

Applied Social Sciences

Applied Social Sciences:
Economics and Politics

Edited by

Georgeta Rață and Patricia-Luciana Runcan

**CAMBRIDGE
SCHOLARS**

P U B L I S H I N G

Applied Social Sciences: Economics and Politics,
Edited by Georgeta Rață and Patricia-Luciana Runcan

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FOREWORD

Under the present circumstances, economic and political issues face considerable challenges given that, for decades, the rational, neoclassical approach relying on the assumption of a perfectly symmetric, frictionless system has prevailed. However, things do not always develop as smoothly as that, and other underlying factors shaping the course of events, requiring not only a normative but also a positive approach may explain human behaviour in a decision-making process.

As Nassim Nicholas Taleb put it in his celebrated book, *The Black Swan: The Impact of the Highly Improbable* (2008), people, in anticipating the future, generally tend to underestimate less-than-probable events. The black swan metaphor may very well be considered as a starting point in explaining the reasons the present volume of *Applied Social Sciences: Economics & Politics* is built on. Therefore, when discussing current economic and political issues, one cannot ignore the necessity of an interdisciplinary approach because it may lead to the identification of a set of more subtle (often ignored) determinants, and a better understanding and prevention of crises. We think that the papers presented during the International Conference of Applied Social Sciences draw attention and focus on these aspects.

It is commendable that the conference reunited scholars from various interconnected scientific areas (psychology, social medicine, sociology, philosophy, economy, politics, etc.) proving, once again, the complexity of human nature that, ultimately, defines economic and political decisions, and setting the stage for wider discussions trying to elucidate most ardent and challenging problems.

The papers presented during the conference emphasise that the complexity of economy and politics cannot ignore, for instance, the concepts derived from sociology and psychology, education, morality, law, environment, etc. The mere joining of these subjects shows that they ultimately deal with human action and behaviour and their impact on economic and political activities. Nevertheless, even if all these study subjects explore the same territory, they differ from each other by concentrating on the particular facets of the world that they investigate. Thus, politics deals with leadership, power and governance, while

economics considers the efficiency of resource allocation, without ignoring human behaviour.

Public policies are regarded through two major aspects: the general theory of decisions and rationalism. They rely on a prior public choice and are driven by a certain scope, i.e. the welfare of the citizens.

Though the volume contains miscellaneous papers in the field of public policies and economy, it is easy to notice that all the authors submitted their studies to the same scope, i.e. offering different insights and challenging the points of view that academics were accustomed to.

Authors argue that education is essential for economic development, advocating autonomous, appropriately funded higher universities in a European context. Education and health care also influence the quality of the labour market and the level of productivity, leading to the enhancement of welfare. The obvious conclusion is that the knowledge-based economy requires the understanding of the basic principles of product innovation.

In addition, the importance of culture, history, morale, political doctrines, geopolitical strategies and social media communication are emphasised in explaining various aspects of public policies. For example, public policies are strongly influenced by determinants like tax culture and morale that help improve financial resources collection that are needed to cover public expenditure. Organisational culture, on the other hand, shapes the resistance to change within private and public organisations, aggravating their status on the market, lowering credibility and accountability.

The general scope of public policies is the improvement of the life standard and welfare; therefore, public authorities are responsible for the effectiveness of financial policies. They are strictly linked to the performance of public expenditure and sustainable indebtedness.

The modern welfare state relies on the redistribution of resources in such a manner as to sustain the middle class as the driver of economic growth. Authors argue that there are several growth models, all of them considering, beside rational economic determinants, the historical, cultural, educational, political and ethical specificities of each country. Mitigating gender vulnerabilities and poverty through job creation, and investing in education and health care while preserving cultural heritage, may enhance human dignity and strengthen democracy.

The acceptance of public policies by the voters is strictly influenced by the ability to efficiently communicate with political actors. Authors approach the topic by showing the importance of using modern, up to date tools like the social media, politicians being obliged to adjust their speech

to the requirements of internet users that undoubtedly influences the voters' profile.

Public authorities must take decisions in the wider context of the new geopolitical context, involving new security measures, mechanisms and alliances, the influence of the peace process worldwide being considered when speaking about the allotment of human and financial resources.

The articles included in the book *Applied Social Sciences: Economics & Politics* offer competent answers to the persistent questions of our modern world. Readers are able to find new approaches that challenge well-established points of view, and shed light on old issues from a different perspective. The modern, multidisciplinary insights open new research paths and encourage networking among academics from different interconnected study fields to the benefit of science and the wellbeing of society.

—Liliana DONATH

CHAPTER ONE

ECONOMICS

SOCIAL VULNERABILITY: A MULTIDIMENSIONAL ANALYSIS OF THE DEVELOPMENT REGIONS OF ROMANIA

MARIANA BĂLAN
AND GHEORGHE-STELIAN BĂLAN

Introduction

Social vulnerability is often defined as a life circumstance characterised by a multidimensional combination of factors. Its distinctive feature is the weak and unstable integration into the main mechanisms of distributing human resources within contemporary society, placing individuals into situations of uncertainty and exposing them to poverty and social exclusion. Social vulnerability is difficult to capture because of its temporary nature. Different to the notion of poverty, social vulnerability includes aspects associated with income levels, but also with housing conditions, labour force employment, childcare management and care of dependant persons, and difficulties emerging within the family in different stages of life. In addition, social vulnerability does not refer to those individuals facing severe hardships or social exclusion, but to persons permanently exposed to instability and weak integration within society. Characteristic for the second half of the twentieth century is the creation of large systems of welfare protection. Strong economic growth and the international situation in the countries of Western Europe have developed economic and institutional mechanisms providing a high living standard for the majority of the population (Uncovered Interests.com 2012). These, in turn, have ensured that, by the beginning of the twenty-first century, most West-European countries have benefitted from social insurances that, in principle, protect the population against serious threats triggered for various reasons. Romania is one of the poorest countries within the European Union—the GDP per capita represents only 49% of the EU-27 average in 2011 and the poverty rate is higher. The inequality of income distribution (S80/S20 income quintile share ratio is of 6%, with 50% facing severe material deficiencies. They estimate that approximately 33%

of young children live in households that have less than 50% of the average income. If they did not benefit from social services, the poverty risk among children would be much higher. In all countries, individuals that attend no higher than secondary education are three times more exposed to poverty than those with high school education (Eurochild 2010).

The present chapter presents a brief analysis of the various aspects of social vulnerability, and the structuring of the main elements of Romania's development regions. The analysis focuses on family structure, poverty exposure (temporary or permanent), housing conditions, family-workplace system (the presence of unemployed or workers with a determined labour contract within the family), ways of combining work and childcare, and pressure created by the presence of dependants from the economic viewpoint within population's households. For this purpose, we used labour market and population indicators, incomes, expenditures and consumption indicators for the population, security and social assistance indicators at the level of Romania's development regions.

General Characteristics of Social Vulnerability in the EU

One of the guidelines of the European Union is solidarity, and all citizens should benefit from the advantages of some prosperous periods and show solidarity during difficult times. The analyses made by the European Statistical Office have highlighted the fact that an impressive number of persons live below the poverty threshold and that several persons face difficulties regarding access to jobs, education, housing conditions and financial services.

For a better awareness of these issues and to reiterate the strong political commitment of the European Union and the member states in continuing efforts of poverty and social exclusion eradication, the year 2010 was the "European Year for Combating Poverty and Social Exclusion" (Decision No. 1098/2008/EC of the European Parliament and the Council, of 22 October 2008), a programme aiming to increase the awareness of the way in which poverty continues to affect the daily existence of a remarkably high number of European citizens (84 million Europeans were below the poverty threshold in 2010). Within the European Union, 17% of the population were deemed to be poor. The objectives guiding the year were: acknowledgement of rights, responsibility and common participation, cohesion, commitment and concrete actions.

The objective of the “Europe 2020” strategy, warranting the fact that the benefits of economic growth are widely distributed and that individuals currently at the society’s fringes can play an active role within it, is reflected by three indicators that approach the various conditions of poverty and social exclusion in Europe, as well as differing situations and priorities among the Member-States: (a) number of persons exposed to poverty risk; (b) level of severe material precariousness; (c) number of individuals living within households where the extremely low degree of labour force employment represents the primary element.

In addition, the European Commission and the member states have adopted a common list of indicators, among which are: relative poverty rate, material precariousness, the number of persons exposed to poverty risk or to social exclusion, and the number of persons living in households with an extremely low labour intensity.

In the period 2008 to 2010, at the European Union level, none of these indicators changed significantly. For 2010, the relative poverty rate was 16.4%, 0.1% higher than in 2009, and material precariousness (an indicator describing the situation of persons that cannot afford goods regarded as essential for decent living in Europe and reflecting the differences with respect to living standards) was, in 2010, about 8.1% on average. This means that forty million individuals were in a situation of severe material precariousness. As for the share of persons living in households with extremely low labour intensity of the total population, they represented in 2010 about 9.9%, i.e. thirty-seven million individuals lived in households of unemployed (or where the family members worked for remarkably short times), yet did not necessarily live from exceptionally low incomes. In addition, in 2010, 115 million individuals (23.4% of the population of the European Union) were in a risk situation, quantified of at least one of the three indicators regarding poverty, precariousness, and belonging to a household with remarkably low labour intensity.

For Romania, the relative poverty rate showed a decreasing trend in the period 2007 to 2010, in 2010 reaching 21.1%, a difference of 4.7% from the value of relative poverty rate in EU-27. If the share of persons in severe precariousness in 2010 for Romania was 31%, high above the EU-27 value (8.1%), the share of persons living in households with unusually low labour intensity of the total population was 6.8%, below the EU-27 average (9.9%).

General Characteristics of Social Vulnerability in Romania's Development Regions

The state takes a prominent role in poverty alleviation through economic-social policies, measures of stimulating employment, guaranteeing the minimum wage on the economy, by ensuring the necessary resources for payments resulting from social insurances, granting the services belonging to the social assistance system, as well as ensuring quality social services. Because of the multidimensional character of social vulnerability, its diminishment determined the government of Romania to adopt a series of measures to solve some socio-cultural, housing, health, employment and education issues, as well as to increase birthrate and diminish abandonment, promote and protect the rights of all children for an as-convenient-as-possible situation of issues facing individuals and families from a social and economic viewpoint. In analysing the vulnerability at the level of Romania's development regions, we used a series of indicators: primary, computed in accordance with methodologies established at European level; secondary and tertiary, reflecting the social situation specific to Romania (elaborated by the Ministry of Labour, Family and Social Protection).

For Romania, the fields in which we grouped tertiary indicators are: resources, labour market, housing conditions, education, health, and public order. Some of these indicators refer to poverty and inequality—relative poverty, absolute poverty, income (taken into account for measuring relative poverty), and consumption (including self-consumption) for measuring absolute poverty. The analysis of the absolute poverty rate in the development regions of Romania in the period 2003 to 2010 emphasises a descending trend at the level of each region up to 2009, and in the year 2010, resulting from the economic crisis, there were increases of this indicator for all regions (see Figure 1-1 below).

Almost one quarter of the poor population, according to the definition of severe poverty, inhabited the north-eastern region in 2010 (24.2%), in the Centre region (18.1%), and in the South-Eastern region (17.3%) (see Figure 1-2 below). Compared to 2009, the poverty process was more marked in the north-eastern region (the change in 2010 against 2009 being 12.9%) and inexistent in the Bucharest region. The differentiations of social vulnerabilities at the level of the development regions of Romania are due also to regional disparities of the gross domestic product per capita. Thus, in 2008, in the north-eastern region, the GDP/capita was 14,772.6 RON/inhabitant (almost four times less than the one registered in the Bucharest-Ilfov region).

Figure 1-1. Development of absolute unemployment rate in Romania's development regions

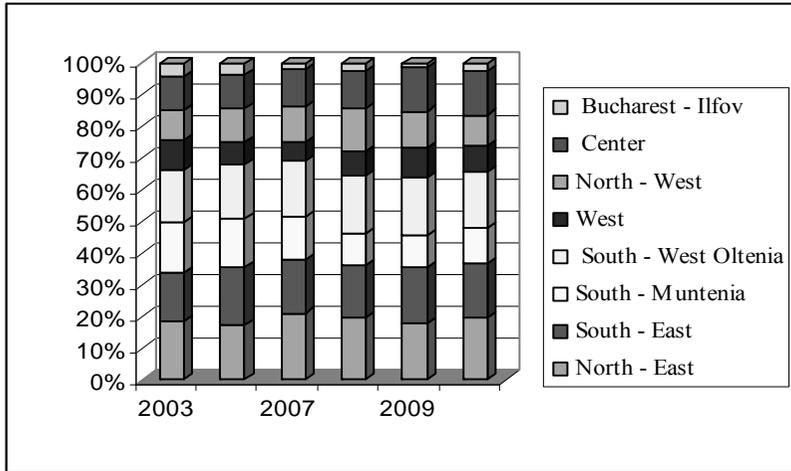
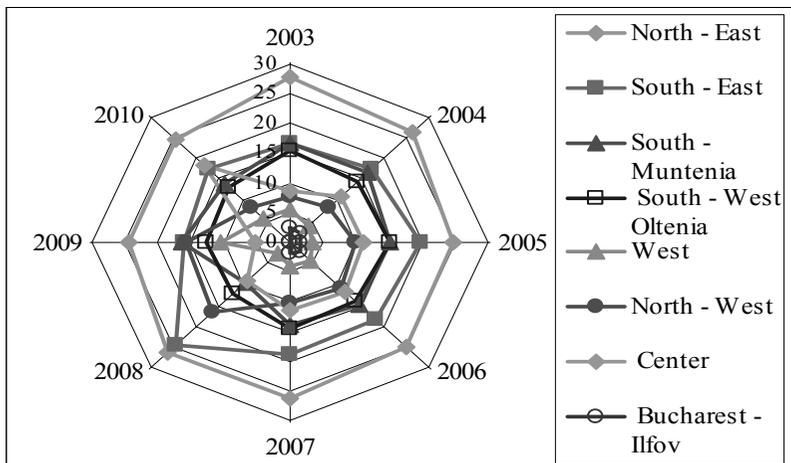


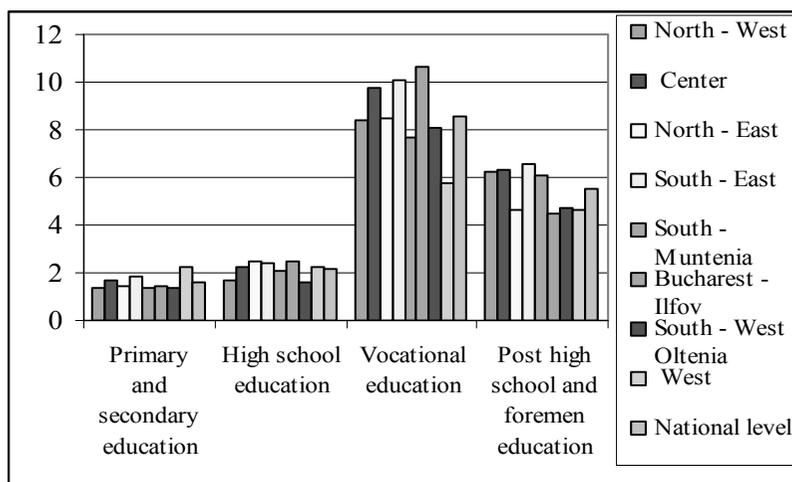
Figure 1-2. Pauper population distribution (severe poverty) in Romania's development regions



Also, in the regions with a higher degree of social vulnerability, the average number of employees is much lower than in others. In all regions, the ILO long-term unemployment rate is below 6%, with high values recorded in the central, south-eastern, and south Muntenia regions. Much higher values were recorded for the long-term unemployment rate among youths, for most regions, which indicates that this population segment is more vulnerable to social-economic changes in Romanian society.

Another element leading to an increase in the vulnerability degree of some persons is school abandonment. In the development regions of Romania, this indicator for primary and secondary education in the school-year 2009 to 2010 exceeds the average value of 2.2% only in the south-eastern region. High values of school abandonment are recorded for vocational education where the value at national level is 8.6% and in the central, south-eastern and Bucharest-Ilfov regions this value is exceeded (see Figure 1-3 below). Because, in Romania, qualifications do not have the same specialisation degree as those in other European countries (relying more on general criteria rather than individual's skills), this might explain the high abandonment rate in this type of education in the Bucharest region, which provides other opportunities of vocational training, employment, etc.

Figure 1-3. Abandonment Rate in Pre-University Education, at Regional Level, in 2009/2010 Scholar Year



Conclusions

The brief analysis of some indicators of social vulnerability led to some conclusions corresponding to its features in the eight development regions of Romania:

- The risk of absolute poverty was, on average, four times higher in the rural area than in the urban area.
- The north-eastern region and the regions of the southern area of Romania record higher poverty rates than those at national level.
- The self-employed have recorded the highest poverty-rates (in particular those developing activities in agriculture), and pensioners have a poverty rate under the national average.
- The most vulnerable age segments are irrespective of the regions, the children and youth.
- According to the education level, the highest poverty rates were among individuals without any education, those who graduated primary education (1 to 4), and those with secondary education.
- School abandonment, which is high particularly in the central and the southern regions of Romania, determine an unemployment rate among the youth much above the general one, and which, together with socio-economic factors specific to each region, might turn into an important factor in reaching the poverty threshold of several persons.
- In Romania, the Roma population continues to have a poverty rate about six times above the national level, and represents a particularly vulnerable segment of the population from a social viewpoint.
- The poverty rate is also dependant on the number of preschool children in the household, to the extent that as the number of children grows the poverty rate increases (the north-eastern and south-western regions of Oltenia being where families have several children).
- Individuals living in large households of five members or more are exposed to a poverty risk five times higher than that corresponding to individuals in single households.
- Households led by women, irrespective of the region, are more at risk of poverty than those led by men, because, generally speaking, women designated as household heads are less active on the labour market.
- According to the average consumption on equivalent adults in the north-eastern, southern and central regions individuals are more vulnerable to poverty and social exclusion.
- The amounts granted to the population for pensions, unemployment indemnities and social services payment have a hugely pivotal role in

reducing poverty at the level of each development region from Romania.

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PERFORMANCE OF REDISTRIBUTION SYSTEMS: THE PREMISE OF THE WELFARE STATE (EVIDENCE FOR THE NORTHERN EUROPEAN COUNTRIES)

ANCA-MARIA BRAD

Introduction

This chapter seeks to analyze the performances that define the northern European countries as competitive economies, generating both economic efficiency and social equity, consistent with the Lisbon Strategy objectives. In the frame of the European social model, these performances may be considered as the appropriate levers for a sustainable balance between taxation and the redistribution system.

The author argues that the welfare state may be enacted by:

- Active labour market policies that trigger labour supply and reducing long-term unemployment through labour market division and needs testing (Cace 2006)
- Lifelong training, education and strengthening strong civic culture and employees skills
- Social security.

These characteristics of the welfare state are common features of economies that apply progressive taxation and high tax burdens.

Redistribution through taxation and transfers differs across the European social submodels. Thus, the Nordic model founded a society that represents a model of civilization, progressive policies, tolerance and social systems. This model encourages social security, being considered a benchmark for the European social model (Bargain & Spadaro 2008).

Socol, Marinaş & Socol (2010) show that northern European countries have been able to maintain the same share of public revenues in the GDP,

but have undertaken adjustments of the welfare state by decreasing the budgetary expenditures (10% of GDP) during 1995 to 2008.

Based on these findings, the author stresses the performance of the Nordic model that emerged in the 1990s, when ample reforms of both the labour market (1994) and social policy (1998) took place. The Nordic model was considered as giving up the “passive, benefit-driven policy,” rather promoting an “active policy” based on lifelong training and education (Aiginger 2008).

The performances are supported by the outcome at national level, mentioned in international documents. The Transparency International Report (2011) confirms the low level of public sector corruption perception index of the northern European countries, e.g., Denmark recorded a score of 9.4 ranking second (after New Zealand) followed by Finland, Sweden and Norway. In addition, considering human development, the Human Development Report (2011) placed northern European economies at the top, Norway ranking first.

Methodology

In order to highlight the virtues of the redistribution system, the author suggests a case study that includes Denmark, Finland, Sweden, Iceland and Norway (the Nordic submodel). The study relies on a comparative, time-series analysis of social phenomena.

The author analyzes the manner in which northern European countries were able to achieve their welfare stance through the elimination of economic and social trade-offs:

- Between economic efficiency and income inequality that explain economic development and the generous social system that lead to lower income inequality (S80/20 Report).
- Between the employment rate and considerable social benefits (unemployment benefits, pensions, allowances), active labour market policies and social security measures applying the policy of “flexicurity” were studied.

Economic Efficiency vs. Income Inequality

The correlation between the social welfare system and sustainable economic growth relies, mainly, on social equity. Basically, policymakers must strike a balance between social equity (through redistribution) and sustainable economic growth. This goal is difficult to achieve since an

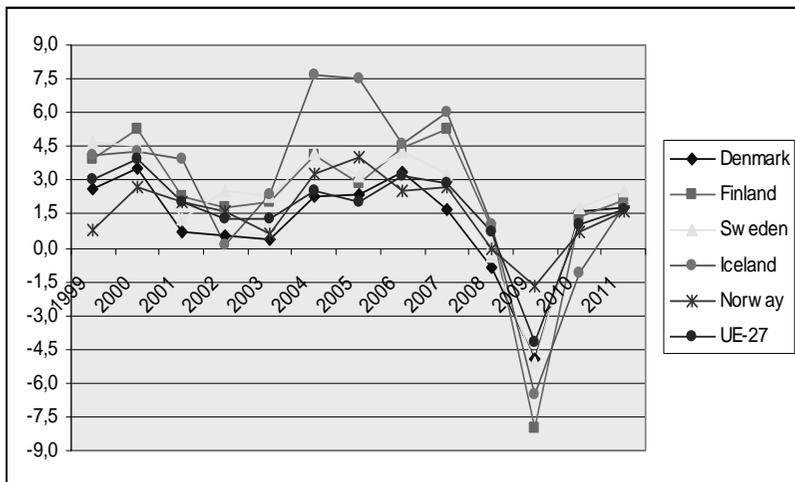
increase of the tax burden affects the neutrality principle of taxation. On the one hand, it impacts on savings and investments and, on the other, on the propensity to consume (being affected particularly by low income people receiving social assistance).

The connection between sustainable economic growth and the welfare state is strengthened by the following economic and social goals:

- GDP growth rate due to investment and labour supply
- Reducing welfare costs by increasing the rate of labour supply participation and decreasing unemployment rate.

In the Nordic model of the welfare state, the statement is supported by the GBP growth rate in real terms (see Figure 1-4 below): +2.5% in Sweden and +2.1% in Finland, in 2011 (compared to +1.7% in EU-27).

Figure 1-4. Real GDP in northern European economies in 1999 to 2011



Source: Eurostat 2011

The elimination of the trade-off referring to efficiency was achieved by:

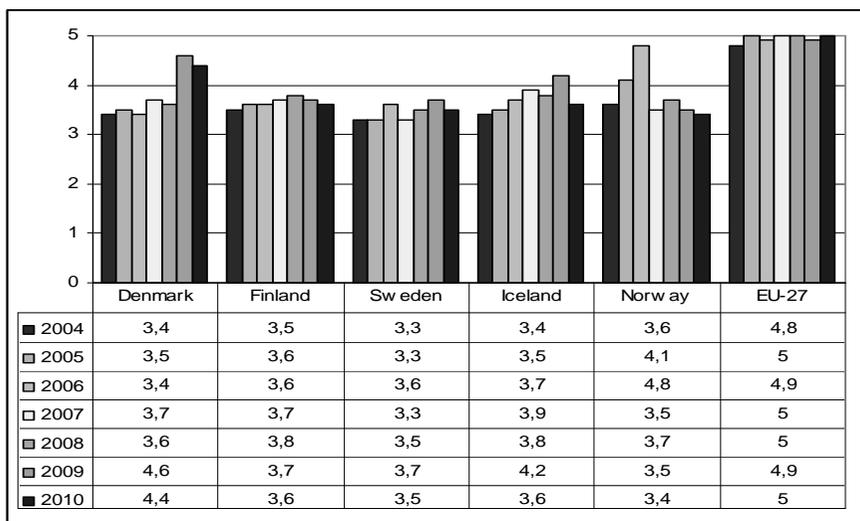
- Labour productivity growth (Sweden 2.2%) and low unemployment rate (Norway 3.7%).

- Efficiency of the policies that stimulate aggregate demand by balancing the public debt (34% of GDP in Norway in 2011) and inflation (1.3% in Norway in 2011).
- Increased allocations for R & D, the performance is recorded in Finland (3.92% of GDP), compared to EU-27 (1.92% of GDP) in 2009. The large number of innovations and the rapid introduction of technological change have boosted economic growth.

Public institutions' transparency and efficiency, as well as sustainable economic development, rank northern European countries among the first in the world (according to the World Economic Forum). According to report on global competitiveness for 2011 to 2012, Sweden ranked first, followed by Finland and Denmark.

To ensure a balance between equity and efficiency, it is desirable to assess the redistribution impact on income inequality. According to Eurostat data for 2011, the polarization of household income distribution is low (see Figure 1-5 below). Moreover, in northern European economies, the income inequality is lower than the EU-27 average. Thus, labour market flexibility, ongoing training and jobs creation ensure the improvement of household income, maintaining the same income inequality with insignificant variations during 2004 to 2010.

Figure 1-5. S80/S20 ratio for northern European countries in 2004 to 2010



Source: Eurostat 2011