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The End of Equality in Europe?

JASON BECKFIELD

Inequality in Europe is hardening. The free-market turn in European policy- and polity-making in the 1980s entrenched a less-restrained regional capitalism that reversed a long-term trend toward growing equality between and within European nations. Today, the end of equalization in Europe is taking on a particularly pronounced form, as the euro zone crisis deepens and the continent's peripheries and marginals grow more peripheral and marginal.

As an observer of Europe living in the United States, I cannot help but see parallels between the way the 2008–2011 financial crisis in the United States wrecked some state and household

economies more than others, and the way the 2010–2013 sovereign debt crisis in the European Union has wrecked some national and household economies more than others. Both crises have taught us—again—about the fundamental structural instabilities and inequities of capitalism.

CONVERGING ECONOMIES

Currently, the place of any given household in the distribution of total income in Europe has far more to do with individual-level factors such as age, sex, education, occupation, and employment than with where—specifically, in which nation—the people in that household live. This is a very new development. Circa 1950, before the signing of the Rome Treaty establishing the European Economic Community, inequality in Europe was driven more by between-nation differences in economic development. This between-nation inequality declined dramatically through the 1950s, 1960s, and 1970s, as the southern and northern edges of Western Europe experi-

enced rapid economic growth. At least some of this growth can be attributed to regional-level European political and economic integration.

Figure 1 shows one piece of evidence for the long-term decline in between-nation income inequality. The figure plots over time the Gini coefficient of inequality (a common measure of dispersion that varies from 0 to 1, 0 being perfect equality, and 1 being perfect inequality). Each point in the figure is the Gini coefficient in real GDP per capita for the 15 member states of the EU before enlargement in 2004 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom). This is, in other words, economic inequality among the nations of "core Europe." The Gini coefficients are calculated using population weighting, which allows for larger nations like Germany to contribute more information to the calculation, while reducing the contribution of smaller nations like Luxembourg (I have also calculated these coefficients without the population-weighting; the trend is very similar).

The X-axis, time, includes tick marks for several important points in the history of the European Union. The Rome Treaty was signed in 1957; the union expanded to Denmark, Ireland, and the UK in 1973; the Single European Act went into effect in 1986; the Maastricht Treaty was signed in 1992; and the euro currency was established in 1999.

There are several notable things about this trend in the between-nation Gini coefficient. The first is that its highest level, .19 in 1950, is relatively low. For comparison, the Gini coefficient for total world income inequality has been estimated at .50 to .60 (see the work of the sociologist Glenn Firebaugh, and separately the economist Branko Milanovic). The Gini coefficient for income inequality in the UK is .35; Sweden, .24; and the United States, .37. In a different region that is also experiencing

**Inequality
On the Rise**
Sixth in a series

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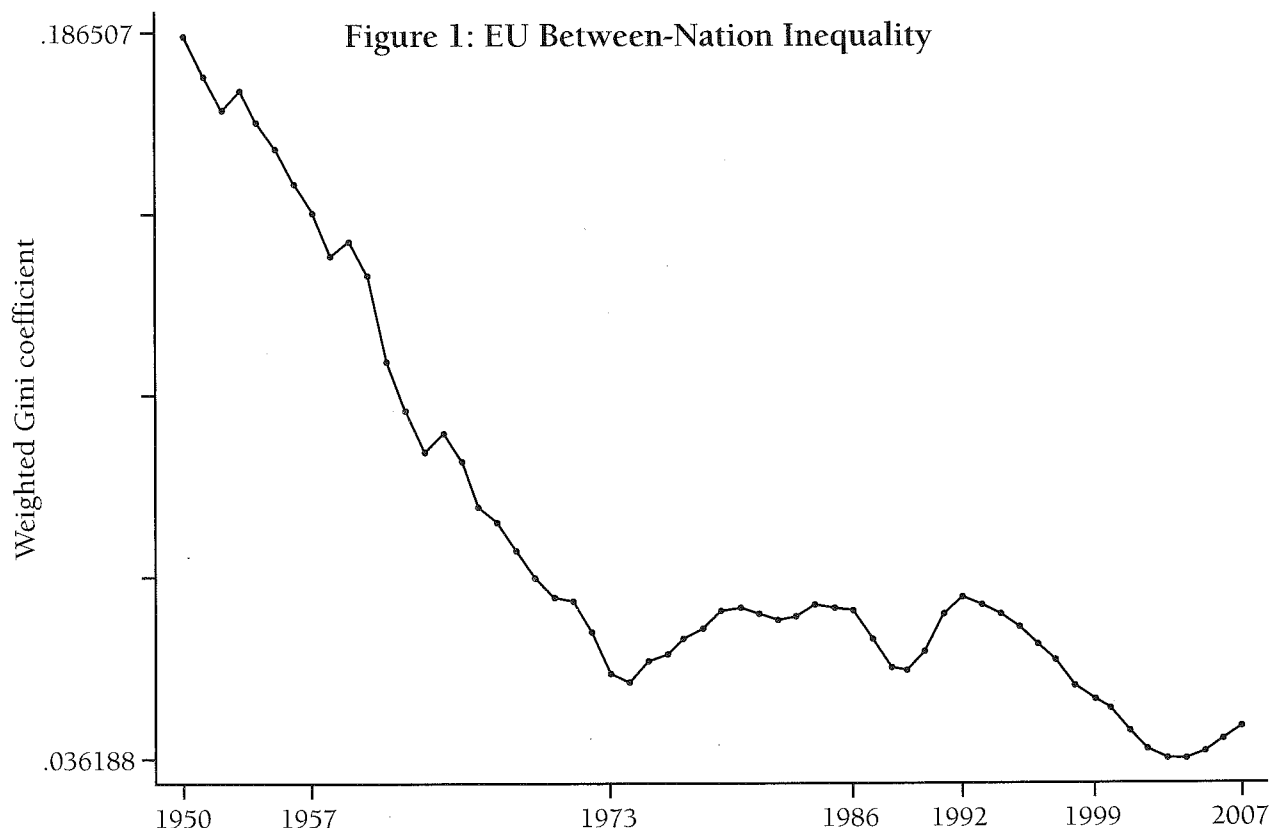
some economic integration without much political integration, North America, the Gini coefficient for inequality in GDP per capita among the United States, Canada, and Mexico peaked at .25 over the same period.

The second striking fact about this cross-national income convergence in the EU-15 is that most of it happened in the 1950s and 1960s, the early days of modern European integration. This was a period of growing trade ties among members of the European Economic Community—driven by, in the German political scientist Fritz Scharpf's durable language, "negative integration," or the removal of barriers to trade, as well as by "positive integration," or the building of institutions to order market exchanges, regulate activities, and even channel the distribution of the economic gains from trade (through mechanisms such as the Structural and Cohesion Funds).

The third striking fact in the figure is the essentially trendless fluctuation in the 1970s, 1980s, and 1990s. If one attempted to plot a regression line through the 1973–2003 data, it would take on a slight inverted-U shape, as inequality increased at first and then decreased. This trend is interesting in light of the general tone of European

institution-building over this period. A balance of positive and negative integration continued into the 1970s, until the period of "Euroclerosis" took hold, and declining economic growth motivated a turn toward neoliberal institution-building and negative integration.

This neoliberal negative integration was cemented by several pivotal moments of the period. First, European Court of Justice decisions in 1963 and 1964, which allowed individuals to enforce rights guaranteed by European Community legislation, motivated dozens of cases in the 1970s and 1980s that ushered the principles of negative integration into the laws of the EU member states. Second, market discipline was enshrined by the Single European Act, which took effect in 1986, and revived the market-making project under a specific set of pro-market rules (as the sociologist Neil Fligstein's work shows). Third, the 1992 Maastricht Treaty established fixed exchange rates and a single currency with empty promises of austerity, and without fiscal union. What all this amounted to was an EU built by and for business interests, without the positive integration that corrects market failures and actually makes exchange possible.



Population-Weighted Gini Coefficient in Between-Nation Inequality in GDP per capita, 15 EU nations, 1950–2007

The fourth striking fact is that the long-term trend toward income convergence, and the period of trendless fluctuation, both seem to have ended. To see this, combine the subtle uptick in the 2003–2007 part of the figure above with what we know about the consequences of the current economic crisis for between-nation inequality. Since 2008, the economies of Greece, Ireland, Portugal, and Spain have been in free-fall, with nearly record levels of unemployment, especially among young workers, and negative aggregate growth. This is in the context of continuing strong economic growth in countries such as Belgium, Denmark, Germany, and Sweden. That we see significant economic growth *and* economic contraction in large nations suggests that, since 2007, the population-weighted trend toward income divergence among European nations has likely accelerated.

AUSTERE LEGACIES

How does the between-nation trend map to the within-nation trend? Unfortunately, high-quality, comparable, household-level data on income do not exist for the early decades of European integration, and so we don't know how income inequality was changing within many European nations during the roughly 1950–1980 period. But we do have such data for the past few decades, and an analysis of those data suggests that, on average, the level of income inequality within European nations has been increasing since neoliberalism took hold in the EU in the 1980s and 1990s.

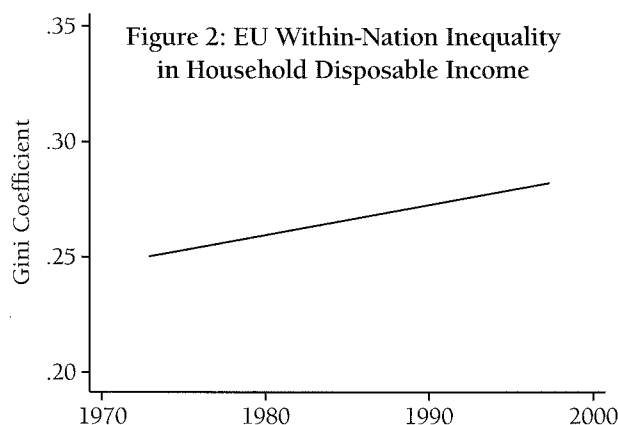


Figure 2 shows the trend line I derived from examining income data from the Luxembourg Income Study (LIS) Database for EU-15 member states between 1973 and 1997. It is worth noting that we are looking at disposable household income—the income available to households after

Table 1: In-Nation Inequality (Cont.)

Nation	1999–2000	2004–2005
Austria	0.257	0.269
Belgium	0.279	Not Available
Denmark	0.225	0.228
Finland	0.246	0.252
France	0.278	0.281
Germany	0.266	0.278
Greece	0.333	0.329
Ireland	0.313	0.312
Italy	0.333	0.338
Luxembourg	0.260	0.268
Netherlands	0.231	0.263
Spain	0.336	0.315
Sweden	0.252	0.237
UK	0.347	0.345

Observations from the Luxembourg Income Study's
Key Figures on the Gini Coefficient in
EU Member Nations, Wave V and Wave VI.

taxes and transfers—so any increased or decreased redistribution efforts by the welfare state are included in the data, as are increased or decreased wages from market income. The estimation shows not a sharp, but a statistically significant, trend toward higher within-country inequality during this period.

In the past dozen years, LIS has added two waves of data. The most recent observations available are shown in Table 1. In the majority of cases, within-country income inequality has either increased or remained essentially unchanged since the previous wave of LIS data was disseminated.

Interestingly, several of the cases of *reduced* inequality are countries that have suffered the most severe downturns during the 2008–2013 economic crisis: Greece and Ireland both saw inequality decline very slightly over the 1999–2005 period, while Spain saw a sizable decrease in its Gini coefficient. There is good reason to suspect, of course—in light of recent, simultaneous reductions in unemployment insurance benefits and increases in unemployment rates (especially among lower-paid young workers)—that the Gini coefficients for Greece, Ireland, and Spain will go up once again when the LIS project releases its next wave of data.

MAJOR ACHIEVEMENT?

How do these trends add up? In the long-term ledger of inequality in Europe, what is the bot-

tom line? In answering this question, I again rely on LIS data. Specifically, I combined all the available data from EU-15 member states, treating each household as a European household instead of a French, German, or Irish household, etc. I then calculated the Gini coefficient in two ways: first, by weighting every household equally, and second, by weighting every household according to how many European households it represents (households from smaller nations represent fewer European households).

It turns out that this analytical choice doesn't make a huge difference for the bottom-line story. In both cases, the net effect of the two long-term trends discussed above—between-nation convergence, and within-nation divergence—adds up to a *decrease* in total income inequality in Europe between 1980 and 2000. For the unweighted analysis, where each household in the LIS data was weighted equally, the Gini coefficient in disposable (post tax and transfer) household income declines from 0.354 to 0.314. Where the households are weighted, the net decrease is starker, from 0.393 to 0.330.

What this means is that the very strong between-nation convergence shown in Figure 1 in effect swamped the weaker but still present within-nation polarization. Given that this net decrease in income inequality occurred during a period of strong economic growth, this must be seen as a major historical achievement of “embedded liberalism,” the postwar settlement between capital and labor that balanced free trade, capital controls, and full-employment policies.

DECISIONS THAT TILT

In thinking about what happened in the 1980s and 1990s, as neoliberalism was revived and enforced by the EU (especially, as Northwestern University's Karen Alter has shown, in the jurisprudence of the European Court of Justice), I am inspired by the political economist Wolfgang Streeck's recent book, *Re-Forming Capitalism*. This angry book is an insightful diagnosis of the collapse of embedded liberalism in Germany, long held as the prototypical case of corporatist-style bargaining among the state, capital, and labor. Streeck shows how employers were able to undo the grand accords of the 1950s and 1960s by, in part, shifting the burdens, dislocations, and insta-

bilities of capitalism to the state. The current crisis of the German state, Streeck suggests, is in truth a crisis of capitalism, wherein the state has taken on an impossible responsibility for propping up an unsustainable form of capitalism.

What I would add to Streeck's analysis is the role of European-level institutions (rules and organizations) in establishing, diffusing, and enforcing this unsustainable form of capitalism, not just in Germany. The primary thrust of policy making in the EU since the 1980s has been pro-market—which, in this case, has meant pro-business, pro-investor, pro-trader, and pro-professional. The arbiter of nearly any policy has been its market-friendliness, where “market” takes on a narrow and asocial definition that tilts decisions in favor of economically powerful actors.

This tilt happens through at least two mechanisms. The more direct pathway is a European politics of “blame avoidance” (to borrow a phrase from the political scientist Paul Pierson). European integration gives cover to politicians who would like to roll back welfare state programs by allowing them to shift the blame for cutbacks to Europe, Eurocrats, Brussels, or globalization. By appealing to the EU's “market compatibility requirements” and the like, national policy makers—who still do, after all, have power

over the main pillars of social policy (that is, unemployment insurance, health insurance, and pensions)—can say to their national publics: We would really rather not cut the welfare state, but we must, because look at these harsh competition rules the EU forces on us. And: We are really very sorry, but this we must do in the name of European solidarity.

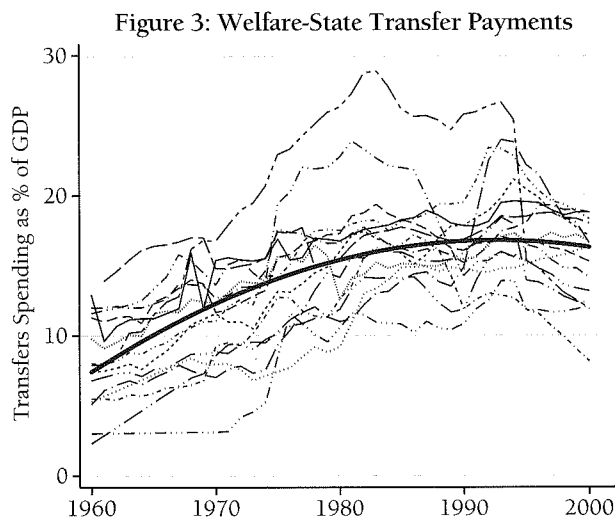
The less direct pathway is a re-definition of the welfare state itself as something that should complement the market, facilitate integration into markets, and encourage competitiveness. Note how radically opposed this definition is to Gøsta Esping-Andersen's classic *sine qua non* of the social democratic welfare regime: decommodification. (He defines it as occurring “when a service is rendered as a matter of right, and when a person can maintain a livelihood without reliance on the market.”) What we have in the Proper Modern European Welfare State instead is the commodifying, activating, enabling welfare state. This reflects, in part, a failure of social democratic

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similar welfare regime.*

politics at the European level. It is as though capitalists were unhappy with the bargains they struck with national policy makers and nationally organized labor in many countries in the 1950s and 1960s, and renegotiated those bargains on more favorable terms at the European level.

SHRINKING BENEFITS

The result is two developments in welfare states that would be surprising if we ignored the European politics of blame avoidance and the regional redefinition of what it means to be a proper European welfare state. The first develop-



ment is retrenchment: a general reduction in the generosity of popular welfare programs. The second development is convergence: the diminution of differences among welfare states.

To be sure, certain political scientists and rationalist economists dispute the assertion that, thanks in part to European integration, the welfare state is, on average, shrinking, and that this social policy trend is a matter of regional convergence. Many Europeans, too, doubt this—partly I think because, given the deeply political nature of the welfare state and the legal doctrine that gives national policy makers, not the EU, formal competence in the area of social policy, no European wants to hear that his or her welfare state is becoming more like anyone else's.

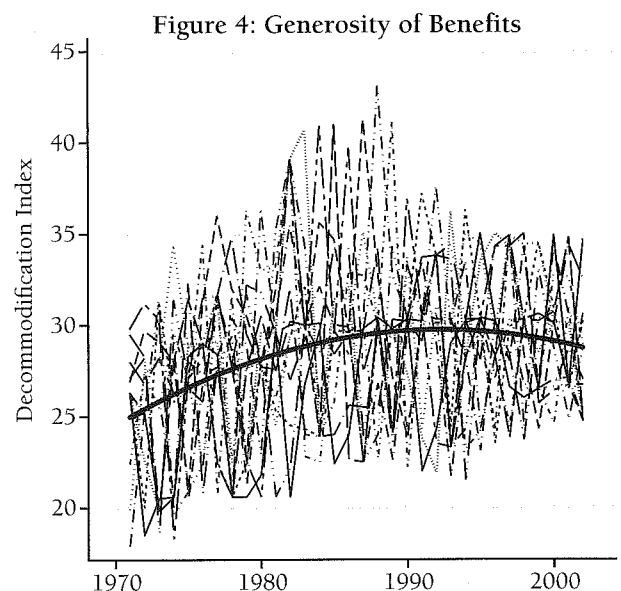
The data, however, are telling. I have examined trends in three common measures of the welfare state: (1) public spending on income transfers through welfare policies, as a percentage of GDP; (2) decommodification, an index of the generosity and coverage of welfare programs across the domains of unemployment, health care, and pen-

sions; and (3) the income replacement rate from unemployment insurance, or the percentage of one's market income that can be replaced by welfare benefits when one is unemployed. I have also derived an indicator of the dispersion for each of these measures, in order to assess the convergence claim.

Figure 3 uses a quadratic model to estimate a trend line from the data on welfare-state income transfers as a percentage of GDP. It shows a rapid expansion of such spending in many EU member states during the 1960s and 1970s. In the 1990s, the positive trend ended, and the slope of the line turned very slightly negative. The data, in short, show an inverted-U-shaped trend in expenditures between 1960 (the earliest date for which data on this measure are available) and 2000 (the latest date for which data on this measure are available).

Measures of welfare-state transfers, based on state expenditure as a percentage of GDP, are vulnerable to two kinds of criticisms. One is that spending happens fairly far downstream from actual policy, and is thus a noisy and time-lagged policy indicator. The second is that economic growth can artificially deflate (and economic recession artificially inflate) the measure, since GDP is in the denominator.

Figure 4 shows the trend in a measure that is not vulnerable to these criticisms. The decom-

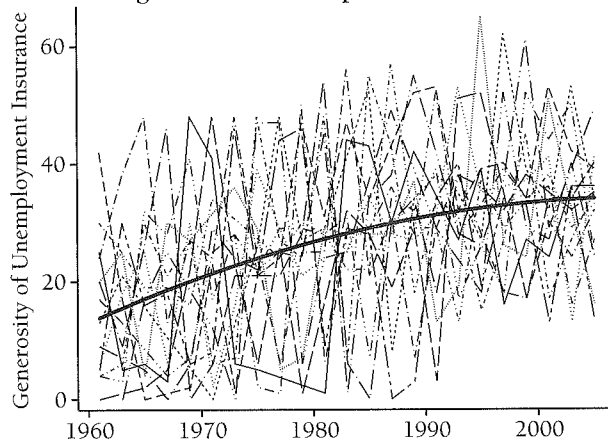


modification index developed by the University of Connecticut's Lyle Scruggs sums measures of the generosity and universality of welfare benefits in the areas of unemployment, health, and

pensions. Again, the average trend in Figure 4 is clear, and very similar to that shown above: an inverted-U-shaped curve, which peaks just after 1990.

In Figure 5 I have estimated a trend line for a more precise and specific welfare-state measure, the income replacement rate from unemployment insurance. This has been a particularly active area of policy making in the EU, as income replacement has been identified as a “passive” element of employment policy that is allegedly unproductive and anyway too expensive. On average, the replacement rate increases over the 1961–2005 period, though the rate of increase declines in the 1990s

Figure 5: Income Replacement Rates



and 2000s. Today, inspection of more recent data from the Organization for Economic Cooperation and Development suggests that these rates have started to decrease in many welfare states.

Taken together, the trends in transfer payments, decommodification, and jobless insurance suggest some evidence of on-average retrenchment in European welfare states, particularly in the 1990s and 2000s. But are there also trends in *variation* in these measures across EU member states?

For each of the three measures I looked at the coefficient of variation (the standard deviation divided by the mean), like the Gini coefficient a common measure of dispersion and inequality. I studied results unweighted by population, such that each welfare state gets equal weight in the analysis, as well as results that are weighted by population. The population-weighted results address welfare-state convergence from the EU citizen's perspective: Weighting allows me to assess whether EU citizens in various countries are living in an increasingly similar welfare regime.

The results are unambiguous: Across all three measures of the welfare state, each one a quite conventional measure in the comparative welfare-state literature, dispersion across Europe has declined since the 1960s. (The partial exception to this general story is dispersion in decommodification: Dispersion trendlessly fluctuated or increased slightly in the 1970s and into the 1980s, though after the mid-1980s dispersion in both weighted and unweighted decommodification followed a downward trend.)

Interestingly, an inspection of the trends in dispersion for non-EU welfare states shows that dispersion has decreased only in the EU. That is, regardless of how the advanced capitalist nations of the OECD are grouped, only the EU members have converged in the past 50 years.

WINNERS AND LOSERS

The end of equality in Europe (an admittedly overstated phrase) carries a range of implications. A pessimistic egalitarian might say that inequality will continue rising in Europe, now that all the trends are pointing toward a more stratified European society. Welfare states will continue on their common decline, as pressure for austerity mounts. Between-nation inequality will continue to rise, as growth continues in the core of Europe while recession deepens in the southern and northwest periphery. Within-nation inequality will continue to rise as well, as free-roaming mobile professionals maximize wages and investment returns wherever they can, youth unemployment grows, and the middle-class wages of skilled labor stagnate.

A pragmatic egalitarian might say that inequality will level off, as politicians and publics muddle through and find solutions with mixed success. An optimistic egalitarian might say that these trends toward a more limited welfare state and more inequality will be reversed, as social movements “re-embed” the market and find new ways to generate equality.

What happens will probably be something other than one of these three scenarios. But whatever happens, the lesson for social science, policy makers, and the public is that institutions—the rules of the game that create markets—have distributional effects. You cannot create a market without picking winners and losers. ■