyzes some hidden facts of social cohesion and argues that policies to address the divides can be a way out of the crisis.

Since discussions on social cohesion are very prominent in times of economic and social transformation, **Anton Hemerijck** analyzes recent discussions in Europe. He highlights the developments of the European welfare states and reforms over time. The perspective is then shifted towards social investments and how these impact the cohesiveness of societies. Hemerijck shows the dilemma between fewer financial resources and the required social investments at the same time.

Paolo Graziano addresses the situation of social cohesion in Italy. He first looks at the economic performance of Italy since the introduction of the Euro and how this development has affected the employment situation. Arguing that mobility and capital need to be considered in the discussion, Graziano highlights the interdependence between the domestic conditions and the European environment.

While social cohesion is often understood in economic terms, **Sebastian Braun** shows how civic engagement impacts the different social relations in Germany. It helps to fulfil welfare tasks which the government cannot meet due to limited resources. At the same time, civic engagement builds up human as well as social capital. Braun argues that companies can also play a key role in this and help to achieve social cohesion.

The final paper by **Neli Demireva** analyzes social cohesion in Britain. Focusing on the ethnic relations between various groups and the impact of new arriving migrants, she discusses a development which impacts the cohesiveness in a number of nation-states. Demireva shows how both government initiatives and civic actions play a role in the management of cultural diversity and how stakeholders have to constantly adjust their positions.

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Polarization, Inequality and Social Protection

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I. INTRODUCTION

Polarization is the presence of “divisions” or “cleavages” in a society and is, therefore, indicative of the degree of social cohesion or lack thereof. The latter is a growing concern among many governments, as polarized societies are more vulnerable to political and social instability and conflict, which, in turn, could undermine the sustainability of growth and poverty reduction outcomes.

Mo (2009), for example, studies the effects and channels of income polarization, measured by the ratio of the top 40 percent population’s income to that of the bottom 40 percent of the population, on economic performance. He finds that income polarization reduces GDP growth, with socio-political instability being the most significant channel. This is because socio-political instability creates uncertainty in property rights that, in turn, negatively affects investment and productivity, and thus reduces economic growth. Other channels include the transfer channel, in which redistributive policy has a negative effect on growth because a large group, or the majority of the population, is able to seek and benefit from redistributive policies that can create economic distortions and disincentives and thus, reduce growth. Another channel is the human capital channel, in which a lower rate of human capital accumulation due to income inequality has led to lower economic growth.

Esteban and Ray (2011) study a behavioural model of conflict and develop indicators of conflict based on indices of dispersion. For sustained conflict, there needs to be class antagonisms that are channelled into organized action. In other words, the behavioural model of

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conflict is predicated on the formation of groups or classes that are different or distinct from each other. These groups or classes are, therefore, inherently antagonistic toward each other or conflictual, because of intergroup differences. Polarization is primarily about the process of group formation. These distinct groups are formed around non-economic markers, such as ethnicity or religion, into which individuals who tend to be economically similar can be grouped, but in which these non-economic markers may become focal points around which gains from conflict can be achieved. A centrally-focused society, or one having a few groups with large cleavages, is more prone to conflict than one in which there are many dispersed groups since it is more difficult to placate any large group without antagonizing other groups in the former case.

Horenstein and Olivieri (2004) describe polarization as a situation in which population subgroups are “clustered around a small number of distant points.” The degree of polarization is high if (i) there is a high degree of homogeneity within each group – referred to as “identification” by Esteban and Ray (1994) – and captures the sense of belonging and unity that an individual feels with others; (ii) there is a high degree of heterogeneity across different groups – referred to as “alienation” by Esteban and Ray (1994) – and captures an individual’s sense of being distinct or different from another individual belonging to some other group, fuelled by his notion of identification with others within his own group; and (iii) there is a small number of big groups so that groups of negligible size have a relatively small influence on the population as a whole.

This study builds on the literature on income polarization in Asia by using the Zhang-Kanbur (ZK) (2010) measure of the urban-rural divide, as well as regional/divisional/district inequality, and inequality based on age, sex, and educational level of the household head. It attempts to relate the degree of social cohesion as measured by the ZK income polarization measure to social protection programmes in countries in Asia. Finally, possible policy implications from the study are discussed.

II. REVIEW OF LITERATURE

An earlier study of income polarization in Asia using household survey data on expenditure per capita covering a sample of countries including Bangladesh, India, Indonesia, Pakistan, Philippines, Sri Lanka, Thailand, and Vietnam was conducted by Gochoco-Bautista, Bautista, Maligalig, and Sotocinal (2013) using two polarization measures, namely, the Foster-Wolfson (1992) and the Duclos, Esteban, and Ray (DER) (2004). The former assumes that there are two income groups while the latter assumes any number of income groups. The study found that the average level of polarization in the Asian countries using the DER measure of 0.233 is lower than the estimated average for countries in Latin America in the 1990s in Gasparini et al. (2008). The study also found that income polarization and inequality, in which the DER measure of polarization and Gini coefficient are used, are highly positively related. There are differences in the polarization trends across Asian countries over time. In the Philippines, India, and Thailand, income polarization for the population as a whole has declined in the 2000s, while it has increased in Indonesia, Pakistan, and Sri Lanka.

In most of the countries in Asia included in the study, urban income polarization is higher than rural income polarization. Group identification accounts for the bulk of income polarization and is roughly thrice the level of alienation. Although this is the case and while income polarization is higher in urban areas than in rural ones, in practically all countries, rural group identification is higher than urban group identification. The exceptions are Thailand, Sri Lanka, and Vietnam. Meanwhile, alienation in the urban sector is higher than that in the rural sector, with the notable exception of the three countries mentioned previously. This tends to justify fears of more unrest and social conflicts emanating from the urban rather than the rural sector.

Unlike studies of inequality in which higher GDP growth rates are associated with higher levels of inequality, Gochoco-Bautista et al. (2013) found that countries with high GDP and per capita GDP growth rates also generally had lower levels of income polarization. This is consistent with Azzimonti (2011), who finds that highly polarized societies tend to grow at lower rates and converge to lower levels of per capita income in the long run. But more developed countries in the group, such as Thailand and the Philippines, also had higher levels of income polarization relative to the less developed South Asian countries. While Gochoco-Bautista et al. (2013) did not formally examine the drivers of income polarization in these Asian countries, it examined scatter plots and related the income polarization measure to a variety of variables widely regarded as drivers of income inequality. These variables include the level of educational attainment of the household head, the ratio of manufacturing employment to total employment, the share of value added in manufacturing to GDP, and variables that capture the degree of openness of a country to the international economy, including the share of total trade to GDP, weighted mean tariff rates, the ratio of foreign direct investments (FDI) to GDP, and the ratio of remittances to GDP.

In almost all cases, higher educational levels of the household head, higher manufacturing employment, and higher shares of manufacturing value-added are associated with lower levels of income polarization. These variables are clearly associated with increasing the probability of obtaining a job in the formal sector. There seems to be support for findings that imply that having a decent job is the best way to reduce poverty, inequality, and income polarization. The relationship between openness and the level of polarization is less clear. Countries that are relatively closed to foreign trade and FDI are associated with lower levels of income polarization. This may have to do with the nature of FDI that a country has. For example, foreign investors may generally use more capital-intensive technology that displaces labour and so affect employment, and also increase wage gaps between skilled and unskilled workers by paying higher wages to those workers that they do employ.

III. AN ALTERNATIVE MEASURE OF SOCIAL COHESION

There is some dissatisfaction with both the Foster-Wolfson (1992) and DER (2004) measures of polarization, as the trend in polarization tends to not differ much from the usual measures of inequality, such as the Gini coefficient. This is indeed the case in Gochoco-Bautista et al. (2013).

Zhang and Kanbur (2010) thus propose an alternative measure of polarization. They note that the distance between group means can be easily understood as a measure of polarization or of cleavages between groups. Aside from this “between group inequality”, however, there are also inequalities within groups. It is possible that the richest in the low mean income group is richer than the poorest in the high-income group and so it would seem that the groups are not that polarized because of these overlaps. This “within group” inequality is thus a measure of “spread” in different subgroups. The greater the spread is within each group, the greater is the overlap in the incomes of group members. For decomposable inequality measures such as the generalized entropy (GE) index of inequality, these concepts are quantifiable.

The Zhang-Kanbur (ZK) measure of polarization is the ratio of between-group inequality to within-group inequality, that is,

$$ZK = \frac{\text{between – group inequality}}{\text{within – group inequality}}$$

The ZK measure captures the average distance between groups relative to income differences within groups. Between-group inequality and within-group inequality capture the concepts of alienation and group identification, respectively, in the DER measure of polarization. For a given degree of between-group inequality, if within-group income differences decline, groups become more homogenous internally, i.e., a higher degree of group identification, but this also tends to magnify differences across groups, increasing polarization. Similarly, for a given level of within-group income differences, polarization rises if group mean income differences increase.

In the literature, both Gasparini et al. (2008), and Borraz, Gonzales and Rossi (2013) find that in Latin America, the middle class shrinks while income polarization rises between 1994 and 2004. The time decomposition of polarization, for example, shows that the mean income of higher income groups has decreased relative to the median, and that within group inequalities in both higher and lower income groups have declined as well.

IV. FINDINGS

Using household survey data³ for various years for Bangladesh, Bhutan, People’s Republic of China (PRC), India, Indonesia, Pakistan, the Philippines, Sri Lanka, and Vietnam, various ZK measures of polarization based on spatial inequalities and based on characteristics of the household head are calculated. Spatial inequalities are explored in terms of rural-urban populations and region/division/district populations. Characteristics of the household head that are examined are the educational level of the household head, age of the household head, and sex of the household head.

³ Per capita household expenditure is used to calculate the ZK polarization measures. The between-group and within-group inequality measures are obtained using the generalized entropy index GE(0). The software ADEPT is used to calculate the inequality and polarization measures.

Table 1 presents the Gini coefficients for the countries, as well as separate Gini coefficients for urban and rural areas within the countries. Except for Bhutan, PRC and the Philippines, the Gini coefficients for the countries for the 2000-2010 period range from 0.305 to 0.383. Bhutan, PRC and the Philippines, with relatively high income inequality, have Gini coefficients in the range of 0.413 to 0.470 during this period. Except for Bhutan and the PRC, income inequalities as measured by the Gini coefficients are lower in rural areas compared to urban areas.

1) Polarization based on Spatial Inequality

Using the latest year of data availability⁴, the ZK polarization measures (Table 1, Figure 1) based on urban-rural inequalities are generally lower for the South Asian countries: Bangladesh (0.180), Bhutan (0.149), Pakistan (0.124) and Sri Lanka (0.019), with the latter having almost zero urban-rural polarization. India and the Southeast Asian countries like Indonesia, Philippines and Vietnam have higher polarization based on urban-rural inequalities with the ZK polarization measure in the range of 0.231 to 0.367, with Vietnam having the highest urban-rural polarization in this group. Among the sample countries, China, which has high income inequality as measured by the Gini coefficient, has the highest urban-rural polarization (latest data year though is 2002) and exhibits an increasing trend in urban-rural polarization since 1988.

Except for Bhutan and Sri Lanka, the ZK polarization measures based on region/division/district inequalities are lower than the ZK polarization measures based on urban-rural inequalities. Though declining, region/division/district inequality accounts for more of the polarization in Bhutan than urban-rural inequalities. Also, Bhutan has the highest polarization measure based on region/division/district inequality among the sample countries. While polarization based on urban-rural inequalities in Sri Lanka is almost nil or small, there has been an increase in polarization based on region/division/district inequalities from a ZK measure of 0.087 in 2007 to 0.142 in 2010. Hence, for the sample countries, generally urban-rural inequalities contribute more to polarization than region/division/district inequalities. The implication is that the urban-rural divide may be an important potential source of social conflict and instability and therefore, a better understanding of the nature of the urban-rural divide, and policies to address them are needed.

Table 1 and Figure 1 also present the components of the ZK polarization measures obtained: the between-group inequality and within-group inequality estimates. For both urban-rural and region/division/district decomposition, the within-group inequalities are greater than the between-group inequalities. This indicates greater income heterogeneity within subgroups compared to between-group income differences. An interesting case is China: for the urban-rural polarization index, there has been a decline in the within-group inequality and an increase in the between-group inequality suggesting an increase in income homogeneity within the urban and rural subpopulations, greater income inequality between

⁴ Latest year of data are 2010 for Bangladesh, India, Indonesia, Sri Lanka and Vietnam; 2012 for Bhutan; 2002 for PRC; 2008 for Pakistan; and 2009 for the Philippines.

the urban and rural subpopulations, and increasing urban-rural polarization during the 1988-1995-2002 period. This finding is opposite that of Zhang and Kanbur (2001), in which the rural-urban polarization index based on 1983-1995 data, had within-group inequality increasing while between-group inequality decreasing, resulting in a declining urban-rural polarization index.

The ZK polarization measures obtained in this study indicate that polarization based on spatial inequalities and overall income inequality as measured by the ZK measure and the Gini coefficient, respectively, do not necessarily move in the same direction. As seen in Figure 1, for Bangladesh, Bhutan and Indonesia, where the Gini coefficient has remained fairly stable or has increased, the polarization based on spatial inequalities has generally declined.

Bangladesh

The ZK measure of polarization for Bangladesh shows a decline in polarization based on urban-rural population inequality between 2000 and 2010, from 0.23 to 0.18. The decline in the polarization measure is even more dramatic for that based on region/division/district inequality, from 0.24 to 0.05. In both cases, between-group inequality fell, from 0.035 to 0.026 in the former case and even more dramatically, from 0.036 to 0.009 in the latter, while within-group inequality registered very slight increases in both cases. In Bangladesh, the urban Gini measure of inequality fell while that for rural income inequality remained about the same over the two sample periods (Table 1). Thus, the ZK measure of polarization appears to follow more closely the directional change in urban income inequality.

Bhutan

In Bhutan, the ZK measure based on urban-rural population inequality was 0.36 in 2007 but declined dramatically thereafter to 0.15 by 2012. This relatively low level of polarization is not surprising, as between group-inequality declined while within-group inequality increased in the same period. The ZK measure based on region/division/district population inequality in Bhutan shows a steady decline. Note too that similar to Sri Lanka and unlike the rest of the sample countries in the study, polarization based on region/division/district inequality is stronger than that based on urban-rural inequality. As reflected in the Gini coefficients, urban and rural income inequalities both fell and then increased in Bhutan, opposite the trend in ZK polarization.

PRC

Polarization based on urban-rural population inequality appears to have increased dramatically in the PRC, from the negligible level of 0.013 in 1988 to almost 0.80 in 2002. Zhang and Kanbur (2001) also find a significant degree of urban-rural polarization, compared to coast-inland polarization, in the PRC. The polarization measure seems to follow the trend in urban income inequality as reflected in the Gini coefficient, which has risen in the more recent period, rather than that in rural income inequality, which has been declining. In contrast, the ZK measure based on region/division/district population inequality shows a decline in polarization between 1995 and 2002, as between-group inequality has declined more than

the decrease in within-group inequality. This is one case where polarization based on different measures of spatial inequality gives rise to starkly opposite results.

Bonnefond and Clément (2012) point out that while the level of income polarization is higher in rural areas, the increase in polarization in urban areas has been more noticeable. According to them, the source or channel of polarization in rural areas is found to be linked to increased non-agricultural opportunities and wage disequilibrium, while in urban areas, the sharp decline in subsidies and social benefits, and the liberalization of the urban labour market has allowed the emergence of groups in the middle- and upper-income classes. They also find that the increase in polarization is due largely to the alienation component even as group identification has been relatively stable. Thus, social tension has evidently increased due to increased alienation among groups in society, especially in urban areas, but this has been tempered somewhat by the fact that individuals do not identify with their group any more today than they did previously. Similarly, for urban-rural polarization in the PRC, we do find that between-group inequality rose dramatically between 1988 and 2002, while within-group inequality declined significantly but to a lesser degree over the same period. Not surprisingly, the ZK measure for urban-rural polarization shows a dramatic increase in the same period.

India

In India, polarization based on urban-rural population inequality reached 0.30 in 2007/2008, during the period of the global financial crisis, and while the level has declined in the more recent survey period, remains at above 0.25. Both urban inequality and rural inequality, as reflected in the Gini coefficients, have followed similar trends, rising first over the 2004-2006/07 period and then falling in 2007/2008, opposite the direction of polarization based on urban-rural inequality. Regardless of the measure of spatial inequality used, between- and within-group inequalities seem to have peaked around 2006/2007 and 2007/2008.

Indonesia

In Indonesia, polarization based on urban-rural population inequality declined from a high of almost 0.30 in 1990 to more stable levels over 0.20, slightly increasing by 2010. Within group inequality has been rising while between-group inequality has remained stable, regardless of the measure of spatial inequality used. Urban income inequality, as captured by the Gini coefficient, has risen while rural inequality has remained fairly stable in Indonesia. Hence, it appears that urban-rural polarization and urban income inequality follow similar trends.

Pakistan

Pakistan exhibits relatively low levels of polarization based on urban-rural population inequality, and there seems to be a very slight decline over the two survey periods of 2002 and 2008. While between-group inequality slightly declined between these two survey periods, within-group inequality rose slightly. The corresponding ZK polarization indices based on region/division/district populations are much lower in the range of 0.01-0.02, implying that polarization, though low, is due more to inequalities between urban and rural areas.

The slight decline in the ZK polarization index based on urban-rural inequalities is opposite in direction of the behaviour of the Gini coefficient for income inequality that slightly increased from 0.305 in 2002 to 0.320 in 2008. This finding is consistent with the Mahmood and Idrees (2010) study, which shows that using survey data between 1998 and 2005, income inequality and polarization follow similar declining trends in Pakistan and in its urban and rural areas. However, in 2004-05, there was a rise in income inequality and decline in polarization. Mahmood and Idrees explains this result as indicating that declining poverty moved people from lower income classes to middle income groups thus decreasing polarization, but the increase in the relative incomes of the richer classes worsened income inequalities.

Philippines

The ZK polarization measure based on urban-rural inequality has been in slight decline in the Philippines since it peaked in 1997 at 0.305, the year of the Asian financial crisis, and declined to 0.233 in 2009. It seems to follow more closely the trend in urban income inequality, as shown by the Gini coefficient, which likewise peaked in 1997, before declining since. In contrast, rural income inequality has been rising since the Asian financial crisis. Between-group income inequality rises from 1985 to 1997, peaks in 1997, and then declines. Within-group inequality peaks in 2000, and declines thereafter.

The ZK measure based on region/division/district population inequality for the Philippines shows a more dramatic picture, again peaking in 1997 before declining thereafter. In both measures of polarization based on spatial inequality, within-group inequality declines in 1994, while between-group inequality remains stable, leading to a rise in the ZK measure in that year and carries through to 1997. The Philippines, among the sample countries, is also a special case wherein the ZK polarization indices based on urban-rural groups and region/division/district groups are about the same in magnitude, indicating that polarization due to both kinds of spatial inequalities are about as strong. During the 1991-2000 period, polarization based on region/division/district inequality was higher than that based on urban-rural inequality. This indicates that the Philippines has made some progress in reducing the polarization based on region/division/district inequality from 2000 onwards.

Sri Lanka

Sri Lanka has almost no polarization based on urban-rural population inequality, and fairly low levels based on region/division/district population inequality. There is hardly any between-group inequality, and very stable and higher levels of within-group inequality. Though low, the polarization in Sri Lanka is due more to region/division/district inequality than to urban-rural inequality.

Vietnam

In Vietnam, polarization based on urban-rural population inequality rose slightly from a little over 0.30 to over 0.35 between 2008 and 2010, in the same direction as the change in the Gini coefficient. Urban and rural income inequalities remained about the same. Polarization based on region/division/district population inequality, however, declined dramatically in the

same period, from 0.45 in 2008 to 0.163 in 2010, as between-group inequality was halved while within-group inequality increased. Thus, similar to the PRC's case, there are differences in the levels of polarization depending on the measure of spatial inequality used.

Summary

It is evident that the polarization based on spatial inequality, particularly urban-rural inequality, is an important basis for cleavages in several countries, notably in the PRC and to a lesser extent, in Vietnam. In some cases, there are differences in the polarization trends based on rural-urban inequality and that based on region/division/district inequality, and differences as well in the direction of trends in polarization versus trends in income inequality. Except for Bhutan and Sri Lanka, polarization based on urban-rural inequalities tends to be stronger than that based on region/division/district inequality. Most of the trends in urban-rural polarization tend to follow that in urban income inequality (Bangladesh, PRC, India, Indonesia and the Philippines). This is certainly the case for the PRC, which has seen a dramatic increase in polarization based on urban-rural inequality. There was a dramatic decline in polarization based on urban-rural inequality in Bhutan. A dramatic decline in polarization based on region/division/district inequality is seen in Bangladesh, the Pakistan, and Vietnam. Based on the ZK measures, both Pakistan and Sri Lanka have very low levels of polarization, with Pakistan having almost no region/division/district polarization and Sri Lanka having almost no urban-rural polarization.

Unlike earlier findings in Gochoco-Bautista et al. (2013) in which the trends in both the Foster-Wolfson (1992) and Duclos Esteban and Ray (2004) measures of polarization did not differ much from the trend in inequality as measured by the Gini, our findings using the ZK measure of polarization show that this is not always the case, depending on the relative magnitudes of between-group versus within-group inequality.

2) Polarization based on Characteristics of the Household Head

Among the characteristics of the household head considered, the educational level is the strongest factor associated with polarization. (See Table 2.) With the notable exception of the PRC, the highest levels of polarization are based on inequality in the educational level of the household head.⁵ This echoes the earlier finding in Gochoco-Bautista et al. (2013), in which the educational level of the household head is found to be inversely related to the degree of polarization. Based on the ZK polarization measures, polarization based on inequality in the educational level of the household head is generally stronger than that based on urban-rural spatial inequality, especially in Bangladesh, India, Indonesia, Pakistan and the Philippines⁶.

Polarization based on inequality in the age of the household head appears to be relatively unimportant in the countries included in the study. Vietnam has the highest level of

⁵ For the PRC in 2002, the ZK polarization index based on the sex of the household head is higher at 0.384 than that based on the education level of the household head at 0.354.

⁶ There are no data available for Sri Lanka to compute the ZK polarization index due to inequality in the educational level of the household head.

polarization based on inequality in the age of the household head at 0.038 in 2008 while the Philippines consistently over the 1985-2009 period has ZK polarization measures in the range of 0.02 to 0.03.

Though the ZK polarization measures based on inequality in the sex of the household head are generally higher than those based on the age of the household head, the former remains relatively unimportant compared to that based on inequality in the educational level of the household head. Polarization based on inequality in the sex of the household head only appears to be relatively large in the PRC at 0.384 in 2002, where it exceeds that based on the educational level of the household head, but is still only about half of that for polarization based on urban-rural inequality. In the other countries, polarization based on inequality in the sex of the household head never exceeds the 0.056 obtained in Bhutan for 2007.

Polarization based on inequality in the educational level of the household head in the various countries, illustrated in Figure 2, is discussed next.

Bangladesh

In 2010, the level of polarization based on inequality in the educational level of the household head registered 0.292, higher than that based on spatial inequality: 0.180 for urban-rural polarization and 0.052 for region/division/district polarization.

Bhutan

In Bhutan, polarization based on inequality in the educational attainment of the household head averaged about 0.20, rising in 2007 before falling in 2012. These polarization levels though are lower than the region/division/district polarization, which is quite high, though declining, in Bhutan relative to other countries and to urban-rural polarization. Hence, policy-wise, to promote social cohesion, it is imperative that Bhutan first addresses the inequalities across regions/divisions/districts.

PRC

There is a very large increase in polarization based on inequality in the educational level of the household head in the PRC. From 0.008 in 1998, to about 0.054 in 1995, polarization based on the educational level of the household head increased dramatically to 0.354 in 2002. However, this latter level is only a little under half of the magnitude registered for polarization based on urban-rural population inequality of about 0.80 in 2002. Again, the PRC is different from the other countries in the sample in having a lower level of polarization based on inequality in the educational level of the household head versus that due to spatial inequality.

India

Polarization in India based on inequality in the educational level of the household head had the same trend as that based on urban-rural spatial inequality but is of greater magnitude. The former remained above 0.40 in all the survey years for which data are available in the 2000s. Both show peaks in 2007/08 but the magnitude of polarization based on educational inequality is much larger at close to 0.5 versus only about 0.3 based on spatial inequality.

Bandyopadhyay (2011) uses the distribution dynamics approach in Quah (1997) and finds that in India, polarization is associated with the disparate distribution of economic and societal infrastructure variables such as education and the extent of irrigation, and to some degree, literacy. These factors are associated with the formation of a convergence club of income that is 125 percent of the national average income. They find that in the late 1960s, there were some tendencies of cohesion in India, while from the 1970s to the 1990s, incomes have become polarized. Curiously, they find that these variables do not explain the formation of the upper convergence club.

Indonesia

In Indonesia, the levels of polarization based on inequality in the educational level of the household head exceeded 0.40 in 1990, declined to 0.23 in 2000, and rose to 0.33, relatively still high, in 2010. Between-group inequality follows the same trend while within-group inequality has slightly increased. While the increase in the level of polarization in 2010 from the previous year is more pronounced when polarization is based on inequality in educational attainment of the household head compared with that based on urban-rural spatial inequality, the magnitudes for the former are higher, exceeding 0.30 in 2010, versus about 0.20 in 2010 for urban-rural polarization.

Pakistan

In Pakistan, polarization based on inequality in the educational level of the household head also increased from 2002 to 2008 and registered about 0.33 in 2008, while polarization based on urban-rural inequality declined.

Philippines

In the Philippines, polarization based on inequality in educational level of the household head was 0.50 or above from since 1997 till 2009, the highest levels among countries in the sample, in years which curiously correspond to periods of economic crisis, namely, the Asian financial crisis, the bursting of the tech bubble, and the global financial crisis. Again, this is similar to earlier findings in Gochoco-Bautista et al. (2013) that indicate higher levels of income polarization during periods of economic crises, but unlike the ZK measures based on spatial inequality that showed declining trends during the 1997-2009 period. Note though that the ZK polarization measures based on inequality in educational level of the household head are much higher than those for spatial inequality based on either urban-rural or region/division/district. It may then be inferred that during economic crises, income polarization based on inequality in the educational level of the household head, more than that based on spatial inequality, tends to be magnified.

Vietnam

In Vietnam, polarization based on inequality in the educational level of the household head rose dramatically from 0.23 in 2008 to 0.38 in 2010. It exhibits the same trend and about the same magnitude as polarization based on rural-urban inequality, but opposite the trend

exhibited by that based on region/division/district inequality. In the latter case, polarization declines dramatically between 2008 and 2010, and by 2010, registers a level of under 0.20.

Summary

Relative to polarization based on either age or sex of the household head, polarization based on inequality in the educational level of the household head registers the highest levels of polarization in all countries in the sample with the exception of PRC. However, even in the PRC, there is a dramatic increase in polarization based on inequality in the educational level of the household head between 1995 and 2002. In all countries except Indonesia, polarization due to inequality in the educational level of the household head increased in the most recent survey period compared with the earliest period.

3) Social Protection and Polarization due to Spatial Inequality⁷

The social protection index (SPI) was developed by the Asian Development Bank (ADB) to gauge the progress on the coverage of social protection and the depth of its impact. The SPI is calculated as the ratio of the total social protection expenditure to total intended beneficiaries divided by 0.25 of the per capita GDP, representing the average poverty line expenditure (ADB 2011). It is also equivalent to the weighted sum of the individual SPIs of the three broad categories – social insurance, social assistance, and labour market programs.

Social insurance programmes are usually contributory mechanisms that address problems for population groups that are vulnerable to common risks, such as illness, unemployment, work injury, maternity or old age. Social assistance is commonly provided as transfers to groups, such as the poor, who cannot qualify for insurance or would otherwise receive inadequate benefits. Labour market programmes are mechanisms that help people secure employment, such as through employment services, skill development and training, or special work programmes.

The first data collection to calculate the SPI was conducted in 2005 in 31 countries, while the second covering 35 countries for 2008-2010 was done in 2011. Figure 3 illustrates the SPIs for the various countries.⁸ Over the 2005-2010 period, the countries with the highest SPIs are Vietnam, Sri Lanka and the Philippines, with SPIs over 0.06 and increasing up to 2009; the increase in social protection in Vietnam is particularly dramatic with the SPI increasing by 46% during the 2005-2010 period. Except for Bhutan, there was a drop in social protection in the other countries in 2008 during the earlier spike in oil and food prices and the following global financial crisis triggered by the subprime mortgage crisis in the United States. For all the sample countries, social protection, probably in response to the 2008 crisis,

⁷ The relationship between social protection programmes and polarization based on inequality in the educational level of the household head is not explored in this study since more effective long-term policy prescriptions to address this polarization may not necessarily be general social protection programmes but more specific instruments to improve access to education.

⁸ The PRC is not included in Figure 3 and the succeeding discussion on social protection since the ZK polarization measures are calculated for earlier years: 1988, 1995 and 2002 only.

increased in the following year, 2009, and thereafter dropped in 2010, except for Bangladesh. Among the countries with lower social protection, Bangladesh and Bhutan can be considered to have relatively stable social protection programmes.

The social protection index is higher for relatively more developed or middle-income countries: Sri Lanka and the Philippines, while Indonesia provides a lower level of social protection relative to its per capita income level. Vietnam and Bangladesh, on the other hand, provide a higher level of social protection relative to their per capita income level.

Looking at the countries with the highest SPIs, there are indications of a positive association between the level of social protection and less polarization due to spatial inequality in Sri Lanka, the Philippines and Vietnam. In 2010, urban-rural polarization in Sri Lanka was almost nil and the lowest among the sample countries, though there has been an increase in polarization due to region/division/district inequality probably because of problems arising from its 25-year civil war. Not only is Sri Lanka's level of social protection relatively high among developing countries, the depth of social protection is also high. There is universal primary education in Sri Lanka and practically no gender education inequality. In fact, Sri Lanka is poised to meet its MDG targets in education before 2015. Its health outcomes are also impressive. It has universal health coverage and is likewise expected to meet the MDG health targets. In the Philippines, there is a decline in polarization due to spatial inequalities over the 2006-2009 period. The government increased the amounts of its Conditional Cash Transfer Program over this period. Beginning in 2010, this programme increased its coverage to millions of families. In Vietnam, there is a dramatic decrease in polarization due to region/division/district inequality, from a high value of 0.45 in 2008 to 0.16 in 2010, but a slight increase in polarization due to urban-rural inequality.

In Indonesia, where investments in social protection are low relative to the country's income level and where the SPI had a declining trend over the 2005-2010 period, polarization based on spatial inequality has either increased (based on urban-rural inequality) or hardly changed (based on region/division/district inequality). The low SPIs in Indonesia reflect its low expenditure on social protection and depth of its impact. Though coverage may have been good, the low expenditure on social protection and large population translates to small amounts, on average, per beneficiary. Also, the assistance for employment is low and the delivery fragmented through various agencies.

In addition, the low and declining SPIs in Indonesia during the 2005-2010 may be due to its high expenditure on fossil fuel subsidies. With high government expenditure on fuel subsidies, the government with its budget constraint would have less money for social protection programmes. Whitley (2013) reports that in 2011, Indonesia (and Pakistan) spent at least twice as much on fossil fuel subsidies as on public health. In 2008, when world market fuel prices spiked prior to the global financial crisis, Indonesia spent about USD20 billion or 4 percent of its GDP on fuel subsidies. The International Energy Agency (IEA) estimates that fossil fuel consumption subsidies in Indonesia were 13.17, 19.02, 14.30, 15.94 and 21.28 USD billion in 2007, 2008, 2009, 2010 and 2011, respectively. The fossil fuel subsidies are found to be regressive since higher income classes consume more fuel for transport and electricity. In

contrast, it is estimated that Indonesia spent only 1.2 percent of its GDP on social protection in 2009 (Adioetomo, Pardede and Quarina, 2012).

Among the lower-income countries, Bangladesh, with social protection expenditure that is stable and high relative to its per capita income, experienced a decline in polarization due to spatial inequality, especially that due to region/division/district inequality. Social protection expenditure in Bhutan has been generally rising since 2005, and since then polarization due to spatial inequality has declined. The SPI for India⁹, especially, and Pakistan display a volatile and downward trend. As in Bangladesh and Indonesia, there was a dramatic drop in the SPI of India and Pakistan during the 2008 global financial crisis. From 2006-2010, polarization due to spatial inequality in India either slightly increased or did not change. On the other hand, polarization due to spatial inequality in Pakistan, which is among the lowest in the sample, does not seem to be affected by the social protection programmes. This may indicate that the effectiveness of social protection programmes in reducing polarization also depends on the initial conditions of either low or high polarization. The foregoing cursory analysis indicates possible positive association between social protection programmes and lower polarization due to spatial inequality. However, as illustrated in the case of Pakistan, the effectiveness of social protection programmes to reduce polarization can depend on the initial conditions of either low or high polarization. The effectiveness of social protection programmes, including the mix of insurance, assistance and labour market programmes, to reduce income inequality and polarization is an area for more in-depth and empirical future research.

V. Policy Implications

The study calculated Zhang-Kanbur polarization measures based on spatial inequality and inequality in the characteristics of the household head. Spatial inequality is based on either urban-rural groups or region/division/district groups. Characteristics of the household head considered are age, sex and educational level. The association between social protection programmes and spatial inequality is also examined.

It is shown that there can be differences in the direction of trends in polarization versus the trend in income inequality. Examples of such differences in trends of the Zhang-Kanbur index of polarization for spatial inequality and the Gini coefficient for income inequality can be seen in Bangladesh, Bhutan, the PRC and Indonesia. As expected, there can also be differences in the polarization trends based on rural-urban inequality and that based on region/division district inequality. For example, in Vietnam from 2008 to 2010, there has been an increase in polarization based on urban-rural inequality while there has been a significant decline in polarization based on region/division/district inequality. Except for Bhutan and Sri Lanka, polarization based on urban-rural inequalities is stronger than that based on region/division/district inequalities. A cursory analysis indicates possible positive association between social protection programmes and lower polarization due to spatial inequality. As in

⁹ Data to calculate the SPI for India in 2010 was not available.

the case of Pakistan, the effectiveness of social protection programmes to reduce polarization can depend on the initial condition of either low or high polarization.

However, polarization based on inequality in the educational level of the household head is generally stronger than that based on urban-rural spatial inequality, especially in Bangladesh, India, Indonesia, Pakistan and the Philippines. This result may reflect the fact that education is a stronger determinant of income compared to urban-rural household location. Polarization based on either inequality in age or gender of the household head is found to be relatively unimportant.

The findings on the relatively strong polarization based on urban-rural inequality and on inequality in the educational level of the household head are consistent with those of Son (2013), who estimated the human opportunity index (HOI) related to education (primary and secondary) and basic infrastructure (safe water, electricity and sanitation) for the same set of countries excluding the PRC and India. The Son study finds that urban-rural location and educational level of the household head are important circumstance variables that influence access to education (primary and secondary) while urban-rural location is an important variable that influences access to basic infrastructure. Age and gender of the household head have little influence on access to education and basic infrastructure.

While the countries generally have relatively high levels of polarization with respect to spatial inequality along the urban-rural divide, the PRC in 2002 is the country that has experienced the most severe problem of polarization of this type. Between-group inequality is high and confirms the finding of a high degree of alienation in the urban sector found in Bonnefond and Clément (2012). The decline in social benefits and subsidies and the liberalization of the urban labour market, which have allowed the middle class and upper classes to emerge therein, have led to a greater degree of polarization. In such a situation, a greater degree of social protection may alleviate the unintended effects of labour market liberalization.

Moreover, with the anticipated faster pace of urbanization in the future, the implications for polarization based on urban-rural inequalities need to be examined. With an increased population with more diverse skill sets in urban areas, it is expected that there would be more income heterogeneity in the urban areas. Gini coefficients, indicators of income inequality, are generally higher in urban areas than in rural areas. Polarization will increase if between-group income inequality increases, that is, there is greater divergence between urban and rural incomes. Though there are greater incentives in urban areas to invest in basic infrastructure to obtain the benefits of agglomeration, for social cohesion, it is then also imperative to promote rural development to reduce income disparities between urban and rural areas.

For all countries with the exception of the PRC, polarization due to inequality in educational attainment of the household head is associated with the highest level of polarization. But even in the PRC, polarization based on this type of inequality has risen dramatically in the latest survey year for which data are available. Interventions that improve access to education especially for the poor are needed.

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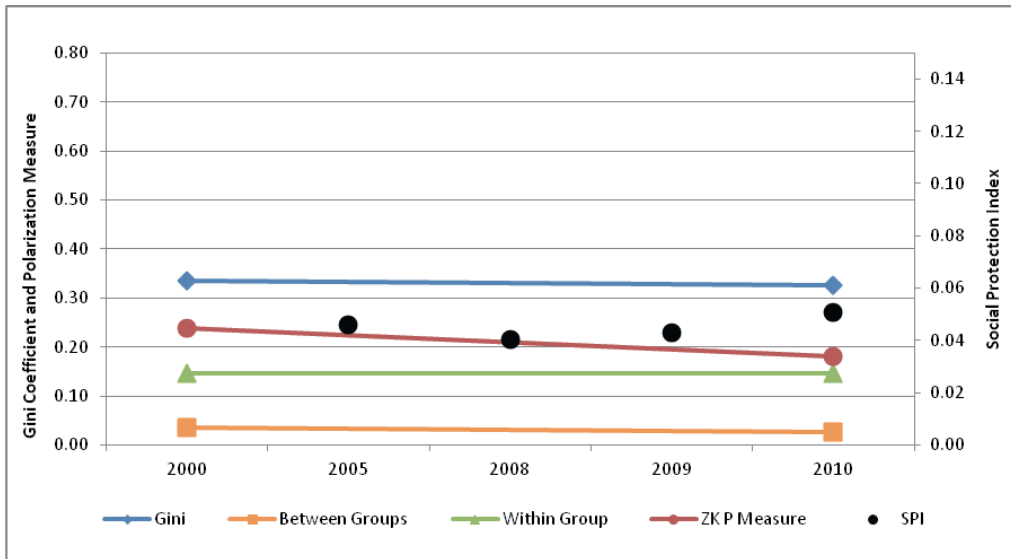
Table 1. Gini Coefficients and Zhang-Kanbur Polarization Measures Based on Spatial Inequality

Country	Year	Gini Coefficients				Zhang-Kanbur Polarization Index (ZK)							
		Based on Urban-Rural Population Inequality		Based on Region/Division/District Population Inequality		Based on Urban-Rural Population Inequality		Based on Region/Division/District Population Inequality		Based on Urban-Rural Population Inequality		Based on Region/Division/District Population Inequality	
		Overall	Urban	Rural		Between	Within	ZK		Between	Within	ZK	ZK
Bangladesh	2000	0.334	0.373	0.279	0.035	0.146	0.237	0.036	0.145	0.245	0.052	0.165	0.432
	2010	0.327	0.344	0.283	0.026	0.147	0.180	0.009	0.165	0.052	0.165	0.432	0.432
Bhutan	2003	0.429	0.375	0.392	0.057	0.245	0.230	0.091	0.211	0.432	0.364	0.207	0.364
	2007	0.413	0.342	0.360	0.075	0.208	0.362	0.076	0.207	0.364	0.244	0.239	0.244
China, People's Republic of	2012	0.422	0.382	0.402	0.039	0.258	0.149	0.058	0.239	0.244	0.079	0.397	0.079
	1988	0.479	0.357	0.546	0.006	0.423	0.013	0.031	0.397	0.079	0.291	0.297	0.291
1995	0.454	0.309	0.481	0.065	0.318	0.205	0.087	0.297	0.291	0.291	0.291	0.291	0.291
	2002	0.470	0.332	0.372	0.166	0.212	0.783	0.032	0.152	0.209	0.209	0.209	0.209
India	1993	0.326	0.344	0.286	0.024	0.151	0.158	0.018	0.157	0.112	0.112	0.112	0.112
	2004	0.343	0.363	0.280	0.041	0.150	0.272	0.028	0.163	0.174	0.174	0.174	0.174
2006/07	0.352	0.372	0.292	0.041	0.161	0.254	0.034	0.167	0.205	0.205	0.205	0.205	0.205
	2007/08	0.343	0.356	0.276	0.044	0.146	0.300	0.029	0.161	0.182	0.182	0.182	0.182
2009/10	0.348	0.372	0.278	0.043	0.154	0.280	0.033	0.164	0.200	0.200	0.200	0.200	0.200
	1990	0.331	0.346	0.264	0.040	0.137	0.291	0.029	0.148	0.199	0.199	0.199	0.199
Indonesia	2000	0.306	0.323	0.241	0.027	0.127	0.215	0.026	0.128	0.204	0.204	0.204	0.204
	2009	0.344	0.350	0.272	0.033	0.158	0.211	0.028	0.164	0.169	0.169	0.169	0.169
2010	0.357	0.367	0.269	0.039	0.169	0.231	0.030	0.178	0.166	0.166	0.166	0.166	0.166
	2002	0.305	0.353	0.253	0.021	0.132	0.159	0.002	0.152	0.012	0.012	0.012	0.012
2008	0.320	0.349	0.277	0.018	0.148	0.124	0.003	0.164	0.020	0.020	0.020	0.020	0.020
	1985	0.410	0.409	0.341	0.054	0.225	0.241	0.049	0.230	0.213	0.213	0.213	0.213
Philippines	1988	0.407	0.397	0.338	0.058	0.215	0.271	0.052	0.221	0.236	0.236	0.236	0.236
	1991	0.439	0.432	0.348	0.063	0.257	0.245	0.075	0.245	0.307	0.307	0.307	0.307
1994	0.429	0.416	0.345	0.063	0.243	0.259	0.079	0.227	0.347	0.347	0.347	0.347	0.347
	1997	0.459	0.445	0.361	0.083	0.272	0.305	0.094	0.260	0.362	0.362	0.362	0.362
2000	0.462	0.444	0.369	0.081	0.276	0.295	0.092	0.266	0.345	0.345	0.345	0.345	0.345
	2003	0.440	0.407	0.377	0.070	0.254	0.275	0.067	0.257	0.260	0.260	0.260	0.260
2006	0.441	0.412	0.376	0.067	0.257	0.262	0.066	0.258	0.255	0.255	0.255	0.255	0.255
	2009	0.430	0.408	0.368	0.058	0.247	0.233	0.056	0.249	0.227	0.227	0.227	0.227
Sri Lanka	2007	0.344	0.406	0.321	0.005	0.188	0.028	0.015	0.178	0.087	0.087	0.087	0.087
	2010	0.363	0.408	0.346	0.004	0.213	0.019	0.027	0.190	0.142	0.142	0.142	0.142
Vietnam	2008	0.365	0.365	0.299	0.053	0.167	0.319	0.068	0.152	0.450	0.450	0.450	0.450
	2010	0.383	0.364	0.311	0.066	0.181	0.367	0.035	0.213	0.163	0.163	0.163	0.163

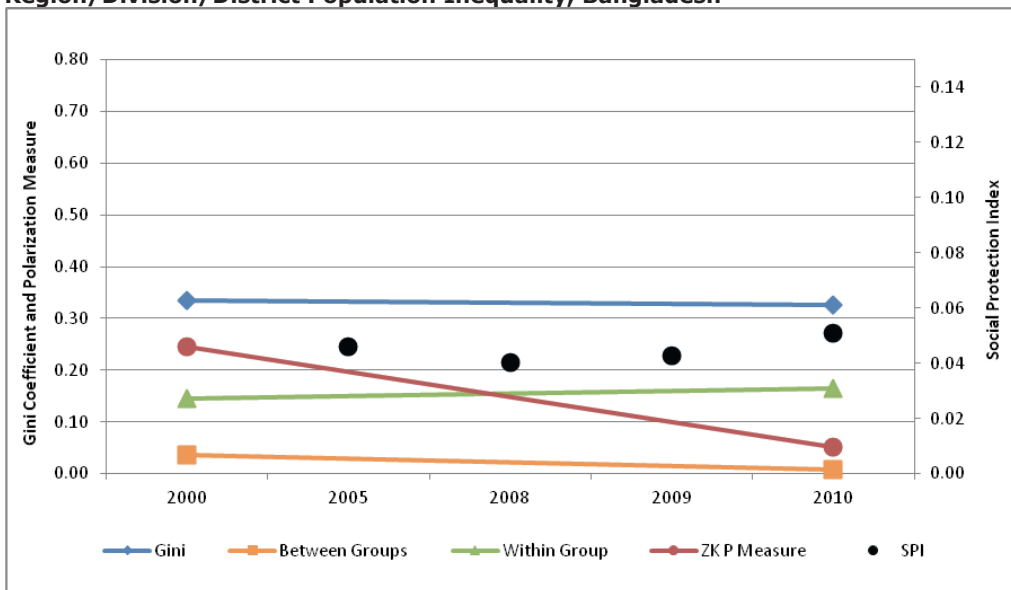
Table 2. Zhang-Kanbur Polarization Measures Based on Inequalities in the Characteristics of the Household Head

Country	Year	Zhang-Kanbur Polarization Index (ZK)											
		Based on Age of the Household Head Inequality				Based on Sex of the Household Head Inequality				Based on Education of the Household Head Inequality			
		Between	Within	ZK		Between	Within	ZK		Between	Within	ZK	
Bangladesh	2000	0.000	0.181	0.001	0.004	0.177	0.025		0.039	0.134	0.292		
	2010	0.000	0.173	0.002	0.004	0.169	0.024		0.039	0.134	0.292		
	2003	0.001	0.301	0.003	0.011	0.291	0.036		0.047	0.255	0.183		
	2007	0.000	0.283	0.000	0.015	0.268	0.056		0.055	0.228	0.240		
	2012	0.000	0.297	0.000	0.011	0.286	0.038		0.053	0.243	0.220		
China, People's Republic of	1988	0.004	0.425	0.009	0.002	0.427	0.004		0.003	0.425	0.008		
	1995	0.012	0.371	0.033	0.006	0.378	0.015		0.020	0.364	0.054		
	2002	0.001	0.378	0.001	0.105	0.273	0.384		0.099	0.280	0.354		
	1993	0.000	0.175	0.000	0.000	0.175	0.000		0.036	0.140	0.255		
	2004	0.000	0.191	0.002	0.003	0.188	0.016		0.056	0.135	0.415		
India	2006/07	0.000	0.201	0.002	0.004	0.198	0.019		0.060	0.141	0.426		
	2007/08	0.000	0.190	0.001	0.004	0.186	0.020		0.060	0.130	0.460		
	2009/10	0.000	0.197	0.002	0.006	0.191	0.033		0.059	0.138	0.426		
	1990	0.000	0.177	0.000	0.000	0.177	0.002		0.053	0.124	0.424		
	2000	0.000	0.154	0.001	0.001	0.153	0.007		0.029	0.125	0.227		
Indonesia	2009	0.000	0.192	0.001	0.002	0.190	0.009		0.038	0.149	0.258		
	2010	0.000	0.207	0.001	0.002	0.205	0.010		0.052	0.156	0.333		
	2002	0.001	0.152	0.009	0.002	0.152	0.012		0.036	0.118	0.303		
	2008	0.001	0.166	0.005	0.001	0.166	0.006		0.041	0.125	0.328		
	1985	0.006	0.274	0.021	0.008	0.272	0.028		0.061	0.219	0.278		
Philippines	1988	0.006	0.267	0.023	0.004	0.269	0.017		0.086	0.187	0.460		
	1991	0.007	0.313	0.022	0.005	0.315	0.016		0.103	0.217	0.476		
	1994	0.007	0.300	0.022	0.005	0.301	0.017		0.094	0.212	0.446		
	1997	0.007	0.348	0.019	0.008	0.347	0.022		0.127	0.228	0.555		
	2000	0.007	0.351	0.020	0.009	0.349	0.026		0.125	0.233	0.538		
Sri Lanka	2003	0.010	0.315	0.031	0.006	0.318	0.019		0.109	0.215	0.507		
	2006	0.010	0.314	0.032	0.007	0.317	0.021		0.108	0.216	0.498		
	2009	0.009	0.296	0.032	0.006	0.299	0.021		0.109	0.196	0.556		
	2007	0.001	0.193	0.003	0.001	0.192	0.007		0.007				
	2010	0.000	0.217	0.001	0.000	0.217	0.001		0.001				
Vietnam	2008	0.008	0.212	0.038	0.005	0.215	0.023		0.041	0.179	0.228		
	2010	0.005	0.243	0.023	0.003	0.245	0.011		0.069	0.180	0.382		

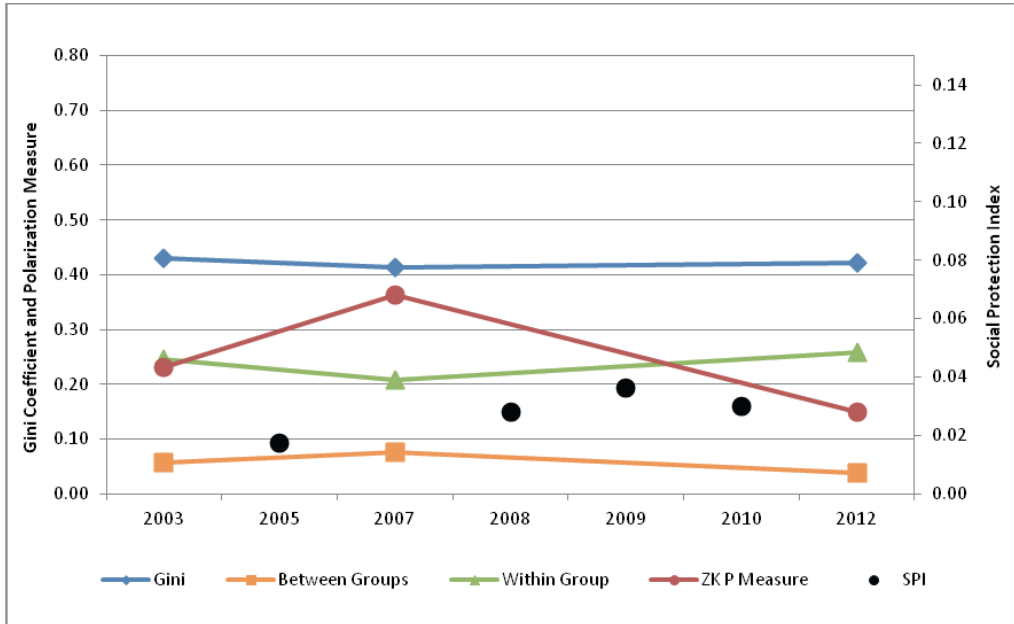
**Figure 1. Zhang-Kanbur Polarization Measures Based on Spatial Inequality
Urban-Rural Population Inequality, Bangladesh**



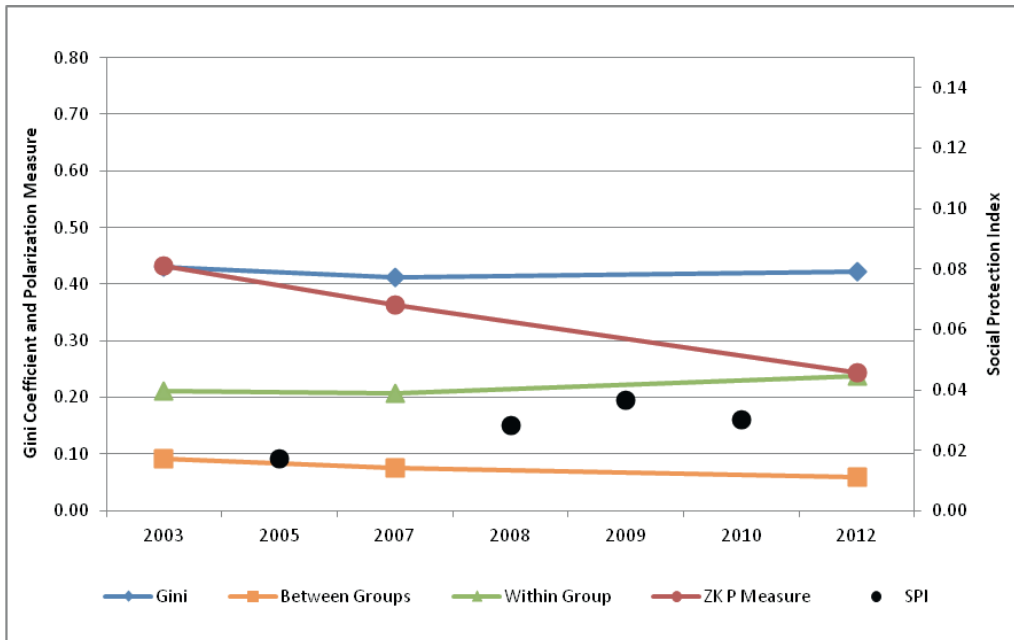
Region/Division/District Population Inequality, Bangladesh



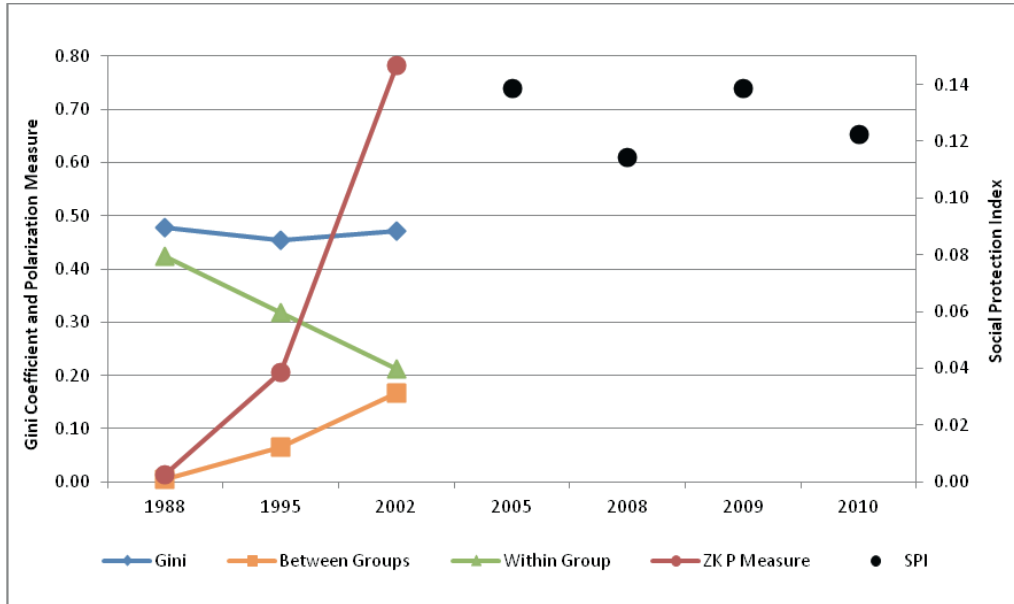
Urban-Rural Population Inequality, Bhutan



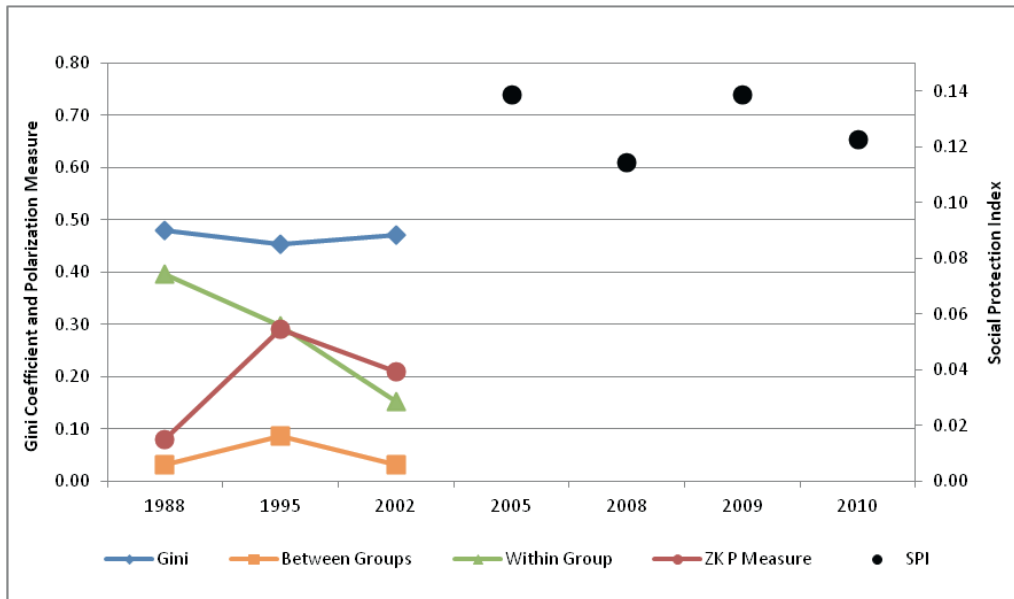
Region/Division/District Population Inequality, Bhutan



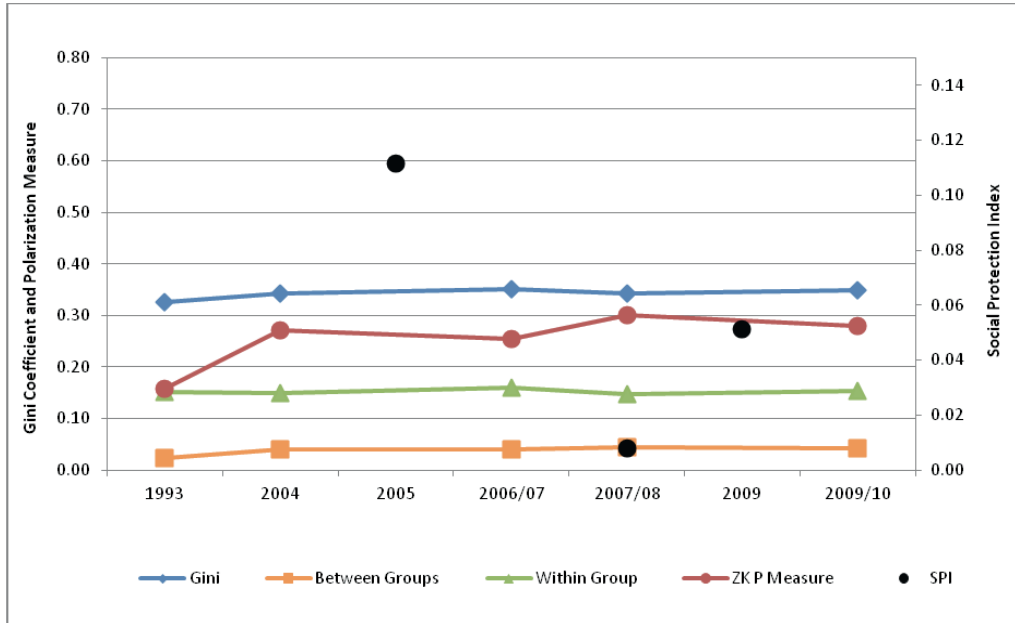
Urban-Rural Population Inequality, People's Republic of China



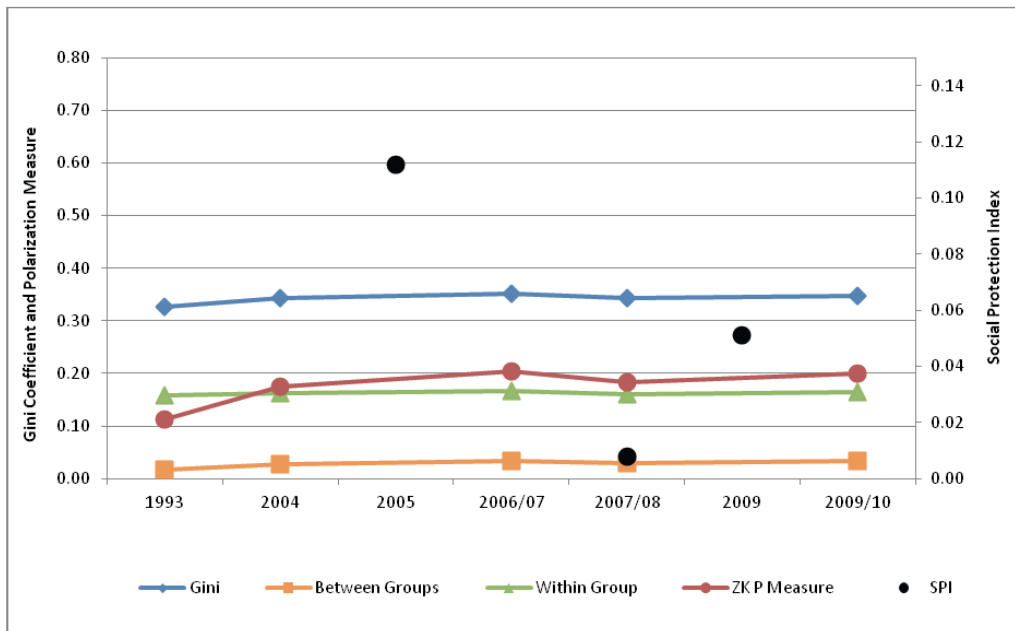
Region/Division/District Population Inequality, People's Republic of China



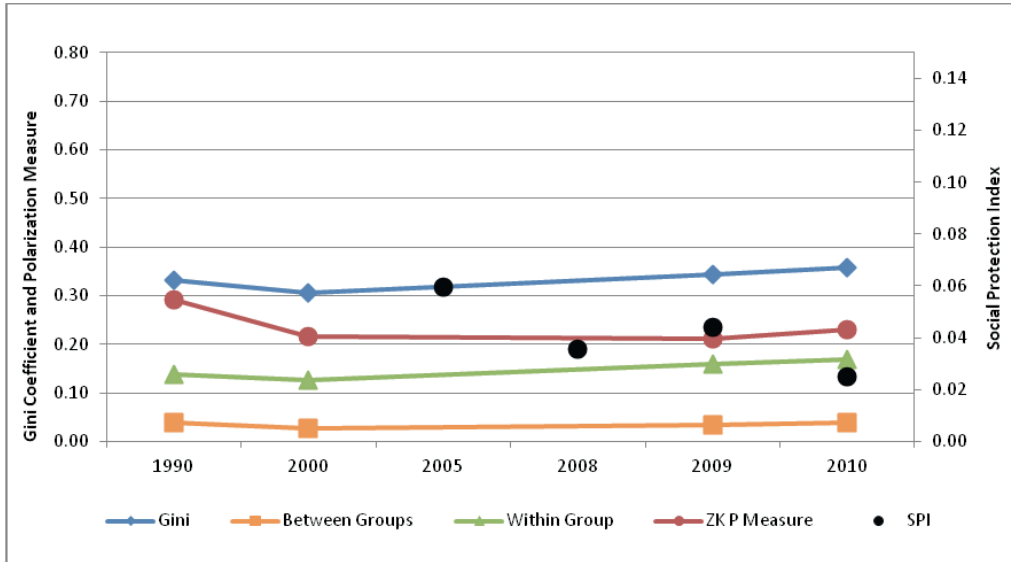
Urban-Rural Population Inequality, India



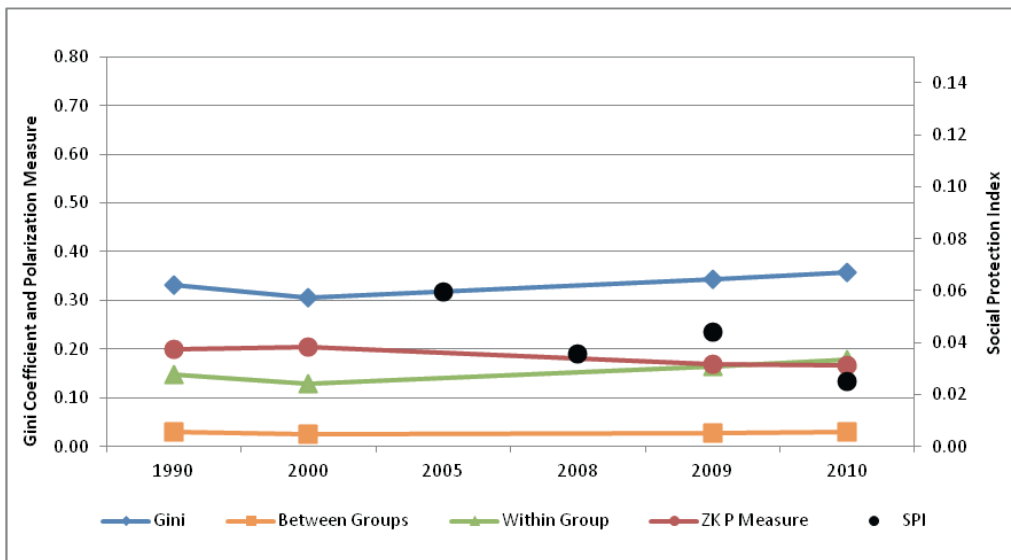
Region/Division/District Population Inequality, India



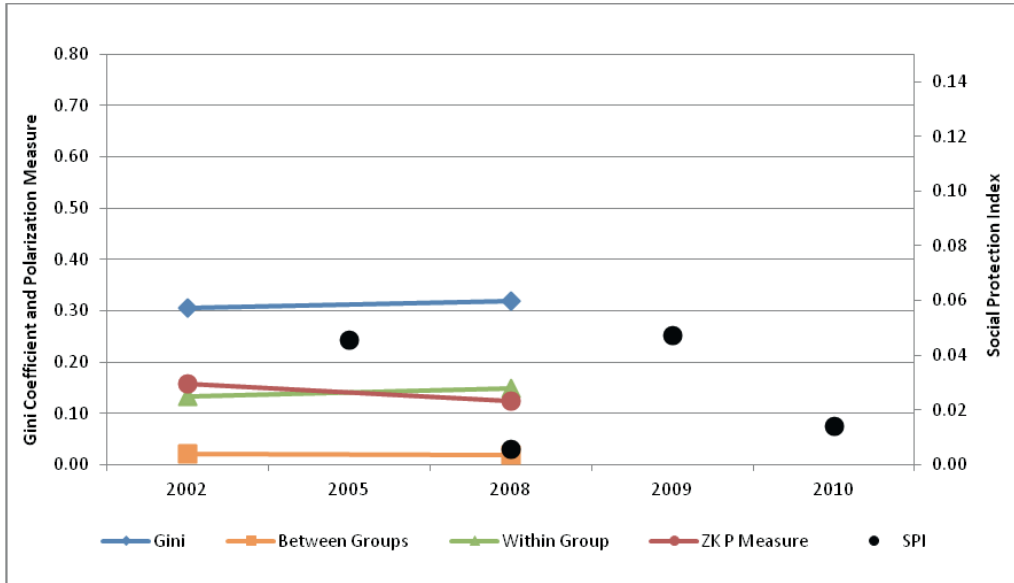
Urban-Rural Population Inequality, Indonesia



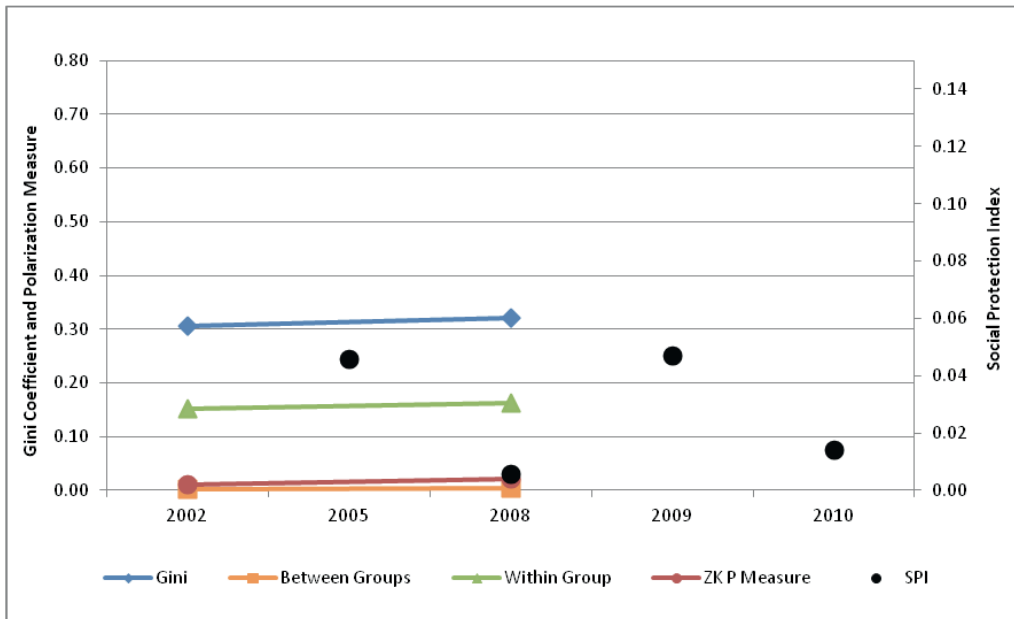
Region/Division/District Population Inequality, Indonesia



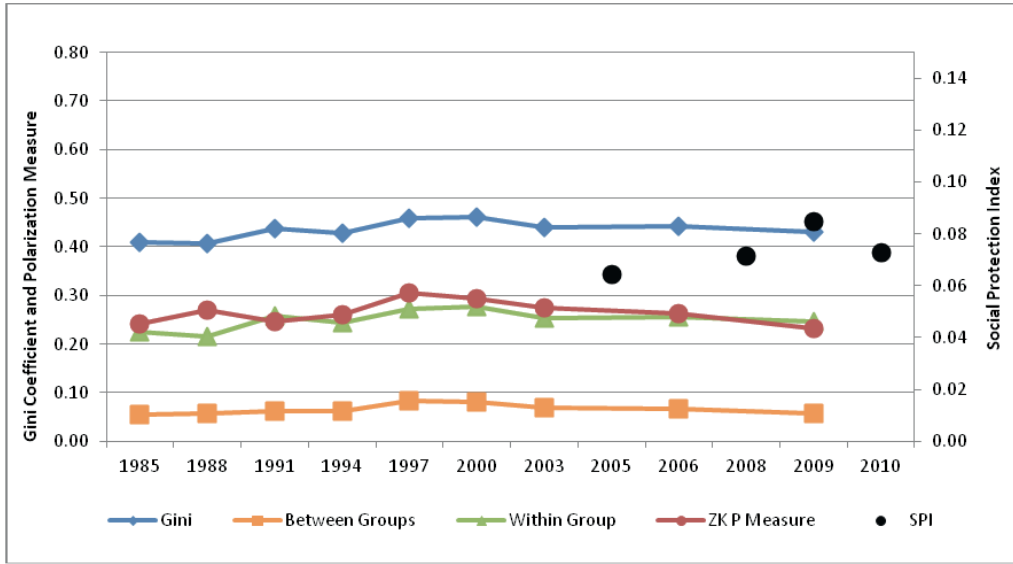
Urban-Rural Population Inequality, Pakistan



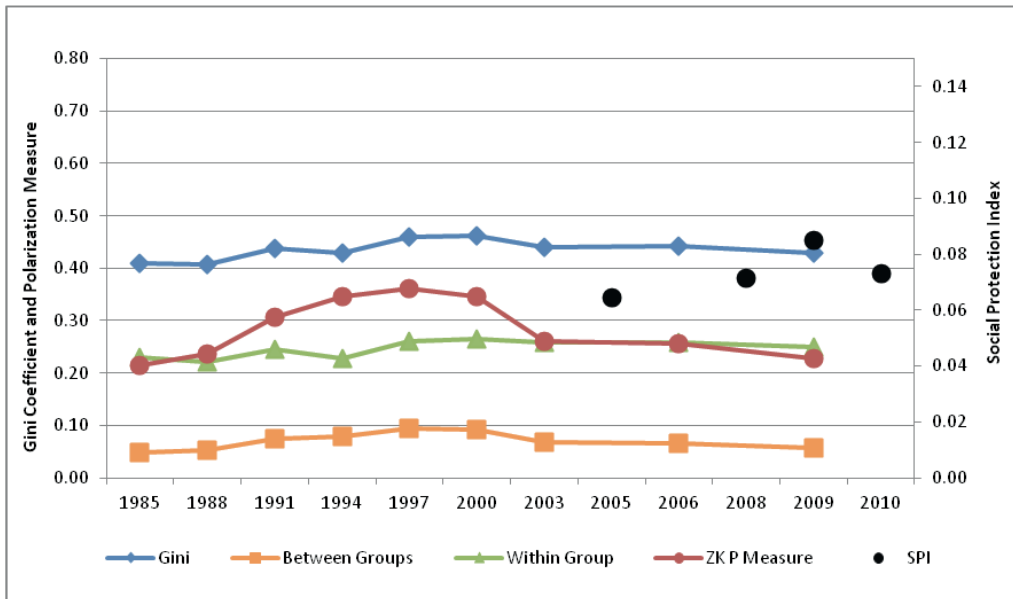
Region/Division/District Population Inequality, Pakistan



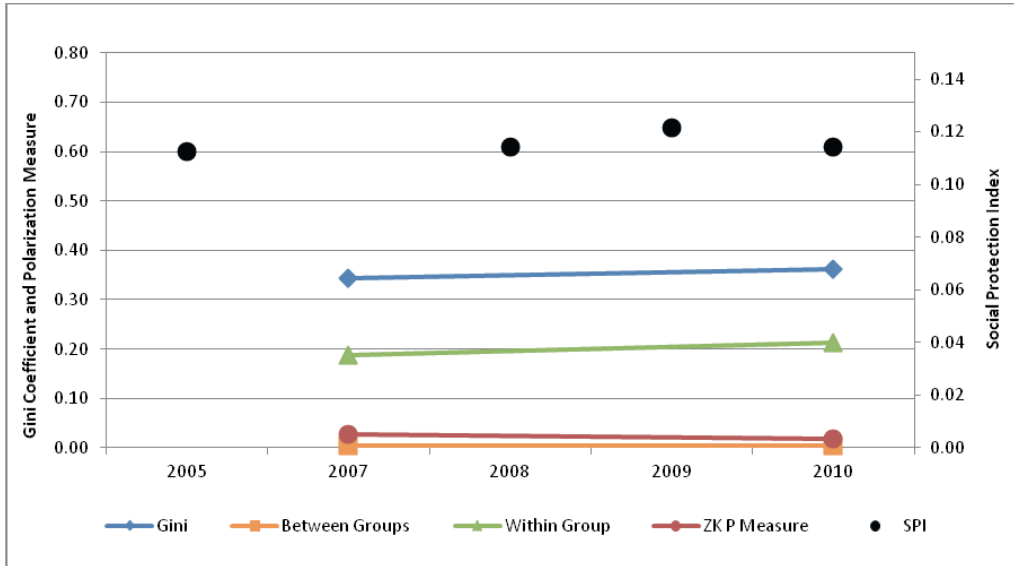
Urban-Rural Population Inequality, Philippines



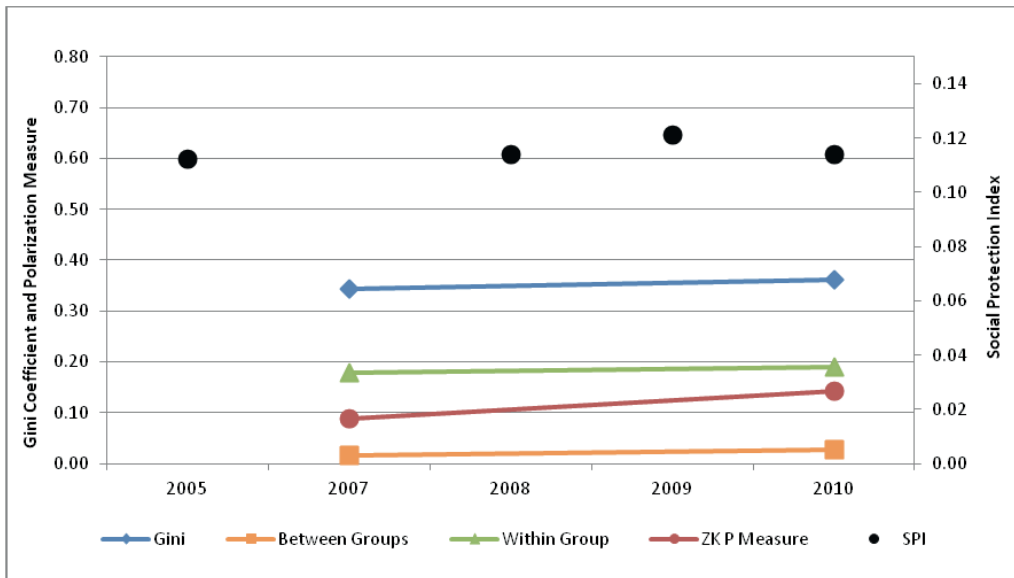
Region/Division/District Population Inequality, Philippines



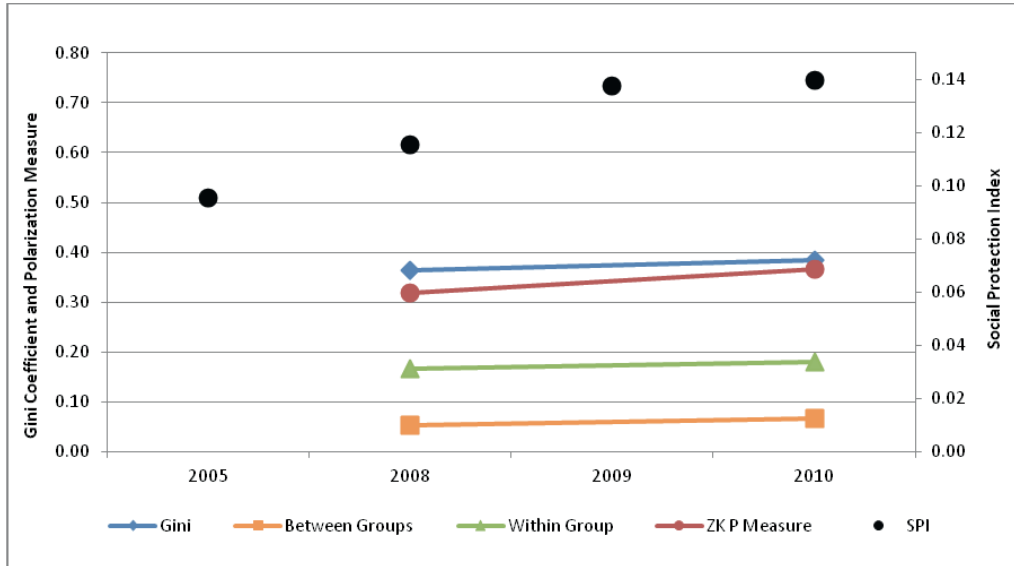
Urban-Rural Population Inequality, Sri Lanka



Region/Division/District Population Inequality, Sri Lanka



Urban-Rural Population Inequality, Vietnam



Region/Division/District Population Inequality, Vietnam

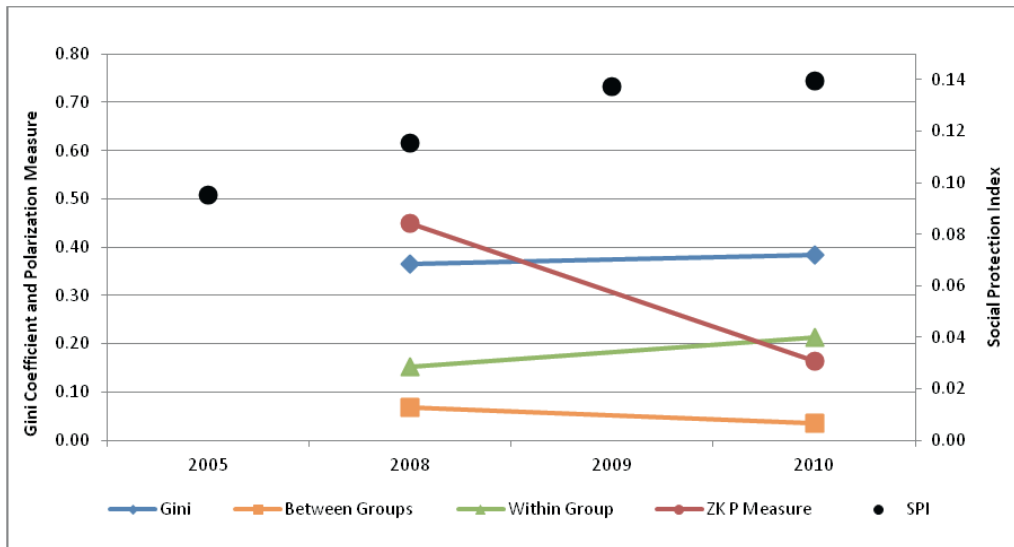
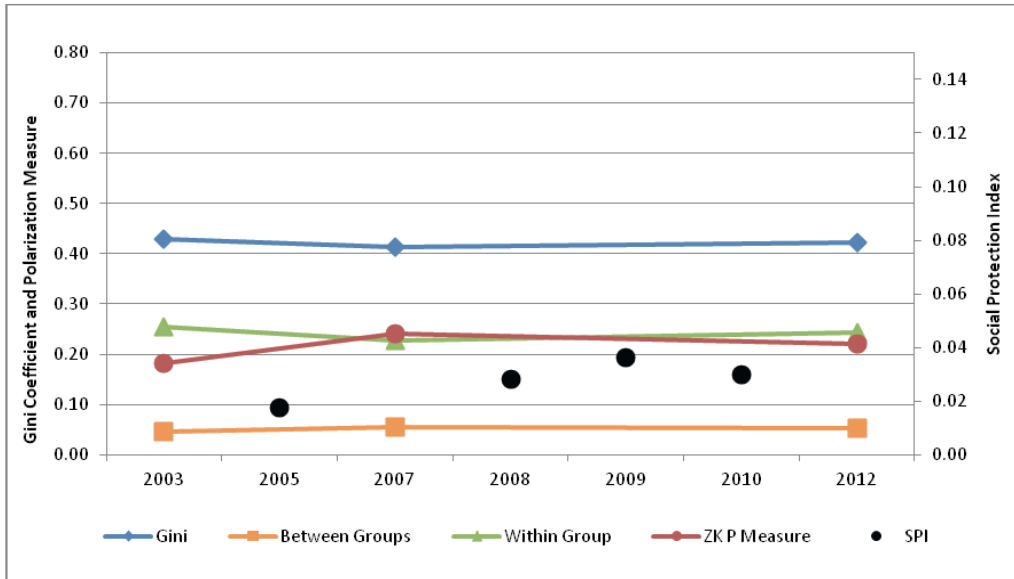
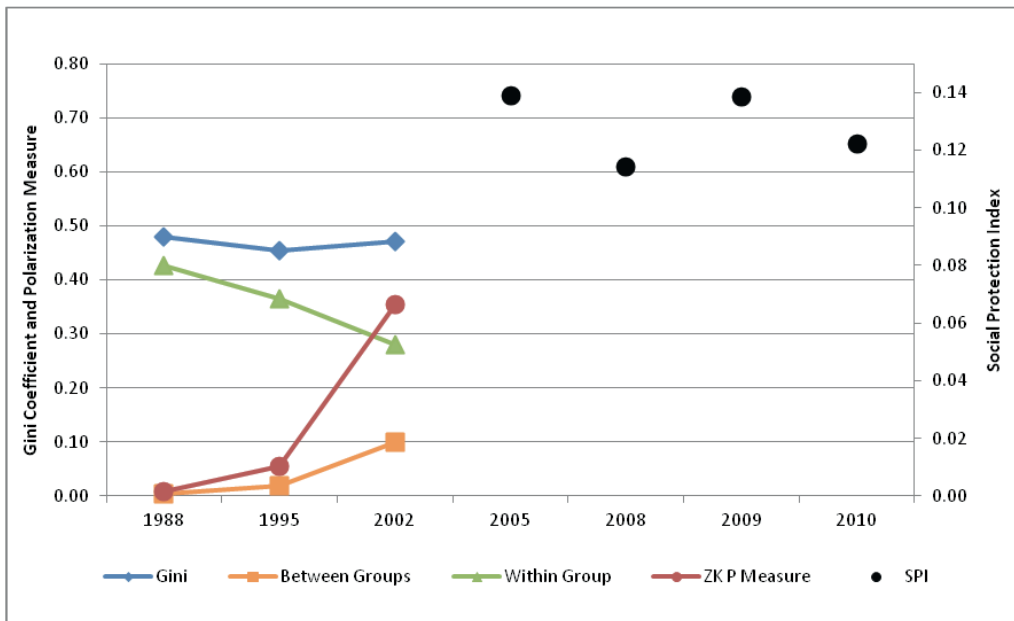


Figure 2. Zhang-Kanbur Polarization Measures Based on Inequality in Educational Level of the Household Head

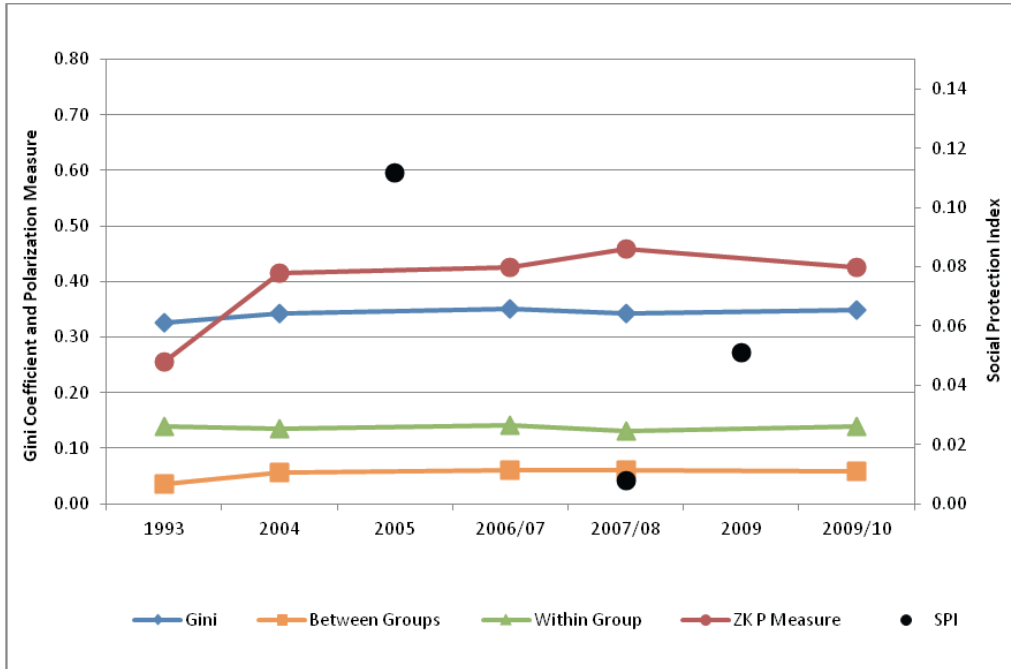
Educational Level of the Household Head Inequality, Bhutan



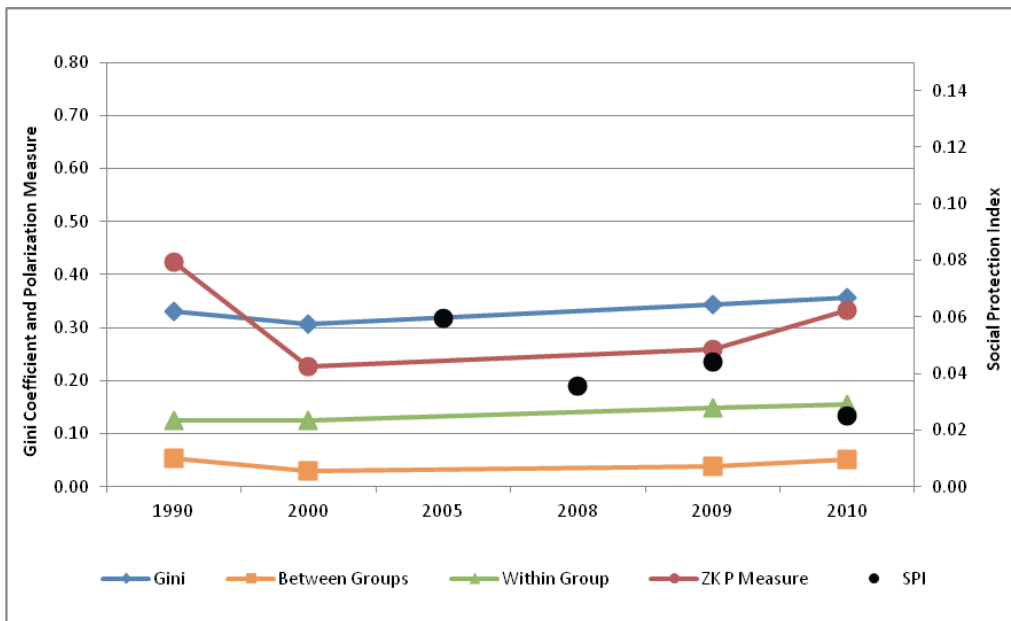
Educational Level of the Household Head Inequality, People's Republic of China



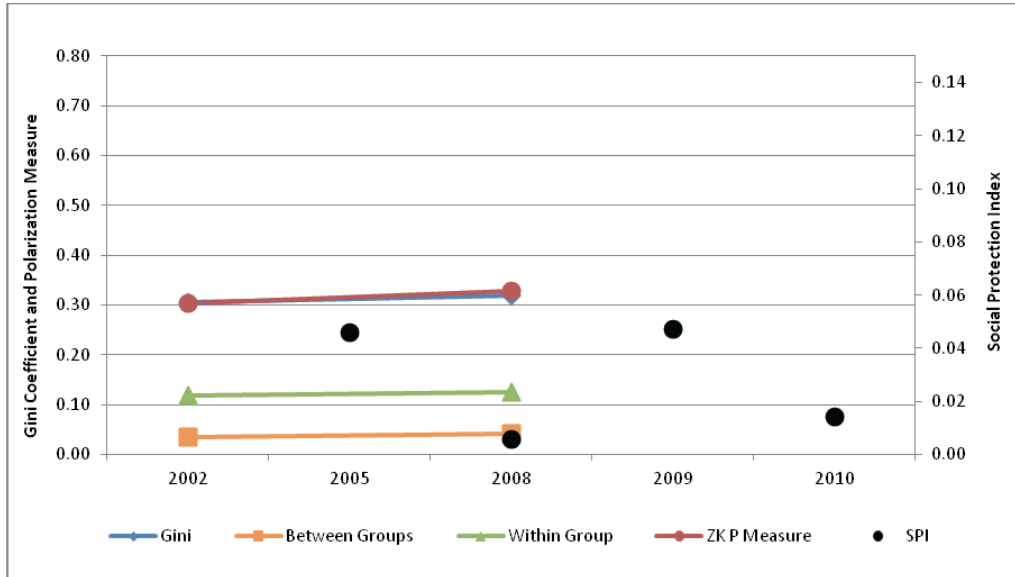
Educational Level of the Household Head Inequality, India



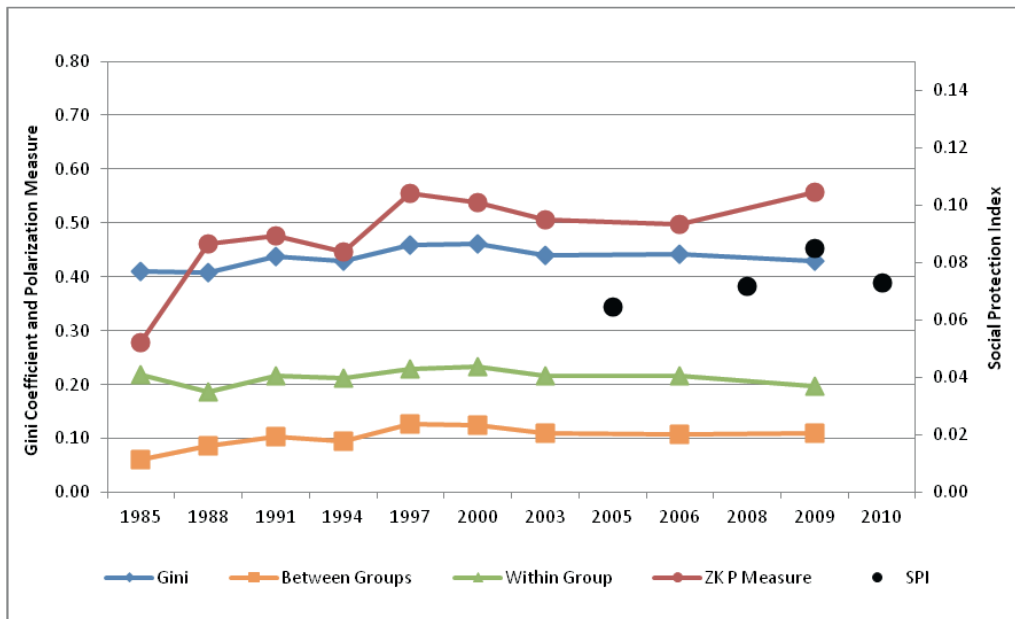
Educational Level of the Household Head Inequality, Indonesia



Educational Level of the Household Head Inequality, Pakistan



Educational Level of the Household Head Inequality, Philippines



Educational Level of the Household Head Inequality, Vietnam

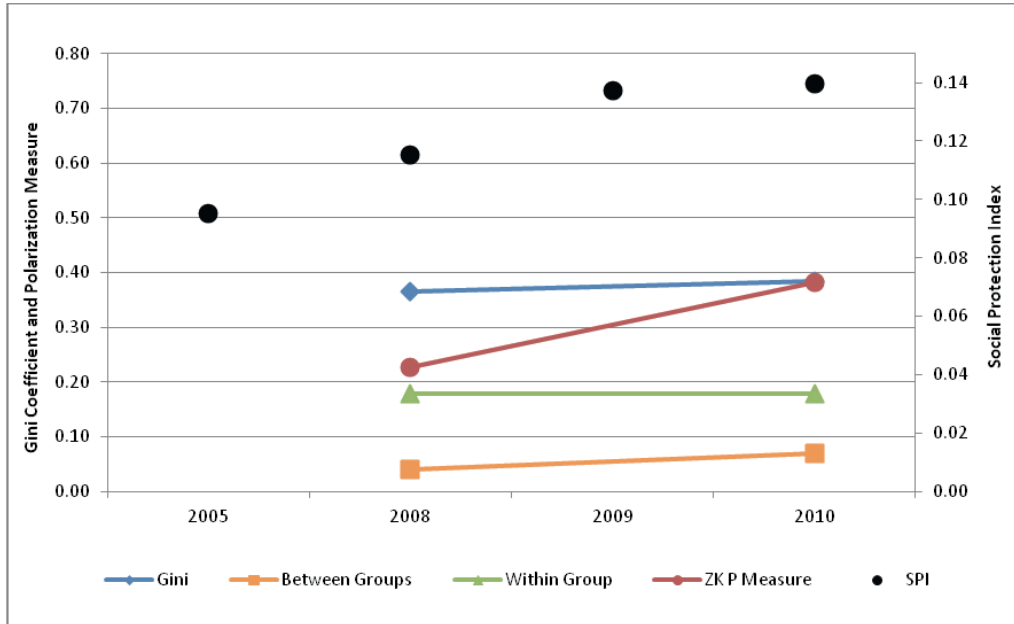
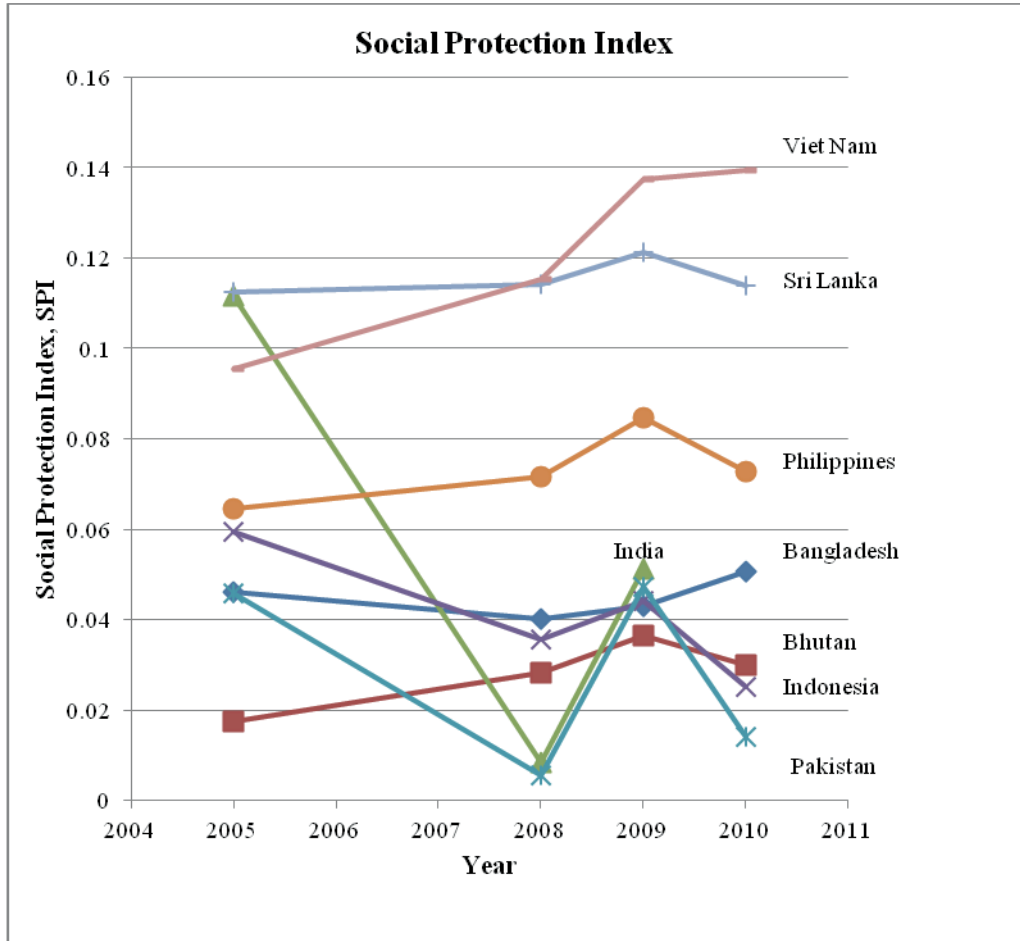


Figure 3. The Social Protection Index for Various Countries, 2005-2010



Social Cohesion in Singapore – Challenges and Policy Response

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INTRODUCTION³

The definition of a cohesive society in Singapore has not strayed far from its rarefied notion of multiculturalism as racial and religious harmony, credited for providing the “foundations for meaningful socio-economic and political development” (Tan 2004, 65). However, as this book on social cohesion elucidates, the concept of social cohesion runs deeper than notions of successful multiculturalism or religious and racial harmony.

Nevertheless, with the current proliferation of ethnic and religious strife in many parts of the region and the world, the management of ethnic relations and religious diversity in Singapore is perceived as exemplary. The use of multiculturalism to foster social cohesion and as a building block of a new nation has been recognized and accepted by its founding leaders.

Since its colonial days, Singapore, as a trading port, was made up of peoples from Southeast Asia, China, India, Europe and various parts of the Malay Archipelago (Lai 2004, 4). However, there was little social interaction, much less integration, as the different ethnic communities lived in their designated enclaves. In addition, the colonial administration had largely adopted a divide-and-rule policy, categorising the communities based on their labour capacities and assumed traits – for example, during the British Indian Rule era, the Malays were excluded from trading alliances with the British, whereas the Chinese, due to their fluency in various dialects and most importantly in English, were the British’s preferred strategic partners (Manap 2010, 50).

In spite of this segregated approach, or perhaps because of this segregated approach by the British, the different ethnic groups lived side by side in relative peace, with no significant conflict disrupting their harmony. The British left the various Asian communities to fend for themselves and their law protected their diverse customs, practices and cultures (Chan 2013,

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³ This paper was adapted and revised from EU Centre’s Working Paper on “Developing An Analytical Framework on Social Cohesion in Singapore”, November 2013.

87). These different ethnic communities were served by their own informal civic organisations and had their respective social structures and leaderships. Many were sojourners, seeing Singapore merely as a place for them to make a living, and therefore maintained stronger political allegiances to their native homelands (Lai 2004, 4). The ruling colonial regime thus did not view these economic sojourners as political or social threats (Ibid.).

However, post-World War II developments and in particular the process of decolonisation in Asia and Africa stirred up political awareness within the respective ethnic communities, and various political movements started to rip through the country. The Malayan Communist Party (MCP), which had developed as an underground political organisation during the British rule, garnered significant support from the Chinese and was seen as a subversive force against the state (Lawson 2001). The MCP organised many labour strikes, and the most significant one was the Hock Lee Bus Strike in 1955, protesting against the poor working conditions of the bus drivers.

In 1950, modern Singapore also recorded its first incidence of “ethnic-based violence”, involving the case of Catholic-born Dutch girl Maria Hertogh, who was raised by a Malay-Muslim family and became a Muslim convert (Lawson 2007, 68). The custody battle between Maria’s biological Dutch parents and her Malay guardian sparked off riots where the Malays (who protested against Maria’s parents’ custody rights) virtually attacked any European or Eurasian they encountered. This resulted in 18 deaths and 173 casualties (Ibid.). Nonetheless, the Malays’ political awareness only culminated during Singapore’s brief merger with Malaysia. Realising that they were a minority in a predominantly Chinese country, Singapore Malays demanded privileged treatment similar to what their Malaysian counterparts were receiving from the Malaysian government (Lawson 2001). In 1964, this tension erupted in violent racial riots between the Malays and the Chinese, with the Singapore leaders accusing UMNO (United Malays National Organisation)⁴ of invoking extremist tendencies amongst the Singapore Malays.

To this day, the Maria Hertogh incident and the racial riots are frequently used in the official discourse and in school textbooks as a reminder to Singaporeans about the perils of non-integration, and the need to be sensitive and vigilant with regard to issues on race and religion. Schools celebrate an official Racial Harmony Day to commemorate the 1964 racial riots and at the same time to promote inter-racial peace (Ministry of Education 2013).

In the early years of its independence, and after its unsuccessful merger with Malaysia, the new Singapore government, led by Prime Minister Lee Kuan Yew, quickly adopted a multiracial principle, emphasising the equality of all races⁵ (Tan 2004, 67). Driven by this

⁴ UMNO is Malaysia’s largest political party, formed to uphold the aspirations of Malay nationalism and protect the interest of the Malays and bumiputra (son of the soil) in Malaysia.

⁵ In contradiction to the equality ethos developed by the Singapore government, Article 152 in the Constitution of Singapore recognises the “Minorities and Special Position of Malays” in the country. This is a symbolic move to acknowledge Malays as the indigenous people of the country, and according to Lee Kuan Yew (2009), this serves as a reminder that the government will always bear in mind the interests of the Malays (and other minorities).

ethos, the government developed a nation-building framework based on multiculturalism to instil a “Singaporean Singapore” identity (Ibid).

Today, the country is made up of 74.1% Chinese, 13.4% Malay, 9.1% Indians, and 3.2% Others (Department of Statistics 2012). This population equilibrium has remained relatively unchanged over the years. One of the policies that falls under the rigorous CMIO (Chinese, Malay, Indian and Others) model is the bilingual policy of the country, whereby English is the chosen language of administration, business and education, and the ethnic mother tongues play a secondary (but necessary) role in official cultural and educational affairs (Tan and Ng 2011). All students are therefore required to learn English as the working language and have their respective “mother tongue” as the other language that they have to learn in school. This bilingual philosophy was underlined by the government’s drive to keep Singapore relevant in the international scene and to ensure the maintenance of its cultural roots (Tan 2004, 69).

Critics argue that this method of “controlled ethnicity” is problematic as not only does it assume homogeneity under each broad ethnic category, it fails to see that such demarcation only serves to highlight stereotypical differences between each community (Tan 2004, Lawson 2007, Ooi 2005). However, the government insisted that the unravelling of its controlled ethnicity approach would produce perilous consequences and threaten social cohesion.

In 1999, the government came up with another analogy to describe Singapore’s brand of multiracialism. The overlapping circle conception sees each community being represented by a circle. The four circles representing the CMIO overlap one another and “what we can do is to maximise the overlapping area” (Goh 1999). He continued, “It is also not the Government’s policy to have the four overlapping circles merged into one.” (Tan 2004, 74).

While the government’s hegemony in framing racial and religious harmony has gone unchallenged in the past, globalisation, as well as a more relaxed immigration policy from 2000 to 2010, has changed the country’s social, political and economic landscapes, and added more diversity into its demographic landscape. Old and new fault lines are beginning to emerge, and the increasing divide within each CMIO category plus the rising number of mixed marriages have exacerbated the complexities of Singapore’s multiracialism. It is therefore timely to review Singapore’s multicultural framework and discourse on social cohesion.

NEW FAULT LINES IN SINGAPORE: EMERGING DIVERSITIES AND DIVIDES

Over the last forty years, Singapore’s rapid economic transformation has gained this Southeast Asian city worldwide recognition. Despite its lack of natural and human resources and physical constraints, it has succeeded in becoming one of the most globalised cities in the world. The country’s swift transformation from a small trading port to a high-income, global business hub has not only affected its economic climate, but also its social and political

milieu. The unrelenting pursuit of growth has major ramifications on its society, creating new divergences and deepening some existing fault lines⁶ in the country.

Influx of Immigrants

Over the last decade, the thorny issue of immigrants has never failed to strike a chord with Singaporeans. It is possibly one of the most pressing issues now facing the country, as the presence of immigrants greatly impacts the country's social cohesion on various dimensions. Economically, they were seen as competitors for jobs; politically, their sheer numbers make integration a real challenge, and the local born see them also as diluting the sociocultural milieu of the society. In the last two to three years, Singaporeans have grown increasingly vocal about their unhappiness over this influx of immigrants. Their unhappiness stems from various reasons; having to face greater job competition, lack of social integration due to language and cultural differences, and the perceived weakening of the national identity (Yeoh and Lin 2012).

The recently published "Population White Paper" released by the Singapore government⁷ triggered waves of anxiety throughout the country as it encapsulates the government's plans to increase the rate of immigrants at 15,000 to 25,000 per year, to make up for the low fertility rate (TFR is around 1.2) and to maintain the "economic vibrancy" of the city. At this heightened pace of migration, the proportion of immigrants will make up almost half the population by 2020. The latest demonstration of their vexation with the government's immigration policies was showcased during a rare mass protest against the Population White Paper (*Yahoo Newsroom* 2013), organised by the non-governmental organisation Transitioning – Unemployment Support Services (TUSS). This event garnered international media coverage as it is one of the country's largest ever protest, with a massive turnout of around 4000 people (Ibid.).

A much more insidious issue for which debates have been muted thus far until the riots in Little India⁸ at the end of 2013 is the presence of large communities of unskilled, contract workers such as the estimated half a million mainly in the construction and cleaning industry from mainly South Asia but also China.

As these were contract workers and often treated as transient, there were no attempts or efforts to integrate these workers in the Singapore society. Yet, their sheer numbers meant their presence is very much felt in the society leading to some tensions such as the complaints of them gathering in huge numbers in certain parts of Singapore during their day off from work.

⁶ In 2012, PM Lee warned of new "fault lines" in Singapore, highlighting the need to resolve the tensions between new immigrants and Singaporeans (*Asiaweek* 2012).

⁷ National Population and Talent Division. 2013. "A Sustainable Population for a Dynamic Singapore: A Population White Paper." www.population.sg. Accessed 20 February 2013.

⁸ On 8 December, an accident involving a foreign worker from South Asia sparked a riot in Little India – an area in Singapore which attracts huge congregations of foreign workers from South Asia every Sunday because of its mix of shops and certain cultural affinity for these workers.

Growing Income Inequality

Singapore's rise to become the world's most affluent country⁹ has come at the cost of increasing inequalities as reflected in the country's Gini coefficient, which currently stands at a high of 0.478 in 2012 (*Straits Times* 2013).¹⁰ Many in the lower income group also suffered a decline in real income or wage stagnation due to the heavy reliance on low-wage foreign labour. At the same time, the influx of super-rich and wealthy migrants, and the influx of "hot money" driving up property prices create resentment as the income gap in the country widens (Asher and Nandy 2008; Tan 2012).

Although there is no extreme poverty in Singapore, the incidences of relative poverty are much more palpable. According to a recent study on inequality in Singapore, the second and third deciles (bottom 20 and 30 percent) of employed households in Singapore earn between SGD2,700 to 3,700, less than half of the country's median income, which stands at SGD7,570 (Bhaskaran et al. 2012). Income inequality impinges on social cohesion, and has grave consequences on society in general. How so? First, income inequality affects social mobility, or an individual's ability to improve his or her lives and status in society. This in turn affects social cohesion, as the lack of mobility tends to produce groups of permanent underclasses, which can have negative ramifications on social cohesion (OECD 2012). David Chan, Director of the Behavioural Sciences Institute, asserts that such class divisiveness leads to "perceptions of inequity, injustice, alienation, pessimism, envy and conflict" (Chan 2013). He believes that improving social mobility is crucial to Singapore's social cohesion.

Because of the systemic nature of inequality, it is no easy task conceiving solutions to tackle relative poverty, especially when this gap has an inherent class-race dimension to it (Lai 2004, 13). Clearly, more long-term, sustainable and integrated solutions are needed to address the issue of income inequality.

While the divides between rich and poor and between new migrants and Singapore-born citizens are the most prominent divisions that have emerged and received attention in the past few years, there are other increasing cleavages in society. Overall, the Singapore society has become far more plural and contentious as one can see for instance in the increasing contestation between the more conservative and religious residents and the community fighting for gay rights. While this kind of pluralism and contention are very much "normal" in democratic societies, in a managed multi-ethnic and multi-religious society like Singapore, these issues can result in further divisions and impact the social cohesion of society.

Lack of Conflict Management Avenues

As a society becomes more diverse, made up of several communities with different sets of values, beliefs and practices, conflict is to be expected. There is a greater need therefore to

⁹ In 2012, The Wealth Report, a worldwide study which takes a look at wealth ranks Singapore as the world's richest country. Singapore's per capita GDP stands at US\$56,532 (*Asiaone* 2012).

¹⁰ The Gini coefficient is the most common way of measuring income gaps in countries. A score of 0 indicates zero inequality and 1 indicates total inequality. Hong Kong ranks as Asia's most unequal city at 0.537, and Norway has the lowest, at 0.256 (Shah 2013).

establish various institutions of conflict management, both formal and informal, to mediate and help resolve conflicts. Among many other things, cohesive societies are marked by the distinct presence of conflict management institutions (Lai 2004, 3). Berger (1998) argues that “mediating structures” are essential to “protect the individual from alienation” (363), but also warns that these institutions have the potential to polarise conflicts. There needs to be a balance of both formal and informal conflict management avenues.

The Community Mediation Centre (CMC) was set up by the government in 1998, and the organisation has seen an average of 600 to 700 cases per year, with 70 percent of the cases resolved (Chia 2013). These cases are conflicts which cannot be solved in courts, and are often between family members, neighbours and friends¹¹. Besides the CMC, there are also a handful of alternative conflict management places, either non-profit organisations such as Eagles Mediation and Counselling Centre or the respective ethnic self-help groups such as the Malay organisation 4PM. Otherwise, these disputes either remain unresolved or end up in courts. Tan (2002) further argues that mediation in Singapore needs to have more “private or community-driven mediation services” because people tend to perceive formal mediation centres as government-linked and this can harm the mediation process and outcomes (Ibid., 299). The lack of alternative conflict management avenues is inextricably tied to the broader issue of weak civic consciousness in Singapore caused by the persistent encroachment of the state into multiple facets of its citizens’ lives (Lee 2005, 134). This “strong state, weak society,” condition, typical of authoritarian regimes, has impeded the growth of civil societies at large. As such, there is little room to cultivate the establishment of independent mediation centres.

POLICY RESPONSES

From the different fault lines and issues that are polarizing the Singapore society now, one can see that social cohesion is a multi-dimensional and complex concept. Social cohesion can no longer be viewed entirely from a political or cultural angle, and while the continued sensitive political management of race and religion remains an important pillar of government, the framework put in place is no longer sufficient in addressing other cleavages.

To come up with appropriate policy responses to promote social cohesion, one has to appreciate the different dimensions – understanding for instance the links between the economic health of the country and the state of its cohesiveness; the importance of building social capital and shared values, and last but not least, the often under-estimated dimension within Singapore, the importance of political participation and citizens’ involvement in building socially cohesive societies.

¹¹ A high profile case under the CMC which involved a Singaporean-Indian family and a China-born family was about the Chinese family’s unhappiness with the smell of curry emanating from the Indian family’s home. Singaporeans banded together, regarded this case as an undesirable effect of immigration, and protested by organising a “Cook a Pot of Curry” day via social media (Lim 2011).

Since its independence, the Singapore government has conceived various policy solutions in an attempt to make the society more cohesive. This section analyses the government's current and past efforts and identifies gaps between its cohesion aspirations and its policy responses through a multi-dimensional framework.

Economic Dimension

This dimension focuses on the economic health of the country, and establishes that income disparities impact the state of cohesion. While Singapore's economic growth has been admirable, leading it to become one of the most affluent countries in the world, its growth has not been equitable. The government has come to realize that increasing inequality would pose a challenge not only to social cohesion, but would ultimately also impact its economic health. This has led to various schemes to help the low-income households level up in order to bring down the Gini coefficient.

In response to calls urging the government to increase the wages of low-income earners, the Workfare Income Supplement (WIS) was introduced in 2006 to assist those earning below S\$1900, and are above 35 years old (Central Provident Fund 2013). They receive annual payments ranging from S\$1750 to S\$4200, depending on their age, income and employment period. 40 percent of this payout is in cash, and the rest goes to their CPF accounts (Ibid.). Critics (Tan 2012, Asher and Nandy 2008, Hui 2013) dispute the long-term effectiveness of WIS in addressing the income gap, as it gives firms an incentive to continue to suppress the wages of low-income workers. This scheme has cost the government S\$1.2 billion from 2006 to 2010 (Hui 2013, 116).

Other efforts to alleviate the financial burden of the low-income group include the GST voucher scheme¹², income tax concessions and various subsidised training programmes¹³ to help workers upgrade their skills. Again, the sustainability and effectiveness of these efforts have been disputed, as they do not impact the wages of low-income earners in the long run. This is also an indication that the Singapore government does not intend to change its general position against a universal welfare state, but instead would focus on more targeted measures to help those who are in need.

The key concern is that if the country's income gap continues to grow, it will deepen existing class divides, putting the social fabric of our society at risk. Although it is difficult to determine the causal relationship between income inequalities and social cohesion, these two elements are inextricably related. According to the European Commission (in its Third Report on Economic and Social Cohesion), "Maintaining social cohesion is important not only in itself but for underpinning economic development which is liable to be threatened by discontent and political unrest if disparities within society are too wide" (Fenger 2012, 44).

¹² The GST voucher scheme aims to aid low-income families by offsetting the Goods and Services Tax (GST) they pay through cash handouts, CPF top-ups or rebates (GST Voucher 2013).

¹³ The Workforce Development Agency (WDA) has initiated a Workfare Training Support (WTS) Scheme which complements the WIS. It provides grants to employers to train older workers and other forms of assistance to aid older workers upgrade their skills (Ministry of Manpower 2012).

In other words, it is implied that the smaller the gaps are in society, the more cohesive the society could be. Fenger goes on to argue that GDP growth and productivity tend to benefit from greater cohesiveness (Ibid.). Therefore, the economic dimension is an important one that the government cannot afford to ignore when addressing social cohesion.

Social Dimension

Under the social dimension, we need to examine two inter-related issues – social capital and social mobility. Social capital is widely viewed as a prerequisite to social cohesion (Spoonley 2005, 93). Briefly, social capital can be defined as “the resources that people have potential access to from being connected to others possessing those resources” (Chua 2010, 3). These social resources come from relations such as marriage ties, family connections, alumni networks and so on. Harvard professor Robert Putnam established that social capital can only be gained when there is trust between people, who are then committed to sharing resources in common endeavours (Putnam 1995). Trust is necessary for a cohesive society.

Singapore prides itself on being a meritocratic society, where there are supposedly equal opportunities for everyone, regardless of their ethnicity or religion (Tan 2004, 77). Each individual has the same chance at being successful based on his merit. While meritocracy in Singapore has been institutionalised as a way of governance (Tan 2008, 7), it has many inherent contradictions. In Singapore, the definition of “merit” is too narrow, and is purely based on one’s academic achievements and occupation. In addition, Kenneth Paul Tan (2008) contends that meritocracy tends to obscure how institutions (like the education system) can “reproduce and reinforce class stratification and how people can be systematically and indirectly excluded from mainstream society, economy and politics because of their race, gender, sexuality, age, and class” (10). Earlier this year, Deputy Prime Minister Tharman Shanmugaratnam admitted that while meritocracy has brought much success to Singapore, it is time to have a broader definition of the term, to recognise diverse strengths and talents (Chan 2013).

Another contradiction of meritocracy is that it discounts the role that social capital plays in determining one’s life chances. Meritocracy disregards the fact that one can reach great successes not just by the virtue of his merits, but also through the exploitation of his social capital. Hence, due to the varying degrees of social capital that one possesses, he has a different starting point in a meritocratic environment. For example, parents from low-income households would have less financial and non-financial resources (social capital) to pass on to their children, as compared to wealthier families. The child from the wealthier family would have a greater chance at being successful due to both the financial means and social capital that his parents have provided him with.

In a study assessing the role of social capital and inequality in Singapore, Chua (2010) found that race and gender have tangible consequences on an individual’s access to social capital, which in turn affect their social mobility. He concluded that Malays, as a minority group, due to their poor socio-economic status and their perceived negative attributes, do not accumulate social capital as well as the Chinese (Ibid., 20). He also found that women having to juggle dual roles at home and the workplace do not have as much social capital as their

male counterparts (Ibid.). These findings strongly indicate the numerous limitations of the country's meritocracy ethos.

Nevertheless, the government does acknowledge the importance of social capital. In particular, “bridging social capital”, which refers to connections between different groups of people, is often viewed as positive towards creating the sense of social inclusion (Schuller, Baron and Field 2000). The government has attempted to ensure such bridging social capital through various means, to not only maintain racial harmony, but also with the goal of getting each community to share resources with one another.

The oft-debated Ethnic Integration Policy (EIP)¹⁴ was implemented to ensure that no ethnic enclaves were formed (HDB 2013). The government attributed the EIP as an enabling factor of integration and racial harmony. With the EIP in place, Resident Committees (RCs) within each housing estate were then given the task “to promote neighbourliness, racial harmony and community cohesiveness amongst residents” (People's Association 2009). Today, there are 572 RCs within all housing estates in Singapore.

Along the same vein, the National Integration Council (NIC) was established in 2009 to encourage locals and immigrants to interact. With four distinct platforms (Community, Schools, Media and Workplace) the Council runs socialisation and educational activities to encourage understanding and integration among the various communities (NIC 2010).

All these initiatives have been developed by the government in a bid to boost the society's bridging social capital. Despite these efforts, a recent survey by a local community organisation on racial and religious harmony in Singapore showed that only one in two Singaporeans have friends outside of their ethnic community (Aripin 2013). This signals the need for a deeper understanding of social capital, and how it is being generated, transferred and manifested. Without social capital underpinning the development of cohesion in society, the “cohesion” in Singapore will only exist at a superficial level that may not withstand the test of time.

Cultural Dimension

The cultural dimension is essentially the “ideational component” of social cohesion, emphasising shared values and sense of belonging of a society. To this end, the Singapore government has laid down five sets of values as guiding pillars for its people: nation before community, and society above self; family as the basic unit of society; community support and respect for the individual; consensus not conflict; and racial and religious harmony (Tan 2012). These values, as proposed in 1988 by then Deputy Prime Minister Goh Chok Tong, largely emphasised the subordination of individual rights and interests to broader national interests.

¹⁴ The Ethnic Integration Policy (EIP) espouses the CMIO framework for the allocation of HDB units, maintaining the same proportion of ethnic groups across all housing estates, similar to the national proportion. In practical terms, it means that a Chinese house owner can only sell his flat to a Chinese, and a Malay to another Malay and so on. Property owners see this as burdensome as “buyers will be denied their ideal flat and sellers their ideal price” (Chin and Vasu 2010, 2).

These communitarian values remain relevant in Singapore today, but as society changes, there is a need to reassess what these values have evolved into. Fenger (2012) reiterates that developing shared values is an “ongoing process” (45) that depends largely on trust and hope, and requires active community engagement. As such, in 2013, the government initiated a large-scale, ambitious project titled “Our Singapore Conversation” (OSC), involving multiple dialogue sessions with over 47,000 Singaporeans over a period of less than a year.

These dialogues aimed at engaging Singaporeans on what their concerns and aspirations are, centred on nation-building themes such as building a caring and compassionate society, providing affordable healthcare and equal opportunities for Singaporeans (Ng 2013). While “naysayers” were sceptical about the OSC and dismissed it as a mere “one-off talk shop”, others believed that the OSC had also created opportunities for citizens to engage each other, and looked towards translating some of these dialogues into action. For example, the Education Minister (also the Chairman of the OSC), Heng Swee Keat, revealed that there will be changes to the Primary School Leaving Examination (PSLE), which has been a source of undue stress for Singaporean parents and children as conveyed during the OSC dialogues (Chang 2013).

Hence, in building a cohesive society, it is vital to build a framework of “accepted values and institutions” (Fenger 2012, 45) that is within reach of every member of society. Despite some scepticisms surrounding OSC, it is nevertheless a positive starting point in cultivating a stronger sense of Singapore’s shared values, as articulated by Singaporeans themselves in conversation with other Singaporeans.

Political Dimension

This particular dimension looks at how societies perform as political systems, in particular, the level of political participation by its people, and the relationship between government and people, and the level of trust of public institutions. Under this dimension, a cohesive society is one where the citizens intrinsically trust their government and its system’s legitimacy. Singapore, being an “illiberal democracy” (Mutalib 2000), limits most, if not all, of the policy making activities within the aegis of the government. However, over the last two decades, the government has loosened its grip and allowed a certain degree of political liberalisation, giving more space for involvement by civic society (Ortmann 2012, 165).

In the 1990s, the government co-opted members of non-governmental organisations such as MENDAKI, SINDA and Consumers Association of Singapore (CASE) to be part of policy dialogues and processes (Ibid., 175). Even though the government had created these organisations, they were previously distanced from the policy making process. The government’s strategy was clear – the purpose of including these groups in the process is not to challenge the government, but simply to “promote the idea of the civic sphere” (Ibid.). A Speaker’s Corner was also established as an open space where individuals and organisations can voice their political opinions, albeit under tight regulations. In addition, the government still maintains the Internal Security Act (ISA), a piece of legislation that has been accused of being a tool to deter and remove political dissent.

In recent years, largely aided by the advent of social media, policy advocacy and political participation has been more dynamic, affecting the results of the watershed 2011 General Elections, where the ruling party, the PAP, won by the smallest margin it has ever seen since 1959 (Ortmann 2011). The clamour for more political participation was very much related to the perception that the government had failed to address discontent on issues such as the influx of immigrants and the rising cost of living, and general dissatisfaction with the direction the government is leading Singapore. The Internet has aided in the democratisation of information for Singaporeans, providing them with political views omitted in state-controlled mainstream media. However, the government has taken several steps to keep tabs on online media. It has gazetted socio-political blogs such as The Online Citizen, and has recently issued a new internet licensing regulations. These two moves are extremely unpopular with the online community, and the latest regulation triggered an online and offline protest called “Free My Internet” (Wong 2013). The new Internet licensing regulation requires licensees to put up a S\$50,000 performance bond and they would have 24 hours to take down content that the government deems offensive (Ibid). Nevertheless, the impact these regulations have on the wider electorate remains to be seen.

Still, there is a trust deficit between Singaporeans and the government that could be a cause of concern for the ruling party. A recent trust survey conducted by the Edelman Trust Barometer shows that only 23 percent of Singaporeans trust their government leaders, but 76 percent trust the government as an institution (Hansen 2013). This trust deficit may not bode well for the incumbent government and may hamper its efforts in putting in place policies to promote a cohesive society.

CONCLUSION

Singapore has since its independence been vigilant in putting in place various policies to manage racial and religious harmony and promote the concept of multiracialism, multiculturalism and meritocracy to foster social cohesion. However, as the social fabric of the society changes with rapid and high immigration, and as globalization and the impact of technology brought about increasing inequality, the government finds itself having to rethink its approach towards social cohesion. New policies are being rolled out to address specific divides – for example, targeted welfare schemes to help the lower income; tightening of immigration policies and promotion of community and cultural events to encourage integration of new migrants. However, there is still lacking a more holistic approach that would bring together the different strands of the policies to ensure broader policy coherence.

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Social Cohesion in Malaysia

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INTRODUCTION

The Federation of Malaysia is an upper middle income economy with a per capita gross national income estimated at USD10,265 in 2013 (Malaysia EPU 2013: iii). Its gross domestic product growth averaged 5 per cent over the last decade. In 1993, it was attributed as part of what the World Bank called the “East Asian Miracle”, a phenomenon which saw rapid and equitable growth over two or more decades in the eight “High-performing Asian Economies”. Its successful export-oriented industrialisation has led to a rapid increase in the share of manufactured exports from 6.6 per cent in 1970 to 70.2 per cent in 2009, albeit mostly with low domestic value added (Hill 2012: 8). Considered to have attained “high human development” (ranking 64 among 187 countries for the 2012 Human Development Index), Malaysia was highlighted in the 1994 Human Development Report as a successful case of social integration through the implementation of its controversial race-based affirmative action policy known as the New Economic Policy (NEP). Though the two-decade-long NEP ended officially in 1990, much of its legacy of race-based policy lingers on till today, and the attempt to switch from race-based to needs-based affirmative action remains contentious².

In 2013, the total population in Malaysia is estimated at 29.7 million, out of which 2.4 million are foreigners. The ethnically diverse citizens comprise 54.9 per cent Malays³, 24 per cent Chinese, 7.3 per cent Indians, 13 per cent other indigenous peoples, and others (calculated based on Malaysia EPU 2013: 5). The Malays, the *Orang Asli* in Peninsular Malaysia and other numerous minority groups of indigenous people in the Borneo states of Sabah and Sarawak, are referred to as *Bumiputera* (literally means “sons of the soil”, denoting the

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² In a nation-wide poll conducted by the Merdeka Centre in 2010, 59 per cent of the *Bumiputera* respondents felt that *Bumiputera* or Malays should continue to be accorded with special rights and privileges while the other 40 per cent of them thought that same treatment and rights should be accorded to all Malaysians. 72 per cent of *Bumiputera* respondents also thought that the NEP is still needed to help them get ahead.

³ The Malays are constitutionally defined as people who are Muslims, habitually speak Malay and practise Malay customs.

“original inhabitants” of the historical territory). The 2010 census reports that 61.3 per cent of the population practise Islam, whereas 19.8, 9.2 and 6.3 per cent embrace respectively Buddhism, Christianity and Hinduism.

SOCIAL CONTEXT

The political economy in Malaysia is marked profoundly by the race-based affirmative action policy in favour of the Malay-dominated *Bumiputera* community. Article 153 of the Federal Constitution provides for the reservation of a quota deemed “reasonable” of government scholarships and other educational resources, commercial licences, as well as positions in the civil service for the *Bumiputera*. Pro-Malay preferential policies were implemented incrementally during the 1960s but were intensified to a new level and scale from 1971 with the launch of the NEP. The twin-objective of the NEP is eradication of poverty regardless of race and dismantling of ethnic identification with economic function through restructuring of the society. Over time, the scope of the race-based preferential policy has gone well beyond the constitutional provisions.

The NEP consisted of an ever-expanding range of policies and strategies to address ethnic economic imbalance by increasing the income, creating better paid employment and redistributing ownership of capital and assets in favour of the *Bumiputera*⁴. Education was used as a key lever to create a sizeable *Bumiputera* middle class and group of professionals within a generation. Educational institutions dedicated to preparing Malay children for academic success were constructed and a generous allocation of scholarships was given to Malay students who did well to further their studies.

In an effort to restructure equity ownership and foster a *Bumiputera* Commercial and Industrial Community, various measures were taken. They included the imposition of compulsory share transfer to *Bumiputera* individuals or companies⁵, establishment of numerous public enterprises aimed at accumulating corporate assets for Malay interests and promoting private Malay entrepreneurship, and the various facilities and programmes to assist pioneering *Bumiputera* individuals to get involved in commercial endeavours. In reality, the appointment of people to head public enterprises became an exercise to reward loyal leaders in the party (Horowitz 1989). In the 1980s, Prime Minister Dr Mahathir switched the strategy of equity ownership transfer to nurturing a small pool of quick-fix Malay millionaires by handing over

⁴ Massive rural development projects modernised agriculture, and built basic amenities and infrastructure with the aim to raise the income of rural households. During the 1970s and 1980s, Malaysia was successful in drawing substantial foreign investment to establish pioneering industries in less developed areas outside the main urban centres, hence providing jobs to hundreds of thousands of Malays in the manufacturing sector. The labour-intensive, export-oriented industrialisation managed to draw a significant section of the Malay labour force from low-income rural sector into the higher-pay urban economic sector as skilled and unskilled workers (Faaland et al. 1990). By 1990s, Malaysia became a labour-scarce economy with a low unemployment rate and increasing dependence on migrant labours.

⁵ This is applicable for firms employing more than a certain number of employees and paid-up capital exceeding a specified amount. The requirements have evolved over time.

privatised public enterprises to hand-picked individuals. This was attributed as a cause for increased disparity of income within the *Bumiputera* community (Ragayah 2011: 74). Through the decades, the ills of money politics, business involvement of political parties and political patronage have increasingly become entrenched in the system (Shamsul 1997, Gomez and Jomo 1997). The policy cultivated a socio-economic group whose livelihood depends on its continuation. Over time, the logic of affirmative action segmented as a generalised logic of entitlement based on the divisive argument of indigeneity. It is notable that non-Malay indigenous peoples, despite being the designated beneficiaries just like the Malays, continue to lag behind in socio-economic advancement till today, as will be discussed in the following section.

The Islamisation Policy implemented by Prime Minister Dr Mahathir during the 1980s is another set of policies whose far-reaching impact on the Malaysian society is arguably comparable to the NEP. Under the policy, the government established Islamic institutions⁶ and set out to “Islamise the government machinery” (Hussin 1990: 142-3)⁷. Islamic religious administration was expanded and the Syariah judicial apparatus was upgraded to be on par with the civil judicial system. The multiplicity of institutional changes in the name of Islam set the stage for the mainstreaming of the idea that Malaysia is a *negara Islam*, a term translated variously as “Islamic state” or “Islamic country”. This is a radical departure from the understanding of the founding fathers at independence, who intended Malaysia to be a “secular state”. The range and nature of the changes were so alarming that two former prime ministers openly called for a halt to Dr Mahathir’s Islamisation programmes.

Prime Minister Dr Mahathir was also blamed for compromising the autonomy of the judiciary in the late 1980s. In tandem with constitutional amendment in 1988⁸, politicisation of the judges has led to a widening of the sphere of competence of Syariah legislation, as will be explained briefly later. The wide-ranging ramifications of the trend of evolution in the judiciary have been attributed by a respectable constitutional scholar as a “silent re-writing of the constitution” (Ting 2009).

In 1991, Prime Minister Dr Mahathir announced what is now known as Vision 2020, which aims at propelling Malaysia to the status of a high-income developed country by the year 2020. This national project remains the goal of the present government led by Prime Minister Najib Abdul Razak, who is implementing it through what he calls the Government Transformation Programme, with the slogan “1Malaysia, People First, Performance Now”.

The government is aware of the need for policy reform in order to achieve Vision 2020. The Tenth Malaysia Plan (2011-2015) notes that Malaysia has lost the momentum of

⁶ These institutions included the International Islamic University, halal certification, Islamic banking system, Islamic pawnshop system, insurance scheme, medical centre, and so forth.

⁷ An education campaign was organised among civil servants with the aim to instil “Islamic values” in government administration. In the meantime, a plethora of directives and measures were introduced to accommodate Muslims’ religious practices in the government institutions.

⁸ Clause (1A) was inserted in Article 121 of the Federal Constitution in 1988, and stipulates that civil courts “shall have no jurisdiction in respect of any matter within the jurisdiction of the Syariah courts”. Changing interpretation over time of what this clause entails in judicial deliberation is at the heart of the issue.

achieving strong growth and experienced a decline in productivity growth since the 1997 Asian financial crisis, hence lagging behind the performance of selected emerging and other newly industrialising Asian economies (Malaysia 2010: 4-5, 68). It talks about the need to upgrade skills to switch to a knowledge-intensive economy and to ensure efficient allocation of resources. Affirming its continued commitment to the principle of growth with equity, the plan proposes to orientate its attention to the bottom 40 per cent of the 2.4 million low-income households (the majority of whom are *Bumiputera* households) and to promote the welfare and economic self-reliance of specific, vulnerable target groups such as the minority *Bumiputera* as well as Chinese households in New Villages and Indian estate workers (Malaysia 2010: 18-19, 162). Besides the elevation of the livelihoods of the bottom 40 per cent households, the plan also promises to enhance “*Bumiputera* Economic Participation” in terms of entrepreneurship, wealth ownership and representation in high-paying jobs (Malaysia 2010: 164-173).

The new millennium heralds a new socio-political scenario for the Malaysian society. Two key phenomena have been important in transforming the political development in the country, namely the spread of the electronic media and communication, and the *Reformasi* movement sparked off by the sacking of Anwar Ibrahim as the Deputy Prime Minister in 1998.

The first phenomenon has seen the mushrooming of online newspapers and blogs and the use of digital media such as Facebook and Twitter to build social networks in Malaysia, as in many other parts of the world. It revolutionised access to and transmission of information, rendering the government less effective in holding sway over public opinion through its continued grip over mainstream newspapers and television broadcast.

The *Reformasi* movement, sparked off by the outrage over the blatant abuse of state machinery against a political opponent and the disrespect for basic human and democratic rights in handling dissent by the state, has brought about a new political openness. It became a social force demanding greater accountability and transparency from the state institutions.

Political fallout from the *Reformasi* movement contributed to the end of the long reign of Prime Minister Dr Mahathir, despite leading his coalition *Barisan Nasional* (BN) to electoral victory in 1999 (albeit with reduced Malay popular votes). His successor, Abdullah Ahmad Badawi, promised to tackle corruption and inefficiency of public institutions, restore judicial integrity and address police abuse. The BN won a landslide victory in the 2004 general elections with this reform agenda. Subsequently, BN suffered voters’ backlash in the 2008 general elections (but retained a comfortable majority) due to Abdullah’s indecisiveness in bringing about meaningful institutional changes and the lack of firmness in dealing with anti-reform forces in his own Malay-based party, the United Malays National Organisation (UMNO).

Abdullah was ousted by Najib Abdul Razak in 2009 as UMNO president and the latter took over the premiership and has since carried on with a reformist discourse and programmes⁹.

SOCIAL MOBILITY

The effects of the NEP on the pattern of social mobility in Malaysia have been significant. A cohort-based demographic analysis of educational advancement till upper secondary level in West Malaysia confirms the remarkable effects of the preferential policy in educational attainment of the Malay youth (Hirschman 2013a). In the 1956-1960 cohorts of youth at the age of 20, only 8 per cent Malay, 13 per cent Chinese and 16 per cent Indians possessed upper secondary school leaving certificates¹⁰. During the 1960s, Malay youth at 20 years of age experienced five percentage points of inter-cohort increment in attaining MCE qualification and ten to fifteen percentage points of growth between successive cohorts during the 1970-1985 period before slowing down subsequently. Other ethnic groups advanced unevenly at a slower pace with some catching up in subsequent cohorts, reaching the rates of 0.68, 0.62 and 0.55 for Malay, Chinese and Indian youth respectively for the 1996-2000 cohort. It is also notable that from barely 6% in 1970, the *Bumiputera* constituted about 52% of professional and managerial category of employment, and 65% of skilled as well as semi-skilled workers by 2008 (Malaysia 2010: 147).

Another interesting trend is that by the 1990s, more women than men at the age of the 20-year-old cohort were SPM holders (Hirschman 2013a). By the late 1990s, two-thirds of Malay male and three-quarters of Malay female youth at the age-20 five-year cohort were successful in completing their higher secondary school education. Even more remarkably, by 2000, the occupational status (based on the scale set by International Socioeconomic Index of Occupations) of employed women (cohort aged 25-34 years) is higher than their male counterpart in each ethnic group (Hirschman 2013b). Nonetheless, the current rate of female participation in the labour force (49.5 per cent in 2012) remains much lower than the male participation rate (80.5 per cent in 2012).

The effectiveness of the NEP in reducing incidence of poverty was impressive: from 49.3 per cent in 1970 to 16.5 per cent in 1990. Incidence of poverty continued to decrease since and reached 1.7 per cent in 2012, but remained relatively higher in the states of Sarawak and Kelantan and particularly in Sabah (2.4, 2.7 and 7.8 per cent respectively) (Malaysia EPU 2013b). Aggregate incidence of poverty figures among Chinese and Indian communities remain the lowest among all ethnic groups.

⁹ Najib has established the Performance Management and Delivery Unit (PEMANDU) in the Prime Minister's Department to steer its Government Transformation Programme (GTP). The GTP identified seven National Key Results Areas (NKRA) as priority areas for policy intervention, namely reducing crime, fighting corruption, improving student outcomes, raising the living standards of low-income households, improving rural development, improving urban public transport, and addressing the cost of living. Each NKRA is assigned to the care of a cabinet minister with their respective key performance indicators.

¹⁰ The certificate was known previously as the Malaysian Certificate of Education or MCE; and now in Malay, Sijil Pelajaran Malaysia or SPM.

The positive impact of NEP on non-Malay *Bumiputera*, unfortunately, was not of comparable scale. The NEP implementation in Sabah and Sarawak where non-Malay/Muslim *Bumiputera* constitute the majority population has been regarded as favouring Muslim *Bumiputera* to the detriment of the former (Mason and Jayum 2003). In 2004, the intra-ethnic poverty gap was the highest among *Bumiputera* households at 2.1 per cent, whereas it was 0.1 and 0.6 per cent among Chinese and Indian households respectively (Malaysia 2006: 331). The 2002 special Household Income Survey on non-Malay *Bumiputera* in Sabah and Sarawak also confirmed that the incidence of poverty among them remained high (Malaysia 2006: 331). In 2009, the incidence of poverty among Orang Asli communities was 50% (Malaysia 2010: 162).

Conditions of physical infrastructure and basic public facilities in Sabah and Sarawak are far worse than in peninsular Malaysia (Dullah Mulok et al. 2010). Natives in East Malaysia, especially many of those who move to townships without any education qualifications, also encounter multiple challenges in making a decent living adjusting to a urban lifestyle. Those remaining in the rural areas are disempowered in dealing with the encroachment of their customary land by operators of state government-sanctioned development projects and logging activities. Many court cases over land disputes filed by the natives are currently pending.

Decades of the race-based preferential policy has led to a remarkable levelling of the interethnic playing field. Interethnic gaps in income distribution have narrowed significantly. In 2009, the income disparity ratio between *Bumiputera* and Chinese was reduced to 1:1.38, and *Bumiputera* and Indians to 1:1.10 (Malaysia 2010: 147). The improvement in income distribution, on the other hand, is more mitigated, as indicated by the slow reduction of the Gini coefficient over the decades, which remains at 0.431 in 2012 (Malaysia EPU 2013a).

Currently, much of income inequality could be better accounted for among households *within* the urban or rural areas themselves, within ethnic groups¹¹, as well as between regions, much more than between ethnic groups (Ragayah 2011: 68). The government is aware of the situation, as could be seen in the switch in policy attention from the interethnic redistribution to the bottom 40 per cent of the low-income households in the 10th Malaysia Plan. Prime Minister Najib also liberalised selected service sub-sectors, which entailed relaxing some of the pro-Malay affirmative action measures to attract more foreign direct investment. But the ambiguity of the direction of his policy is demonstrated by, for instance, the policy reversal in 2011 to lower the pre-qualification criteria of construction firms to enable Malay contractors to be allocated 43 per cent of the civil engineering works of the multi-billion Ringgit Klang Valley Mass Rapid Transit construction project (“Bumi quota may bloat MRT project cost, say experts”, *The Malaysian Insider*, 24 August 2011; “Bumi firms to get 43pc of MRT works bill, says Putrajaya”, *The Malaysian Insider*, 26 August 2011). In effect, much of the remnant of the race-based preferential policy such as the uncompetitive government procurement system remains intact.

¹¹ For instance, average Malay household income in Sabah and Sarawak remains much higher than other indigenous communities though lower than the Chinese (Malaysia 2008: 61).

The NEP has served its functions at a particular moment in time in Malaysian history¹². There is a growing consensus among the better-informed Malay elites that it is time to move away from a race-based approach and switch to other more appropriate and effective approaches in balancing growth with equity. More and more observers question whether the existing situation benefits disproportionately those politically well-connected *Bumiputera* contractors rather than those better qualified ones¹³; or if Malay children from the better socio-economic background rather than those deprived, deserving *Bumiputera* benefit the most from the preferential treatment. A shake-up of the system is nonetheless politically risky, more so that rural Malay voters constitute the core of grassroots support enjoyed by UMNO, whose president has also been the prime minister of Malaysia since independence.

SOCIAL INCLUSION

Social inclusion has often been considered from the socio-economic point of view. The previous section has dealt with the government race-based affirmative action policy from the point of view of social mobility but the issue is also related to the ethnic aspects of socio-economic inclusion/exclusion. This section looks at the less material aspects of social exclusion, such as sense of belonging and the protection of minority rights.

The promotion of national unity was at the heart of the NEP formulation. Undoubtedly, the past socio-economic accomplishment of the NEP is laudable, but the divisive social dynamics set in momentum by the NEP as well as the Islamisation policy implemented from the 1980s, among other factors, have ensured that “national unity” remains an elusive goal. In 1991, among the nine challenges outlined by Dr Mahathir to realise Vision 2020, the establishment of “a united Malaysian nation with a sense of common and shared destiny” was described as the “most fundamental and most basic” one (Ahmad Sarji 1993: 404-5). Under the premiership of Najib Abdul Razak, the slogan “1Malaysia” was introduced, acknowledging that “creating oneness or unity within a multicultural and multicultural nation is challenging” (PEMANDU 2010: 8). The latest indication that national unity remains a matter of official concern is the appointment of a National Unity Consultative Council in November 2013 to formulate a National Unity Blueprint.

At the heart of the problem is that an exclusionary perspective of the national identity has progressively become institutionalised as the basis of practices and discourses by political and bureaucratic actors. The clearest indication is how two key constitutional provisions,

¹² Much could be said about how it could have been better implemented though it is out of the scope here to do so.

¹³ The considered view of an expert on Malaysian income distribution is as follows:

... the actual beneficiaries of the NEP are concentrated with a small fraction of Bumiputeras and their cronies, who need not be Bumiputeras. The majority of the Bumiputeras are just left with small crumbs from the NEP pie, and yet the perception from the non-Bumiputera public is that all Bumiputeras benefited greatly from the NEP. Therefore, there is a need to clear these misperceptions of the NEP [as] benefitting all Bumiputeras, especially the Malays, whereas only a small number did, and so do a small proportion of non-Bumiputeras. (Ragayah 2011: 76)

namely Article 3(1)¹⁴ regarding the role of Islam and Article 153 on the special position, have been interpreted or re-interpreted by conservative Malay social actors to justify exclusionary or divisive positions and practices. The special position is regarded by them as legitimising Malay political dominance and special rights. Article 3(1) is understood by right-wing Malay pressure groups as putting Islam on a superior plane than other religions, though it was intended as playing a symbolic and ceremonial role by the founding fathers. Hindu Rights Action Force (HINDRAF), a coalition of more than 50 Hindu organisations, has criticised Article 153 as promoting “institutional racism” (Ganesan and Waytha Moorthy, 2011).

The longest serving prime minister of Malaysia (1981-2003), Dr Mahathir Mohamad, is arguably the most influential leader who has contributed to the entrenchment of such a divisive ethno-nationalist vision of the Malaysian nationhood¹⁵. This ethno-nationalist vision of Malaysia is reflected controversially in the current version of secondary history textbooks (Ting 2009a, 2014) as well as the National Culture Policy formulated in 1971¹⁶. The impact of the Islamisation policy has introduced an added element in the divisive discourses, practices and perspective, whose wider implications began to surface intermittently from the 1990s. Incidents of interreligious tension emerged more prominently in the new millennium as the expanding administrative reach of the Islamic departments over religious practices pushes

¹⁴ Article 3(1) of the Federal Constitution states that “Islam is the religion of the Federation; but other religions may be practised in peace and harmony in any part of the Federation.”

¹⁵ In his controversial book, *The Malay Dilemma*, Dr Mahathir argued that, only when the socio-economically backward Malays were brought “up to the level of the non-Malays” could there be “racial equality” (Mahathir 1970: 75). He saw racial equality as the prerequisite for racial harmony and national unity (Mahathir 1970: 68-9). Well-known and influential in the same book is the exclusionary ethno-nationalist perspective he espoused. Dr Mahathir argues that as the indigenous or original people of the land, the Malays are the “rightful owners” of Malaya. Non-Malays are told to give up their ancestral cultural and linguistic heritage and to assimilate as Malays without which they cannot claim to truly identify themselves with Malaysia (p. 133). Expelled from UMNO in the aftermath of the 1969 racial riots, his rapid re-integration back into the party and the cabinet, and his rapid ascension to premiership within a decade heralded a groundswell embracing his ethno-nationalist perspective among the Malay elite of his time (Funston 1980, Ting 2014: 43).

¹⁶ The National Culture Policy is a clear example of the expression of this ethno-nationalist vision of national identity, which states that only the culture of those people “indigenous to the region”, as well as Islam, constitute the mainstay of the national culture, while “suitable elements” in the cultures of non-Malays may be integrated. In this hierarchical conception of cultural citizenship, the states of Sabah and Sarawak, where non-Muslim indigenous peoples constitute the majority, are clearly relegated to the margins. In effect, Dr Mahathir justified his Islamisation policy as integral to the promotion of the national culture, as Islam is integral to the Malay culture (Hussin 1990: 141). The policy is regarded by a large number of Chinese and Indian associations as assimilationist and “in complete disregard for cultural plurality” (Kua 1990: 257). Following the introduction of Vision 2020, the government was less interventionist in its cultural policy, though the perspective continues to guide official cultural functions (Daniels 2005).

the litigants to take up their grievances in the civil court¹⁷. To their dismay, civil court judges have increasingly refrained from deliberating on interreligious matters that involves Islam, citing Article 121(1A), thus leaving non-Muslim litigants without any avenue in seeking legal redress to their grievances.

The ongoing disputes over the prohibition of the widespread and age-old use of the word *Allah* by Malay-speaking Christians in their worship and in the Malay bible are another manifestation of the increasing reach of state intervention into non-Muslim religious practices in the name of protection of Islam (Ting 2014a). The Islamic departments whose scope and role of religious intervention have been expanded since the 1980s have become an influential force to be reckoned with, independently of the government.

The government appears to see incidents of interethnic or interreligious conflicts as specific instances to be “managed”. Idris Jala, the Minister without Portfolio and the Chief Executive Officer of the PEMANDU and a Christian Kelabit from Sarawak, regards interethnic and interreligious tension as something unavoidable given the cultural and religious diversity of Malaysia, and can never be “resolved” once and for all; and hence needs to be “managed” on a case-by-case basis.

This “managerial” approach to resolving interethnic or interreligious conflicts has clearly failed in finding a just and durable solution to the “Allah contentions”. Given its chequered records¹⁸, there is not a lot of public confidence in the political courage and foresight on the part of the government (who has created a problem from without in the first place) to take pro-active measures to rein in and defuse the tension fanned by pressure groups and the right-wing newspaper owned by UMNO and resolve the situation in respect for the minority rights.

It is thus unsurprising that Pew Research Center has reported a heightened religious restrictions index in Malaysia over the past five years, and classified Malaysia as having a “very

¹⁷ There were cases such as where a wife challenged the rights of Islamic department officials to take away the corpse of her husband, who had allegedly converted to Islam in secrecy, to be buried in Islamic rites; and where estranged wives challenged the conversion of their children to Islam without their knowledge by newly converted Muslim husbands. Some Muslims who have converted out of Islam or who have never been practising believers are also henceforth required to get permission from the religious authorities to be officially recognised as non-Muslims.

¹⁸ The government had banned the use of the word (among numerous other Malay words) purportedly to restrict religious propagation among Muslims by Christian missionaries, but made an exception to the use of the Indonesian-language bible, *Alkitab*, within the Christian communities. Bureaucratic inconsistencies have resulted in numerous problems for Christians such as seizure of the Indonesian-language bibles and Christian educational materials imported from Indonesia by the Malaysian port authorities, and prohibition on the use of the word in the Malay-language section of a church publication, leading to judicial recourse being taken up by a number of Christian litigants. Fearing a backlash during a state-level election in Sarawak, with a substantial proportion of Christian voters, in 2011, the federal government’s agreeable stand for Christians to use *Alkitab* was re-affirmed in a ten-point agreement brokered by Idris Jala with church leaders. The agreement was rendered virtually void when the federal government washed its hands in the name of respecting state Islamic laws when hundreds of *Alkitab* were confiscated by the Selangor religious department in January 2014. There is immense political pressure on the part of Islamic officials, sultans and social actors to prohibit Christians from using the word, in the name of protecting the sanctity of Islam, citing Article 3(1).

high” level of government restrictions index and a “high” level of social hostilities index in 2012.

An increasing number of non-Malays, especially in peninsular Malaysia, consider themselves as “second class citizens”¹⁹. They feel discriminated against and unwelcome as an integral part of the Malaysian nation and they cannot identify with the Malay-dominated perspective of the Malaysian nationhood²⁰. Christians became politicised and were dismayed at what they perceive as the encroachment of their religious rights. Christian leaders from Sabah and Sarawak, more than 60 per cent of whom worship in the Malay language, spoke up against what they perceived as the infringement of the terms and conditions for Sabah and Sarawak to form Malaysia with the Federation of Malaya in 1963. The perceived Malay domination in federal-state relationship and in public policies has given rise to the sentiment among non-Malay *Bumiputera* in Sabah and Sarawak that they are “second-class *Bumiputera*” (Mariappan 2010).

This situation evidently does not augur well in the fostering of a more inclusive nationhood, as occasional official pronouncement of ethnically or religiously inclusive discourses rings hollow in the face of government and state institutional practices and decisions judged to be at the expense of the interests of the minorities.

SOCIAL CAPITAL

Malaysia prides itself as having experienced remarkably few ethnically or religiously motivated violence or lethal conflicts since its independence²¹. Malaysians are generally peace loving people even though interethnic or interreligious relations have generally been judged to

¹⁹ An opinion poll conducted by the Merdeka Centre in peninsular Malaysia in 2006 reported that 40 per cent of the ethnic Chinese and Indian respondents considered themselves as “second class citizens”. The proportion of those affirming so increased to 47 per cent in a similar poll in 2011. In the 2006 poll, more than 97 per cent of the Chinese and Indian respondents expressed hope that equal rights be given to all cultures and religions in the future. However, only 38 per cent of the Malay respondents affirmed so, while the other 43 per cent of them wanted instead the country to be “more Islamic” in the future.

²⁰ In the 2011 poll by Merdeka Centre, 52 per cent of the respondents thought that the government’s slogan “1Malaysia” should be about treating all races as equal citizens whereas 40 per cent thought it should be about “all races living in harmony under Malay leadership”. The cleavage between Malay and non-Malay attitudes is evidenced by the fact that 64 per cent Chinese, 92 per cent Indian and only 39 per cent Malay respondents supported the first perspective. A similar poll in 2006 indicated that 59 and 39 per cent of Chinese and Indian respondents and only 18 per cent of Malay respondents thought that “just and fair government policies” is the best method to improve ethnic relationship in Malaysia. The latter were more inclined to see a greater degree of exchange and interaction through activities such as open house and participation in interethnic programmes as the best approach to improve interethnic relations.

²¹ In a poll conducted by Merdeka Centre among 2000 Malaysians in 2006, about 90 per cent of the respondents said that they were proud of Malaysia, with about half among them giving the reason as “peace and stability” or the absence of war or conflict. The majority of them also perceived interethnic relations to be “good”.

have worsened over the decades²². The rate of mixed marriage is low in peninsular Malaysia, particularly between Muslims and people from other faiths (which requires non-Muslim spouses to convert to Islam), but mixed marriage is more widespread in Sabah and Sarawak. Interethnic trust is generally low²³, even though most people have some friends from ethnic groups different from theirs.

The typical assumption of the sources of interethnic or interreligious conflicts is the lack of social contact and interethnic understanding, and programmes encouraging greater interethnic interactions are thought to be the solution to such problems. It could be more effective if the government ensures that its cabinet members and parliamentarians and its bureaucratic elites consistently maintain and foster ethnically and religiously more inclusive discourses, attitudes, and practices, to ensure the instillation of values and spirit of fairness, justice and interethnic acceptance among the students and in the running of the schools, and in religious teachings in schools. It is of course easier said than done, as enforcing this may mean stepping on the toes of those who are happy with the status quo, or taking stands that may be regarded as unpopular among one's ethnic constituency, or even putting at risk one's own political career future.

The Corruption Perceptions Index of Malaysia over the past decade or so hovers around 50 or less on a scale from 100 (very clean) to 0 (highly corrupt). As explained in the previous section, there has been a groundswell of popular expectations for more efficient, transparent and accountable state democratic institutions following recent decades of socio-political development. The Abdullah administration introduced some reform measures but his other reform initiatives were thwarted by opposition from his own UMNO cabinet members²⁴. Under the current Najib administration, fighting corruption remains a priority under the NKRA. But the public has yet to see a successful case of prosecution against prominent politicians involved in corruption scandals. Deaths in custody and the police shooting and killing suspects on the scene continue to happen intermittently²⁵. There has been a noticeable improvement in the administration of the judicial process and clearing of backlog cases over the past few years, but a negative perception of the judiciary's independence remains prevalent.

²² In the 2006 poll, 97 per cent agreed that a greater degree of interethnic interaction was important, and almost half attributed its importance as maintaining peace and stability, national unity or preventing chaos or conflicts.

²³ In the 2006 poll, less than half of the Malay and Chinese respondents said that they trust someone from the other ethnic groups.

²⁴ Prime Minister Abdullah Ahmad Badawi pushed through laws in 2008 to establish the Judicial Appointments Commission (JAC) and the Malaysian Anti-Corruption Commission (MACC) in his effort to make good his electoral reform promises a few months before he stepped down. The JAC is tasked to nominate judicial candidates to the prime minister and consultation with a body such as the Bar Council is required in the appointment of its members. The MACC which is modelled after the Hong Kong Independent Commission against Corruption is meant to replace the toothless Anti-Corruption Agency. However, due to opposition from the police force, the recommendation by a royal commission in 2005 to set up the Independent Police Complaints and Misconduct Commission to check police abuse was put into cold storage.

²⁵ In October 2013, the Home Minister, Ahmad Zahid Hamidi, stirred up a public uproar when he said that provided the police had evidence, they did not need to give any warning shot but could just shoot the criminals on the scene.

Despite the regular conduct of general elections in Malaysia, the process is judged to be heavily biased in favour of the incumbent due to problematic electoral boundaries, integrity of electoral roll, autonomy of the Election Commission, great disparity in the electorate size between constituencies, access to media, political financing, etc. The integrity of the electoral system was put in the limelight when BERSIH, a coalition of civil society organisations for clean and fair elections, organised mass rallies demanding a clean-up of the electoral system²⁶. The 2013 general elections saw voter participation as high as 80%, indicating the high level of popular concern over the political development in the country. Despite winning more than 50 per cent of the popular votes, the opposition coalition only garnered 40 per cent (89 out of the 222) of the federal seats in the parliament due to the first-past-the-post system. The first-time use of the indelible ink turned out to be a fiasco and some voters found it to be not so indelible, besides allegations of other irregularities. In the aftermath of the elections, thousands gathered to express their dissatisfaction over what was perceived as an unfair and unclean conduct of the electoral process.

The Malaysian government makes a high commitment to educational spending²⁷, which is translated into better access of students to education but unfortunately not better student outcomes. The government acknowledges that its students are underperforming when compared against other countries with similar GDP per capita (Ministry of Education Malaysia 2013: 3-27)²⁸. Moreover, the successful rate of completion for upper secondary schooling for the current generation of students remains at around two-thirds only (Ministry of Education Malaysia 2013: 3-15). There are also variations in the academic performance among primary students studying in different languages of instruction²⁹, though the achievement gaps appear to have narrowed over time (Ministry of Education Malaysia 2013: 3-19).

The government is alarmed by the fact that more and more non-Malay parents increasingly shun national schools by sending their children to Mandarin- or Tamil-medium

²⁶ They successfully held three street demonstrations in 2007, 2011 and 2012. Despite deterrence and threats from the government and massive deployment of the police force, the turnout increased exponentially for each successive one, with the last one estimated to draw around a hundred thousand or more people.

²⁷ The education spending of the Malaysian government as a percentage of GDP is actually twice the ASEAN average and above the OECD average (3.81 per cent in 2011). Its basic education expenditure as a percentage of total government expenditure is 16 per cent in 2010.

²⁸ Malaysian students fared below global average scores and ranked among the bottom third in successive tests conducted by the Programme for International Student Assessment (PISA). A comparison of the assessment made by the Trends in International Mathematics and Science Study (TIMSS) in 2011 with those according to the PMR (Penilaian Menengah Rendah, lower secondary school assessment) results at Form 3 (grade 9) indicates substantial misalignment of standards of student performance in mathematics and science scores. While PMR assessed 32 and 8 per cent of students as respectively achieving “advanced” and “below minimum” levels, TIMSS determined that 2 and 35 per cent were respectively so (Ministry of Education Malaysia 2013: 3-14).

²⁹ The Malaysian national education system provides parents with the choice of using Malay, Mandarin or Tamil as the language of instruction at primary level, though all the schools share a common curriculum. Public secondary schools are taught in Malay language only. Mandarin-medium primary school students were found to perform better in the grade 6 national examinations than Malay-medium followed by Tamil-medium students.

primary schools³⁰. One contributing factor is the widespread perception among parents that national schools are becoming more overtly Islam-oriented. In 2002, Prime Minister Dr Mahathir himself publicly stated that national schools had been “hijacked” and turned into “religious Malay schools” (Ting 2009)³¹. The government acknowledged in its Education Development Master Plan (2006-2010) that while non-*Bumiputera* perceived the national schools to be too Islamically oriented, the Muslim community felt the opposite (Ministry of Education Malaysia 2006: 77). In addition, the plan also noted the general perception that the academic performance of the Chinese primary schools was superior to that of the national schools (Ministry of Education Malaysia 2006: 77). Despite official acknowledgement of the problem and announcement of measures to redress the situation, it is unsure whether the government has been effective in turning the situation around.

CONCLUSIONS

Since independence, Malaysia has been relatively successful in promoting the social mobility of a section of the population judged to be socio-economically in need of assistance. Nevertheless, the leaders appear to be motivated more or less by a particular ethno-nationalist perspective of nation-building which have over time left a negative impact on the framework of social integration based on which the state institutions operate. Decades of authoritarian rule has also eroded the institutional foundation of the state which is essential for a well-functioning democracy to thrive. If the country has remained relatively peaceful and free of violent conflicts, it may be argued that it is however living off the social capital that it historically inherited. In order to ensure continued social cohesion in the Malaysian society, four challenges need to be addressed, namely,

- restoring the integrity of the various democratic institutions;
- reforming the education system;
- crafting a more inclusive nationhood, and
- empowering non-Malay/Muslim indigenous peoples.

Viewed from the OECD framework of social cohesion, all four issues have implications on fostering the social capital. Except for the first issue, the rest also concern the social mobility and social inclusion components of the Malaysian society. The government is aware and

³⁰ The trend is especially noticeable among ethnic Indian primary school students. Their rate of enrolment in national primary schools decreased from 49 per cent in 2000 to 38 per cent in 2011, while the proportion of Indian students enrolled in Tamil-medium primary schools increased from 47 to 56 per cent. The percentage of Chinese primary school students enrolled in national schools decreased further from 8 to 4 per cent during the same period (Ministry of Education Malaysia 2013). There is also a sizeable number of non-Chinese students in the Chinese primary schools (12 per cent), hence giving it a more multicultural composition than the national schools (with only 6 per cent being non-*Bumiputera* students).

³¹ Already back in the 1980s, Indian associations openly expressed alarm at incidences or practices in some national schools which were indicative as non-respectful of the religious rights of non-Muslim children (Kua 1990).

has acknowledged the need to address these issues in their policies. However, the test of the pudding is in the implementation. It is always easier to deliver infrastructural projects and allocation of material resources, but far more delicate to deal with ethnically and religiously contentious issues as well as with people in the public services who are used to a particular way of doing things. The problem is perhaps not a lack of knowledge of ways to resolve the situation, but a question of political will and the acumen of national leaders not to take a short-term view in governance or succumb to political expediency.

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Social Cohesion and Equalization of Basic Public Services in China: Achievements and Future Challenges

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INTRODUCTION

Social cohesion, referring to the degree of social and economic division, has increasingly become a serious issue in China. In principle, the government can implement social policies to address these social cleavages. Social policies are defined as government interventions which aim “to influence the access to and the incidence of adequate and secure livelihood and income” (Mok and Ku 2010:7). These social policies include provision of public services such as education, housing, employment service, social security, social assistance, etc.

A lot of fiscal resources have been spent on provision of public services in China. Basic public services include compulsory education, public health and primary healthcare, basic social security, employment service and public housing. Between 2007 and 2011, the Chinese government spent over RMB12.7 trillion on public services at an annual growth rate of 26%, much higher than the growth rate of GDP².

However, a serious issue confronting top Chinese leadership is the unequal access to basic public services for those major social cleavages across regions, between rural and urban areas, between the rich and poor as well as between formal and informal sectors.

As the Gini coefficient in China is amongst the highest in the world, income inequality is one important part of social and economic division that has become more and more serious. Apart from economic inequalities between the rich and poor, the division between employees in the formal and informal sectors, which is a result of the household registration system and fragmentary welfare system, is also significant. Also, divisions between urban and rural areas, and between the eastern and western regions, which are highly correlated with the intergovernmental fiscal system, are among the major social cleavages in China.

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² <http://cpc.people.com.cn/n/2012/1110/c350000-19538713.html> (accessed 23 Aug 2013).

In this paper, we review the case of unequal access to public services in the context of major social cleavages in China. We also discuss policy responses from the government to address the unequal access to public services. Essentially, major social cleavages are the results of institutional reasons such as the intergovernmental fiscal system and the household registration system. Institutional reforms must be put at the top of the agenda. At the end of the paper, we discuss some issues that need to be addressed. First, the need to improve the information and incentive structure of local government when reforming the intergovernmental fiscal system. Second, address the fiscal equalization issue in future fiscal reforms. Third, rectify efficiency losses as well as the lack of portability of social programmes. Fourth, rigorous programme evaluations are necessary for social programmes, which are designed to provide equalized access to public services.

SOCIAL COHESION AND ITS IMPLICATION FOR SOCIAL POLICIES

There are many different definitions of social cohesion. For example, the Council of Europe defines social cohesion as “the capacity of a society to ensure the well-being of all its members – minimising disparities and avoiding marginalisation – to manage differences and divisions and ensure the means of achieving welfare for all members.” (Council of Europe 2010).

In Maxwell (1996:13), social cohesion is defined as the process of “building shared values and communities of interpretation, reducing disparities in wealth and income, and generally enabling people to have a sense that they are engaged in a common enterprises, facing shared challenges, and that they are members of the same communities”.

The above definitions address a broad context for social cohesion including political and philosophical implications. In this paper, since our focus is on the implications of social cohesions on social policies, we use a rather narrow definition from Easterly et al. (2006) that social cohesion is “the nature and extent of social and economic divisions within society”.

Social policies are considered as an important option for the government to address the issue of social cohesion. There are at least two functions of social policies to improve social cohesion: equalization and social insurance (Iverson and Soskice 2001, Moene and Wallerstein 2001).

First, public services such as healthcare and education services should be provided in a manner of fairness and equity to reduce the divisions between the rich and poor, the urban and rural, etc. More equitable public services delivery is helpful for equalizing the earning potential and for addressing the social cohesion issues broader than financial poverty (Nolan and Marx 2009). For example, regarding the inequality between the rich and poor, “arguably one of the most robust findings of comparative poverty research” is that “[n]o advanced economy achieves a low (relative) rate of poverty with a low level of social spending” (Nolan and Marx 2009: 330).

Second, a basic level of public services should be provided to protect all citizens from external shocks. In this sense, social services function as a social insurance to protect people from bad luck (e.g., illness, unemployment) and expected need (e.g., old age).

SOCIAL CLEAVAGES AND UNEQUAL ACCESS OF BASIC PUBLIC SERVICES

To fulfil the functions of equalization and social insurance, basic public services include compulsory education, public health and primary healthcare, basic social security, employment service and public housing, as defined in an important government guideline for social polices released in 2012 by the State Council.³

Regarding the access to these public services, in the context of China, there are several major social cleavages in terms of unequal access to basic public services including: the division between the rich and poor, the residents in urban and rural areas, employees in the formal and informal sectors, and residents in different regions of China.

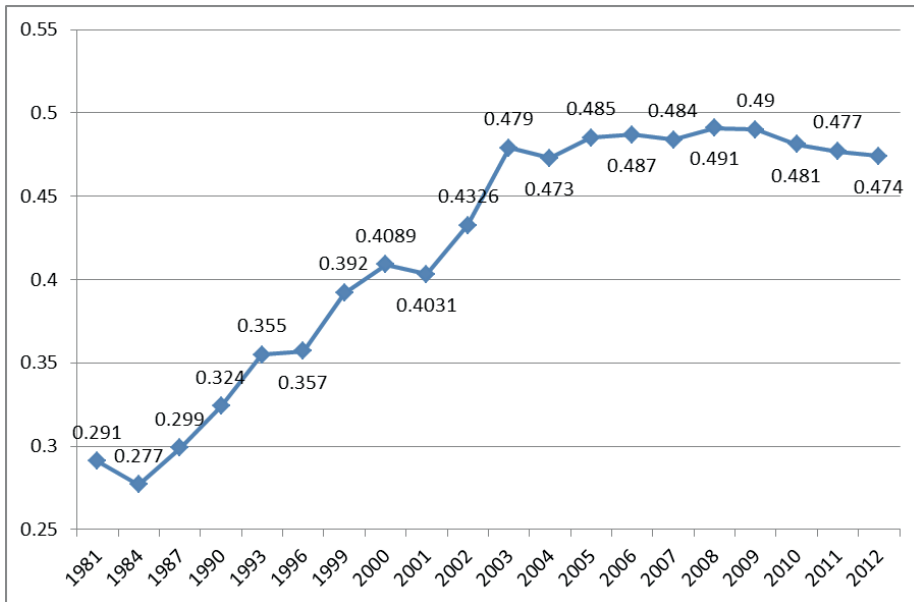
We will show in the next section that access to public services is unequal for different social cleavages and the degree of inequality peaked in the mid-2000s. Several institutional arrangements matter for the unequal access to public services. The welfare system before the 1980s was embedded in the economic system of central planning, in which urban areas and a formal sector were highlighted. These biases remain the case today. In addition, the welfare system used to be designed on the basis of the household registration system (“hukou”), under which residents are restricted from moving to other places. The intergovernmental fiscal system also plays a role in the inequality of public service provision since, under the current intergovernmental fiscal system, local fiscal capacity is pivotal for the quantity and quality of public service provision.

Unequal access to public services for the rich and poor

One major reason for unequal access to public services is income disparity. Figure 1 shows the trend of the Gini coefficient of household income per capita. Between 1984 and 2012, the Gini coefficient increased from 0.277 to 0.474. In 2008, the Gini coefficient peaked at 0.491, amongst the highest in the world⁴.

³ State Council, (2012) A guideline for a nationwide system of basic public service, Document No. 29, downloadable from <http://www.gov.cn/zwggk/2012-07/20/content_2187242.htm> (accessed May 10, 2013).

⁴ <http://theory.people.com.cn/n/2013/0204/c40531-20420303.html> (Accessed Aug 22 2013).

Figure 1: Gini coefficient of household income per capita in China

Source: *National Bureau of Statistics* (various years) and the World Bank.

Households with low income may have difficulty accessing public services. Since the 1990s, the provision of public services has been marketized after the government retreated from providing and funding public services. People have to pay user fees for accessing public services (Wong and Bird 2008). For example, for junior secondary school education, a student in the rural areas was charged over RMB102 on average for miscellaneous fees in 1999 (Lv et al. 2004), which accounted for about one-sixth of rural poverty line in that year.

Unequal access to public services for the formal sector and informal sector

Apart from the cleavages between the rich and poor, the division between the formal and informal sector is also critical. There are several institutional reasons restricting people in the informal sector from getting access to public services. In this paper, informal sector workers include both migrant workers as well as local residents working in the informal sector.

First, most social programmes are only accessible to people with local residential status (i.e., *Hukou* system). This implies that over 260 million migrant workers, who are working outside their hometowns, cannot fully access public services. For example, local social assistance programmes as well as public housing schemes are only available for people with local *hukou*.

In 1999, a national means-tested programme, “Minimum Livelihood Guarantee Scheme”, or “Di Bao”, to provide a safety net for the urban poor was initiated. The objective of “Di Bao” is to reduce absolute poverty and cover basic expenditure including food, cloth-

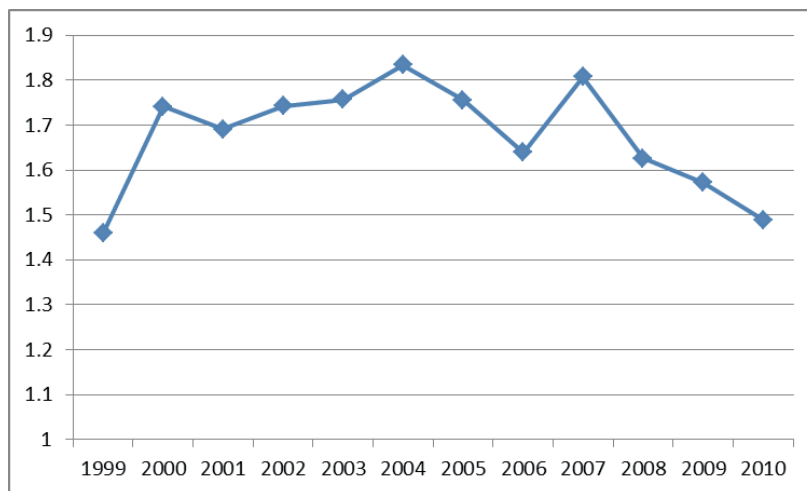
ing and housing. Only urban residents with household registration status are eligible for this programme.

The Chinese government has also launched several public housing programmes managed by the local government since the middle of the 1990s to cater to low and middle income groups who cannot afford to buy houses. Like the “Di Bao” programme, only residents with household registration status are eligible for all public housing programmes.

Second, many social programmes are fragmented and managed in terms of occupations as people are allocated into different plans based on their occupations and these plans offer public services with very different coverage. This implies that self-employed and flexible-employed workers in the formal sector have very different levels of benefits. For example, the corresponding social insurance programmes for civil servants, workers in formal sectors and residents offer very different benefits.

For example, the benefits for social security are very different between workers in the informal and formal sectors as well as between civil servants and workers. For the informal sector, the level of pension is much lower than that for the workers in the formal sector – RMB81 per month, or about 6% of the pension received by a retired worker in the formal sector⁵. In addition, the gap between civil servants and workers is also big. Figure 2 shows that the ratio for the pension received on average by a former civil servant and former worker increased from less than 1.5 in 1999 to over 1.8 in 2004. In a recent survey conduct by CASS, over 75% of retired workers’ pension is less than RMB2,000 and over 92% of retired civil servants received over RMB4,000 (Wang 2012).

Figure 2: Ratio of amount of pension received by an average retired civil servant and worker



Source: China Human Resource and Social Security Yearbook 2011.

⁵ Xinhua News Agency, Dec 26, 2013 http://news.xinhuanet.com/fortune/2013-12/26/c_118726970.htm (accessed Dec 28, 2013).

Unequal access to public services across regions

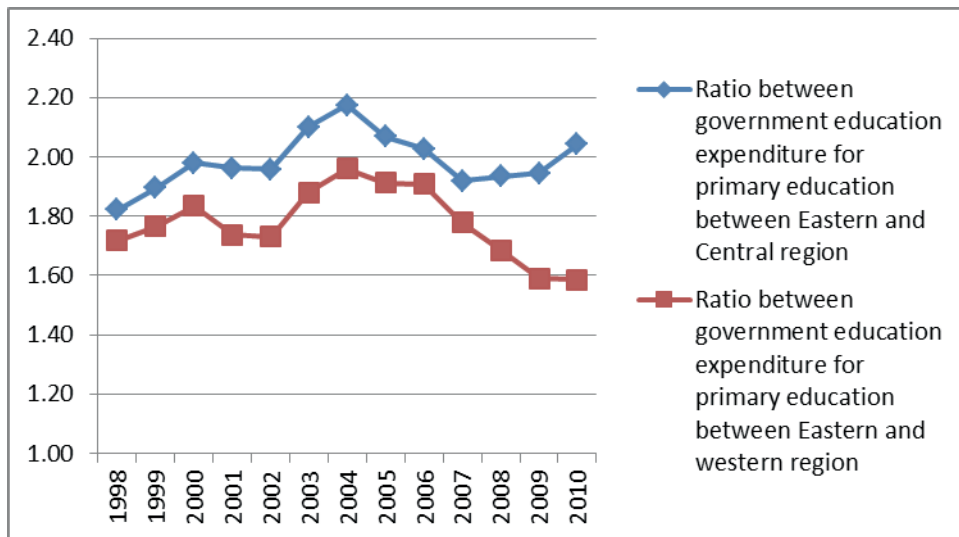
The other important social cleavage for accessing public services is the division for people residing in different regions. Now, most social programmes are managed by city- or county-level governments and provide benefits based on local fiscal capacity. Given the current intergovernmental fiscal system, many public services including health, education and public housing are managed and provided by local governments. Local government is in charge of day-to-day operations as well as setting local policies for accessing public services.

It is well recognized in China that the central government controls personnel appointments on the basis of officials' performance (Xu 2011). In the arena of social policies, similar to the case of economic development, the central government evaluates the performance of local officials by the overall indexes of social programmes.

However, compared to policy targets for economic performance such as GDP growth, it is difficult to measure performances for social policy. The most commonly used measurements are based on fiscal expenditure and infrastructure (e.g., education expenditure per student or number of hospital beds per 1000 population). Without clear-cut measurements for quality and quantity, the local government has more discretion over public service provision. Having met the minimal target imposed by the upper-level government, the local government may provide public services in various quality and prices given their different fiscal capacities.

Figure 3 shows that the ratio between education expenditure per student in primary schools in the eastern and central regions increased from 1.8 in 1998 to about 2.2 in 2004. A similar upward trend is observed for the eastern and western regions between 1998 and 2004.

Figure 3: Regional inequality for expenditure on per primary school student



Source: *China Educational Finance Statistical Yearbook*, various years.

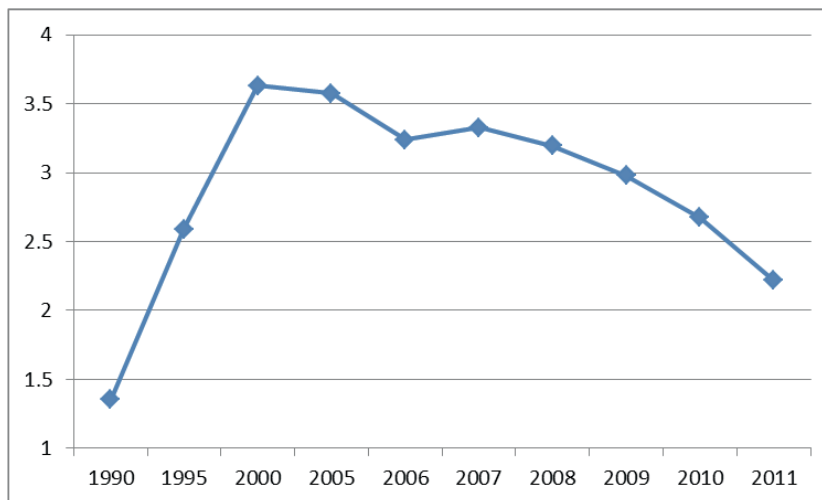
In addition, many social programmes are administratively fragmented since they are managed by over 2,000 county-level governments and it is very difficult for people to switch from

one local programme to another without changing their residential status. This is particularly the case for rural residents as well as migrant workers who want to register with plans managed by local governments in urban areas and in other regions.

Unequal access to public services between rural and urban areas

Inequalities of public service access between rural and urban residents are observable in many policy arenas. For the healthcare arena, the ratio between health expenditure per capita in urban and rural areas increased from 1.35 in 1990 to over 3.6 in 2000 (see Figure 4).

Figure 4: Ratio of health expenditure per capita in urban and rural areas



Source: *China Health Statistical Yearbook*, various years.

Pension schemes for urban residents and urban retirees from the formal sector also differ greatly. For example, in Guangdong, the highest level of pension an urban resident can receive was RMB686 in 2012 while an average retiree from the formal sector received over RMB2,600 per month.⁶

POLICY INITIATIVES TO EQUALIZE ACCESSIBILITY TO PUBLIC SERVICES

The Chinese government has made efforts to address inequalities in accessing public services following the Sixth Plenum of the 16th National Congress of the Chinese Communist Party in 2006, which highlighted the importance of equalizing basic public services and added the assembling of a social safety net as another function of the fiscal system.⁷

⁶ <<http://finance.sina.com.cn/china/dfjj/20130410/144315102913.shtml>> (accessed May 10, 2013).

⁷ <<http://theory.people.com.cn/GB/49154/49156/5347540.html>> (accessed Jan 21, 2013).

The Chinese government initiated three sets of policies to address the issue of accessibility to public services. First, there has been a dramatic expansion of social programmes to people who previously were having difficulties accessing public services, in particular, rural residents.

Since 2006, the most important social assistance programme, “Di Bao”, has been expanded to rural areas and the number of recipients of “Di Bao” in rural areas was 53 million in 2011 (Qian 2013a).

The basic health insurance scheme was established in the mid-1990s, but it was only accessible to urban employees in the formal sector. In 2002, a rural social health insurance scheme was initiated, while a social health insurance scheme to cover urban residents outside the formal sector such as the self-employed, the unemployed as well as students was initiated in 2006 (Qian and Blomqvist 2014).

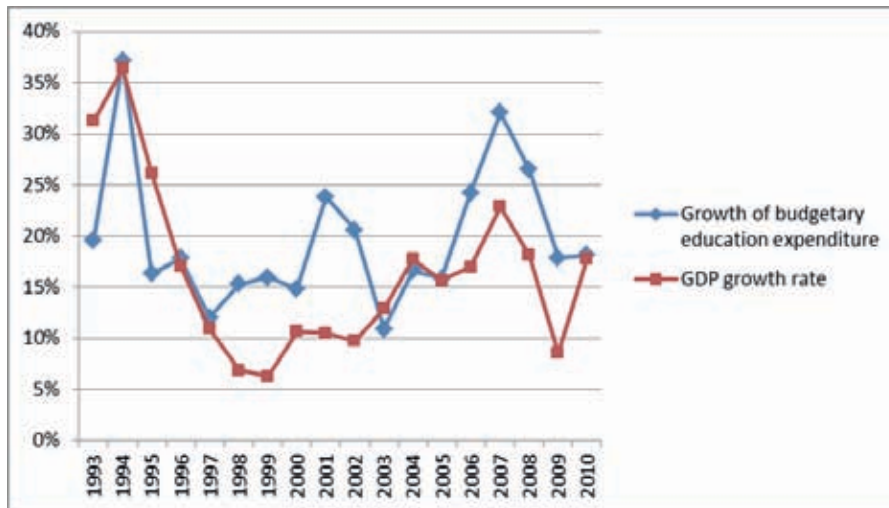
The pension scheme that has been established since 2009 in rural areas for only some counties is expected to cover all counties by 2020. The central government allocates a budget of RMB55 per month for each rural resident who is over 60 years old. Local governments can increase the amount of the pension according to their own fiscal conditions.⁸

Second, more government budget will be allocated to public services in economically backward areas including the western and central regions. With more government expenditure, the level of user fees is expected to be reduced. Since 2006, government expenditure, particularly for the central government, on public services such as education and health services has been increased.

Government expenditure on education has increased dramatically. Figure 5 shows the annual growth rate of government expenditure on education, which is higher than GDP growth in most of the years after 1997. In 2012, government education expenditure reached RMB2.2 trillion, which was about 4% of GDP⁹.

⁸ Xinhua news agency 2009, <http://news.xinhuanet.com/comments/2009-12/22/content_12687744.htm> (accessed May 10, 2013).

⁹ Xinhua news agency 2013 http://news.xinhuanet.com/fortune/2013-05/08/c_124680503.htm (accessed August 10, 2013).

Figure 5: Growth of government budgetary education expenditure and GDP (Nominal)

Source: *Finance Yearbook of China*, various years.

Since the mid-2000s, a free compulsory education policy has been implemented gradually in rural areas. In 2006, the government allocated funds to cover the costs (including tuition, textbooks, and other fees charged to students) of compulsory education for students in rural areas in the western regions. This means the removal of user fees for education services (Zhao and Qian 2013).

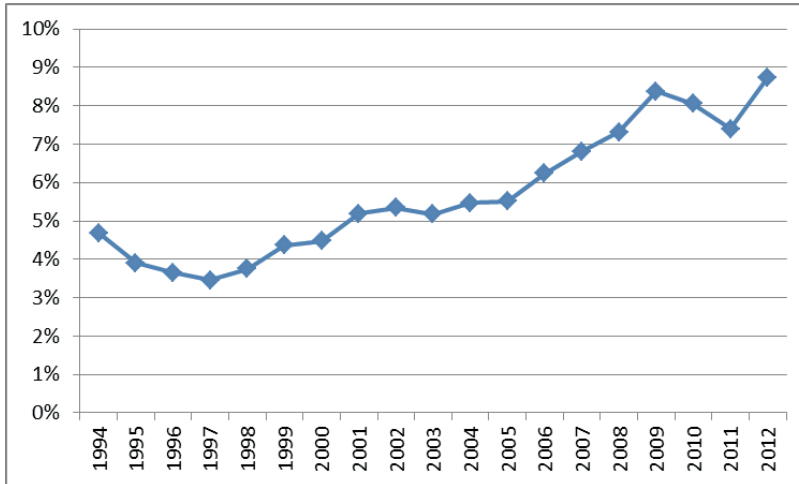
In 2007, this policy was extended to rural areas in the eastern and central regions after the government had increased education grants. Over 140 million students in rural areas have benefited from this policy. In 2008, this free compulsory education was extended to urban areas, benefiting over 28 million students.¹⁰

Government health expenditure as a share of total health expenditure also increased from 15% in 2000 to over 30% in 2011. Between 2009 and 2011, government health expenditure was a hefty RMB1.24 trillion.¹¹ The share of out-of-pocket fee was reduced from 59% in 2001 to 35% in 2011 (Qian and Blomqvist 2014).

Third, the Chinese government started reforming intergovernmental fiscal relations to improve the local governments' capacity by increasing fiscal equalization transfers to local governments. Figure 6 shows that central-local fiscal transfers steadily increased from about 4% in 1995 to over 8.7% of GDP in 2012. In 2012, total central-local fiscal transfers were over RMB4.53 trillion and the ratio between fiscal transfer from central government and local government revenue was 75%. The ratio is relatively large compared to the US's 50% (Glaeser 2012).

¹⁰ <http://www.gov.cn/jrzq/2008-08/03/content_1063386.htm> (accessed May 10, 2013).

¹¹ <http://www.gov.cn/gzdt/2012-04/28/content_2125942.htm> (accessed May 28, 2012).

Figure 6: Central-local fiscal transfer as a percentage of GDP

Source: CEIC and Ministry of Finance: Budget Report 2013.

In July 2012, the Ministry of Finance released new rules for “fiscal equalization” transfers, a particular kind of general purpose transfers.¹² “Fiscal equalization” transfers are for equalizing public services provision and allocated based on the estimated government expenditure of each province. The share of fiscal equalization transfers in total transfers increased to about 21% in 2011 (i.e., RMB748 billion) compared to 4% in 2002.¹³

Budgetary local government bonds is another way to improve the local governments’ fiscal capacity to provide public services. While the Budget Law prohibits local governments from directly borrowing from banks, the central government allows local governments to issue bonds via the Ministry of Finance after the global financial crisis (Qian 2013b).

The advantage of such an arrangement is the opportunity afforded to the Ministry of Finance in the overseeing of the usage of the funds raised by these local bonds. Between 2009 and 2011, a total of RMB200 billion bonds were issued each year for 30 provinces and 5 cities. Many of the funds have been used for providing public services. For example, 21.7% of the funds were used for public housing, 15.4% for rural infrastructure and 19.8% for healthcare and education infrastructure.¹⁴

The central government uses fiscal support for social programmes as a leverage to address regional inequality. The government provides allowances to residents in low-income regions, in particular, the western regions. For example, it is reported that almost 100% of expenditures in “Di Bao” in Hubei province (a province in the central region) are funded by the central government while only 16% of expenditures in “Di Bao” in Fujian province (a province in the eastern region) are funded by the central government (Solinger and Hu 2012).

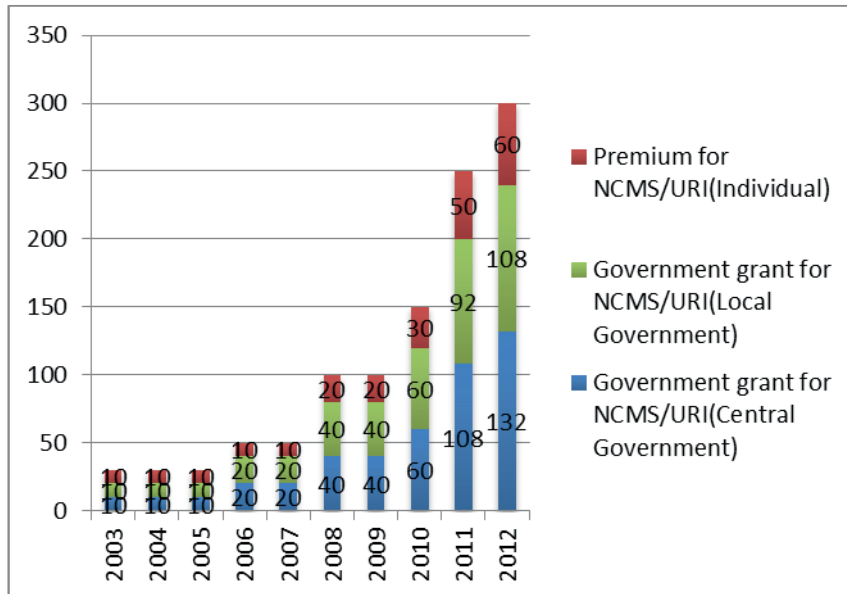
¹² <http://www.china.com.cn/policy/txt/2012-07/25/content_26013058.htm> (accessed March 27, 2013).

¹³ Ministry of Finance, <http://yss.mof.gov.cn/2011qgczjs/201207/t20120710_665285.html> (accessed March 27, 2013).

¹⁴ <<http://finance.people.com.cn/n/2012/0824/c70846-18828344.html>> (accessed March 27, 2013).

The government subsidizes at least RMB240 per enrollee for social health insurance programmes in the western and central regions in 2012 and the amount of subsidy is expected to be increased further to RMB360 by 2015. Of this, the majority of government subsidy for social health insurance in the central and western regions is taken from the central government budget (Qian and Blomqvist 2014). For example, Figure 7 shows that the amounts of government grants for a typical province in the central region have increased dramatically since 2003. The central government accounts for the majority of the government grant for social health insurance. In 2012, the central government allocated RMB132 out of RMB240 per enrollee for rural social health insurances.

Figure 7: Government grants from the central government for health insurance in a central province

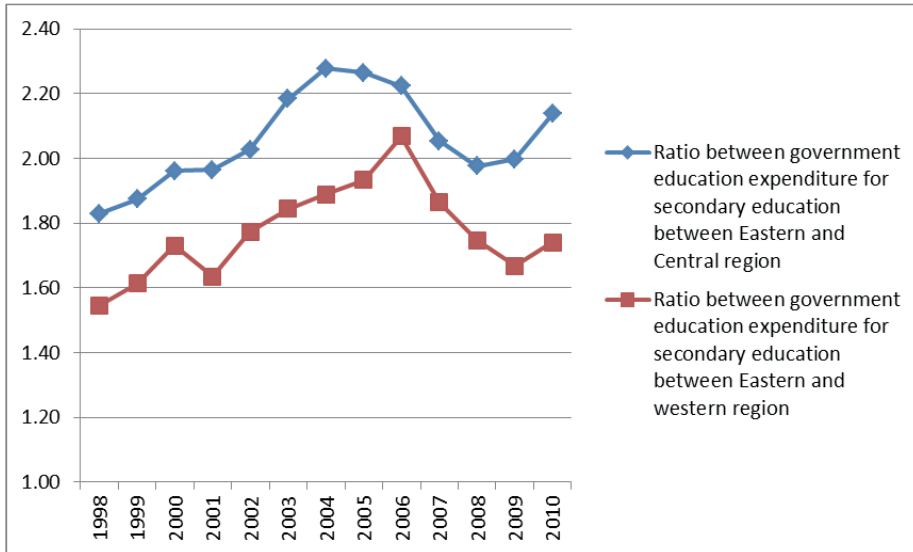


Source: China Health Statistical Yearbook, various years and website of ministry of health.

ACHIEVEMENTS OF “EQUALIZATION OF BASIC PUBLIC SERVICES”

The general trend of unequal public service access has been decreasing since the mid-2000s. For example, regional gaps (i.e., ratio) for government expenditure per student in primary schools between the eastern and western regions had decreased from 2.2 in 2004 to less than 2 in 2009. For secondary school education, the ratio for education expenditure per student between the eastern and central regions was reduced from about 2.3 in 2004 to 2 in 2009 (see Figure 8).

Figure 8: Regional inequality of government expenditure for secondary school students



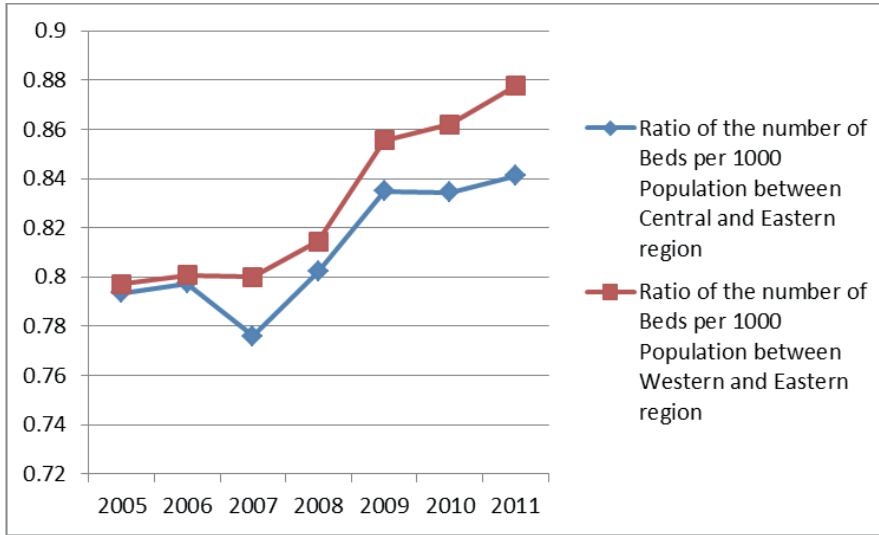
Source: *China Educational Finance Statistical Yearbook*, various years.

In the healthcare arena, social health insurance covered more than 95% of the total population in China in 2011. Regional inequality of healthcare has also been decreasing, especially for the inequality in physical infrastructure. Figure 9 shows that the ratio of the number of beds per 1,000 people among different regions has also decreased since the middle of the 2000s.

Figure 10 shows that the gap between rural and urban minimum livelihood standard is narrowing.¹⁵ Also, from Figure 1, the Gini coefficient nationwide has slightly decreased since 2008, which may imply that social assistance programmes play a role in reducing income inequality.

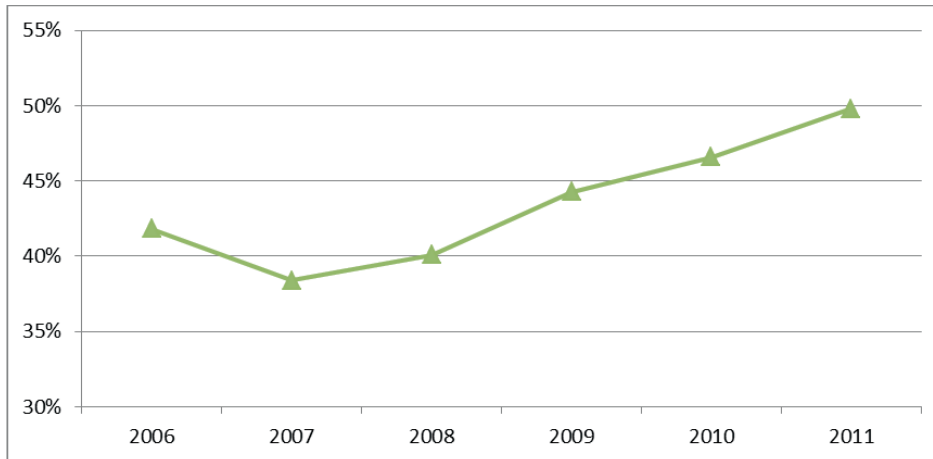
¹⁵ Xinhua News Agency 2007: <http://news.xinhuanet.com/newscenter/2007-08/13/content_6524280.htm> (accessed May 10, 2013).

Figure 9: Ratio of the number of beds per 1000 people between different regions



Source: *China Health Statistical Yearbook*, various years.

Figure 10: Ratio between the threshold of rural and Minimum Livelihood Guarantee Scheme



Source: *Civil Affairs Statistical Yearbook*, various years.

Migrant workers are eligible for some social insurance programmes. In a survey conducted by China Statistical Bureau, over 70% of migrant workers were covered by one or more social insurance programmes in 2009 compared to 60% in 2007 (see Table 1). Also, the number of migrant workers covered by the unemployment insurance scheme has increased from 11 million in 2007 to over 27 million in 2012, which accounted for over 10% of migrant workers nationwide.

Table 1: Percentage of Migrant Workers under Insurance Coverage

	Retirement Insurance	Work Injury Insurance	Health Insurance	Unemployment Insurance	No insurance
2007	11.9	27.2	24.6	3.5	39.9
2008	12.1	32.2	34.1	3.0	35.4
2009	16.8	30.8	39.0	3.4	28.7

Source: China statistical bureau (2010): *The Fifth Monitoring Report on Migrant Workers*.

Table 2 shows the social programmes initiated since the mid-2000s to equalize the access to social services.

Table 2: Government policies since the mid-2000s for reducing inequality in public services access

	Year	Purposes
Social health insurance in rural areas and urban informal sector established nationwide	2006	Integration of urban and rural area in terms of public service provision
Rural pension scheme established	2009	
Rural social assistance established nationwide (minimum livelihood guarantee scheme)	2006	
Migrant workers are able to enrol into some social programmes	since the mid-2000s	Equalization of access to public services between migrant workers and local residents
Government increases expenditure on public health services		To keep user fees low
Reforming inter-governmental fiscal system	since the mid-2000s	Fiscal equalization across regions/ increasing local fiscal capacity
Central government's fiscal support for various social programmes for low income regions	since the mid-2000s	Equalization of public service accessibility

Source: Compiled by the author.

In July 2012, the blueprint for the provision of public services for the 12th Five-Year Programme was released,¹⁶ spelling out a number of policy objectives. First, the government is going to integrate different social insurance schemes between rural and urban areas.

Second, the government will increase government inputs further for infrastructure upgrading in rural areas to reduce inequality. Third, expanding the eligibility of recipients for various social services is another initiative. In particular, more public services would be made available for migrant workers. Fourth, expanding fiscal transfers to regions with low fiscal capacity is also put in the agenda.

¹⁶ <http://www.gov.cn/zwqk/2012-07/20/content_2187242.htm> (accessed 27 Jan 2013).

Fifth, the government is going to upgrade the capacity of service provision to match with local population density. Six, the other initiative is to integrate public service provision among different regions wherever possible, in particular, among economically advanced regions, such as Pearl River Delta and Yangzi River Delta regions.

In this national guideline, the equalization of public services among different regions and between rural and urban areas would require the reform of the fiscal system, which could encompass first, the reassignment of expenditure responsibility and revenue for local governments. In particular, more expenditure responsibilities should be allocated to central and provincial governments.

Second, the enhancement of local fiscal capacity to provide public service by reforming the intergovernmental transfers system. Third, match funds for financing public services with the needs of the local population.

DISCUSSIONS

Although progress has been made in reducing the inequality of public services access, given major social cleavages, institutional reforms on the intergovernmental fiscal system and household registration system should be put at the top of the policy agenda.

There are still some issues to be addressed in the future to prove basic public services. First, address the information and incentive structure of local governments when reforming the fiscal system. Fiscal transfers to local governments are expected to be increased dramatically to equalize public services provision.

The incentives of local officials are subject to a performance evaluation system set by the upper-level government. To give local officials incentives to provide public services, performance evaluation systems have to include more complicated, multi-dimensional standards like uplifting the quality of public services.

Second, the budget making and management system should be reformed. The central government has increased fiscal equalization transfers to local governments as they are one of the institutional foundations for equalizing public services and the fiscal capacity of local governments. However, as the budget management system does not work well on the accountability aspect and it is difficult for upper-level government to oversee the use of fiscal equalization, the budget system will have to be carefully designed.

Third, reform fragmented social programmes that not only hinder equal access, but also incur efficiency losses (i.e., lack of economies of scale for service provision as well as lack of risk sharing in terms of social insurance), apart from being importable. Although some local experiments have been done to integrate different social programmes,¹⁷ fundamental reforms are still necessary for integrating social programmes targeting people of different residential status, occupation, etc.

¹⁷ For example, Dongguan city in Guangdong province has integrated three insurance plans including basic health insurance, urban resident health insurance and rural health insurance into a single health insurance scheme since 2008. See <<http://gd.people.com.cn/n/2012/0612/c123932-17134001.html>> (accessed May 10, 2013).

Fourth, while the government has invested intensively in many social programmes, it is imperative now to have programme evaluations for those social policies¹⁸, which could be very helpful for targeting the government inputs more efficiently and for evaluating the quality of social programmes to meet the objectives of these social policies. In this case, promoting collaborations with organizations which have intensive experiences of programme evaluation such as the World Bank and Asia Development Bank can be an option. For example, there are numerous papers evaluating the impact of the *PROGRESA* programme initiated in Mexico by the World Bank.

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Neoliberalism and Economic Polarization in Korea: Insecure Employment and the Emergence of the Working Poor

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Introduced in haste following the 1998 financial crisis, neoliberalism ended the time-honoured life-time employment practice in Korea and brought in “flexible employment,” whereby workers can be laid off relatively easily and new recruits can be hired as irregular workers.² Such changes in employment patterns have led to the proliferation of various forms of nonstandard employment, including temporary workers, short-term contract workers, “self-employed” employees (e.g., teachers at *hagwon* or private academies), contingent workers, temporary help agency workers (agency temporaries) and daily hires. As a result, the proportion of irregular workers of the total workforce is relatively high, with some data showing that its total has surpassed that of regular workers in some years. The problem with such a high proportion of irregular workers is that their income is only about 60 percent of what regular workers earn for doing the same work. The former are also often deprived of various insurances that regular workers enjoy, such as pension and unemployment insurance. And this, as the paper argues and shows, is the most alarming form of cleavage threatening social cohesion in contemporary Korea. Polarization engendered by underemployment has led to social marginalization of an increasing number of workers in Korea, leading to the increasing relevance of the concept of “working poor” who may also be “house poor” or “rent poor.” An alarmingly high suicide rate in Korea may also be related to the sense of despair felt by the marginalized.

NEOLIBERALISM AND LABOUR MARKET FLEXIBILITY

One of the key policy agendas of neoliberalism is labour market flexibility, which refers to the situation in which firms are under fewer rules and regulations in labour-related matters, meaning that they can fire employees at will, change their working hours, rotate their

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² A version of this paper will be published in *Korea Observer*.

tasks in response to employer needs, and set wages, e.g., no minimum wage (see Chomsky and McChesney, 2011; Braedley and Luxton, 2010). Labour market flexibility also includes employing workers on temporary work or fixed-term contracts and the so-called “externalization,” i.e., “subcontracting,” “outsourcing” or “offshoring”—the transfer of an entire business function to an external service provider. Increasing underemployment, which includes “involuntary part-time” workers, i.e., workers who would like to work full-time but can only find part-time work, is thus a component, and a consequence, of labour market flexibility. Underemployment is more widespread during times of economic downturn and has become far more prevalent with neoliberal restructuring. Indeed, neoliberal restructuring has led to a significant rise in the number of people engaged in part-time and short-term contract work—the “flexibilization” of employment. And these changes in the labour market have sometimes been labelled as the “Brazilianization” of labour in reference to increasing job insecurity and instability and expansion of informal labour, complete with fewer rules, lower wages and benefits, and weaker unions.

With neoliberalism becoming the dominant economic policy of the world in general, the ratio of irregular work³ to regular work in most parts of the world has reportedly risen in the last three decades. In the Netherlands, for example, the share of temporary employment in the total employment has jumped from 12.1 percent in 1983 to 50.5 percent in 2012 (OECD, 2013a). Italy has shown a similar trend where the ratio of temporary employment soared from 11.4 percent to 51.7 percent during the same period. Countries showing similar trends during the same period, albeit less extreme, include Luxembourg (increasing from 9.1 percent to 38.1 percent), Ireland (increasing from 11.4 percent to 34 percent), and Japan (increasing from 10.9 percent to 26.4 percent) (OECD, 2013a).

Korea has been no exception, but with an added factor of the 1998 financial crisis. As a condition for being granted bailout money, the country had to carry out a thorough neoliberal restructuring, including the labour market. As a result, the proverbial lifetime employment was eliminated and layoffs have become legalized, all of which prompted significant changes in employment patterns in Korea (see Koo, 2000). “Flexibility” has become a trendy slogan for companies to not only freely lay off unwanted workers⁴ but also use early retirement and honorary retirement schemes to scale down their payrolls. Accordingly, the proportion of irregular workers in Korea has hovered around 35 percent of the total labour force in the last decade, reaching the peak of 44.2 percent in 2005 (OECD, 2013a). The figure for 2011, according to official data, was 29.4 percent, a significant drop from 36.7 percent from the previous year. The 2011 figure, which was slightly higher than the OECD average of 26.1

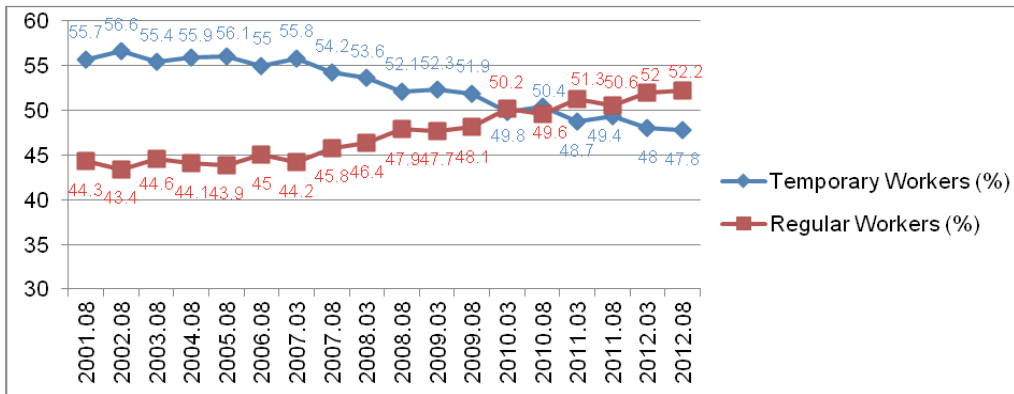
³ In addition to the term *nonstandard*, other terms in similar use include *irregular*, *contingent*, *atypical*, *amorphous*, and *precarious*.

⁴ It is agreed that layoffs in Korea are carried out rather unfairly, since they tend to be applied disproportionately to rank and file workers.

percent, also marks the first time that this particular aspect of labour statistics has dipped below the 30 percent mark since the government began compiling it in 2001.⁵

As Yusun Kim (2003, 2013) argues, however, the proportion of nonstandard workers in Korea is considerably higher than the “official figure.” Kim (2013: 4-5) notes that the official total of regular workers actually includes hundreds of thousands of contracts, part-time, on-call, dispatch, service, and other contingent workers and that if they are properly classified, the proportion of nonstandard workers should be 46.1 percent as of August 2012 (see Figure 1). This figure, albeit unofficial but very plausible, means that Korea has one of the highest shares of nonstandard employment among the member countries of the OECD.

Figure 1: Ratio of Regular vs. Irregular Employment, 2001-2012



Source: Kim (2013: 4).

Firms prefer to hire new recruits on a temporary basis because it involves less labour costs and it is easier to lay them off. As of 2012, temporary workers earned less than 65 percent of the income of regular workers (Statistics Korea, 2013b). In addition to lower pay, many irregular workers in Korea also suffer from being denied statutory benefits such as bonuses, overtime pay, or retirement allowances and four basic forms of insurance (national pension, health insurance, unemployment insurance, and occupational health and safety insurance). Data from Statistics Korea (2013b) show that only 40 percent of irregular workers are covered under the national pension scheme and those with health insurance and unemployment insurance amounted to just 46.8 percent and 43.9 percent respectively. All of this, of course, stands in stark contrast to the situation in most other OECD countries where legal and social schemes exist to protect the rights and welfare of nonstandard workers in much the same way as regular workers.

⁵ The extent to which nonstandard employment has become a conspicuous form of work life in Korea is manifested by the rising proportion of irregular workers employed by state-owned companies. As of 2008, the proportion of temporary workers at public enterprises amounted to 16 percent of all workers, but the figure rose to 17.3 percent by the end of 2012 (*Seoulhinmun*, 2013).

ARTIFICIALLY LOW UNEMPLOYMENT RATE IN KOREA

Notwithstanding the large number of underemployed, Korea has boasted a very low unemployment rate in recent years, recording 2.8 percent in 2012, which, for some economists, means full employment. Korea may boast the world's best unemployment rate, but its official data regarding labour statistics are misleading for several reasons. First, a large number of daily labourers who work on jobs which require their services for less than a month is not included as being unemployed. Second, a considerable number of Koreans who work as unpaid family workers, i.e., those who work unpaid for family-run businesses, is not included in the unemployment rate. If these unpaid labourers—as of September 2012, 5.4 percent of the total labour force in Korea worked as unpaid family workers—were included in the calculation of the unemployment rate in Korea, the jobless rate would be significantly higher. Third, there is the retirement age factor. The retirement age for most positions in the private sector is around 55 years old, meaning that Korean workers are forced to retire up to 10 years earlier than their counterparts in most other parts of the world.⁶ Jang (2003) shows that Korean workers in their early thirties have only about a 60 percent chance of still being employed by the time they turn 50 years old. Because many of those forced to retire are not yet financially secure, they find other jobs after retirement to make ends meet. Lastly and most importantly, the official unemployment statistics in Korea only include those aged 15 years or older who did not or could not work for the past one week, counting from the day of the survey, who actively sought work and who were willing to work regardless of the working conditions. Excluded from the unemployment data are those studying or preparing to find jobs (Statistics Korea estimates the total to be 580,000 as of November 2012); those who have given up on finding jobs (193,000); those who responded in the survey that they are “taking a rest” (1 million); and those part-time workers who are working less than 18 hours a week but would like to work more hours (989,000) (*Asia Today*, 2013). Therefore, if the figures for this non-working population, which totals to about 3.89 million, are included in the unemployment statistics, as they should, the unemployment rate in Korea can easily climb to about 14 percent, almost five times the official figure.

Another compelling fact is that many Koreans who should be classified as employees are classified as self-employed or business owner-operators. These workers, who are called *teuksugoyong nodongja* or specially-employed labourers, and whose employment is very insecure, include teachers at private academies (*hakwon*), delivery service workers, truck drivers, designated drivers, and insurance brokers. This trend is increasingly affecting more jobs. For example, shipbuilding companies have begun to “hire” welders as self-employed individuals. As such, labour standards such as minimum wages, Labour Standards Act, the right to form labour unions, and the aforementioned four basic forms of insurance do not apply to these workers. There are reportedly nearly 6 million self-employed individuals in Korea as of the

⁶ The extent to which the fear of early retirement is felt by workers is manifested in the popularity of such terms as *saojeong* (“retirement age of 45”) and *sampalseon* (“retirement age of 38”), which gained currency after it became known that layoffs were affecting a large number of workers in those age categories.

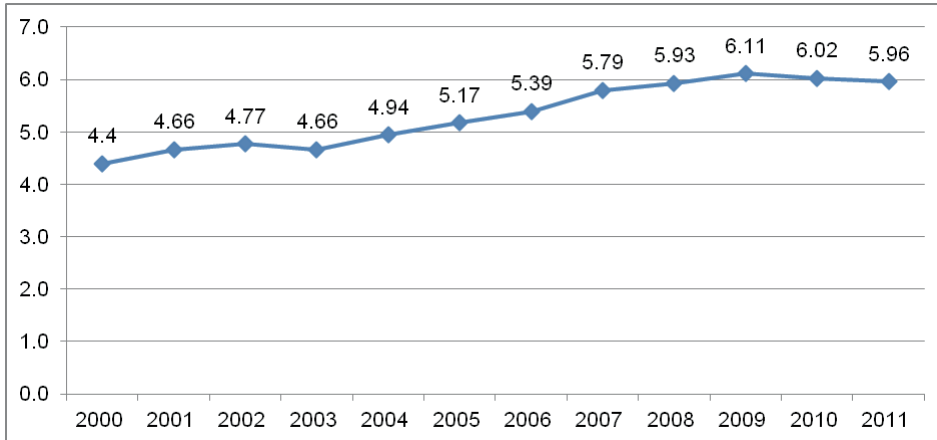
end of 2011 and the proportion of the self-employed is about 27 percent of the economically active population, 3-4 times higher than the 7 percent in the United States and 9 percent in Japan (*Kyunghyangshinmun*, 2012).

What all of this means is that there are many Korean workers who are *bulwanjeon chwieopja* (literally meaning “incomplete employees”), meaning that they are “half-unemployed” as short-time workers, daily hires and temporary hires, with uncertain status and future. They want to secure full-time jobs but cannot find one, so they involuntarily work as part-time workers. However, the official unemployment rate paints an overly positive picture of the labour market in Korea.

THE WORSENING EMPLOYMENT SITUATION AND INCREASING SOCIO-ECONOMIC POLARIZATION

Notwithstanding whether the middle class has truly shrunk, what seems to have happened in the past few years in regard to class is a greater polarization of the “haves” and “have-nots.” In *The Global Trap: Globalization and the Assault on Prosperity and Democracy* (1997), Hans-Peter Martin and Harald Schumann argue that the world is being restructured dualistically between 20 percent “haves” and 80 percent “have-nots,” 20 percent professional core workers and 80 percent peripheral temporary workers, and 20 percent employed and 80 percent unemployed or would-be-unemployed. These phenomena, they argue, will lead to the collapse of the middle class and allow the rich to get richer and the poor poorer. Although Korea has not yet entered the so-called 20-80 society, it is increasingly becoming a polarized place with the have-nots comprised largely of irregular or underemployed workers. For example, in 2000 the top quintile of urban households with two or more persons earned 4.4 times more than what the bottom 20 percent grossed, but as of the end of 2011, the top 20 percent earned 5.96 times more than the total income garnered by the bottom 20 percent (Statistics Korea, 2012; see Figure 2). Income inequality is actually worse than these numbers indicate because these tabulations are based on the incomes of urban households with at least two persons, excluding, among others, the high incomes of the self-employed. The deteriorating employment conditions have, therefore, contributed significantly to the widening of the income gap.

Figure 2: Difference in Household Income between Top and Bottom Quintiles in Korea, 2000-2011 (each figure represents how many times the income of top quintile amounted to compared to the income of the bottom fifth)

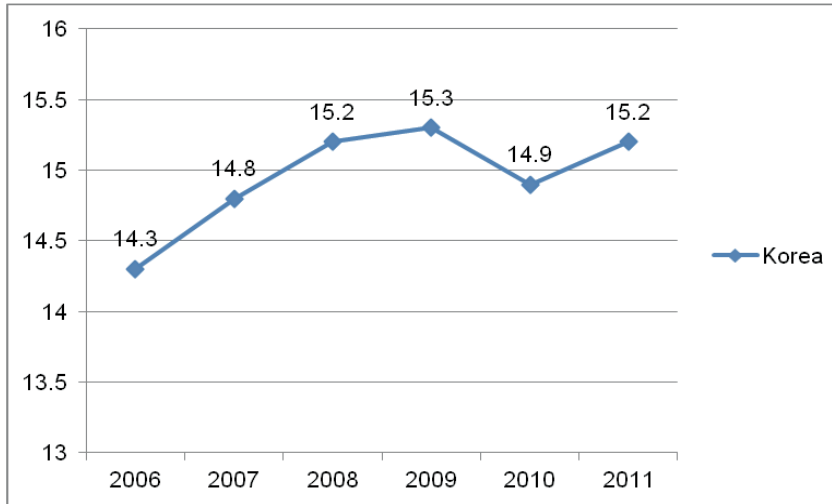


Source: Statistics Korea (2012).

The considerably large number of people living under the poverty line further indicates widening income inequality in Korea. For example, the proportion of Korean households living under the poverty line—those making less than 50 percent of national median income—have risen from 14.3 percent in 2006 to 15.2 percent in 2011 (see Figure 3) (OECD, 2013). Poverty rates in Korea seem to be caused in no small measure by the presence of a large number of irregular workers, who earn only about 60 half of the wage of regular workers. Even for those who do not live under the poverty line, their income may just be enough to live hand to mouth. For example, the proportion of Korean workers who are classified as low-paid workers, i.e., those who earn less than two-thirds of the median income, in 2012 was 25.9 percent, the highest among the OECD countries. Korea's rate, which has topped the list since 2007, is much higher than the OECD average of 16.3 percent and the rates found in other countries, such as Belgium (4 percent), Finland (8.1 percent), Italy (9.5 percent), and Switzerland (9.2 percent) (OECD, 2012). What is even more alarming is the fact that the actual number and proportion of workers who do not even receive the minimum wage is increasing. For example, the proportion of such workers jumped from 4.3 percent in 2001 to 10.5 percent in 2012 (minimum wage in 2010 was 4,580 won per hour or about \$4.16 USD at the exchange rate of 1,110 won per \$1) (*Naeilnews*, 2013). The age groups which were most affected were those most vulnerable to market exploitation, as those under the age of 19 topped the list with 43.9 percent, followed by those 60 years old or older (39.3 percent). The fact that Korea's minimum wage itself is relatively low can be easily found in OECD's data on minimum wages relative to median wages of full-time workers. Korea's minimum wage amounted to 41 percent of the median wage of full-time workers in 2011, ranking 18th among the 22 OECD countries that have the minimum wage law. Turkey had the highest rate at 71 percent, followed by France (60 percent), New Zealand (59 percent), Slovenia (58 percent), Portugal (57 percent), and

Australia (54 percent). What all of this means is that Koreans earning minimum wages were making less than one-fourth of those making an average income.

Figure 3: Poverty Rates in Korea, 2006-2011 (%)



Source: OECD (2013a).

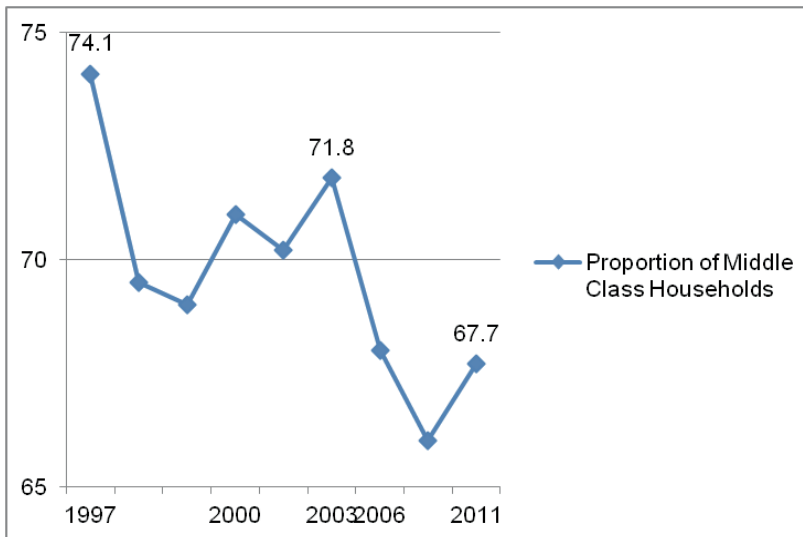
All of this reportedly led to a conspicuous increase in the number of the “working poor” in Korea. The working poor refer to working people whose incomes are insufficient to provide basic necessities, especially housing (see Shipler, 2005; Newman, 2000). Given their low wages, the working poor find it difficult to save up money and to make ends meet; many of them have multiple jobs. The concept of the working poor is significant because it sheds light on the fact that even those who are working in contemporary society may be poor, i.e., poverty is often associated with joblessness, but a considerable proportion of the poor in economically advanced countries are actually employed. The rise in the number of the working poor reflects the increasing polarization of the labour market in which jobs at the top and the bottom of the income spectrum have increased, while jobs in the middle have shrunk. As insinuated above, many of the working poor in Korea may be faced with “double jeopardy,” as they are “house poor,” meaning that they may own a house but are under financial duress because of falling house prices, a large amount of debt and interest payments on their houses. South Korean household debts reportedly amount to 156 percent of disposable income and the Bank of Korea estimates that up to 6.6 million Koreans are at “high risk of default” (*Seoulgyeongje*, 2012). If they do not own a house, many Korean working poor may also be “rent poor,” as they are facing financial difficulty struggling to pay rent.

In short, there is a large number of Koreans who work hard but are poor because of meagre pay. This brings to mind the phenomenon of “hidden poverty” in Korea. Poverty in economically underdeveloped nations is discernible outright, for it often involves malnourishment, poor hygiene and/or poor housing. Poverty in economically advanced countries is not as conspicuous and is thus “hidden.” Although not as compelling as Third World poverty,

hidden poverty in Korea is a serious problem affecting large numbers of underemployed and underpaid individuals.

The shrinking middle class is another phenomenon manifesting social polarization in Korea. The middle class comprised 75.4 percent of all households in 1991, but the figure shrunk to 67.7 percent in 2011 (Korea Institute for Health and Social Affairs, 2012; see Figure 4).⁷ While the decrease may be modest, a recent survey shows that about 32 percent of those belonging to the middle class consider themselves as belonging to the low-income class (Kim, 2012).

Figure 4: Proportions of Middle Class Households, 1997-2011 (%)



Source: Korea Institute for Health and Social Affairs (2012).

RECOMMENDATIONS FOR GOVERNMENT POLICIES

Despite the gravity of the problem, the policy response on the part of the government as a whole has been passive and indifferent. The current Park Geun-hye administration initially had very ambitious spending plans to bolster Korea's rather ungenerous welfare benefits, including free childcare for children (e.g., nurseries and pre-kindergarten education) and a monthly allowance of 200,000 won (\$200 at the exchange rate of 1,000 won per \$1) to the elderly aged 65 or older. However, the prolonged economic downturn and concomitant reduction in government revenues forced the administration to scale down its welfare programmes.

Notwithstanding the relatively low spending on welfare, it is still worth exploring potential policy initiatives to alleviate the problems of the working poor. First, the government

⁷ Following the standard of the OECD, the Korean government classifies households as belonging to the middle class if their income is between 50-150 percent of the median income.

should take measures to protect the rights of irregular workers, minimizing if not prohibiting discrimination against irregular workers in terms of pay and insurance benefits. Indeed, labour flexibility should not be pursued without regard for the protection of irregular workers. Second, the government should also implement policies to ensure that firms do not abuse the current policy of labour flexibility. In this regard, the government should reinforce the principle of full-time, regular employment for ordinary and continuous work; strictly regulate the kinds of work that qualify for nonstandard employment; and significantly raise the penalty against firms that violate these basic requisites. The government, which has been openly pro-business, has performed very poorly in its supervision of firms' compliance with labour-related regulations. Continued failure will not only threaten the basic livelihoods of irregular workers but may also aggravate the employment conditions and job security of full-time workers. All of this, of course, could lead to high labour turnover, diminishing dedication to work, and ultimately, declining productivity. Third, one of the key factors in the lower level of poverty in Western European countries is that the level of the minimum wage is relatively higher. The Korean government should thus significantly increase the minimum wage from its current 5,210 won (about \$5.2 an hour) to about \$7, as Korean labour unions and NGOs have demanded. Fourth, the government should also implement various anti-poverty policies which may effectively alleviate the situation of the working poor. Conventional wisdom, as substantiated by wide-ranging research results, suggests that increasing welfare benefits for the poor is the most effective way to reduce poverty. For example, comparative studies by Lohmann (2009) and Brady et al. (2010) amply demonstrate that countries with generous welfare programmes, including cash and non-monetary benefits, have considerably lower levels of poverty than countries with less-charitable welfare benefits. One such policy can be a child allowance programme for poor families, whereby families under the poverty line would receive a monthly allowance for each child in the household to help cover the costs of child maintenance. Another policy measure to reduce poverty can be the so-called Guaranteed Minimum Income or Guaranteed Annual Income (GAI), which is based on the concept of a "negative income tax"—i.e., individuals earning an income above a certain level would be required to pay income tax, while those earning below that level would receive a grant, hence the negative tax, to ensure that their income is up to the guaranteed level. The government should also earmark government budget to help defray educational, childcare and health care costs for the working poor. For a more long-term solution, the government should invest more into providing more public housing for the poor.

The provision of free and more varied vocational training can also help alleviate poverty in Korea. Particular emphasis should be placed on growth industries such as IT, renewable energy, entertainment, leisure, tourism, and elderly care, many of which are jobs in the tertiary sector of the economy. Offering vocational training itself does not mean a reduction in poverty. Given the fact that a large proportion of the workforce in Korea comprises service sector workers, any substantial reduction in the poverty rate can, as insinuated above, only be achieved through the guarantee of higher wages, especially by raising the minimum wage, and the provision of more welfare benefits to the working poor.

It is worth noting that the above policy recommendations would work more effectively if more than one policy was implemented simultaneously. Also, the government should work with NGOs and the private sector to share information and to deal more effectively with poverty.

CONCLUSIONS

This paper has shown that the most serious form of cleavage in Korea is that of economic polarization, compounded by a high degree of job insecurity, precarious employment, and underemployment. What the article argues is that, in contrast to official figures, a significantly higher number of Koreans are either unemployed or underemployed, as indicated by, among others, the existence of a huge number of early retirees in their 50s and early 60s as well as those in their 20s and 30s who are preparing to enter the job market. There are also many Korean workers who are “incomplete employees,” meaning that they are “half-unemployed” and are being involuntarily employed as short-time workers, daily hires, and temporary hires, with uncertain status and future. They do want to secure a full-time job but cannot find one, so they involuntarily work as part-time workers. The fact that a large number of university graduates start work as irregular workers further indicates the uncertain employment future of young adults in Korea. All of this shows that there is a large number of Koreans who are financially insecure, leading to socioeconomic polarization.

Korea’s neoliberal restructuring may have expanded employment opportunities but it has seriously “damaged” the employment conditions of Koreans. Labour flexibility is a universal phenomenon, but what makes the Korean case “alarming” is that while other OECD countries generally have pursued it with an eye toward protecting the rights of irregular workers, Korea has not. Also, while the increase in irregular work is intimately linked to job creation in Europe—and discrimination against irregular workers in pay and benefits is strictly prohibited—what seems to have happened in Korea is that firms have exploited the lax labour laws to hire temporary workers solely to save labour costs. Not only do these workers in Korea receive significantly less pay than full-time workers, they are also deprived of benefits and various forms of insurance. What is also disquieting is that the proliferation of precarious work in Korea is threatening full-time employment itself, as the former is increasingly becoming a viable substitute, from the perspective of the firm, for the latter. With so many Korean workers being exposed to such labour practices, which are mostly concentrated in non-professional fields, social polarization is bound to become worse.

This study prompts many important conclusions. First, underemployment or precarious employment has become the norm in Korea as the ratio of irregular workers in comparison to full-time, regular workers has significantly increased. Changes in labour laws have allowed employers to staff their firms with short-term contract workers who are paid substantially less than regular workers doing the same task. The Korean case thus shows a compelling trend toward what can be called the *irregularization of work*, which could portend a gloomy outlook for the nature of work in Korea. Second, the rising number of nonstandard workers means that Korea is likely to become what is known as a “flexible low wage economy,”

which is characterized by the vicious cycle of low skill low productivity → low wage → low skill. Third, instead of genuine labour flexibility, the country could be seeing the increasing rigidity of its labour market, compounded by weaker labour unions and decreased solidarity among workers, as struggles between regular and irregular workers could become more common. Fourth, overall employment conditions are expected to worsen in Korea. Given the trend towards hiring temporary workers, chances are high that even professional jobs can increasingly turn into nonstandard work, e.g., teachers being hired on short-term contracts. Finally, the polarization of society between rich and poor, employed and unemployed, and skilled and unskilled workers has become more conspicuous. Korean society now manifests itself as being increasingly restructured dualistically between the “haves” and “have-nots” and between fully employed and unemployed or underemployed.

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Social Cohesion as a Way to Exit the Economic Crisis in Europe

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INTRODUCTION

Promoting and strengthening social cohesion is in no doubt a cherished principle shared by European societies. Not only is it stipulated as a fundamental objective in the EU Treaty² but it also forms an integral part of the historical legacy of European welfare states and their democratic political system. These two elements are the foundations of and important vectors for Europe's social cohesion. While the welfare state has emerged with a view to creating equal opportunities for everyone, protecting citizens against social risks and replacing informal solidarity by concrete and institutionalised mechanisms such as tax transfers and public services, Europe's democracy has put the notion of citizens' participation and engagement at the heart of our societies and made them a pre-condition for legitimacy.

Social cohesion in Europe is therefore a respected notion, which resurfaced in the public sphere due to the rise in social polarisation that has followed the economic crisis and the implementation of austerity measures. Against this background, events such as the propagation of grassroots movements; the emergence of violent riots initiated by European youth in countries perceived as very cohesive societies (like Sweden)³; or low turn-out in elections, caught public attention more so than ever before. These incidents triggered a wave of anxious commentary in the media, desperately announcing the erosion of social cohesion in Europe. In such a context, the question as to which policies are best suited to protecting social cohesion has increasingly become a dividing line for political parties and a matter of increased politicisation.

Despite the undeniable attention that the topic is receiving, social cohesion is still largely perceived as a topic for sociologists rather than a consideration requiring regular and in-depth

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² Article 3 of the EU Treaty stipulates that “[t]he EU shall promote economic, social and territorial cohesion, and solidarity among its Member States”.

³ See <http://www.newstatesman.com/economics/2013/06/swedish-riots-what-really-happened>.

policy monitoring. Contrary to other EU objectives, neither is the level of social cohesion duly assessed nor is it established as a concrete policy priority in the EU strategic frameworks.

Although this is certainly because the idea that social cohesion has long-term economic benefits still needs to make its way, there is another key explaining factor: the absence of a common measurement. As a multidimensional construct in which subjective perceptions play a significant role, measuring social cohesion and comparing its level over time and between countries remain challenging. Indeed, it can only be measured by a set of indicators, which varies according to the literature and the methodology applied.

The objective of this paper is not to add another set of indicators to the existing literature but rather to discuss the importance of social cohesion in Europe, to assess its recent developments, and to draw some policy conclusions based on an analysis of the interaction between social cohesion and other indicators, including macro-economic and social ones. This exercise is particularly important given that social progress is usually discussed through the prism of macro-economic figures, which are now, since the outset of the economic crisis, the spread of the fiscal consolidation mantra and the building-up of the European economic governance, dominating the policy agenda. Exploring the relation between social cohesion and other indicators is therefore a useful exercise to draw conclusions on possible policy implications going beyond the current focus on fiscal consolidation.

SOCIAL COHESION IN THE EU: WHERE DO WE STAND?

Social cohesion has already been a topic widely discussed in the literature but as mentioned earlier, its definition and the way to measure it may vary⁴.

According to the OECD, a cohesive society is one where citizens feel they can trust their neighbours and state institutions, and where individuals can seize opportunities for improving their own well-being and the well-being of their children. It is a society where individuals feel protected when facing illness, unemployment and old age. The OECD also considers that social cohesion is based on three main components of equal importance: social inclusion, social capital and social mobility⁵.

Other sources are less explicit with respect to the role of the state in protecting citizens against social risks and do emphasise more on the quality of the social fabric. For instance, Easterly describes social cohesion as the nature and extent of social and economic divisions (such as by income, ethnicity, political party, caste language or other variables) within society, which represent vectors around which politically salient societal cleavages can develop⁶.

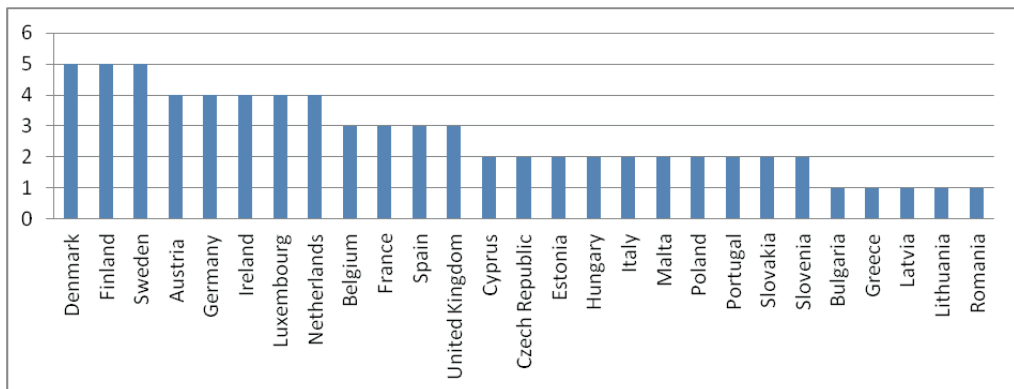
⁴ However, it should be noted that, despite those differences, comparing EU countries by the level of social cohesion always leads to similar results.

⁵ See OECD (2011), *Perspectives on Global Development 2012: Social Cohesion in a Shifting World*, OECD Publishing.

⁶ See W. Easterly (2006), *Social Cohesion, Institutions, and Growth*, Center for Global Development, Working Paper No. 94.

In a recent study by the Bertelsmann Foundation⁷, social cohesion is perceived this time as the result of the attitudes and behaviours of the individuals and groups in a given society. A cohesive society is therefore characterised by resilient relations, a positive emotional connectedness between its members and the community and a pronounced focus on the common good. These elements are, according to the study, the three core aspects of social cohesion and each of them is measured by a set of three indicators⁸ leading to the country ranking pictured in Figure 1. As indicated below, the most cohesive societies are found in the Nordic countries, i.e., Denmark, Finland, and Sweden, while social cohesion is very low in South-eastern Europe, in particular Bulgaria, Greece, and Romania, as well as in Baltic countries such as Latvia and Lithuania.

Figure 1: Ranking of EU countries by level of social cohesion, period 2009-2012

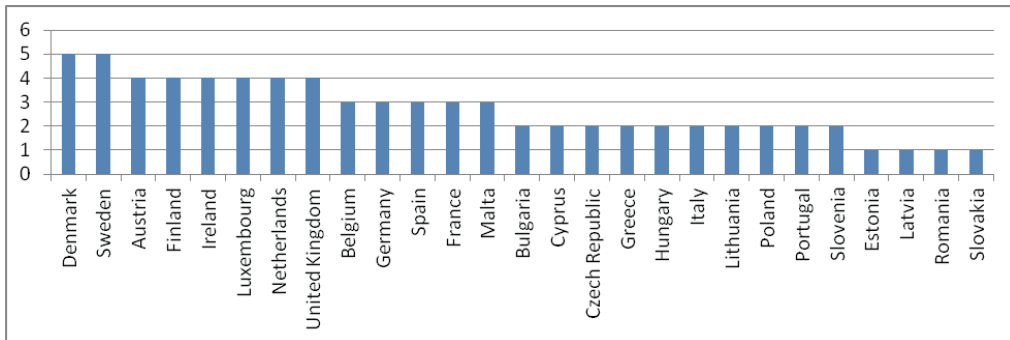


Source: Bertelsmann Stiftung (2013), *Social Cohesion Radar – An International Comparison of Social Cohesion*. The graph shows mean values for the nine dimensions of social cohesion identified by the Bertelsmann Foundation for the 27 member states at the time of the study. It therefore excludes Croatia. Countries are ranked among 5 clusters, ranging from level 5 corresponding to a high level of social cohesion to level 1 corresponding to a very low level.

As shown by the same source, comparing the level of social cohesion over the period from 2009 to 2012 with previous decades indicates that there is very little change over time. The level of social cohesion in each country does not change much and the ranking of countries remains very similar (see Figure 2). This result illustrates very clearly that social cohesion is the outcome of a long-lasting legacy and of a delicate equilibrium of policies, which cannot be easily reversed by some sporadic changes. In other words, social cohesion is a complex construct, which requires stable and coherent policies and which can only be built over years, or even decades.

⁷ See Bertelsmann Stiftung (2013), *Social Cohesion Radar – An International Comparison of Social Cohesion*.

⁸ The strength of social networks, the degree to which people trust one another and the acceptance of diversity are the indicators related to social relationships; people’s identification with their country, trust in institutions and perception of fairness are the indicators related to connectedness; the level of solidarity and helpfulness, people’s willingness to abide by social rules and their participation in society are the indicators related to the focus on the common good.

Figure 2: Ranking of EU countries by level of social cohesion, period 1989-1995

Source: Bertelsmann Stiftung (2013), *Social Cohesion Radar – An International Comparison of Social Cohesion*.

However, the stability of the social cohesion level over time, in particular despite the ups and downs of economic cycles, remains striking and merits further attention. The recent history of Sweden is clearly a case in point. While the country went through a deep crisis in the early 1990s, its level of social cohesion remained always high. Arguably, this can lead to two interpretations. On the one hand, one could argue that periods of economic prosperity are not sufficient to reinforce social cohesion, which seems, on the other hand, to resist well to economic shocks. The next section will dig deeper into this and extend it to other indicators.

WHAT ECONOMIC AND SOCIAL CONTEXT FOR SOCIAL COHESION?

This section will look into the correlation between social cohesion and two types of indicators. The first one refers to indicators which are the most commonly used to measure a country's economic performance, i.e., GDP per head and unemployment, and the second one has a strong social dimension and looks at the level of poverty, inequality, and the level of social expenditure.

The relation between social cohesion and macro-economic indicators

Exploring the relation between social cohesion and macro-economic indicators, in particular GDP per head and unemployment, indicates that there is a strong correlation between the two. The causality between social cohesion and growth on the one hand, and unemployment on the other hand, is certainly complex and drawing conclusions on the causal relationship would require further research. However, it is clear from Figures 3 and 4 that member states with the highest level of social cohesion are wealthy countries and enjoy low unemployment rates. That being said, it should also be acknowledged that Figures 3 and 4 confirm the interpretation made earlier, i.e., that a country's economic performance is not self-sufficient to reinforce social cohesion. Member states that do well economically, such as Luxembourg and Austria, or whose economy has been booming in recent years, such as Poland, have a lower

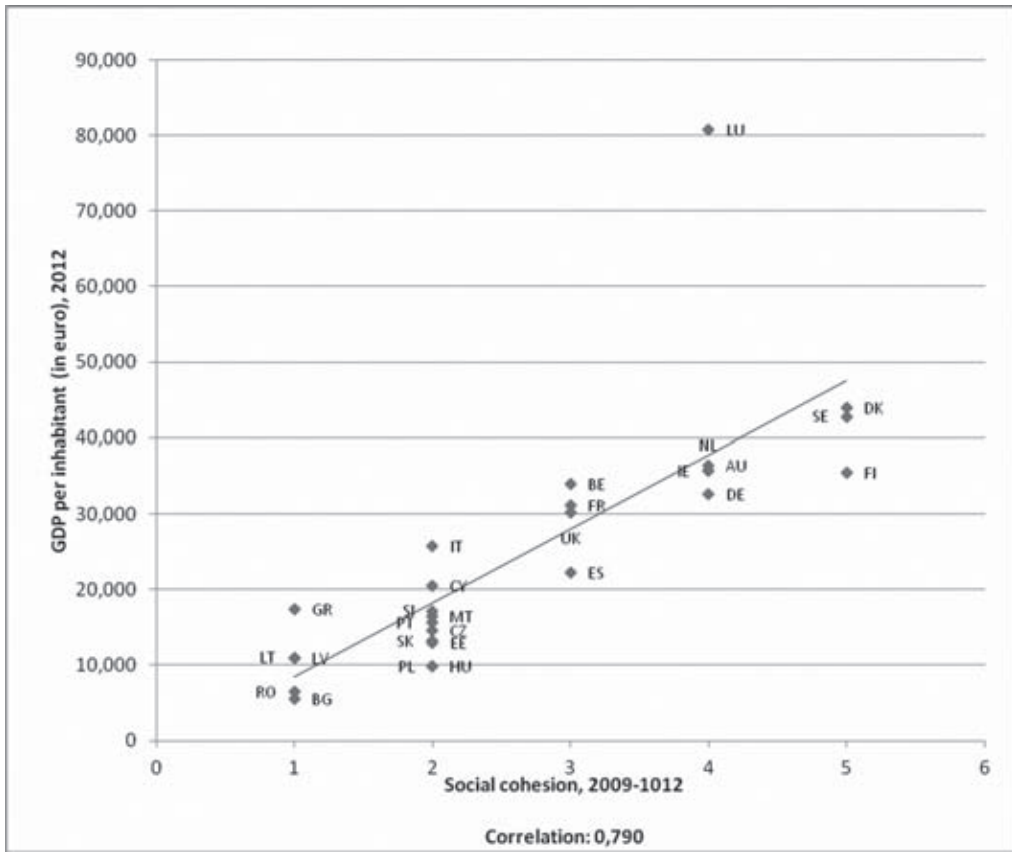
level of social cohesion than Finland, Sweden and Denmark. Combining this observation with the previous example given on Sweden, it can be argued that while economic growth does not necessarily lead to more social cohesion, the latter seems to play a determining role in a country's capacity to overcome economic shocks. This observation clearly confirms the evidence cited by Easterly⁹ and Rodrik¹⁰. While the former argues that social cohesion endogenously determines institutional quality which in turn casually determines growth, the latter proves that weak public institutions and divided societies respond worse to economic shocks than united societies with high quality institutions¹¹. Indeed, a society which already enjoys tight social connections among its members, a high level of trust and a pronounced focus on the common good is more likely to overcome economic shocks and to trust its government that painful changes arising from reforms will be offset by long-term gains. The absence of social cohesion should therefore be considered as one of the factors explaining the difficulties some member states have in exiting the current crisis.

⁹ See W. Easterly (2006).

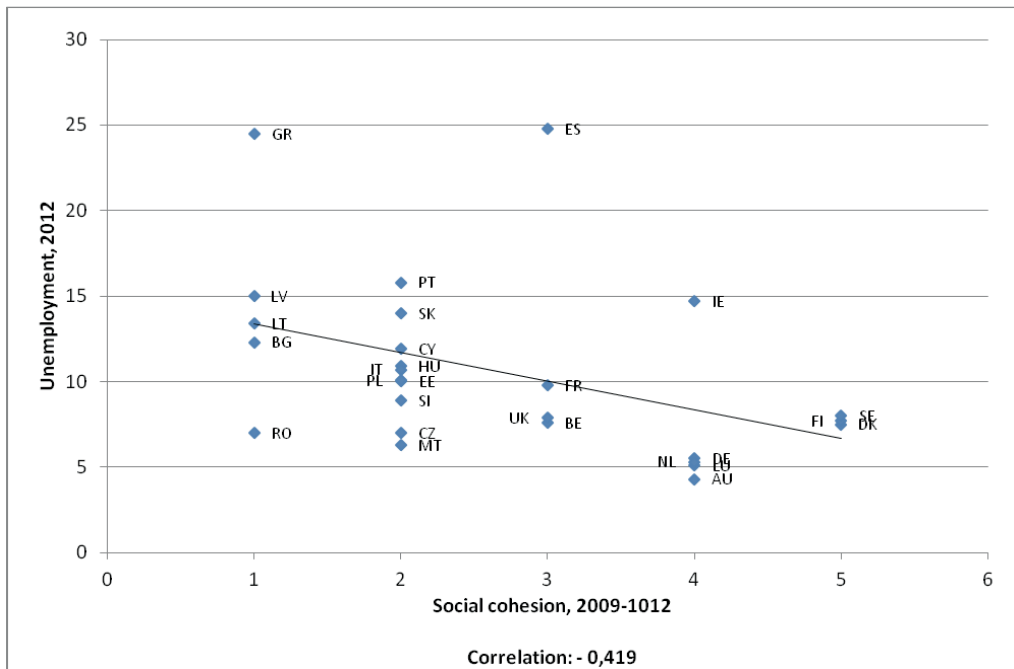
¹⁰ See D. Rodrik (1999), "Where did all the growth go? External shocks, social conflicts, and growth collapses", *Journal of Economic Growth* 4(4): 385-412.

¹¹ See also L. Jonung (2009), "The Swedish model for resolving the banking crisis of 1991-93: Seven reasons why it was successful", Economic Papers, DG Ecfm, European Commission. The author highlights the importance of the long Swedish tradition of confidence in domestic institutions as a key element explaining the country's recovery.

Figure 3: Social cohesion versus GDP per head



Source: Bertelsmann Stiftung (2013), Eurostat.

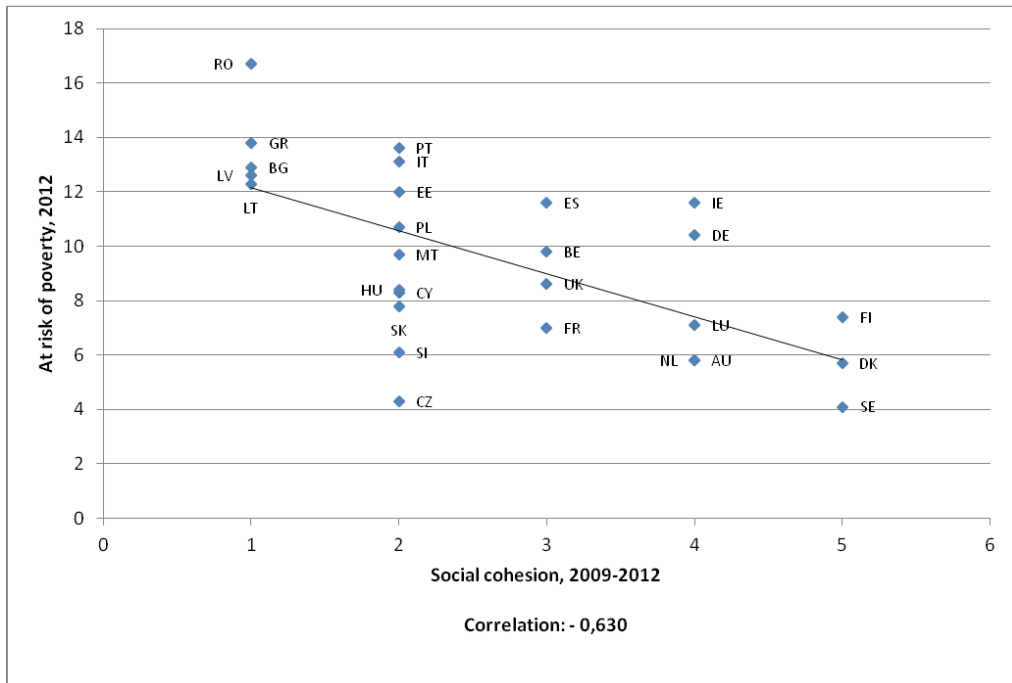
Figure 4: Social cohesion versus level of unemployment

Source: Bertelsmann Stiftung (2013), Eurostat.

The relation between social cohesion and social indicators

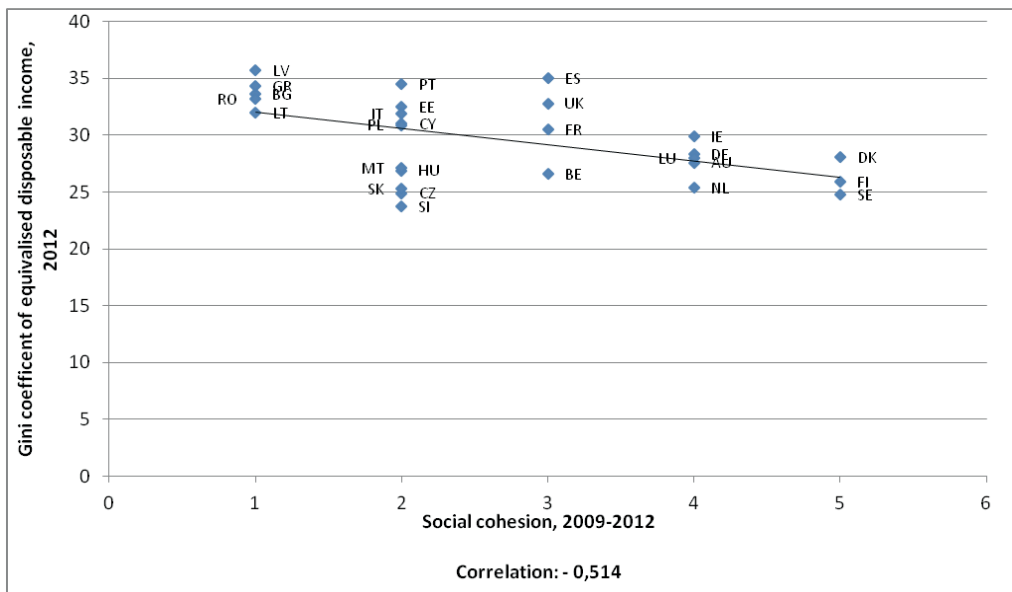
Turning now to indicators with a strong social dimension will allow us to complement the picture provided by macro-economic figures. Again, Figures 5, 6, and 7 indicate that social indicators such as level of poverty, inequality, and level of social protection expenditure are strongly linked with social cohesion. Social cohesion is indeed strongest in Denmark, Finland, and Sweden, i.e., countries which have a very long tradition of welfare state policies and where the level of poverty and inequality are relatively low. At the other end of the spectrum, one can find countries like Bulgaria, Greece, Latvia, Lithuania, and Romania, where the social situation is marked by high levels of poverty and inequality and where the welfare state has been historically weak or is not really efficient in its redistributive function. It can be therefore argued that welfare state policies based on both investment in human capital and social protection mechanisms contribute to fostering social cohesion. However, it is worth noting that the correlation between social indicators and social cohesion does not always hold true. For instance, countries like the Czech Republic and Slovenia have a low level of social cohesion with a relatively low level of poverty. With regard to social protection expenditure, one can also observe that countries such as France, Italy and Greece have a relatively low level of social cohesion despite a high percentage of social protection expenditure. These observations lead us to two possible conclusions. First, having a low level of poverty and inequality is certainly a pre-condition for cohesiveness but it does not automatically result in more cohesive societies. Second, spending more on social policies should not be an objective in itself. Policy-makers should rather look at the efficiency of social security systems and transfers mechanisms.

Figure 5: Social cohesion versus poverty rate



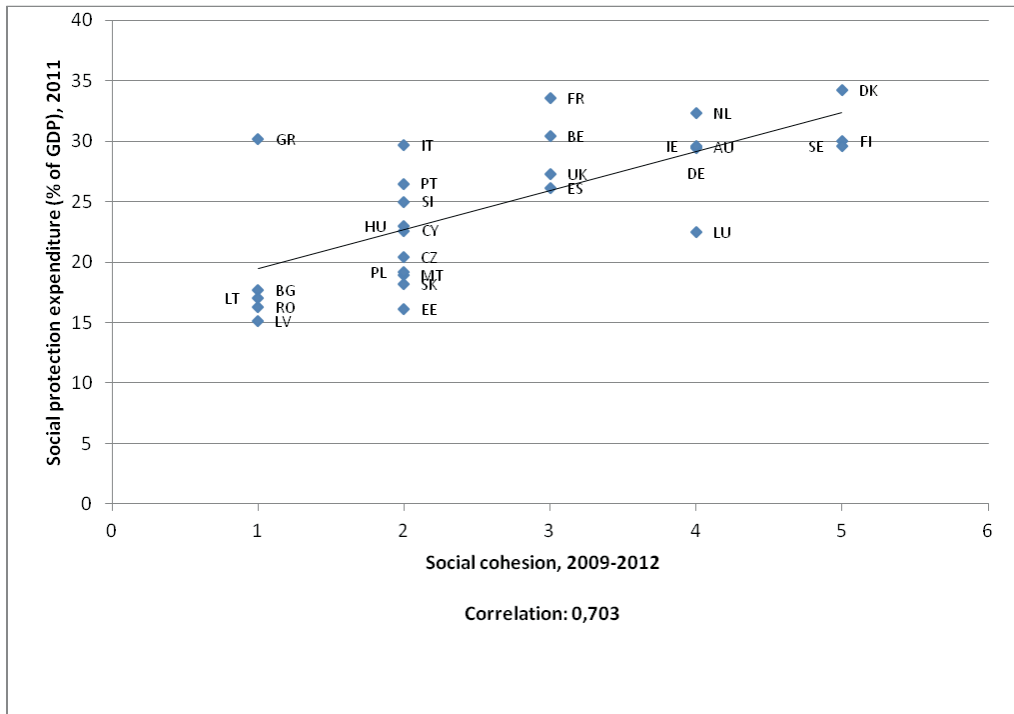
Source: Bertelsmann Stiftung (2013), Eurostat.

Figure 6: Social cohesion versus inequality (Gini coefficient)



Source: Bertelsmann Stiftung (2013), Eurostat.

Figure 7: Social cohesion versus social protection expenditure (% of GDP)



Source: Bertelsmann Stiftung (2013), Eurostat.

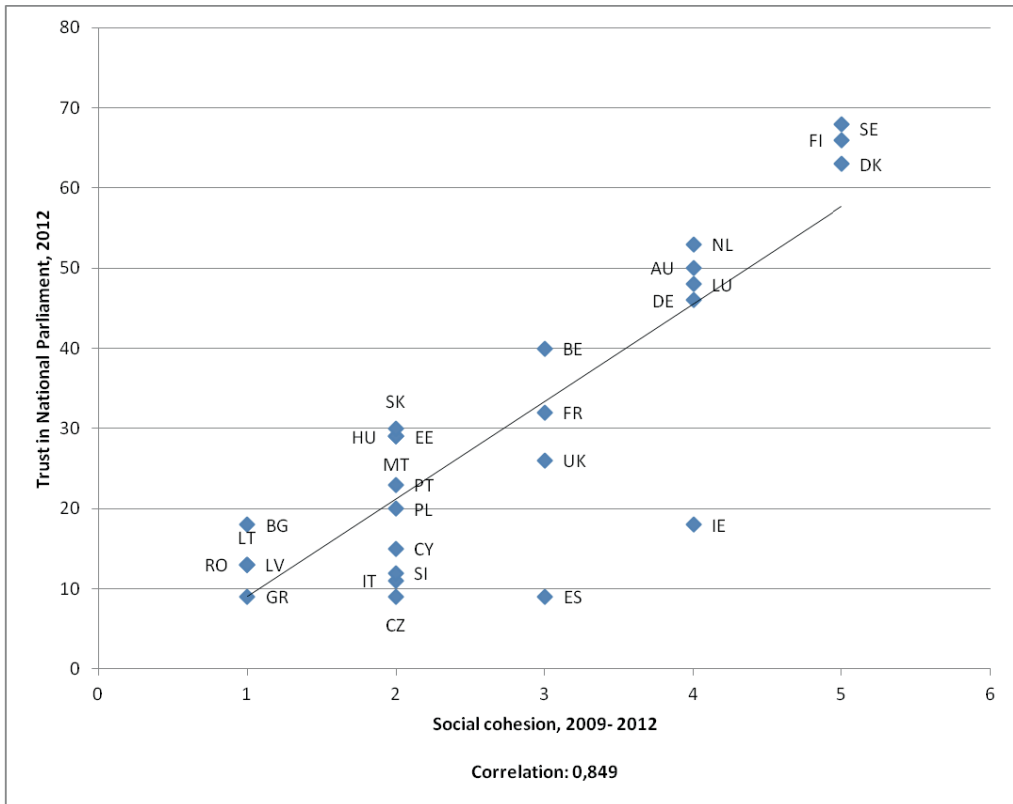
THE HIDDEN FACE OF SOCIAL COHESION AND ITS POLICY IMPLICATIONS

A crucial part of the equation: The importance of trust

The previous sections have shed light on two important elements for further research on the implications of social cohesion on policy. First, the level of social cohesion in a given society is well anchored and evolves slowly over time. Second, socially cohesive societies combine above-average macro-economic indicators and good results in social indicators. However, performing well in one type of these indicators is not sufficient, as illustrated earlier by examples, to foster social cohesion. Part of the explanation is that social cohesion is the result of a complex set of policies, which all interact with each other. But what is the “glue” explaining the success of this set of policies and holding the society together?

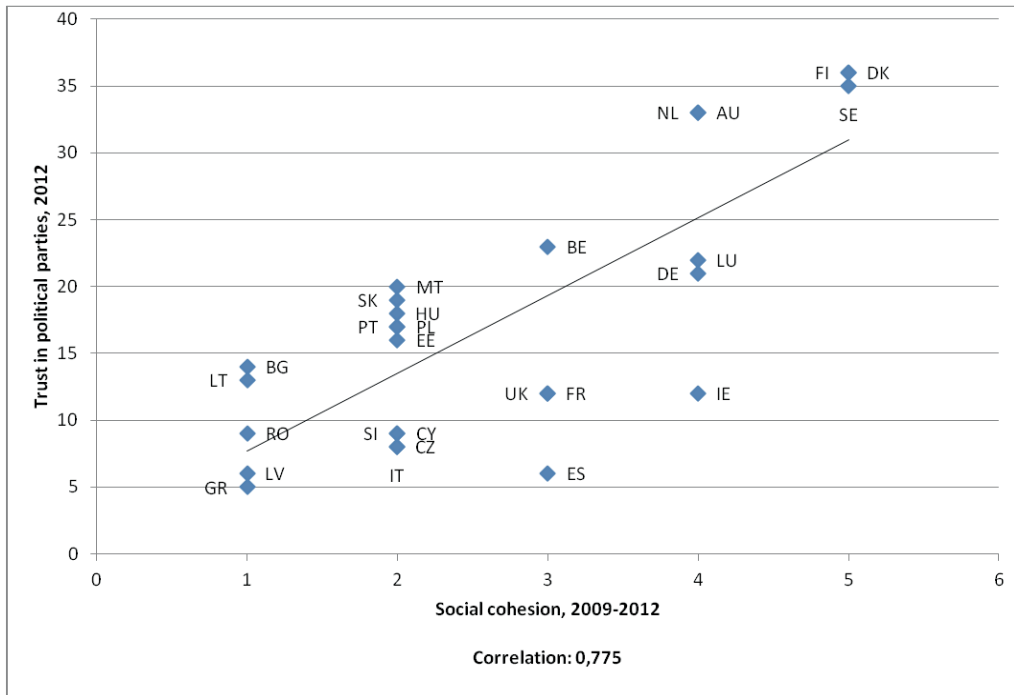
Although it is largely absent from the policy agenda, trust in national institutions and the social fabric seems to be a decisive factor in determining the degree of cohesiveness in a given society. Figures 8 and 9 show that there is a very strong correlation between the level of trust and social cohesion. Indeed, there is a high level of trust, be it in the respective national parliaments or in political parties, in the three most cohesive countries, i.e., Sweden, Denmark and Finland. In contrast, the five less cohesive societies, i.e., Bulgaria, Greece, Latvia, Lithuania and Romania, all have a very low level of trust.

Figure 8: Social cohesion versus trust in the national parliament



Source: Bertelsmann Stiftung (2013), Standard Eurobarometer 78.

Figure 9: Social cohesion versus trust in political parties



Source: Bertelsmann Stiftung (2013), Standard Eurobarometer 78.

Although there are certainly exogenous factors, such as the ethnic and linguistic fragmentation in a society, which might challenge the degree of trust among the population and the cohesiveness of a society, it does not mean that policy-makers have no impact on them. Trust and social cohesion are largely shaped by national leaders, who either decide to unify fractionalised people or to exploit their differences¹².

The impact of the crisis on social cohesion – What is behind aggregate figures?

The robustness of the level of social cohesion over time should not lead to the conclusion that policies do not matter and that events like the recent, and still on-going, economic crisis in certain EU countries have no effect on social cohesion. The magnitude of the social problems triggered by the crisis is, in fact, unprecedented: More than six million jobs were lost from 2008 to 2013, poverty and inequality are on the rise, and welfare state policies have been retrenched in many member states due to fiscal consolidation priorities¹³. As is well-known, EU countries have not been impacted to the same extent and the EU, and even more so the EMU, have witnessed growing divergences be it in terms of household income per head, unemployment, or increase in poverty. Although it might be too early to assess how the crisis

¹² See Easterly (2006).

¹³ See Eurostat.

has affected social cohesion and how divergences among member states will be translated in the country ranking, its long-term effects as well as the risk of severe backlash in countries where the level of social cohesion is already very low, should not be underestimated.

But as important as divergences among countries are when talking about social cohesion, it is important to note the distribution of the negative effect of the crisis and adjustment costs among the population. Research¹⁴ has looked into how cuts in social spending have been distributed across the board and it has shown that clear patterns emerge: young people have been much more affected by spending cuts than the elderly. Despite some variations across EU countries, spending on families and childcare, unemployment, education, health and other social protection policies generally increased less than inflation, whereas spending on housing and old age increased more than inflation. As a result, one can observe that the deterioration of social indicators has been much steeper for young people than the elderly. For instance, child poverty increased on average by 4.4 percent points in 16 out of 28 countries between 2007 and 2012 while the elderly Severe Material Deprivation Rate has declined on average by 4.5 percentage points in 20 out of 28 countries¹⁵. In addition, the number of young people not in employment, education or training – the so-called NEETs – continues to increase and youth unemployment was at 22.5% in April 2014, while employment growth has so far primarily benefited older workers (55-64).

A new generational divide is therefore emerging in a lot of member states. This new trend is certainly worrying in itself but it becomes even more disquieting when demographic changes are taken into account. Indeed, data shows that the number of people aged 65 or above relative to those aged 15-64 is projected to increase from 26% to 52.5% in the EU by 2060¹⁶, meaning that population ageing will result in a smaller percentage of workers supporting a greater number of inactive people. In other words and given the current functioning of pension systems in most member states, the young generation will have to pay a heavy price to finance the pension of the previous generations.

This uneven equilibrium between generations has, mistakenly, not received high political attention so far. However, the sentiment of paying disproportionately for the damage of the crisis instead of getting as much support as the older generation is likely to gain ground in young people's minds and to backfire in the years to come. Not only can it create a breakdown in intergenerational solidarity and in the informal nexus of support between generations and families, which represents a key pillar of social cohesion, but it could also call the existence of European welfare states into question and fuel extreme political forces. Some signals of the growing disenchantment of young people with politics have already surfaced through, for instance, their growing support for anti-establishment parties in the last European elections. Responsibility lies with policy-makers not to ignore these signals, to consider the issue of young people's resentment more seriously and to undertake the necessary measures to address

¹⁴ See Z. Darvas and G.B. Wolf (2014), *Europe's social problem and its implications for economic growth*, Bruegel Policy Brief.

¹⁵ See Eurostat.

¹⁶ See European Commission (2012), *The 2012 Ageing Report – Economic and budgetary projections for the 27 EU Member States (2010-2060)*, European Economy 2/2012.

simultaneously the disproportionate impact of the crisis and austerity programmes on young people and their growing apathy towards the proposals brought forward by mainstream political parties.

CONCLUSION

This paper has shown that social cohesion is a complex construct, profoundly rooted in societies and which result from a delicate equilibrium of a set of policies. Indeed, macro-economic performance and welfare state policies are strongly correlated with social cohesion but none of them are self-sufficient to promote cohesive societies. Social cohesion requires the right mix of policies enabling people to live in wealthy societies, to feel protected against social risks and to live up to their full potential to take part in social and economic life through equal opportunities. A simultaneous pursuit of economic and social progress is therefore required.

To this end, the social investment approach, based on early investments in people's life and accompanied by social protection and economic stabilisation, becomes particularly relevant. Furthermore, the Social Investment Package (SIP) launched by the European Commission in 2013 arrived as a welcomed initiative. Indeed, its priorities, including early child education and care and active inclusion measures, seem to be well-suited to promote social cohesion and to address the generational divide described earlier. However, more than one year after the launch of the SIP, implementation has been undeniably lacking. Evidence shows that policies have even gone in the opposite direction and have been dominated by fiscal consolidation rather than a social investment approach. Reconciling the rhetoric with policy actions, implementing the SIP and translating social objectives into solid budget priorities should therefore feature as one of the key priorities of the incoming European Commission's policy agenda.

But this paper has also highlighted that trust, both among the population and vis-à-vis public institutions and the political establishment, is a key element to nurture social cohesion. Unfortunately, this aspect is completely absent in the EU policy agenda. As it has been proven that trust and social cohesion determine the quality of institutions, which in turn has important impacts on a country's capacity to introduce the right reforms and to conduct pro-growth policies¹⁷, it raises the question of why the EU is not more active in this area. Is the fiscal consolidation mantra the right and only way to restore economic growth? Are fiscal targets more efficient than fostering social cohesion and improving the quality of institutions to achieve sustainable growth (in particular in countries struggling to bring about reforms)? Although consolidating public finances can indeed bring about short-term gains, such as restoring confidence in financial markets, this approach completely ignores the foundations needed to foster sustainable growth. It is therefore urgent for the EU to take into consideration the importance of social cohesion in the design of its growth strategy, to place it at the centre of its policy agenda and to reflect upon how to contribute to nurturing significant factors of social cohesion, such as trust, through a modernisation of both the welfare state and Europe's democracy.

¹⁷ See Easterly (2006).

ABBREVIATIONS

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
ES	Spain
FI	Finland
FR	France
GR	Greece
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxemburg
LV	Latvia
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SK	Slovakia
SL	Slovenia
UK	United Kingdom

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Social Cohesion through Social Investment

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1 IN SEARCH OF A NEW DEAL

Questions of social cohesion tend to surface in times of great transformation. More often than not moments of structural social and economic change are accompanied by feelings of unease about tomorrow's sources of economic security, social integration, and political stability. The issue of social cohesion has taken on an unexpected new meaning in the wake of the brutal 2008 credit crunch. Rising unemployment, increasing poverty, growing inequality and strained social budgets surely marks a major stress test of social cohesion. Costly bank bailouts and other stimulus measures, required to pre-empt economic meltdown in 2008 and 2009, have drained the public purse. Growing social expenditures in the face of declining revenues, forcing many European governments to make deep cuts in welfare services and social transfers to the poor, the unemployed and pensioners, in order to shore up public finance solvency, will surely deepen prevailing discontent. Popular disenchantment, however, is not new. Already before the onslaught of the global financial crisis, Eurobarometer surveys consistently revealed pessimism about the future on the part of adult European citizens. Most telling perhaps is that the prospects for future generations were thought to be worsening in terms of job and income insecurity because of accelerating demographic ageing and intensifying economic globalization. In the process, the European Union (EU) has become a core target of popular discontent. EU institutions, from the European Commission to the European Central Bank, are increasingly believed to be the main culprits driving global market liberalization, unpopular social reform and excessive immigration flows.

While the aftermath of the global financial crisis is putting severe strains on welfare states and European Union institutions, this could also engender positive consequences.

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Periods of unsettled beliefs sometimes inspire social and economic policy innovation. Deep economic crises are often moments of political truth, so the history of the twentieth century teaches us. Social policy has surely resurfaced at the centre of the political debate. Citizens and policymakers have once again realized how important social policy provision is for mitigating economic hardship and fostering social cohesion. In the immediate wake of the 2008 financial crash, the more comprehensive welfare states of the EU, such as Sweden, Denmark, the Netherlands, Austria, and Germany, proved surprisingly resilient in reducing the impact of aggregate demand decline and ameliorating social divisions. Generous social benefits and wage subsidies acting as robust automatic stabilizers, together with high-quality social services, effectively ensured that workers on short-term unemployment benefits could preserve their jobs and/or maintain their human capital through new training and active labour market policies. The pressures financial crisis, social, economic and political aftershocks create for existing welfare portfolios, together with the policy responses they trigger, vary from country to country. It is therefore easy to see that European welfare states have entered a new era of flux, of major reform, and adaptation to unfolding long-term social changes and short-term economic imperatives.

Europe needs an adjustment strategy that is both economically viable and socially fair. Without a long-term strategic focus on employment opportunities, easing labour transitions for working families, and improving human capital, the EU risks becoming entrapped in a permanent economic depression. This is the central message of the *Social Investment Package for Growth and Social Cohesion* launched by the European Commission in February 2013 (European Commission, 2013). The notion of social investment emerged as a policy perspective round the turn of the century with the ambition to modernize the welfare state and ensure its sustainability (Ferrera et al., 2000; Esping-Andersen et al., 2002). Social investment implies policies that “prepare” individuals and families to respond to the new social risks of the competitive knowledge society, by investing in human capital stock from their early childhood on, rather than simply to “repair” damage after moments of economic or political crises. Because of adverse demography, alongside expected sluggish growth, social investments in productive human potential and capacitating social servicing are more relevant than ever.

Over the past two decades, European welfare states have, with varying success, pushed through reform. In a fair number of countries trajectories of welfare reform have been more proactive, than defensive or destructive. There has been a proactive search for answers to new social challenges and adapting existing institutions to the changing socio-economic context. With their tradition of high quality child care and high employment rates for older workers, the Nordic countries display the strongest social investment profile, but we also observe change in countries like the Netherlands (social activation), Germany (support for dual earner families), France (minimum income protection for labour market outsiders), the United Kingdom (fighting child poverty), Ireland (much improved education) and Spain (negotiated pension recalibration) in the period leading up to the financial crisis. Alongside retrenchments there have been deliberate attempts – often given impetus by intensified European (economic) integration – to rebuild social programs and institutions, thereby accommodating

policy repertoires within the new economic and social realities of the 21st century. *In the absence of reform efforts*, the pension-heavy welfare states, with their segmented labour markets and low active labour market policy spending, of Southern Europe are confronted with high levels of youth unemployment, long-term unemployment, low female employment participation, and perverse fertility trends, thereby aggravating not only ageing predicaments, but, by implication, also reinforcing existing trade imbalances and deepening social divergences across the Euro zone (Hemerijck, 2013).

In the wake of the global financial crisis, costly bank bailouts, automatic stabilization, tax cuts, and other initial stimulus measures, drained the public purse. This resulted in a “double bind” of rising social protection expenditures and declining government revenues. In the spring of 2010, the Greek sovereign debt crisis confronted the European economy with a new and challenging crisis aftershock, and contagion fears spread across the weaker periphery of the Euro zone. The European Union (EU) and the European Central Bank (ECB) ultimately came to the rescue of Greece and other weak economies with general bailout packages, monetary easing and lender-of-last-resort interventions. In exchange for support, Greece, Spain, and Portugal staged impressive fiscal consolidation programmes, including significant welfare retrenchment and labour market reforms.

In the face of the raging Euro crisis, social investment can no longer be dismissed as a “fair weather” policy when times get rough, as was the case during the Lisbon era. European policy makers are confronted with a truly existential – economic, political and social – interest in addressing prevailing trade and competitiveness asymmetries by forging viable economic adjustment strategies that do justice to the important macro-economic returns of the social investment perspective. Because of ageing, human capital cannot be allowed to go to waste through semi-permanent inactivity, as was the case in the 1980s and 1990s in many mature continental European welfare states.

It is important to emphasize that the social investment imperative is a supply side strategy and thus cannot serve as a real alternative for an effective macro-economic policy regime. To the Euro zone member countries of the Mediterranean in dire fiscal straits today the social investment message, therefore, is easily lost. Fiscal consolidation requires them to slash active labour market policies and retrench preventive health care programmes, which we know, in the long run, critically erodes job opportunities for men and women and thereby the capacity of the economy to shoulder the ageing burden. There is a real risk that a balanced set of objectives, laid down in the Social Investment Package, will be lost in the drive for front-loading (pro-cyclical) austerity in times of large-scale public and private deleveraging, conjuring up a spectre of a lost decade for Europe, worse than the one experienced by Japan since the early 1990s.

The EU is in desperate need of a New Deal between countries which are in better budgetary shape and have pursued social investment strategies more consistently in the past, and countries which have been less consistent with regard to social investment than one may have wished and therefore experience dramatic budgetary situations. The macro-economic policy regime that is required is one wherein *all* governments pursue budgetary discipline and social investment over the medium and long run, and are effectively supported therein. To convince

the larger European democratic publics, in terms of political legitimacy, consistent with norms of social fairness, such a macro strategy should be tangibly based on a well-articulated vision of a “caring Europe”, caring about people’s daily lives and future social wellbeing.

For the rest of the article, I first discuss the intricate connection between social cohesion and the legacy of the European welfare state. Next, section two surveys the reform momentum of the past two decades across different European welfare clusters. For section 3, I will explicate the economic logic of social investment, “crowding in” growth prospects by helping to “prepare” individuals and families to confront the “new social risk” profile of the knowledge-based economy (Esping-Andersen et al., 2002; Morel et al., 2012). It may be all too soon to draw definite conclusions about European welfare state futures in the aftermath of the Euro crisis since 2011. But this is perhaps the most pressing question of our times. Will the social investment paradigm carry the day in this new context of predicament, or will it revert to marginality and be left orphaned in an epoch of intrusive EU-led austerity? Section 4 draws the contour of a “social investment pact for Europe” as a political response to the burning predicament. Section 5 concludes.

2 SOCIAL COHESION AND THE WELFARE STATE

Any discussion about social cohesion in the rich democracies of the EU inevitably touches on the historical legacy of the European welfare states that matured over the long period of post-war economic growth. The welfare state of mid-twentieth-century Europe emerged from the economic and political lessons of the Second World War and the Great Depression with the aim of managing structural change in such a way that modern social policy could help to widen and equalize the social benefits of structural change while minimizing its social costs. In this respect, the welfare state represents a unique achievement in civil liberty, economic growth, social solidarity and public wellbeing. The defining feature of the post-war welfare state is that social protection came to be firmly anchored on the explicit normative commitment to grant social rights to citizens in areas of human need. This implied the expansion of mass education as an instrument for equal opportunities, access to high quality health care for everyone, together with the introduction of a universal right to real income, in the words of the British sociologist T. H. Marshall’s seminal work *Citizenship and Social Class* (1992), “not proportionate to the market value of the claimant” (Marshall, 1992: 110). Marshall regarded the institutionalisation of social rights, following the guarantee of civil liberties, such as ownership rights and freedom of contract, in the 18th century and the introduction of political rights, including universal suffrage, in the 19th century, as the culmination of modern citizenship. Marshall describes social rights as: (...) *the whole range from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilized being according to the standard prevailing in society* (Marshall, 1992: 74). The post-war welfare state undeniably made a significant contribution to economic prosperity, social cohesion and democratic legitimacy in Western Europe. Among the successes of the national welfare state – a creation of the second half of the 20th century – are

full employment, a high standard of living, universal access to education and health care and a right to an income for those who are elderly, ill, disabled, unemployed and poor.

Signs that European welfare states are on shaky ground are also not new. When advanced Western economies ran into the crisis of stagflation in the 1970s, academic observers, policymakers, and opinion leaders engaged in a highly politicized debate over the welfare state in crisis. Numerous publications have argued the demise of generous social policy provision in the age of globalization. Ridiculing the so-called “European Social Model” became a particularly favourite pastime of international business elites, political leaders, and economic experts in the 1990s. From the 1980s onwards, the European welfare state system took the blame for the region’s slow economic growth and lagging competitiveness and technological innovation, as a consequence of overprotective job security, rigid wages, expensive social insurance, and employer-unfriendly collective bargaining that developed over the post-war period. Unemployment “hysteresis”, preserving the jobs for those already employed, prevented real wages from falling enough to restore full employment. From this perspective, the overall conclusion was that the European “social market economy” – a free market tempered by a generous welfare state, consensus-building politics, and cooperative labour relations, based on the firm’s accountability to a diversity of stakeholders beyond shareholders, such as unions and local communities – had become an anachronism in the world of intense global competition, premised on quicksilver capital movements.

Various trends have fundamentally altered the policy environment of Europe’s modern welfare states (Esping-Andersen et al., 2002). Under moderate economic growth levels, fiscal pressures have increased, not least because of greater capital mobility and accelerated European economic integration. In addition, population ageing and declining fertility, together with a trend towards early retirement of baby-boomers, have severely burdened pension systems. Rapid technological change, together with accelerated economic internationalization, has reduced the demand for low-skill work in advanced economies. While the shift towards post-industrial labour markets has opened up job opportunities for women, deindustrialization has come with declining levels of steady lifetime jobs and rising job precariousness. Changing family structures and gender roles, with longer education spells, later childbirth, and lone parenthood, have created new tensions between work and family life. As a consequence, rising levels of female labour-market participation have raised new demands for the provision of social care, especially for young children and the frail elderly. The new risks of social exclusion both within and outside the labour market, moreover, have triggered growing income polarization between highly skilled, dual-earner families and low-skilled male-breadwinner and single-parent households. Add to this the differential impact of the global financial crisis, and it is easy to see that European welfare states have entered a new era of flux, of major reform and adaptation to long-term social changes and short-term economic imperatives.

3 A SHORT HISTORY OF PROFOUND WELFARE REFORM

Welfare states are multidimensional policy systems, made up of interdependent social and economic policy repertoires with different dimensions. For an adequate understanding of

overall social risk mitigation, it is necessary to consider how macroeconomic policy, labour market regulation, social insurance, and taxation work together to reduce the risks of poverty, unemployment, and social and labour market exclusion across time. Drawing on an expanding literature of comparative welfare reform, I propose to briefly look at some key changes across the following policy domains: (1) macroeconomic policy (including fiscal, exchange rate, and monetary policy); (2) wage bargaining and industrial relations; (3) labour market policy; (4) labour market regulation; (5) social insurance and social assistance; (6) old age pensions; (7) family and social servicing; (8) welfare financing; and (9) governance and social policy administration. I concentrate on the recent social reform momentum in the older EU15 member states of the European Union (for a more encompassing EU27 overview, see Hemerijck, 2013).

In *macroeconomic policy*, Keynesian priorities were prevalent until the late 1970s, with full employment as the principal goal of macroeconomic management. After 1980, macroeconomic policy gave way to a stricter rule-based fiscal and monetary policy framework centred on economic stability, hard currencies, low inflation, sound budgets, and public debt reduction, culminating in the introduction of the European Monetary Union (EMU) (Dyson and Featherstone, 1999; Eichengreen, 2007). EMU restrictions on monetary and fiscal policies, in addition, led many policymakers across Europe to bring social and employment policy to the centre of welfare state adjustment over the 1990s.

In the field of *wage policy*, the 1980s saw a reorientation in favour of market-based wage restraint in order to facilitate competitiveness, profitability, and employment growth, prompted by the new rule-based macroeconomic policy prescription. Wage moderation has in many countries been pursued through social pacts among the trade unions, employer organizations, and government, often linked with wider packages of negotiated reform that have made taxation, social protection, and pension and labour market regulation more “employment friendly.” The EMU entrance exam played an especially critical role in national social pacts in the so-called hard-currency latecomer countries, such as Italy, Spain, and Portugal, as an alternative to straightforward labour market deregulation and collective bargaining decentralization (Avdagic et al., 2011).

In line with the general shift to supply side economics, the overarching social policy objective in the 1990s has shifted from fighting unemployment to proactively promoting labour market participation. Spending on *active labour market policies* in most OECD countries has increased considerably from the 1990s and the mid-2000s, in the context of falling unemployment rates, mobilizing women, youth, older workers, and less productive workers through early intervention, case management and conditional benefits gained sway (Bonoli, 2013). With respect to *labour market regulation*, several European countries have moved towards greater acceptance of flexible labour markets with new elements of security being introduced for labour market outsiders (Schmid, 2008). In terms of *social insurance* and *assistance*, the generosity of benefits has been curtailed. In the process, social insurance benefits have become less status confirming. Today most countries preside over universal minimum income protection programmes, coupled to “demanding” activation and “enabling” reintegration measures, targeting labour market “outsiders” like the young, female or low-skill

workers (Clasen and Clegg, 2011). A string of adjustments, however, have fundamentally altered *pension policy* over the past two decades (Häusermann, 2010; Ebbinghaus, 2011). A key shift has been the growth of (compulsory) occupational and private pensions and the development of multi-pillar systems, combining pay-as-you-go and fully funded methods, with relatively tight (actuarial) links between the pension benefits and contributions, with strong incentives to delay early exit from the labour market and reward those working longer (Clark and Whiteside, 2003).

Social services have significantly expanded, especially in the 2000s, to boost female participation through family policy (Lewis, 2006; Mahon, 2006; Orloff, 2010). Spending on family services, childcare, education, health, and care for the frail elderly, as well as on training and employment services, has increased as a percentage of GDP practically everywhere in the European Union. Family policy, covering childcare, parental leave and employment regulation, and work and family life reconciliation policies, has been subject to profound change in both scope and substance over the past decade and a half.

With respect to the *financing of the welfare state*, policies have been sought to relieve public finances and to shift some of the responsibility for welfare provision to individual workers or the social partners, and to reduce charges of business and labour. Over the past two decades the source of social protection expenditure financing has shifted from social contribution to fiscal financing. Although a straightforward privatization of social risks has remained a marginal phenomenon across Europe, except for pensions, we do observe an increase in user financing in social services – child care, school education, medical care, old-age care.

A final overarching reform trend has been *administrative reform*. Yuri Kazepov speaks of a fundamental “rescaling” of modern social policy. Most important has been the attempt to bring social insurance and assistance and labour market policies institutionally under one roof in so-called one-stop centres, thus ending previous separation of social security and public employment administration (Kazepov, 2010). Ideas of New Public Management and novel concepts of *purchaser-provider* models within public welfare services have been especially instructive with respect to the restructuring of Public Employment Services (PES), since the 1990s (Weishaupt, 2011).

These are big policy changes, executed in a sequence of incremental, but cumulatively transformative, steps. Even though public social spending has largely been consolidated, practically all advanced European welfare states have been recasting and reconfiguring the basic policy mixes upon which they were built after 1945. Especially since the mid-1990s, the welfare state has been in a constant state of flux.

4 THE ECONOMICS OF SOCIAL INVESTMENT

Without proper contextualization any list of intense social policy changes remains unsatisfactory. The emergence of the so-called “social investment perspective” in the second half of the 1990s can serve as a benchmark for gauging substantive social policy redirection.

Have European welfare states been recalibrated in accordance to the teachings of the social investment edifice?

The philosophy underpinning the social investment approach was given impetus by the publication of a book edited by Esping-Andersen et al. in 2002, *Why We Need a New Welfare State* (Esping-Andersen et al., 2002), commissioned by the Belgian presidency of the EU in 2001. Central to *Why We Need a New Welfare State* is the argument that male-breadwinner welfare inertia would foster increasingly suboptimal life chances in labour market opportunities, income, educational attainment, and intra- and intergenerational fairness, for large proportions of the population. The new social risks of social segmentation, skill erosion, and structural poverty dynamics in the knowledge-based service economy, pressed by demographic ageing, make traditional passive, employment-related, social insurance provision extremely expensive and ultimately unsustainable. Instead, the emergence of “new” social risk mitigation underlines the importance of early childhood development, training, education and lifelong learning, and family reconciliation policies. It is important to add here that Esping-Andersen et al. emphasized – *contra* the Third Way – that social investment is no substitute for social protection. Adequate minimum income protection is a critical precondition for an effective social investment strategy. In other words “social protection” and “social promotion” should be understood as the indispensable twin pillars of the new social investment welfare edifice.

An emphasis on the productive function of social policy stands as the distinguishing feature of the social investment perspective. From this perspective, social investment is essentially an encompassing human capital strategy with an explicit focus on helping both men and women balance earning and caring. There is a deliberate orientation toward “early identification” and “early action” targeted on the more vulnerable new risks groups. By raising employment and citizens’ long-term productivity the financial sustainability of the welfare state is best guaranteed. If successful, social investments relieve dependence on passive social insurance provision, without having to further retrench existing benefits.

Social investment protagonists hold the relationship between substantive social policy and economic performance to be critically dependent on identifying institutional conditions, at the micro-, meso-, and macro-levels, under which it is possible to formulate and implement productive social policies. The economic and institutional policy analysis of social investment hereby relies heavily on empirical data and case-by-case comparisons. It is crucial to consider the “fine” structures of the welfare state. Social policy is never a productive factor per se. One cannot turn a blind eye to the negative, unintended, and perverse side effects of excessively generous social security benefits of long duration, undermining work incentives, raising the tax burden, and contributing to high gross wage costs. By the same token, rigid forms of dismissal protection making hiring and firing unnecessarily costly can result in high levels of inactivity. Beyond these caveats, in agreement with Keynesian economics, the social investment paradigm makes a virtue of the argument that a strong economy requires a strong welfare state. Social protection expenditures are powerful stabilizers of economic activity at the macro-level, because they consolidate effective demand during recessions. This kind of

Keynesianism through the back door is still operative today, as we have experienced from the early days of the 2007–2010 financial crisis.

A fundamental unifying tenet of the economics of the social investment perspective bears on its theory of the state. Distancing themselves from the neoliberal “negative” economic theory of the state, social investment advocates view public policy as a key provider for families and labour markets. Neoclassical economic policy analysis, based on perfect information and market clearing, theoretically rules out the kind of social risks and market failures that the welfare state seeks to address. Two economic rationales theoretically support the proficiency of social investment. The first rationale for public intervention harks back to the original economic rationale for collective social insurance, countering market inefficiencies caused by asymmetric information, and to the economic rationale for social policy interventions related to the problems of imperfect information and the framing of choice in a more general sense. This is what Nicholas Barr has coined as the “piggy-bank” function of the welfare state (Barr, 2001). Because citizens often lack the requisite information and capabilities to make enlightened choices, many post-industrial life course needs remain unmet because of the market failures of service under provision at too high a cost.

The second, more fundamental, reason why the welfare state today must be “active” and provide enabling social services is inherently bound up with the declining effectiveness of the logic of social insurance ever since the 1980s. When the risk of industrial unemployment was still largely cyclical, it made perfect sense to administer collective social insurance funds for consumption smoothing during spells of Keynesian demand-deficient unemployment. However, when unemployment becomes structural, caused by radical shifts in labour demand and supply, intensified international competition, skill-biased technological change, the feminization of the labour market, family transformation, and social and economic preferences for more flexible employment relations, traditional unemployment insurance no longer functions as an effective reserve income buffer between jobs in the same industry. Basic public income guarantees, therefore, have to be complemented with *capacitating* public services, a term coined by Charles Sabel (2012), tailored to particular social needs caused by life course contingencies. In order to connect social policy more fully with a more dynamic competitive knowledge-based economy and society, citizens therefore have to be supported by *capacitating* services *ex ante*, tailored to particular social needs over the life cycle. When social insurance risk pooling fails, a more effective strategy is often to help risk categories to self-insure against uncertain risks by enabling them to acquire the capacities they need to overcome the social risks they face, with *ex ante* public supports in family services and training provisions. What matters at the level of policy execution is that, as welfare states become ever more service-oriented, local service provision offers highly qualified professional care workers, able to help clients to make timely choices in areas of childcare placement, job search and training, and elder and family care.

The empirical turn towards social investment contains some important lessons. First and foremost is that social investment should indeed be understood in terms of “packages” of interdependent policy initiatives across various areas. Positive returns in terms of economic growth, employment opportunities, and (child) poverty mitigation depend on complementary

sets of provision, ranging from quality childcare, parental leave arrangements, training, education and activation services, alongside adequate (universal) minimum income protection, and rely on strong elements of “goodness of fit” between various policy provisions. Quality childcare services, alongside effective parental leave arrangements, supported by appropriate tax and benefit incentives and active labour market policies, enable more parents to engage in gainful employment, creating additional job opportunities for especially mothers, while helping their offspring to a “strong start”, allowing them to develop their cognitive and social skills to make them successful later in life (Esping-Andersen, 2009). The available evidence before and after 2008 clearly shows that effective “institutional complementarities” are associated with high employment rates and lower long-term unemployment (Hemerijck, 2013; Eichhorst and Hemerijck, 2010; Kenworthy, 2008; 2011; OECD, 2008; 2011).

5 A GROWING EUROPE IS A SOCIAL INVESTMENT EUROPE

It should in the final analysis not be forgotten that the welfare state is a normative concept based on the image of a social contract, with claims on social justice that go beyond issues of economic efficiency and effective insurance, to include dimensions of gender roles, the work ethic, child-rearing, and inter- and intra-generational equity. The policy changes surveyed in this article have contributed to a slow redefinition in the very idea of social justice: a shift away from understanding fairness in terms of static Rawlsian income equality towards an understanding of solidarity and fairness as an obligation to give due support to the needs of each, individually, so as to enable all to flourish, in line with the “capability approach” of Amartya Sen (1999) and Martha Nussbaum (2011). At the normative heart of the social investment edifice lies a reorientation of social citizenship, away from the compensating *freedom from want* logic towards the capacitating logic of *freedom to act*, under the proviso of accommodating work and family life through social servicing and a guaranteed *rich social minimum* enabling citizens to pursue fuller and more satisfying lives.

Reasoning from the popular “new politics” of the welfare state perspective, it has often been argued that social investment recalibration is extremely difficult to pursue under economic conditions of relative austerity. Paul Pierson, the leading advocate of this approach, has in various publications advanced the conjecture that welfare states have in recent decades become exceedingly change-resistant, despite irresistible social, demographic, economic, and fiscal pressures (1998; 2001). Because social investments are contingent on highly heterogeneous risks at play over different stages of the life cycle, it is argued from a “new politics” perspective that social investment policies may fail to muster political support from cohesive social movements, reminiscent of organized labour from the male-breadwinner manufacturing era, which stood at the basis of the post-war welfare state (Pierson, 2011). The “mirror image” of the expected lack of support for social investment reform is the impossibility of far-reaching old-age pension reform, because this would trigger large-scale interest-based opposition from highly organized clienteles and mainstream parties. It is true that new social risks, ranging from skill depletion and difficulties in balancing work and family life, affect people at variegated episodes over the (family) life cycle. But the empirical record is

less sanguine than the “new politics” welfare immobilism conjecture. Despite incentives of “blame-avoidance”, in effect, most European countries have embarked on thoroughgoing pension reform so as to respond to demographic challenges and fiscal pressures. As a result, future pension commitments in the EU have been reduced by almost a quarter since 1990s, making pension costs far more manageable than ever before. On the other hand, significant spending increases on childcare, elder care, pre-schooling, reconciling work and family life, and active labour market policies, suggest that social investments are supported by mainstream parties and interest groups. What is interesting, moreover, is that social investment policy reforms have been enacted and defended by both conservative and progressive coalitions across Europe, even in economically hard times. Apparent support for social investment, I believe, is rooted in the evolution of the aspirations of modern familyhood over the past two decades, which has come to converge on the desire of adult men and women to work and raise children, an aspiration shared by low-income and middle-class groups alike. Of course, social investments will inevitably miss out on protecting the most vulnerable groups in an era of deepening inequalities. For this reason, adequate minimum income protection remains a critical precondition for any inclusive social investment welfare state.

In the difficult years ahead, intensifying fiscal pressures will lead many finance ministers to demand scrutiny on social spending. In both employment and social policy, there is a strong urge to do more with less resources. At the same time, the aftermath of the financial crisis will surely reinforce the need for human capital investment and the importance of poverty relief and social protection. Demographic headwind will bring social contracts under further duress, especially in countries facing high unemployment and the most daunting budgetary pressures, where long-run population ageing and the feminization of the workforce have not been adequately dealt with before the crisis. Social investment can no longer be dismissed as a “fair weather” policy when times get rough. Will the social investment paradigm carry the day in this context of predicament, or will it revert to marginality and be left orphaned in the new epoch of reinforced fiscal austerity? What makes the Euro zone predicament particularly worrying is that national fiscal and EU monetary authorities have practically no room left for proactive adjustment. Politically, governments have been caught between Scylla and Charybdis. On the one hand, pressures for deficit reduction constrain domestic social policy space. On the other hand, disenchanted electorates are increasingly unwilling to abide by the austerity promises of national political leaders agreed in supranational rescue packages and EU-reinforced fiscal rules.

The global financial crisis, it should not be forgotten, originated in the behavioural excesses in deregulated financial markets, not in excess welfare spending. The fundamental insight that (re-)emerged from the crisis is that economic markets are not self-regulating, self-stabilising or self-legitimising (Rodrik, 2010). While this important lesson is certainly not new, a whole generation of domestic and EU policy makers and academic economists seem to have forgotten the basic truth that the benefits of global economic interdependence rely heavily on robust social and political – both domestic and supranational – institutions. The EU’s original sin of pushing for rapid market and currency integration to let the social-political-institutional underpinnings of European economic integration catch up later is in

dire need of correction. In their cognitive bias of further liberalising the internal market through monetary integration, EU economic policy makers, from the European Commission to the ECB, declined to really appreciate the Lisbon Treaty's macroeconomic importance in terms of "productivity-enhancing", "participation-raising", "employability-friendly", "family-capacitating" social investments for the greater good of a more prosperous, equitable and caring Europe.

A social investment strategy is not cheap, especially not in the short run. Simultaneously responding to rising needs in health care (and pensions) and implementing a successful transition to fully fledged social investment strategies will require additional resources. European integration can ultimately only be maintained if citizens support the political project at stake and trust governments to handle the social consequences of the crisis fairly.

While all the available evidence suggests that investments in child care and education will, in the long run, pay for themselves, EMU public finance constraints take all forms of public social policy spending as pure consumption, "crowding out" private economic activity. This may have been true for the modus operandi of the post-War social insurance welfare state, which was indeed income-transfer biased. Today, as social policy is in the process of becoming more service based, there is a clear need to distinguish social investments from consumption spending. A new regime of public finance that would allow finance ministers to, in the first place, identify real public investments with estimated real return, and, second, examine the joint expenditure trends in markets and governments alike, has become imperative. This would be akin to distinguishing between current and capital accounts in welfare state spending, just as private companies do. There is even an argument to be made that public deficits and debt wisely spent on social investment in education and family support can help stabilize the macro-economy. This is in two ways: first, by depriving financial institutions of excess liquidity for short-term speculation, and, second, by nourishing sustained job and productivity growth with social progress.

Because of adverse demography, human capital cannot be allowed to go to waste through semi-permanent inactivity, as was the case in the 1980s and 1990s in many mature continental European welfare states. But to Euro zone member countries in dire fiscal straits today the social investment message, advocated by the European Commission in the February 2013 *Social Investment Package* policy platform, is easily lost under the current macroeconomic regime. The reinforced 2011 "fiscal compact", "two-pack" and "six-pack" agreements, with their overriding emphasis on collective austerity, labour market deregulation and wage-cost competitiveness, is pressing Euro zone economies to adopt pro-cyclical and self-defeating welfare retrenchments and labour market reforms.

Both the survival of the Euro zone and the imperative to recalibrate welfare provision in the knowledge-based economy conjure up a democratic predicament of national and European dimensions. The EU can no longer advance as a mere project of market integration and fiscal austerity. A Pareto-superior social investment policy mix, as I have argued in this article, comes with a comparative advantage for Europe and an orderly resolution of the sovereign debt crisis and is a *sine qua non* for the survival of the welfare state and vice versa. The social and economic policy challenge is to make social investments and fiscal consolidation

mutually supportive and sustainable, through improved macroeconomic governance. To this end, a more realistic (slower) pace of fiscal adjustment should be coupled with productivity-enhancing social investments, in part funded through Euro bonds and project bonds.

6 CONCLUSION

Alongside recent trials and tribulations of Europe's national welfare states, it is important to highlight that the objective of social cohesion is also written into the Treaty of the European Union as an important vehicle for integration of the peoples and territories of the European Union. Through the adoption of the Lisbon Treaty in 2009, the EU has set itself the tasks to promote and strengthen social cohesion. Title XVII of the Treaty on the Functioning of the European Union stipulates that "the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion". A highly competitive social market economy, full employment and social progress are included amongst the Union's objectives. The coordination of member states' economic policies and employment policies is within the sphere of competence of the Union, which allows for the possible coordination of member states' social policies. To this end the Treaty of Lisbon contains a horizontal "social clause" (Art. 9 TFEU) whereby social issues (such as promotion of a high level of employment, adequate social protection, fight against social exclusion, etc.) must be taken into account when defining and implementing all policies. With the view that all EU citizens should reap the benefits of economic integration and that the EU cannot be successful if significant groups are left behind as prosperity rises, social cohesion, covering various dimensions, ranging from fighting poverty, encouraging engagement in the labour force, respect for diversity, and guaranteeing access to good education and health care, is central to the European project.

However, and notwithstanding the EU's official endorsement of social cohesion, an inherent tension remains between genuine EU concerns with social cohesion and the predominant institutional *modus operandi* of market integration. Throughout the post-war era there has always been an implicit division of labour between European and national institutions. European institutions concentrate on liberalisation measures while national institutions concentrate on redistribution and welfare provision. According to Maurizio Ferrera, domestic welfare state development and European (economic) integration are practically based on opposite logics. Whereas national welfare state expansion has hinged on a logic "closure" of clearly demarcated and cohesive citizenship communities and post-war nation-building, the logic of European (economic) integration hinges on "opening", on the weakening of barriers and closure practices that European nation states have built to protect their citizens from economic contingencies, in favour of free movement, free (undistorted) competition and non-discrimination (Ferrera, 2005). As a consequence, European integration, as it is programmatically more geared towards the expansion of individual options and choices, very much challenges the conditions of social bonding, policy closure and social cohesion that sustain coherent national welfare states. It is questionable whether the old division of labour between national welfare and European economics can be sustained.

The EU needs a New Deal between countries which are in better budgetary shape and have pursued social investment strategies more consistently in the past, and countries which have been less consistent with regard to social investment than one may have wished and therefore experience dramatic budgetary situations. The macro-economic policy regime that is required is one wherein *all* governments pursue budgetary discipline and social investment over the medium and long run, and are effectively supported therein (Vandenbroucke, Hemerijck, and Palier, 2011; Hemerijck and Vandenbroucke, 2012). An EU social investment pact implies significant burden sharing. In terms of budgetary policy, Northern European governments should avoid austerity overkill, as part and parcel of a mutual effort. The competitive north could tolerate higher levels of inflation so as to make price and wage adjustments in the Mediterranean south realistic, provided that Greece, Italy and Spain use leniency to continue with structural social (investment) reforms.

Europe's capability to cope with the social pressures of the Euro crisis very much hinges on a positive interplay between economic and social policy. Politically, the popular support basis of the European project will more and more come to depend on its capacity to articulate a productive welfare edifice where neither solidarity is sacrificed for efficiency nor efficiency for solidarity. This requires a social cohesion policy discourse that respects the central role of domestic social rights, not as costs, but prerequisites for individual productive participation and European social progress. This is a matter of significant urgency as significant numbers of EU citizens increasingly perceive Europe as a threat rather than a driver of economic dynamism and social justice, compatible with democratic stability and social cohesion. A "social investment pact", bolstered by Euro bonds and special social investment project bonds and more generous human capital promoting access to structural funds (discounted in national budget accounts), could be an important step towards a Pareto-superior "caring Europe", caring about people's daily lives and future social wellbeing, based on much-improved national solidarity and supranational European cohesion.

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Social Cohesion in Italy: Recent Trends and Current Challenges

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INTRODUCTION

At the end of the 1990s, following decades of deficit spending, Italy entered the Euro with a weak welfare state (particularly with regard to the provision of social services, a minimum safety net for the poor and family policies) and a high public debt (Naldini and Saraceno, 2008). Limited resources and path dependency from a marginal role for the state in social policies have largely contributed to explaining the reforms that occurred in the last decade and the state of integration between employment and social policies. Italy has been characterized by a preference for income transfers (particularly in the form of pensions) over transfers in kind and by a “dualistic” social security system that discriminates outsiders against insiders (Naldini and Saraceno, 2008). This dualistic protection system, characteristic of Continental welfare states, together with a strong dependence on the family as the main provider of social security, typical of Southern European welfare states, makes Italy a special case as regards both employment and social policies. More in general, Italian society has been characterized by low economic growth and social concerns regarding, in particular, female and youth unemployment. Furthermore, a long lasting problem regards the territorial differentiation in terms of economic growth and social inclusion via employment. As a matter of fact, the main political reading of social inclusion has been made in terms of occupational inclusion, since both income inequality and social assistance have not been at the heart of recent policy reforms (Graziano, 2011). The first section of this article provides some information on the persisting differences in the socio-economic context and employment features. The second section provides some information on the main reforms which have been adopted over the past years in order to reduce the employment vulnerabilities in the Italian case, whereas the third section focuses more on the other dimensions which are relevant for the understanding of social cohesion. The final two sections provide an overall assessment and policy recommendations.

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1. SOCIO-ECONOMIC CONTEXT AND EMPLOYMENT FEATURES

Italy presents peculiar characteristics in regards to employment, especially if the country is compared to the other members states of the European Union. The overall employment rate is lower than the EU average both for male and female, but with a huge employment gap among the two. Looking at Table 1, we can see that in the last decade the male employment rate has remained more or less stable (with a decline in 2010 due to the economic crisis), not much lower than the EU average. However, when we look at the female employment rate the gap becomes striking: 50.5% against an EU average of 62.4% in 2012. However, we can clearly see an increasing trend in the female employment rate, which was 39.6% in 2000 but increased to 50.5% in 2012.

Table 1. Female and male employment rates in Europe.

	Male				Female			
	2000	2005	2010	2012	2000	2005	2010	2012
EU27	70.8	70.8	70.1	74.6	53.7	56.3	58.2	62.4
Italy	68	69.9	67.7	71.6	39.6	45.3	46.1	50.5
France	69.2	69.2	68.3	73.8	55.2	58.4	59.9	65.0
Germany	72.9	71.3	76	81.8	58.1	60.6	66.1	71.5
Poland	61.2	58.9	65.6	72.0	48.9	46.8	53	57.5
Sweden	75.1	74.4	75.1	81.9	70.9	70.4	70.3	76.8
UK	77.8	77.7	74.5	80.0	64.7	65.8	64.6	68.4

Source: EUROSTAT.

The number of persons with part-time or second jobs is lower than the EU average, and much lower than Nordic and Central European countries, although there has been a relevant increase in part-time jobs, especially among women (see Table 2).

Table 2. Percentage of workers with a part-time or a second job.

	Persons working part-time			Persons with a second job		
	2001	2006	2011	2001	2006	2011
EU27	16.2	18.1	19.5	3.8	3.7	3.8
Italy	8.4	13.3	15.5	1.3	1.6	1.4
France	16.3	17.3	17.9	3.2	2.9	3.3
Germany	20.3	25.8	26.6	2.4	3.5	4.5
Poland	10.3	9.8	8.0	8.5	7.5	7.0
Sweden	21.1	25.1	26.0	9.5	7.8	8.4
UK	25.0	25.3	26.8	4.3	3.6	3.9

Source: EUROSTAT.

Furthermore, if we consider the situation within the country, a sharp territorial differentiation emerges (see Table 4). In the North, the male employment rate is well above the EU average, whilst the female employment rate is more or less in line with the EU average in the time span considered (2004-2010). In contrast, less than half of the population in the South is employed, with the female employment rate at around 30%, far below the EU average. Moreover the employment gap is lower in the North (around 18% in 2010) and in the Centre (around 20%) than in the South (27%).

Table 3. Employment rates by sex and geographical area.

		2004	2007	2010
Italy	male	69.7	70.7	67.7
	female	45.2	46.6	46.1
	total	57.4	58.7	56.9
North	male	75	76.3	73.8
	female	54.9	56.8	56.1
	total	65	66.7	65
Centre	male	71.9	73	71.4
	female	50.2	51.8	51.8
	total	60.9	62.3	61.5
South	male	61.8	62.2	57.6
	female	30.7	31.1	30.5
	total	46.1	46.5	43.9

Source: ISTAT.

Moving from employment to unemployment rates, regional and gender differences are confirmed. Women present higher unemployment rates than men, although the gender difference is more pronounced in the South. In particular, women in the North have a lower unemployment rate than men in the South, once again confirming a huge divide between the Northern and Southern regions (see Table 4).

Table 4. Unemployment rate by sex and geographical area.

		2004	2007	2010
Italy	male	6.4	4.9	7.6
	female	10.5	7.9	9.7
	youth	23.5	20.3	27.8
	total	8.0	6.1	8.4
North	male	3.0	2.6	5.1
	female	5.9	4.7	7.0
	youth	12.6	12.1	20.6
	total	4.3	3.5	5.9
Centre	male	4.9	3.9	6.6
	female	8.7	7.2	9.0
	youth	21.4	17.9	25.9
	total	6.5	5.3	7.6
South	male	11.9	8.9	10.9
	female	20.5	14.9	15.8
	youth	37.6	32.3	38.8
	total	15.0	11.0	13.4

Source: ISTAT.

Besides gender and geographical differences in unemployment rates, another feature of the Italian labour market is the relatively high youth unemployment rate. Reaching 40.5% in April 2013, due to the ongoing economic crisis, the youth unemployment rate has been historically high, although major regional differences are present, with youth unemployment mainly concentrated in the south of the country.

2. RECENT EVOLUTION OF EMPLOYMENT AND SOCIAL COHESION POLICIES

2.1. Employment and Training Policies

Before the launch of the European Employment Strategy in 1997, the Italian employment governance system was based on a centralized system managed at the national level. Unemployment benefits were provided by the central level, with the main actors being the Ministry of Labor and the Italian National Social Security Institute (INPS). However, the unemployment benefits have traditionally been very limited. There are three types of benefits: the ordinary unemployment benefit (that is a compulsory social insurance scheme financed through employers' contributions), the *indennità di mobilità* (mobility benefits) as well as the *Cassa Integrazione Guadagni Ordinaria* (CIGO) e *Straordinaria* (CIGS) (ordinary and special earnings benefits, mainly for employees working in medium-large firms). The latter two (CIGO and CIGS) are not unemployment benefits in the strict sense, in that the

worker remains formally employed in the firm, and the request for the benefits is submitted by the firm itself.

The state and its agencies were controlling the overall functioning of the system (Gualmini, 1998) although some societal interests (especially trade unions) were taken into account. The Ministry of Labor coordinated the *uffici di collocamento* (employment agencies), operating throughout the territory. They interact with firms and fulfil a registration function of particular movements such as hiring, terminations, renewals or changes of employment contracts. In the event that a worker loses his job, he would register in the *liste di collocamento* (employment lists) in order to receive benefits in support of his income for a limited period of time (Spreafico, 2010).

The Italian situation until 1997 was characterized by a lack of experience in active labour market policies, unlike other member states such as the UK or Sweden (Treu, 1999). Indeed, training policies have played a minor role in the overall architecture of the Italian employment system (Graziano and Jessoula, 2011). The regions, since 1978, planned the training with considerable autonomy, while the provinces and local government usually managed it. The regional competence of vocational training contributed to marking the differences between Northern, Central and Southern Italy, highlighting the need to reform the whole training system, ranging from the national certifications to the coordination and integration between the institutions involved (Jobert et al., 1997). Thus, training policies were developed without considering national integration (ERFEA, 2004).

A new model of continuous vocational training was developed in the 1990s (Law 236/1993) introducing special tools such as training vouchers, training plans, and support for micro-enterprises, along with support for recipients of short-term unemployment benefits and for low-qualified workers. The model has a large public offering, and a widespread private offering and it is characterized by the presence of social partners in both planning and management. However, differences have continued to persist among different areas of the country.

Furthermore, the Italian model of employment regulation presented selective passive policies, creating a deep segmentation of protection between workers already in the labour market (insiders), and the unemployed (outsiders) which continue to be excluded from the market and with little access to training and – increasingly – “midsiders” who were either employed with non-standard contracts or were employed in small-sized firms (Jessoula, Graziano, Madama, 2010). These characteristics constitute the original Italian model of employment policies which strongly influenced the policy evolution, that is thus path dependent (Gualmini, 1998). As a matter of fact, a peculiarity of the Italian model, unlike for example the German or the Swedish one, is also the fragmentation of employment policies, built layer by layer through the years by overlapping previous and later interventions in an inconsistent way (Gualmini, 1998). The development of passive policies was consolidated under a regulatory context, particularly rich in standards and guarantees for the protection of workers’ rights. Moreover, the employment benefits themselves were substantially reduced in terms of income subsidies and rules for the equitable distribution of employment opportunities (Spreafico, 2010). Furthermore, a continuous vocational training (CVT) system has only

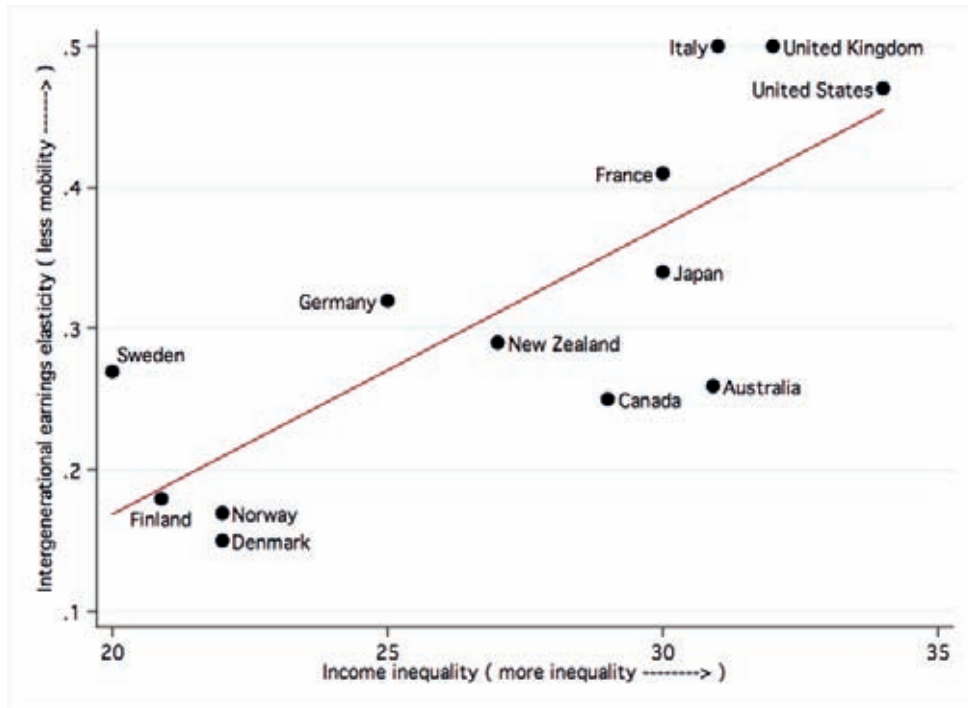
been developed since the 1990s. This peculiarity of the Italian legislation in the employment policies sector shows its close dependence on the dynamics of the economic cycle, on the events that characterized the political scene in different historical phases, and on the fluctuation of the power relationships (Gualmini, 1998).

2.2. Social Inclusion Policies

Social policies always played a marginal role in the overall architecture of the Italian welfare system. During the expansive phase of the welfare state (1945-1975), Italy, as with other countries in Southern Europe, did not implement any organic reform of social policies, aimed at rationalizing interventions and services, as many countries in Continental and Northern Europe did (Madama, 2010). The welfare system was strongly privileging pension expenditure and to a smaller extent healthcare, leaving little financial resources for other welfare policies. Policies targeted to allow the conciliation of work and private life had traditionally been very marginal and characterized by limited coherence in the overall employment setting of Italy, which was primarily designed to meet the needs and demands of the standard “male breadwinner” model (Graziano and Madama, 2011). More specifically, the provision of social protection and care was implicitly delegated to the family and Catholic institutions (Graziano, 2011) leaving for the state a subsidiary role, as is typical in the Southern European welfare model. Social policies in Italy have thus been characterized by limited monetary transfers and even more limited services. Considering the institutional organization, although social policies have been partially delegated to regional and municipal administrations, Italy still lacks a unified framework to transfer responsibilities from the centre, to define guidelines and to set national standards for services and monetary benefits (Madama, 2010). The result has been a very confused picture, with a low degree of protection both from the point of view of coverage and amount of transfers. Multiple lines of financing, not coordinated by a national framework, local differentiations in terms of resources and capacities and the non-existence of national standards added fragmentation to an already poor situation.

3. THE OTHER COMPONENTS OF SOCIAL COHESION: SOCIAL MOBILITY AND SOCIAL CAPITAL

In terms of income inequality and social mobility, Italy stands out as one of the most problematic cases since it is characterized by low social mobility and high income inequality (see Figure 1).

Figure 1. Income inequality and social mobility.

Source: Corak (2013): 82.

Clearly, to fully understand the Italian case we also need to look at the so-called “shadow economy” figures which range from 21% to 27% of GDP (Schneider, 2012; A.T. Kearney, 2013). If the shadow economy figures were taken into account, Italy’s growth and employment figures would be much more in line with other advanced economies. Furthermore, it has been estimated that about 3 million workers are undeclared (CGIA, 2013) and the territorial distribution of undeclared work – as expected – shows that undeclared work is particularly present in the Southern regions, covering in some regions (as in Calabria) almost 35% of the regular workers.

As far as social capital is concerned, also in this case its distribution reflects the deep territorial cleavage which has characterized Italy over the past 150 years (Felice, 2012). In his quite well-known contribution, Putnam (1993) already focused on the territorial differentiation in terms of social capital broadly defined as the presence of accepted moral obligations and norms, and social values such as trust and social networks – in particular, voluntary organizations. Putnam uses the notion of social capital as a key explanatory variable in understanding the different institutional performances of Italian regions. Although much debate has followed Putnam’s contributions (Boix and Posner, 1996) and new analyses regarding the role of social capital in economic growth and institutional performance have been conducted (Felice, 2012; Cartocci, 2007), what is undeniable is the long-term persistence of regional disparities in the distribution of social capital among different Italian regions (and provinces). More focused pieces of research have further emphasized that social capital is a very good

predictor of economic innovation at the provincial level (Crescenzi, Gagliardi, and Percoco, 2013), confirming the general idea that economic backwardness is strongly correlated to social capital and the territorial divide in economic terms can be understood also in terms of lack of trust, respect and diffusion of social norms and obligation and reduced number of voluntary associations.

Summing up, social cohesion has been particularly weakened by the recent crisis in terms of social inclusion, and the traditional limitations regarding social inequality and social capital have further hindered the enhancement of social cohesion as a whole. Since we have already discussed the limited – and to date not particularly successful – employment policies, we will now turn to an overall assessment of the policies adopted in recent years and their impact on social cohesion and its three main components: social inclusion, social mobility and social capital.

4. RECENT PUBLIC POLICIES AND SOCIAL COHESION PATTERNS: BETWEEN EUROPEAN CONSTRAINTS AND DOMESTIC LIMITATIONS

The second half of the 2000s has been a period of limited overall social cohesion policy change. Or, in other words, the policies adopted in the more recent years (right after the explosion of the crisis) have been centred on austerity and cost-containment measures and not on the reduction of social exclusion and social inequality, nor on the focused promotion of social capital. In line with the history of the past decade of interventions, social policies have been significantly constrained and guided – although softly – by European institutions (Graziano, 2011; Graziano, 2013). Nevertheless, between 2008 and 2011 the Italian government (led by Berlusconi) tried to diverge from European guidelines but did not manage to survive the development of the economic and financial crisis since it was replaced in November 2011 by the Monti government.

More in general, it has been clearly noticed that the 2008-2011 period has been a period of particularly limited influence of European institutions over domestic policies (see Graziano and Jessoula, 2011) and of limited advancements in social cohesion policies. The joint letter by Bank of Italy and European Central Bank to the Italian government on 5 August 2011 clearly changed the scenario, since for the first time the European Central Bank intervened strongly with reference to the domestic employment policy debate by stating that “b) (t)here is also a need to further reform the collective wage bargaining system allowing firm-level agreements to tailor wages and working conditions to firms’ specific needs and increasing their relevance with respect to other layers of negotiations. ... c) A thorough review of the rules regulating the hiring and dismissal of employees should be adopted in conjunction with the establishment of an unemployment insurance system and a set of active labour market policies capable of easing the reallocation of resources towards the more competitive firms and sectors” (Draghi and Trichet, 2011; on the relevance of the letter as a trigger for the employment policy reform, see also Treu 2012: 31). In the following months, the Berlusconi government was followed by a “pragmatic technocratic leadership” (Schmidt and Gualmini,

2013), the Monti government, which – after a December Decree which dealt primarily with pension policy reform– started to work on an employment policy proposal which was presented to social partners in early 2012. After two months of heated confrontation among the government and social partners, in late March 2012 the Italian government approved a document which was then translated into a Law proposal, then – under the menace of governmental dismissal in case of rejection – approved by the Parliament on June 28 (Law 92/2012). Unlike other employment policy reforms (such as the 1997 and the 2003 ones; for further details see Graziano, 2011), trade unions (especially CGIL, the most representative trade union) and business associations (although to a lesser extent) were highly critical of the 2012 reform proposal.

Although it is too soon to jump to any conclusions regarding the employment policy reform (which, as stated above, concerns mainly the pillar of social inclusion), the most recent unemployment and employment rates figures do confirm that the situation has not improved. According to national data (ISTAT), the unemployment rate in February 2014 reached the 13% peak – one of the highest figures ever. The newly appointed Renzi government (in office since the end of February 2014) has proposed a new labour market reform which has been divided in two parts: one (*Decreto Lavoro*) which is currently debated in the House of Representatives concerns basically a further deregulation of employment contracts whereas the second (*DDL Delega*, so-called “Jobs Act”) concerns an overall reform of employment benefits which could expand unemployment benefit coverage for several hundred thousands of people who are at risk of losing their jobs, constituting therefore a measure (although rather limited in coverage and scope) for the promotion of social inclusion. Furthermore, in the coming months also the Youth Guarantee programme will be implemented in Italy, contributing to the expansion of job opportunities for the youth – although the measures still need to be tested and may result in mere short-term precarious work. Finally, with a DL (*Decreto Legge* – Government Decree), the Renzi government has recently approved a plan “for competitiveness and social justice” which will offer tax cuts to about ten million low income earners (individual annual gross income inferior to 25,000 Euros). Clearly, this measure is aimed at providing a boost to the economy but may not be simply labelled as a “social inclusion” measure since it involves representatives of the middle class – 25,000 Euros is the 2013 average individual gross income in Italy (ISTAT). In other words, the measure – although quite path-breaking with respect to a period where tax cuts are extremely rare – only marginally contributes to the reduction of social exclusion and it does it directly by using the taxation instrument, not covering those who do not even reach an annual gross salary of 8,000 Euros and therefore is exempted from paying taxes.

Overall, even considering the most recent policies adopted by the Renzi government, over the past twenty years Italy has gone through a reduction in social inclusion (with declining employment, a rising poverty rate and rising income inequality) and maintained a low profile performance in social mobility (OECD, 2010), whereas by using “trust” as a very gross proxy of social capital we still see that Italy is by far below the OECD average (21.7% in Italy against an average of 33% in OECD countries) and the evolution of some other proxies of social capital in recent years has been negative (ISTAT, 2013: 115-131). In a nutshell, Italy

seems to be quite far from numerous other European countries in terms of social inclusion, social mobility and social capital.

5. CONCLUSION

The past twenty years have been years which have not been characterized by the enhancement of social cohesion. Although until the early 2000s, there have been some attempts to introduce innovative policies aimed at such a purpose (such as, for example, the experimental “*reddimo minimo di inserimento*” – a minimum income scheme aimed at social inclusion which was launched in 1998 but never became a full-fledged policy in the Italian policy menu), in more recent years social cohesion has not been at the centre of the political agenda nor have social inclusion, social mobility and social capital improved. Only the unemployment rate has declined and the employment rate has increased for a brief period during mid-2000s also thanks to the employment policy reforms described in the second section of this article, but the economic and financial crisis has reduced the relevance of the improvements registered before 2008. Especially during the 2008-2011 periods virtually no public policies aimed at structurally improving the overall picture have been adopted. Clearly, those years were problematic for several countries – not only for Italy – but still better-targeted policies aimed at structural enhancement of social cohesion (such as, for example, a universal unemployment benefit scheme and/or a full-fledged minimum income scheme) could have been adopted. Why did it not happen? First, the austerity packages put forward by the EU and the willingness to comply (especially under the Monti government, 2011-2013) did not give a chance to anti-cyclical policies which were considered to be too expensive and not easily implementable. Second, the underestimation of the impact of the crisis under the Berlusconi government (2008-2011) also did not allow the government to frame policies which could have been aimed at two targets: a conjunctural one (helping the Italian economy to recover) and a structural one (rebalancing the overall policy menu in order to better support socially excluded citizens).

The overall situation may change in the near future. The first policies adopted by the new Renzi government go somewhat in a more “inclusive” direction, although with the limitations mentioned above. Time will tell if Renzi’s government will be capable of structurally changing the social cohesion landscape in Italy, but some timid signs can’t go unregistered. More specifically, though, social cohesion could be greatly supported by five main policies: a carefully designed minimum income scheme, a rapid and effective usage of the EU 2014-2020 funds (which offer significant economic resources to territories which are particularly weak in social cohesion indicators), an overall redefinition of EU constraints, the adoption of effective policies aimed at fighting the “shadow economy” and a fiscal reform aimed at increasing redistributive capacities of public policies. As far as the minimum income scheme goes, there are numerous proposals on the table which could be an extraordinary point of departure (for a discussion, see Baldini and others, 2011). Regarding EU funds, some encouraging signs of improvement can be seen in the recent acceleration in the implementation of the previous 2007-2013 policies funded by EU structural funds (Barca, 2011), although

there is still a need for fine tuning in order to fully profit from the opportunities offered by EU policies. And finally, and most importantly, there clearly is a need to renegotiate the various economic constraints which have been adopted over the past years at the European level, especially the fiscal compact. The Renzi government is already trying to move in this direction by postponing the budget balance from 2015 to 2016. It is a quite audacious move; to date it is still not completely clear if and how such a domestic decision will be accepted by the EU institutions. The last policy regards the fight against the “shadow economy” which could provide significant resources to be used for more comprehensive policies aimed at social cohesion (such as the ones mentioned previously). Although the benefits of such policies may not be immediate, being firm and coherent along an anti-“shadow economy” line could provide very relevant benefits in the medium term. Finally, a structural reform of fiscal policy which takes clearly into consideration social justice issues could provide a great opportunity for the enhancement of social cohesion. In my view, this is the most problematic issue Renzi’s government needs to consider, but it is a vital one since it could allow rebalancing some long-lasting distortions which have characterized the Italian fiscal system. Individual wealth should be taxed more (either with an *ad hoc* property tax or with a progressive revision of the fiscal burden) in order to get hold of economic resources which could be then used for redistributive purposes and labour (primarily for workers but also for businesses) should be revised in order to become more rewarding in terms of job creation. As mentioned previously, some timid signs can already be seen. Now it is time for the timid signs to become a permanent green light towards more ambitious policies aimed at increasing social cohesion. And Italian governmental representatives will have to get this message through at the European level. If not, the European dream will become a social nightmare for Italy.

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Civic Engagement in Germany: Topics, Assumptions and Findings

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1. EMPIRICAL FINDINGS: ON THE GROWTH OF CIVIC ENGAGEMENT IN GERMANY

Over the last 15 years, discussions on the civic engagement of individuals in Germany have caused a stir in the world of politics and social sciences (cf. German Parliament, 2012; Enquete Commission, 2002). One of the key reasons for this lies in the popular diagnoses of the German society which have largely dominated public debate in recent decades. They describe a TV-watching, consumption-driven monad who – in today’s passive, disintegrating and individualized society – has lost the sense of solidarity and public spirit (cf. in summary Schimank, 2000). Does this mean that civic engagement, as one of the key requirements for the social and political cohesion of a society, is also at risk?

The answer to this fundamental question was at first delivered by the Eurovol study entitled “A New Civic Europe”. The results of this study shocked the world of German politics and media in the mid-1990s. Only 18% of the adult population in Germany was involved in civic engagement, making Germany lag far behind the Netherlands (38%), Sweden (36%), the United Kingdom (34%), Belgium (32%), Denmark (28%) and Ireland (25%). Even Bulgaria had a higher rate of volunteering (19%), and only the fact that Slovakia fared even worse (12%) enabled Germany to avoid ending up in last place (cf. Gaskin, Smith & Paulwitz, 1996). The sceptics felt confirmed that a touchstone for the inner cohesion of the community was crumbling successively under the individualization processes in German society.

However, this changed rapidly over the following years. New study designs, definitions and survey categories (including changes in the phrasing of questions and the evaluation of what may be considered “engagement”) took Germany into the “Champions League”: the “Speyerer Wertesurvey 1997” (a survey on values and civic engagement), based on a representative survey of 3,000 individuals aged over 18, reported 38% of active volunteers and a further 32% of individuals willing to engage in volunteering (cf. Klages & Gensicke, 1998).

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The German Survey on Volunteering or “Freiwilligensurvey” from 1999, commissioned by the German Federal Ministry of Family, Senior Citizens, Women and Youth (BMFSFJ), interviewed over 15,000 citizens in Germany aged over 14 and reported a similar result. It identified 34% of active volunteers or, in absolute figures, roughly 22 million people in Germany, that undertake unpaid voluntary activities outside their employment and outside the close social circle of their families, particularly in non-profit organizations such as clubs or associations or in projects and initiatives (Gensicke, Picot & Geiss, 2006).

The 2004 and 2009 waves of the German Survey on Volunteering confirmed the general results, i.e., that civic engagement in Germany is actually not in such a bad way: among over-14-year-olds, the percentage of people engaged in voluntary social activities actually increased to 36% and has remained constant at this level since then. The data of the German Survey on Volunteering also show that among the 64% of individuals that do not currently engage in volunteering, a significant number of people would be willing to become involved in civic engagement, provided interesting tasks could be found. Here the field of sports and physical exercise still seems to offer the most interesting tasks, as – in terms of volunteering – it is still far ahead of all other social areas such as church and religion, leisure and socializing, culture and music, social activities and politics (cf. Gensicke & Geiss, 2010).

These bare-bones statistics of civic engagement now need to be fleshed out by taking a more differentiated approach in examining the institutional framework and the individual and social functions and consequences of civic engagement. Against this background, relevant lines of discussion on civic engagement in Germany will be outlined below and substantiated with the results of selected studies.

2. CIVIC ENGAGEMENT AS A CO-PRODUCER OF WELFARE-RELEVANT SERVICES

The question of the “future of the welfare state” is a sensitive subject in public debate in Germany. What lies ahead for the “German model” that has provided so many people with social security and social participation within just a few decades? These questions have long been controversial subjects of discussion, not only in political circles but also in the world of social sciences. However, setting aside all controversial debates, one trend is very clear. In addition to conventional approaches that focus on government control on the one hand, and conventional approaches based on free-market mechanisms on the other, civic engagement by individuals is being (re)discovered as an alternative resource to control the restructuring of the institutional landscape.

This clear shift in emphasis also explains the popularity of approaches that are discussed within concepts such as “welfare mix” (cf. Bleses & Seeleib-Kaiser, 2001; Evers & Olk, 1996; Evers & Wintersberger, 1990; Kaufmann, 1994, 1997). These approaches primarily underline their difference from the concept of a welfare state; in as far as they rely on a new division of responsibility between state and society in the production of welfare-relevant goods and services. While the state has so far been responsible for guaranteeing, funding and executing the production of public goods and services, it is now expected to restrict itself increasingly to

the role of guarantor and hand over the responsibility for the execution and funding to civic organizations while thus simultaneously creating opportunity structures for civic engagement (cf., e.g., Blanke, 2001; Evers & Olk, 1996; Kaufmann, 1997).

However, apart from these theoretical, and sometimes normatively charged, conceptions of a new division of responsibility between state and society – the “welfare mix” – there has been no empirical evidence to date of the opportunities and limits associated with the take-over of previously state-regulated public services by engaged citizens. Examples taken from an evaluation study of success models of civic engagement at municipal level (Braun, 2011b) show that these projects are by no means the supposedly “large-scale” projects in society that generally attract the attention of the media and the world of politics. The civil society is primarily characterized by the creative variety of small-scale projects in the associational world of its citizens, which, taken together, can make a contribution to welfare and democracy that is difficult to quantify.

Yet the wealth of creative ideas by “engaged citizens” cannot play the role of guarantor to fill the gap in reduced welfare services by the state; even the suspicion that civic engagement may be instrumentalized for the purposes of the state is soon perceived as a participation of powerlessness which causes any interest in engagement to wane in the long term (cf. Roth, 2000). Engagement often reflects a special meaning in itself, characterized by its voluntary, autonomous and demand-oriented nature, and precisely for this reason the focus should not be on an instrumentalization of this engagement for the purposes of the state, but on the co-production and cooperation of civic and public actors.

However, this requires reassessment of the concept of “active citizenship” by municipal politics and administration. Some time ago the concept of a “user democracy” (Naschold, 1996), i.e., the transfer of state responsibilities to, or the reconquering of these responsibilities by, society, was described as a significant trend in various European countries. Public support of participation by citizens, opening up of public institutions, strengthening of subsidiarity and small social networks, decentralization of large social systems and municipalisation of political tasks are keywords that are also increasingly regaining importance in Germany within the course of debate about civil society (Enquete Commission, 2002; German Parliament, 2012; Roth, 2000).

3. CIVIC ENGAGEMENT AS A PRODUCER OF HUMAN CAPITAL

One of the most obvious problems of the German welfare state is that the number of people who would like to be gainfully employed but cannot find “standard employment” (to their liking) has been noted to increase in waves, but continuously, since the mid-1970s. Since the end of the “short dream of everlasting prosperity” (Lutz, 1984), we have observed not only that unemployment tends to become entrenched into a permanent social situation, but also that atypical forms of employment, discontinuous employment histories and the need for lifelong learning increase significantly.

Reform plans that explore the cultural change in the understanding of work must also be seen against this context. They focus on a more flexible design of work and employment

that is better adjusted to ways of, and situations in, life, and also include other forms of work activities such as civic engagement (cf., e.g., Beck, 1999; Giriani & Liedtke, 1998). The objectives behind this measure are to enhance the value of meaningful activities outside gainful employment and establish opportunity structures for lifelong learning outside the context of formal education in school, training, and university.

Current studies show that civic engagement can initiate, support and promote informal learning processes (cf., e.g., Dux, 2006; Hansen, 2008). Apparently, the immediate visibility of the success or failure of actions in an area of everyday life that is considered to be important strongly enhances the motivation for learning without engaged individuals necessarily even being aware of it. This is due to the fact that civic engagement makes demands that are (or must be) particularly solved by learning activities that are initiated and controlled by the engaged individuals themselves. By doing so, engaged citizens develop key skills at three levels: the personal level (e.g., independence, resilience, flexibility and self-confidence), the social level (e.g., willingness to accept responsibility, communication and conflict management skills), and the objective level (e.g., organizational or manual/technical skills) (Braun, Hansen & Ritter, 2007; Dux, 2006).

All these skills are personal resources that are only available to the engaged individual in the form of non-transferable human capital, and that are acquired, practiced, discovered or experienced in the context of civic engagement. Obviously, the “engaged learners” can also use this human capital in other contexts. This applies equally to gainful employment or to introducing professional status for the activities in the non-profit organizations in which they are involved within the scope of civic engagement.

Against this backdrop, it is not surprising that current corporate and state measures target the unlocking of “educational potential” by civic engagement in areas such as schools, voluntary services, employability and (early) retirement, and also human resources development in companies. However, this always involves the risk of civic engagement becoming instrumentalized, as these measures may undermine the “intrinsic meaning” of civic engagement and its principle of voluntary and self-determined action.

4. CIVIC ENGAGEMENT AS A PRODUCER OF SOCIAL CAPITAL

Parallel to the question of the future of the welfare state, the problem of social integration in modern societies in general and German society in particular has again advanced to become a central issue in politics and social sciences. From various perspectives, the sociological diagnoses of present-day society circle around the question of what keeps modern, individualized and multi-ethnic societies together, or even more to the point, what is able to still keep them together (cf., e.g., Beck & Beck-Gernsheim 1994; Braun, 2001b; Friedrichs & Jagodzinski 1999; Schimank 2000).

This “social glue” is seen not least in civic engagement, which is regarded as the basis of the “social capital” of modern societies (cf., e.g., Putnam, 2000). The fashionable term “social capital” is based on the concept that in addition to economic and human capital, there is a third form of capital in society – one that plays a central role for welfare and democracy.

In this context social capital covers the following: first, social trust, which facilitates interpersonal cooperation and is needed for the coordination of a society; second, the norm of generalized reciprocity, which contributes to the solving of social dilemmas (cf., e.g., Braun & Weiß, 2008).

As empirical studies have shown, civic engagement does indeed provide a significant opportunity structure, which provides the context for building up social capital (Braun, 2007). Individuals can also use this personal social capital outside their civic engagement, provided the other individuals involved in civic engagement and their resources are also available to them outside their associations, projects or initiatives. However, this in turn gives significance to the issue of social inequality and the associated opportunities of social inclusion in engagement networks. Participation in the public sphere is still closely connected with an individual's social situation. Civic engagement primarily attracts groups with habitual characteristics conveyed in the social practice of education-oriented middle class families (Braun, 2011a). By contrast, civic engagement is significantly less common in socially deprived groups, particularly social groups with a low level of education.

Against the backdrop of this connection, which is relevant in terms of both inclusion theory and practice, the question arises of the extent to which institutional arrangements may be developed to give socially deprived groups more access to civic engagement. This is the point at which new debates set in, focusing in particular on educational facilities as central institutions that can remove social barriers preventing access to civic engagement at an early stage and support the inclusion processes of socially deprived groups (cf., e.g., Bertelsmann Stiftung, 2007).

5. CORPORATE CITIZENSHIP AS CIVIC ENGAGEMENT OF COMPANIES

Civic engagement is not limited to individuals. Entire organizations such as businesses can also become involved. In the context of Germany it might initially seem strange that companies, as corporate citizens, become voluntarily engaged in society beyond the bounds of legal requirements and their actual economic activities. After all, the clear, functional differentiation between state and economy played a constitutive role in the Federal Republic of Germany and its economic success (cf. Braun & Backhaus-Maul, 2010). While the state, as guarantor, had been responsible for law, order and social security, the companies had been assigned a role defined by the state. According to this role, companies have to be involved in legislative procedures, undertake to observe the requirements of labour, social and environmental laws, negotiate collective agreements with trade unions, play an active role in the dual training system, and pay considerable social security contributions and taxes. This functional specialization sometimes caused companies to appear completely out of place in German society (cf. Backhaus-Maul, Biedermann, Polterauer & Nährlich, 2008; Backhaus-Maul & Braun, 2010).

Against the backdrop of a leaner welfare state on the one hand and the globalization of the economy on the other, this German tradition of the civic engagement of companies

that has its roots in a social market economy has been confronted – since the start of this millennium at the latest – with global interpretations and a host of concepts, including “corporate social responsibility” (CSR) and “corporate citizenship” (CC), primarily coined in Anglo-Saxon debates (cf. Braun, 2010; Habisch, 2003). In this context, corporate citizenship is a form of entrepreneurial identity management. It gives companies opportunities for civic engagement in fields and projects of their own choice in areas such as education and social affairs, sports and training or culture and ecology. In contrast to patronage and philanthropic activities on the one hand and marketing-focused sponsorship on the other, CC revolves around continuous engagement in society that is provided with the help of various company resources (money, time and knowledge), with medium- and long-term benefits for the company being as important as social benefits.

However, a more detailed empirical analysis reveals that the overall picture of civic engagement by companies in German society cannot be appropriately interpreted and categorized unless we compare this emerging “new” form of voluntary engagement by companies with the broadly based and diverse “old” forms of civic engagement by companies in society. This engagement follows the traditional paths of engagement in as far as companies play more of a passive socio-political role within the framework of their corporate citizenship – one that they have generally been assigned within the scope of the corporatist German market economy. This is indicated not only by the remarkable result that 96% of companies in Germany are voluntarily engaged in society (cf. Braun, 2008). This engagement also has the characteristics of a “casual matter-of-factness” anchored in corporate values, with a philanthropic emphasis that focuses primarily on material support of the local civil society at the company’s locations, and specifically the support of sports and leisure clubs or associations.

However, this “corporate citizenship” of proactive large-sized companies that can be characterized as rather “traditional” has now – at least to some extent – become overlain by a new view of this type of civic engagement, which has been influenced by international debates on this issue (cf. Braun, 2010; German Parliament, 2012). This process reveals itself for example in the fact that voluntary engagement of companies is classified under the entrepreneurial logic of utilization associated with profitability and profit maximization, and takes its orientation from the ratings of responsible entrepreneurship in the sense of social and economic accounting. This strategic coupling of civic engagement with the respective company and its parallel opening up to society gives companies special opportunities to absorb economic decisions and social trends and thus experiment with their own creativity and innovative strength (cf. Backhaus-Maul & Braun, 2010).

6. CONCLUSION

Civic engagement by individuals and companies is booming in social politics in Germany. However, a prospective view cannot predict how the debate about this engagement will continue to develop and differentiate in the future. The changing perception of state responsibility and the associated changes in the division of responsibilities in the “welfare mix” between state, market, third sector and private households may have a significant influence.

However, in view of the social challenges in which great hope is placed in civic engagement by individuals and organizations, the socio-political significance of civic engagement can be expected to increase significantly in the future.

Yet this rising importance is associated with concept cycles, and thus also involves the risk of overtaxing the concept. After all, the rekindled theoretical and practical political interest in the subject area is coinciding with a crisis in the welfare state which has secured social cohesion in the Federal Republic of Germany for several decades. In this crisis, internal and external factors – from demographic change to fiercer global competition – that cannot be influenced by politics are accumulating. In this situation there is a certain risk that the civic engagement of individuals and companies may become overstrained and expanded to compensate for the withdrawal of the welfare state. From this perspective, the enthusiasm of politics for civic engagement would mainly conceal its search to “sideline” basic social problems, instead of attempting to establish far-reaching institutional reforms in order to strengthen civil society. The organization and management of interactions between actors from civil society, market and state by a complex institutional integration of different forms of control have an important role in strengthening the civil society, i.e., “the combination of less state and more politics, i.e. more civic participation and activity... And this combination is certainly a new one as it is a genuine alternative to the known concepts of the lean minimal state (less state, more politics) and *nota bene* also to the technocratic and authoritarian social state (more state, less politics)” (Jann & Wegrich, 2004, p. 207). However, these forms of civic control processes are extremely demanding. The work in interorganizational networks requires the development of new cooperative relations between the various stakeholders and the achievement of cohesion in public and private activities which focus more on longer-term effects and impacts instead of short-term output for society (cf. Jann & Wegrich, 2004).

The role of public administrative bodies is particularly important in this context, as they cannot restrict themselves to the problems of domestic control, but must act as initiators, facilitators and promoters of appropriate cooperation relationships. They must succeed in integrating civil society actors and companies, on the basis of their individual, highly diverse and sometimes also diffuse expectations concerning civic engagement, into the management of problems in public responsibilities and motivate them to become involved in this form of engagement. The issue in this context is not only to seek out possibilities of privatization and outsourcing; simply transferring responsibilities for previously state-regulated tasks to civil society actors and companies, and the willingness of these parties to become involved in civic engagement, are not sufficient in this perspective (cf. Jann & Wegrich, 2004). What is needed instead is a genuine division of responsibilities with mutual obligations.

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Social Cohesion in Britain: Key Facts, Challenges and Responses

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I. SOCIETAL CONTEXT

There has been a considerable shift in the current policy framework in Britain from a discourse focusing on equality and multiculturalism toward social and civic integration and cultural compatibility. This report outlines some of the major challenges to social inclusion in Britain in relation to migrant groups and minority populations. It presents evidence from various academic and policy studies and discusses some of the possible developments in the field of cohesion occupying the public, political and academic discourses.

Why has multiculturalism fallen in such disrepute in Britain? In the years following the London bombing attacks and the ethnic riots in Bradford, Oldham, and Burnley, thousands of reports have been released, arguing that minority communities and the majority have been leading separate lives (Cantle 2005). Trevor Phillips, the former Chairman of the Commission for Ethnic and Racial Equality, argued that Britain is sleepwalking to segregation and a growing lack of participation of minorities in the British community is evident (Phillips 2005). More recently, David Cameron (2011) echoed the sentiments of the German Chancellor Angela Merkel and claimed that multiculturalism is failing and there is a need for much more “*muscular*” liberalism. The Home Secretary Theresa May (2012) flagged the grave concerns of the British government about the managing of migration waves and the impact these waves have on the overall cohesion and community spirit in Britain. She cited particularly the insidious effect of language barriers: “how can people build relationships with their neighbours if they can’t even speak the same language?”

The newly released figures from Census 2011 (Table 1) confirm the steady decline in the ethnic group of White majority members and the increase (1.8 per cent) of Other White. Meanwhile, minority communities such as Indians, Pakistanis and Bangladeshis as well as Black Africans and South Asians have also been on the rise. This report will focus on the possible impact of this growing diversification on British community life and social capital;

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and highlight the two main sources for ethnic heterogeneity: migration and the increase in established minority populations.

Table 1. Ethnic group: Census 2001 and 2011

Ethnic groups 2001 and 2011, England and Wales		Percentages	
		2001	2011
White	Irish	1.2	0.9
	Gypsy or Irish traveller	0	0.1
	Other White	2.6	4.4
Mixed/multiple ethnic groups	White and Black Caribbean	0.5	0.8
	White and Asian	0.4	0.6
	White and Black African	0.2	0.3
	Other Mixed	0.3	0.5
Asian/Asian British	Indian	2.0	2.5
	Pakistani	1.4	2.0
	Bangladeshi	0.5	0.8
	Chinese	0.4	0.7
	Other Asian	0.5	1.5
Black/ African/ Caribbean /Black British	African	0.9	1.8
	Caribbean	1.1	1.1
	Other Black	0.2	0.5
Other ethnic group	Arab	0	0.4
	Any other ethnic group	0.4	0.6

Source: Census 2001 and 2011, Office for National Statistics

II. KEY CLEAVAGES – MIGRATION

Recently, the immigration debate in the UK has turned increasingly vitriolic. It revolves less around the legality of migrants (although the issue did feature in David Cameron's most recent speech in 2013) but remains centred upon discussions of skill and status. The main concern of politicians and some public intellectuals (Cameron 2013, Goodhart 2013) focuses upon unskilled migration waves, and the danger to the welfare system that migrants with little transferable human capital can present. Research however shows that these fears are not justified (Demireva 2011, Demireva and Kesler 2011). Compared to white British workers, all migrant groups, especially migrants from Eastern and Central Europe, Turkish and Middle Eastern migrants experience severe occupational de-skilling once in Britain – that is to say,

migrants with skills are ready to take relatively low-paid, unskilled jobs. Transition models indicate that the picture of labour market participation of migrants is complex, yet, Central and Eastern European migrants make successful transitions from unemployment to employment. If anything, the policies aimed at managing migration put into place by successive UK governments appear to have ensured the acquisition of the desired and high skill-level migrants, and continuous employment spells are the norm rather than unemployment or inactivity.

Moreover, migrants in the UK contribute substantially to the economy and their take-up of welfare is very modest compared to the native population. In terms of claiming benefits (DWP 2012), only 6.4% of the entire claimant population are estimated to have been non-UK nationals when they first registered for a National Insurance Number. Whereas there is significant variation in this rate by benefit type, only 8.5% of all jobseekers are estimated to have been non-UK nationals when they first registered contrasted with 3.5% for working age disabled benefit claimants. Importantly, but only cursorily mentioned in this debate, is the initial results from a sample exercise to match non-EEA claimants. The results suggested that of those who were recorded as foreign nationals at the time they first registered for a National Insurance Number, more than half (54%) will have obtained British citizenship subsequently. The majority of the remainder will have some form of immigration status providing legitimate access to public funds.

In regards to social housing, Rutter and Latorre (2009) presented data which stated that new migrants to the UK over the last five years make up less than two per cent of the total of those in social housing. In fact, 90 per cent of those who live in social housing are UK-born. Most of the newly arrived migrant group who occupy social tenancies are refugees who have been granted permission to remain in the UK; however, their number remains very small. Robinson (2007) shows that reflecting the relatively high levels of employment within A8² households moving into the social rented sector, only a relatively small proportion of tenants or their partners were recorded as qualifying for or being in receipt of state benefits. It should be noted that only a very small proportion avail of social housing with no other source of income except for benefits. Moreover, looking across EU member states in general, Harrison et al. (2005) found that severe housing disadvantage persists amongst national indigenous minorities and that law, monitoring and regulation vary widely, and some member states have made only limited progress towards equality of treatment or recognition of diversity.

There is also no evidence that crime rates have been on the rise as a result of the new immigration waves. An LSE report (Bell and Machin 2011) shows that, contrary to wide-spread beliefs, when the effect of flows associated with the A8 accession countries is examined (or with those entering with work permits or Tier 2 visas), significant negative effects on property crime (and no effect on violent crime) are found. In other words, areas with higher shares of these types of immigrants in the population experienced faster falls in property crime rates than other areas. The researchers concluded that A8 migrants are special in the sense that

² A8 countries are: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia.

they came to the UK with the express intent of working and have very strong labour market attachment which materializes in a positive rather than a negative effect. Further still, a survey carried out by the Association of Chief Police Officers (ACPO) in 2008, found no evidence that Eastern Europeans were responsible for a crime wave. Peter Fahy, the chief constable who co-authored the report has since remarked that a lot of worry about crime in Britain is encouraged by misreading of police statistics (BBC News 2008).

In the next few years, migration scholars expect several problems to come to the forefront of the migration debate. A particularly contentious issue will be the level of belonging of migrants and their participation in the UK social life. Migrants on fixed contracts, without right to settle, may not feel particularly attached to the receiving society or the local neighbourhood community that they may view as transitory. Little has so far been mentioned about the increasing volume of British retirement migration (more than one million Britons own homes in coastal areas in Spain alone [Hardill et al. 2005]) and the challenges that British retired migrants could bring to the welfare systems of other EU member states. Cameron's immigration speeches in 2011 and in 2013 also indicated that the current government puts a strong emphasis on and intends to address the relationship between the issues of domestic unskilled labour shortages, benefit claiming and migration. Thus, in 2011, Cameron remarked that the real problem lay in the fact that "migrants are filling gaps in the labour market left wide open by a welfare system that for years has paid British people not to work". In 2013, he re-iterated: "even at the end of the so-called 'boom', there were around five million people in our country of working age on out of work benefits". It remains to be seen how effectively this issue can be tackled.

III. KEY CHALLENGES – SOCIAL INCLUSION

Notwithstanding the trend of academic and policy proliferation of studies on community cohesion in Britain, a key limitation has not been addressed – the almost exclusive focus in the literature on diversity and social cohesion, rather than immigration and social cohesion. Communities can become more diverse without immigration and immigration does not always increase ethnic or racial diversity. It is very difficult to use the available research to make strong claims about the relationship between immigration and social cohesion since at local authority level, there is a strong correlation between previous diversity levels and recent migration (Saggar et al. 2012).

What is more, academics cannot agree how to measure best inclusion. The majority of studies on social inclusion focus on the relationship between trust and diversity. Some researchers argue that a preoccupation with trust as an indicator seems unjustifiable since generalized trust is but one of the mechanisms of social capital and is one of the predictors which is most vulnerable to the effects of diversity, unlike other measures such as associational membership (Hooghe 2007). In addition, the instruments on which the measurement of trust is based in survey analysis are far from perfect (Nannestad 2008). Frequently, when an indicator other than trust is used, no negative relationship between cohesion and diversity can be detected; therefore, this report focuses on a broader range of social capital measures.

But to begin with trust. Data from British neighbourhoods do not conform to the overwhelmingly negative relationship observed between trust and diversity in the US (Putnam 2007). Fieldhouse and Cutts (2010), comparing the US and the UK, suggested that in Britain, diversity has a negative effect on both shared social norms and civic participation, but that these negative effects are offset by the positive effect of co-ethnic concentration. In other words, it is suggested that areas that are more diverse have higher rates of co-ethnic density which in turn assists the building of more cohesive communities. Laurence and Heath (2008) and Letki (2008), looking at different predictors of social cohesion in the 2005 and 2001 Citizenship Surveys, argue that there is no strong evidence for an eroding effect of diversity once the association between diversity and economic deprivation is taken into account. Still, with British data based on the Citizenship Survey 2005, Laurence (2011) argued that rising diversity is associated with lower levels of neighbourhood trust, although people with “bridging ties” (i.e., ties connecting individuals belonging to different minority groups) have less negative experiences.

Studies based on British data, such as Laurence and Heath (2008), Letki (2008) and Sturgis et al. (2011), have raised the question whether it is income inequality, in particular, deprivation and impoverishment of an area, rather than diversity per se that serves to estrange people – a sentiment which has echoed in much of the British policy research and reports based on qualitative in-depth interviews (Cantle 2005). Sturgis et al. (2011) found no association between “*moralistic*” or generalized trust and diversity but an association between diversity and what they term “*strategic*” trust, that is, trust in neighbours. Nevertheless, this effect was dwarfed by the powerful effect of economic deprivation. A similar result was established by Twigg et al. (2010) who observed statistically significant correlations between neighbourhood heterogeneity and a latent variable combining indicators of trust and cohesion. However the size of the effect was substantively small compared to the much larger effect of neighbourhood deprivation (Becares et al. 2011 note this too).

Most recently, Sturgis et al. (2013) established that neighbourhood ethnic diversity in London is positively related to the perceived social cohesion of neighbourhood residents with control for economic deprivation. Moreover, it is ethnic segregation within neighbourhoods that is associated with lower levels of perceived social cohesion. Both effects are strongly moderated by the age of the respondents with diversity having a positive effect on the young. Similarly, Demireva and Heath (forthcoming 1) conclude that if anything, diversity should be encouraged to cement the integration progress of migrants and foster stronger identification with Britain in the second generation. Conflict at the neighbourhood level along with individual factors is a much stronger predictor of deterioration of the civic spirit than diversity.

IV. SOCIAL CAPITAL

Despite the fact there is very little evidence that British communities experience actual ghettoization (Finney and Simpson 2009), intellectuals and policy makers continue to persist in their portrayals of minorities in Britain as “disengaged” groups (Goodhart 2004, Cameron 2011, 2013). Furthermore, minority communities are expected to tread carefully on the fine

line of non-electoral participation since ethnic and religious-based lobbyism and protests can be equated with support for the extreme politics of difference or ethnic enclavisation (Vertovec 1997).

Speculations and assumptions abound but in fact, we know little about how the personal and associational life of the minority individual in Britain influence his or her civic and broader community engagement. Why is community social capital important? In his seminal work *Bowling Alone*, the American political scientist Robert Putnam (2000) compares bonding social capital to sociological superglue while bridging social capital is a facilitator of social interactions.

Specifically, bonding social capital refers to relationships between similar persons (for example, those alike with respect to socio-demographic and socioeconomic characteristics), while bridging social capital refers to relationships between dissimilar persons across social cleavages (Putnam 2000). In the context of ethnic relations, bonding social capital can be interpreted as the ties between co-ethnics, individuals within the same ethnic group; whereas bridging ties are inter-ethnic.

Bridging social capital allows an ethnic minority individual to enter wider social groups, and adapt structurally while bonding social capital may reinforce the perpetuation of social isolation. It also provides important social and psychological support for the less-fortunate group members including start-up financing and reliable labour for local entrepreneurs in dense ethnic enclaves (Zhou 1994, Putnam 1993, 2000, Portes and Zhou 1993, Waldinger 1994). Bridging social capital is important in job search and advancement, especially for jobs where recruitment is done by word of mouth (Heath and Yu 2005). Ethnic minority groups who lack bridging social capital may be isolated and without the social ties that will connect them to employers in the mainstream labour market.

Associational and Informal Bridging and Bonding

Since policy reports and academic literature alike continue to allude to alleged negative effects of associational and informal bonding for minorities (Cameron 2011, May 2012), it is valuable to measure these different forms of social capital and correct any unsubstantiated assumptions. Likewise, it is important to differentiate between associational bridging and bonding. In the case of associations focusing on religious practices, food and cultural fests, the sense of entitlement of the minority individual to the association could be close to the sense of being “born into” them, which is usually typical of cultural communities and not of voluntary associations (Parekh 2000). In contrast, associations, in which the individual is situated among out groupers, that is, ethnic groups other than his or her own, may provide a slightly different aspect of sustaining a thriving communal life. By definition, this will involve a greater aspect of bridging the wider society and exposure to its norms and customs. These organizations can also play a crucial role in keeping the minority individual informed and employable (Cameron 2013, May 2012) and motivate them towards taking legal action to counter grievances. Perhaps from a rational choice perspective, the sense of “efficacy” in solving a problem through associational bridging might be greater, as through them the mi-

minority member might get close to both ties and information, which are usually reserved for the majority group.

In terms of bonding and bridging social capital, the literature has frequently pointed to differences in the strength of community attachment between the members of the Black and the South Asian groups (Mand 2006). Model and Fisher (2002), comparing the Black Caribbean community in the US and the UK, claimed that Black Caribbeans in Britain were characterized by much weaker and sparser intra-ethnic ties (measured in their study by the propensity of the minority groups to marry outside their ethnic community, which was quite high for Black Caribbeans in the UK). Moreover, the authors suggested that these patterns of perceived low community solidarity may have spill-over effects and provide an explanation for the low educational and labour market achievement of Black Caribbeans in general. The same trend is observed by Muttarak and Heath (2010). South Asians in contrast are embedded within much stronger community structures, which facilitate their immigration process as well as self-employment (Clark et al. 1998), and could be linked to various outcomes, even academic achievement.

Both associational bridging and bonding have played an important role in Britain in establishing and satisfying minority claims. Vertovec (1997), for example, sees the accommodation of cultural differences and its adoption as part of the political agenda as conceived in the struggle of post-war immigrant and ethnic minority groups to achieve recognition in conjunction with a new social movement sustained by a postmodern majority left. Indeed, in the case of Commonwealth migrants in Britain, the first groups arriving through the 50s and 60s could not count on a strong and supportive native community or compatriots, which was the case for the earlier waves of Irish and Jewish migrants. However, they could rely on the strength of the colonial and commonwealth association that created a pro-immigrant lobby within the receiving country (Jones 1977).

More recently, studies such as Heath and Demireva (2013) establish that high levels of bonding social capital coexist with positive orientations towards integration, high levels of British identity and low levels of hostility to white people. Laurence (2011) finds a positive relationship between bridging ties, tolerance and trust. Laurence (2013) observes that contact moderates the negative effect of community diversity – in other words for those that have formed ties, diversity has no effect. This is a result primarily focusing on the white British majority. Importantly, it seems that diversity may undermine local social capital yet has little effect on individuals' total levels of social capital (Laurence 2013). Thus, individuals in diverse communities have less neighbourhood-centric networks but other active and healthy ones. Demireva and Heath (forthcoming 1) find that bridging contacts have the expected strong positive association with cohesion outcomes; and contrary to policy concerns, no strong negative impact is observed for associational bonding with minority in-groupers.

Civic Action

Among the different dimensions of social capital, civic action, turnout and volunteering have to be outlined. Civic action is considered to be a behavioural measure of engagement (Almond and Verba 1963). It contains information on whether or not the individual has

participated in petitions, protests, and boycotts or given money to a political cause. This is an interesting measure as different minority groups may differ in the resources they have access to, with Asians in Britain being very active (Fieldhouse and Cutts 2010). In addition, as pointed out by Cheong et al. (2010), some minorities may well possess the social capital that allows them to exhibit similar patterns of civic participation to that of the majority. Outcomes such as petitioning can thus signal adherence to the civic practices of the receiving society and structural adaptation. Demireva and Heath (forthcoming 2) establish that both organizational bridging and bonding have substantial influence on the propensity of the minority individual to engage in civic action. As a result, a possible policy recommendation can be drawn – to encourage organizational and community-wide involvement rather than criticize intra-ethnic allegiances. In their study, bridging and bonding have complimentary not contradictory effects.

Turnout

Studying turnout is particularly important given the demographic rise in the ethnic minority electorate among the second and third generation born and educated in Britain and with British citizenship, and the growing rate of naturalization among migrant groups. Inequality in turnout between minority and majority groups raises questions about representation (Verba et al. 1993) and the legitimacy of the democratic process (Fieldhouse and Cutts 2008). South Asians have regularly been found to have higher turnout in Britain than non-South Asians for example (Fieldhouse and Cutts 2008, Cutts et al. 2007).

Previous research has noted (Saggar and Heath 1999) that in 1997, Indian and Pakistani self-reported levels of turnout exceeded those of the majority group while those of Black Caribbeans and Black Africans were distinctively below. A similar pattern of lower Black self-reported turnout was found by Mortimore and Kaur-Ballagan (2006) in the 2005 election. Recently, Heath et al. (2011), using Ethnic Minority British Election Survey 2010, have shown that South Asians are still somewhat more likely than Black Caribbeans to over-claim their turnout, having checked their results against validated data.

Volunteering

Volunteering is often seen as part and parcel of the social capital paradigm with its focus on caring for others, fostering norms of reciprocity and encouraging attention to others' welfare (Putnam 2000). For the minority individual, voluntary associations with high concentration of co-ethnics might provide a greater sense of rootedness and belonging to a community with a shared past and origins typical for the individual's cultural and ethnic community. It can also be characterized by greater ease of communication, and membership can happen with a greater degree of natural acceptance (Parekh 2000). Demireva and Heath (forthcoming 2) find a positive strong relationship between minority bridging, bonding, volunteering and turnout.

V. SOCIAL MOBILITY

Although significant advances have been witnessed in the educational performance of the children of immigrants, with some groups such as Indians and Chinese overtaking their white British peers, parity is far from being achieved. The traditional human capital framework (Modood et al. 1997, Heath and Cheung 2006, Berthoud and Blekesaune 2007, Wood et al. 2009) cannot explain fully the divergence in the labour market. The performance of ethnic groups and the persistent disadvantage of South Asian, Black Caribbean and Black African immigrants and their children in the British labour market, especially in terms of unemployment (Li and Heath 2010), leaves a lot of questions open about the existence of prejudice and discrimination. Brynin and Guveli (2012) give a comprehensive overview of the occupational segregation experienced by minority groups.

More recently, the role of bonding and bridging capital has been investigated in relation to the labour market achievement of minority members (Lancee 2012). Given the focus of this study on integration and involvement, we consider employment to be a highly relevant outcome measure. Demireva and Heath (forthcoming 2) find that neither bonding nor bridging exercise any proverbial negative impact on the employment prospects of the individual. On the contrary, the two formal social capital dimensions are positively associated with employment for Black Caribbeans.

VI. IMPORTANT POLICIES AND INITIATIVES

Control over the flow of labour migrants to the UK has been primarily exercised through the work-permit system, which has seen several modifications through the years. Work permits were first introduced in 1919, to restrict the entry of non-Commonwealth migrants but, with the enactment of the 1971 Immigration Act, they became obligatory for all foreign workers from outside the European Economic Community. The system has been constantly adapted to reflect particular shortages of labour in certain British sectors, with hospitality, food-processing, and health services being some of the most popular ones, and to satisfy the demand for high-skilled labour. The Nationality, Immigration and Asylum Act 2002 introduced a new era of managed migration policies that illustrates the commitment of successive British governments to ensuring the steady flow of highly skilled migrants and to regulating heavily the inflow of migrants for unskilled positions depending on the demand for them. For example, apart from the main work-permit scheme for skilled migrants, the Highly Skilled Migrants Programme (HSMP) was introduced in 2002; this allowed workers to move to the UK without having a prior job offer. Low-skilled and semi-skilled workers were managed by the Seasonal Agricultural Worker Scheme (SAWS). The au-pair scheme is officially a cultural exchange scheme rather than a labour immigration programme; the domestic worker scheme is for domestic workers who travelled to the UK with their employers and the Sector-Based Scheme (SBS) allows UK employers to recruit a limited number of workers to fill vacancies in particular sectors (Ruhs 2006)

The Points Based System (PBS) was introduced in 2008-09. The PBS consists of 5 Tiers, four of which are for labour immigrants. The points-based system covers migrants from outside the European Economic Area (EEA) and Switzerland who require leave under the Immigration Rules to work in the UK. With the exception of Bulgarians and Romanians (until the end of 2013) and Croatians, employing any other EEA or Swiss national does not require permission from the Border Agency.

At the end of 2013, the government introduced, under the new regulations, the rule that no newly arrived EU jobseeker would be able to claim housing benefit. EU migrants will not be entitled to out-of-work benefits for the first three months and in conjunction, EU migrants will not be able to claim jobseeker's allowance (JSA) for more than a maximum of six months unless they can prove that they have a genuine prospect of employment. Moreover, a new minimum earnings threshold was introduced before benefits such as income support could be claimed. Importantly, this was to address the possibility of increasing waves of ethnic Roma migrants to the EU, although these groups have not been targeted in the political discourse. Any EU national sleeping rough or begging will be deported and barred from re-entering for 12 months "unless they can prove they have a proper reason to be here, such as a job".

There was a fourfold increase in the fine for employers failing to pay the minimum wage, to £20,000, although critics have claimed the problem lies in lack of enforcement rather than the level of the fine. Proposals have been made to require EU migrants to pay for the use of the NHS as well (Government press release 2013).

Despite the fact that research does not support the claim that the welfare system in Britain has been undermined by the recent migration waves as elaborated in Section II of this report, the issue will continue to dominate the public discourse. Since the enlargement of the EU in 2004, and the gross underestimation of the number of potential Polish migrants, fear of unbridled and unmanaged migration has been instilled firmly within the British society. Politicians that would like to address this problem directly have to provide better track records of both migrants entering and leaving the country. The introduced measures against EU migrants focus on pre-emption rather than prevention and will affect a very small number of individuals but may serve to ignite a vitriolic and divisive polemic and bring further challenges for cohesion rather than solutions.

VII. CONCLUSION

The alleged failure of the multicultural model in Britain has received a lot of attention by policy makers, community leaders and academics recently. This report shows that although there are some worrisome trends such as the continuous occupational disadvantage of migrants and minority members, and the negative relationship between growing diversity and trust, socio-economic cleavages remain a more divisive factor between neighbourhood communities than ethnic heterogeneity. Importantly, the involvement, both civically and socially, of all minority communities in the second generation is very strong and does not support claims for disengagement with British life and the British society in general. There is also little evidence to suggest that migrants posit a serious threat to the welfare state in Britain overall. One of

the key challenges in front of policy makers will be thus to address the mounting fears of the public and create a more inclusive rhetoric; and at the same time acknowledge the difficulties faced by specific communities with high levels of ethnic tension exacerbated by economic disadvantage.

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EU-ASIA DIALOGUE

*Shaping a Common Future for Europe and Asia –
Sharing Policy Innovation and Best Practices in Addressing Common Challenges*

The “EU-Asia Dialogue”-project is a joint project by the European Commission and the Konrad-Adenauer-Stiftung of Germany.

It aims to foster exchange and understanding between policy-makers, non-governmental organizations and researchers from Europe and Asia. The stakeholders shall be provided with a platform to discuss regional and cross-regional developments in order to identify both short- and long-term challenges, to prevent their emergence and solve them at an early stage. This informal exchange shall help to enhance bi-regional cooperation across sectors and disciplines.

The project addresses issues from seven different topics:

1. Climate Change Diplomacy
2. Eco-Cities
3. Migration / Integration
4. Social Cohesion
5. Human Trafficking
6. Maritime Piracy and Security
7. Food Security

All activities are implemented by a consortium consisting of the Konrad-Adenauer-Stiftung Singapore, East Asian Institute of the National University of Singapore, European Policy Centre in Brussels and European Union Centre in Singapore.

Besides conferences in Europe and Asia, the project will produce research papers and book publications. These will, together with the conference reports, be made available online.

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