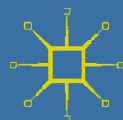


REDUCING INEQUALITIES

A Challenge for the
European Union?

Edited by
Renato Miguel Carmo,
Cédric Rio and
Márton Medgyesi



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1

Introduction

Renato Miguel Carmo, Cédric Rio,
and Márton Medgyesi

Inequality is a major issue today in public debates, especially since 2008 and the beginning of the financial, economic and social crises. In the European Union (EU), the crisis exacerbates a tendency observed since the 2000s: income inequality is growing in most countries, including in Northern European states, which are recognised as the most egalitarian societies in the world (OECD 2011, 2015).

Public and academic debates on inequality in the EU, like elsewhere in the world, are mostly focused on national territories. This can simply be explained by the fact that social issues have traditionally been linked to the nation state: the development and acceptance of social solidarity

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within a community are strongly linked to the development and the acceptance of a national state. Today, we see significant data regarding inequality in the richest countries, including most of Europe. Some contributions provide insight as to why nation states must limit socioeconomic inequalities (Wilkinson and Pickett 2009; Stiglitz 2012), propose explanations of the phenomenon (Milanovic 2011; Piketty 2014) or develop economic and political propositions to limit it (Atkinson 2015).

The aim of this book is to develop a multiscalar approach with a focus on inequality in the EU within and between countries, and in some contributions, comparisons with other European and Organisation for Economic Co-operation and Development (OECD) countries. The book is concerned with both vertical inequality, that is, inequality between those with high incomes and low incomes, and horizontal inequality, that is to say inequality between groups by nationality, age, ethnicity or gender. Our objective is twofold. Firstly, the book describes the social situation in the EU with a focus on inequality in a multidimensional approach, which permits comparisons between national populations. Inequalities are discussed through different perspectives and indicators such as income and economic inequalities, poverty and social exclusion, categorical inequalities and social classes and educational inequalities.¹ Secondly, it proposes political and prospective analyses about the role of the EU institutions in the social domain, and with regard to social and gender inequality. In the first part of this introduction, we explain why we decided to edit a collective book focused on inequality at the EU level. We present the different contributions in a second part.

Since the beginning of the European project, the institutions of the European Economic Community and then of the EU have had access to an ever-increasing number of tools in the field of social issues. According to Falkner (2010), European institutions play a social role through three general dimensions. There is firstly a regulatory role through social directives concerning working conditions, especially regarding health and safety, and equal treatment (wage equality between men and women, for example). The Treaty of Amsterdam (1996) gave the Commission the ability to expand this regulatory role to all European citizens, and not only to workers. Secondly, the regional policy, with its structural funds—European Social Fund, Cohesion Fund and European Regional Development Fund (ERDF)—provides a distributive role to the

European Commission. Finally, this last institution has incentive tools with the open method of coordination, and more recently the European Semester, which, among other effects, leads Member States to pursue common social objectives. It seemed possible at least, particularly during Jacques Delors' term as the president of European Commission, to apply the idea of Social Europe in the real world, with EU institutions playing a major role in the social field, including limiting social inequalities among European populations, and then to observe the development of solidarity in the EU territory.

The situation has changed at least since the beginning of the crisis. While the EU's prerogatives in the social domain are the same, the trend appears negative now, to the extent that many specialists claim that the idea, the cosmopolitan dream of Social Europe, is dead (Crespy and Menz 2015; Lechevalier and Wielgohs 2015). This claim is based on many signs. Firstly, after a period of socioeconomic convergence between European countries, in part thanks to the cohesion policy, since the crisis we can observe a stagnation of socioeconomic disparities. Secondly, and maybe more fundamentally, the period seems quite unfavourable to the development of strong solidarity among European people. Before the crisis, Maurizio Ferrera claimed that there is 'a tension, an uneasiness in linking or reconciling "solidarity" with "Europe"' (2005). The situation may be growing worse: both the EU and a certain idea of solidarity are currently being called into question like never before. With the growing importance of the European Council, we observe a return to national interests conflicting with European interests once states are inside the EU project: this can be illustrated not only by 'Brexit', but also by the persistent political divergence between Member States regarding the situation in Greece or the reception of refugees and other migrants. In parallel, national social systems are slowly being dismantled in all European countries, especially in the name of reduction of public debts.

Why then a book focused on European inequality now? Despite the current situation, discussing social issues at the EU level makes sense for at least two reasons. On the one hand, the different contributions to the book demonstrate that the EU has still a real role in the social field and against inequality, even if this role is currently declining. On the other hand, we strongly believe that the EU should play a more pronounced

role in social issues in the future. In addition to the heterogeneity of the social situations in the different EU countries, all the national societies face complementary difficulties, especially with the crisis: the rise of public debt and difficulties financing and preserving social security schemes, a rise in unemployment and precarious jobs, and then the risk of social exclusion and poverty. The EU can help its members find an answer to those shared social difficulties.

It is our role as social scientists to discuss these problems. We began this work with the creation of a European network named *Inequality Watch* a few years ago, by bringing together European research centres and civil associations focused on inequality at the national level. By gathering the contributions of recognised specialists of socioeconomic inequality and European processes from distinct scientific disciplines and several European countries, our desire with this book is to reconcile the analysis of social processes with an accurate assessment of public policies affecting vulnerable populations and regional discrepancies in the EU. While the first part of the book highlights the social situation in the EU in line with the consequences of the financial crisis, the second part addresses the role of the EU and its institutions to cope with this challenge. Despite the social and cultural heterogeneity of EU Member States, the first part shows that most populations and their institutions witness a similar phenomenon of growing inequality. It could reinforce the idea of an ambitious Social Europe able to limit inequality, or at least help its Member States do so. The goal of the second part is specifically to discuss the social tools already in use at the EU level and their limits, but also to reflect on the legitimacy of such an idea. Our aim is not to describe or explain the recent developments of Social Europe but to think theoretically and ethically about the current and future role of the EU in the social field and more specifically in the fight against inequality. How does the EU deal with inequality today? What should be the role of EU institutions regarding the challenge of reducing inequality?

The theoretical advances regarding inequality have been both significant and varied and have opened up renewed forms of understanding and explanation. The most important theories and analyses of contemporary social inequalities adopt a multidimensional perspective (Therborn 2006). The different dimensions of inequality—[income](#), [poverty](#), [social](#)

exclusion, education and social mobility—are linked and interconnected. Likewise, it is useful to compare poverty and social exclusion levels between countries to underline the standards of living of different national populations. This is why we propose in the first part of the book an analysis of the different dimensions of inequality in the EU, both among individuals and groups within countries and between European populations.

Analyses of the change in income inequality are developed in the first two chapters. Despite some methodological limitations, income indicators are useful to measure inequality at the EU level, as Michael Dauderstädt shows in his analysis (Chap. 2). He proves that income inequality between countries and their populations has been stagnant since the beginning of the economic and social crisis in 2008, after a period of relative convergence, but still remains high, especially when comparing the old and new Member States of the EU. Maxime Ladaïque and Guillaume Cohen (Chap. 3) highlight and explain the growth of income inequalities observed in a large majority of European countries since the mid-1980s: the development of non-standard work and a common policy agenda that favours diminishing income redistribution and progressive taxation are the main drivers of the present situation.

The following two chapters take a multidimensional perspective on inequality at the European level. Renato Miguel Carmo and Ana Rita Matias (Chap. 4) focus their work on social vulnerability in the southern European countries. According to them, the link between resource inequality and social vulnerability is stronger in the Southern and Eastern European countries, where the gap with regard to Northern countries is increasing. António Firmino da Costa and his team (Chap. 5) analyse the intersections between the distributional inequalities of economic and educational resources in the EU, as well as the categorical inequalities between nation states and between social classes. They demonstrate that social disparities are high between different parts of Europe in terms of income, but also educational inequalities.

Chapters 6 and 7 develop an overview of social disparities between national populations of the EU with a focus on poverty and social exclusion, including social living conditions. Reading the available data bears out similar trends analysed previously: Southern and Eastern

countries are more affected by income poverty and material difficulties. In recent years, efforts have been made at the EU level to build harmonised data and social indicators for the European population as a whole, especially regarding poverty and social exclusion. According to Eurostat, an individual is considered as poor and in a situation of social exclusion when he or she is concerned by one of the three following situations: living in a household with very low work intensity, earning a disposable income below 60% of the national median income or being in a situation of severe material deprivation. These and other indicators are discussed concerning the methodological option of establishing a defined threshold of the risk of income poverty (Orsolya Lelkes and Katrin Gasior, Chap. 6) or the relevance of using the indicator of material deprivation (Brian Nolan and Christopher T. Whelan, Chap. 7). The last authors additionally present information regarding the social categories that are suffering from different types of social vulnerability.

In the last chapter of this part, Márton Medgyesi examines social reproduction mechanisms and compares the social situation of young people in different countries of the EU in relation to their participation in education and training and the occupations of their parents. At the European level, social class is still a pertinent category to explain and describe the discrepancies between social positions and their distinct possibilities and opportunities. But the possibilities offered to European people differ strongly regarding their geographic context within the EU. Following this multidimensional perspective, the author demonstrates in his chapter that young people are being considerably affected. He identifies a persistence of inequalities among the young due to social reproduction mechanisms: family background and more precisely parents' social situation and educational level have a strong influence on the life chances of young people.

The goal of the second part of the book is to analyse the current role and limits of the EU and its institutions in the social domain and to question its role in the future. In the original context of the EU, social prerogatives are national: social policies intended to limit socioeconomic inequalities and guarantee sufficient accessibility for all to public goods—education, social security schemes, healthcare and so on—are decided by the Member States, which have the ability to propose political

responses to the social consequences of the crisis. But the institutions of the EU, and especially the European Commission, are also engaged in the social domain.

The first three chapters of the second part propose analyses of the nature and limits of EU engagement in the social realm. In Chap. 9, Cédric Rio discusses existing European social tools and elaborates a reflection about the way an ambitious Social Europe could adapt to the social heterogeneity of Member States. He claims that the acknowledgement of common social rights for all Europeans, together with ambitious redistribution mechanisms between European countries in order to finance these rights, could advance European social policies without threatening the diversity of national social systems. Chapters 10 and 11 focus on specific policies associated with inequality. Gwenaëlle Perrier (Chap. 10) proposes a discussion about the gender equality policy led by the EU. She recalls that gender equality policy was and still is justified mainly by economic concerns and the specific need to develop a European free market. According to her, such a justification has limited the scope and impact of this policy. Beatriz Tomás Mallén (Chap. 11) focuses on the recognition of fundamental rights at the EU level through the Charter in the Lisbon Treaty. She mentions the need to institutionalise common and guaranteed rights for all by harmonising the two existing normative systems developed in parallel by the Council of Europe and the EU institutions.

The last three chapters are more prospective. In Chap. 12, Antoon Vandavelde contrasts different theoretical visions regarding implementation of social policies at a European level. Many normative reasons that can be considered to legitimate ambitious social policies at the EU level, including the cosmopolitan argument that recognises fundamental rights to all, are based on the idea of necessary solidarity between European people to pursue the common good. But, as Philippe Van Parijs (Chap. 13) criticises, the facts are completely different: the current situation of the EU is characterised by limited public transnational interventions, high inequality levels and a general lack of solidarity among national governments. This situation is very close to the project dreamed by the neoliberal author Friedrich Hayek: before the Second World War, he defended a potential project of multinational federalism as a way to facilitate liberation

of the economy from public interventionism. According to Van Parijs, an ambitious Social Europe, illustrated by the implementation of a Eurodividend—an unconditional basic income—could overcome this ‘Hayek’s trap’. Finally, in an interview with Frederico Cantante, Thomas Piketty (Chap. 14) describes his vision of a Social Europe. Beyond the statistical trends, Thomas Piketty addresses that the growth in inequality levels over the last two decades is basically the result of political choices. According to his analysis, national governments have to take responsibility for limiting and stopping the rise in inequality and poverty. Moreover, the current interdependence of national economies in the EU and the great disparities among European populations should encourage political actors to elaborate and develop EU social prerogatives. He then argues in favour of European investment in universities and higher education. In the last chapter (Chap. 15), the editors of this book address some final remarks regarding the need to improve and develop an European Social agenda.

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Note

1. In each chapter, the authors include their own precise definition and characterisation regarding the inequality or poverty indicators that are used and discussed in their analysis.

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Part I

Inequality and Poverty in European Union

2

Disposable Income Inequality, Cohesion and Crisis in Europe

Michael Dauderstädt

2.1 Introduction

During the present crisis beginning in 2008, people worry about rising inequality, weaker social protection and the divergence of income levels between the core and the periphery of the European Union (EU). The financial crisis has been blamed on inequality (Rajan 2010; OECD 2015) as poor strata of the population (in the United States, but also in Europe's periphery) borrowed funds to acquire housing or maintain consumption levels in spite of low and stagnating wages. On the side of lenders, high inequality contributed to an overhang of savings as the rich have a higher propensity to save, and investment in the real economy stagnates in the face of weak demand.

When governments increased their debt to bail out a financial sector where bankers and investors had enjoyed astronomical revenues and incomes, public discontent had increased (Occupy Wall Street). Prominent economists like Piketty (Piketty 2013) and Stiglitz (Stiglitz 2012) pointed out the rising levels of wealth, debt and the related income

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inequality and warned about their consequences. Even mainstream institutions such as the International Monetary Fund (IMF) or the Organisation for Economic Co-operation and Development (OECD) criticised the negative impact of rising inequality (Kumhof and Rancière 2010; Gupta 2014; Ostry et al. 2014; OECD 2015).

Concerns about declining cohesion within Europe grew as southern European countries faced shrinking economies and rising poverty and unemployment. The following chapter discusses the dimensions of inequality in the EU and analyses their relationship with the crisis.

2.2 The Dimensions of European Inequality

Inequality can be considered between different entities (such as countries, regions, households, individuals) with regard to different qualities (such as income, wealth, life expectancy) using different indicators and measures. Here, we focus on (disposable)¹ income inequality within the EU. The analysis of inequality in a multi-country context implies certain problems, which have been discussed in depth on a global level by Milanovic (2016) and Bourguignon (2015). They differentiate between three types of international inequality: (1) between nations regardless of their population; (2) between nations weighted by population; (3) between people (households). The last measure takes into account the distribution of income within and between countries.

To compare incomes in an international context, one can use two measures: (1) at exchange rates and (2) at purchasing power parity (PPP). The use of these two different measures makes a lot of sense when one compares income levels between countries with different currencies, as the value (e.g. converted into Euros) might change with the (real) exchange rate, which depends on variations in the nominal exchange rate and on inflation, which are different from country to country. Prices might change at different rates within countries between different regions, too.

The analysis of international inequality and its results depend on the choice of indicator, too. First, there is an almost ethical question: Are absolute differences between incomes more relevant than relative ones? Are poor people content to see their income grow faster than that of the

rich or do they want to reduce the absolute difference? In the context of convergence between countries (see section 2.2.1 below), the first concept is called beta convergence; the second sigma convergence, as the standard deviation, indicated in mathematics by the Greek letter sigma, measures absolute differences. To offer a (not unrealistic) numerical example: if at the beginning of the comparison the average GDP/capita of the richer country is 5 times the one of the poorer country and the rich country's economy grows at an annual rate of 2% and the poor at 5%, it would take the poor country 55 years to catch up, and only after 24 years would the absolute difference between the two average incomes begin to shrink (it would still increase for the first 24 years in spite of the higher growth rate).

Second, an indicator of international inequality should better be decomposable into intra- and inter-country inequality. This condition is fulfilled by the Theil index² and the quintile ratio (S80/S20), but not by the Gini index. The Gini index varies between 0 in the case of perfect equality and 1 in the case that all income goes to one entity (e.g. household). If one compares only the degree of poverty rather than the distribution of income as such, the Foster–Greer–Thorbecke (FGT) index is decomposable as well.³ The indicator we use most often is the ratio between the average income of the richest and poorest quintiles (= 20%) of the respective population (the so-called quintile ratio S80/S20).

If one analyses income inequality in a multi-country setting like the EU, different dimensions are of interest.

- (A) Disparities between EU Member States measured in terms of average per capita income; in this case, the inequality within the countries is neglected;
- (B) Disparities between regions of the EU; in this case, the inequality within the regions is neglected;
- (C) Disparities between households within countries;
- (D) Disparities between households within the EU as a whole taking into account both inequalities, (A) and (C).

The reduction of disparities between countries (dimension A) and between regions (dimension B) is usually called 'convergence' or 'cohesion'. The funds used by the EU to reduce regional inequalities are cohesion