

The Europeanization of social inequalities. Between national institutions, European regulations and global markets

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Abstract: The hypothesis that social inequalities, processes of stratification and mobility and inequality-generating institutions can be analyzed only at the national level, has been termed the "methodological nationalism" (Smith) of inequality research. This perspective implies that norms of equality and solidarity are effectively institutionalized only on the national level, since expectations and claims can be effectively addressed only to national actors. Given the increasing economic and political integration of Europe, this idea reaches its limits, since the common market, the monetary union and the fifth EU enlargement already have considerable effects on the living conditions of the European population. Both the generation of social inequalities as well as its articulation and governance are increasingly shaped by EU policies. This Europeanization of social inequalities can be analyzed in three different perspectives: In the tradition of "methodological nationalism", it can be assumed that the increasing economic interdependencies in Europe can be handled within existing national social security systems. Therefore national class structures and national methods of dealing with social inequalities can also be expected in the future. Secondly, the liberalization of the European states can be analyzed as a phase on the way to a functionally-differentiated world society, in which national structures of social inequality are gradually replaced by global structures. The Europeanization of social inequalities would be only a step on the way to patterns of global inequalities. Thirdly, it can be assumed that national patterns of boundary building and structuring will be repeated at the EU level transforming the EU in a supranational welfare regime compensating for the risks of economic liberalization. Partial empirical support for all three perspectives can be found: The methodological nationalism points to the still crucial role of national institutions and national redistributive policies. The system-theoretical perspective points to the open boundaries of Europe, to the impact of (increasingly global) market forces on individual living conditions and to the increase of regional inequalities in Europe. Thirdly, the "boundary-cleavage" approach of Stein Rokkan points to the emergence of European patterns of regulating social inequalities at the European level. The Europeanization of social inequalities therefore will occur in a hybrid form combining national, European and global forces. Social inequalities in Europe are shaped by different social institutions and arenas transforming the EU in a particular transnational space.

significantly the dominant role of national patterns of regulation, because so far social norms of equality and social protection systems are limited (almost) exclusively to the national arena.

2. Europeanization of social inequalities as a first step to global patterns of social inequality: In a system-theoretical perspective the Europeanization of social inequalities can be analyzed as a first step to a functionally differentiated, globally integrated society. Such an interpretation of Europeanization processes would analyze the opening processes of national patterns of social inequality as a step on the way to global patterns of social inequalities.

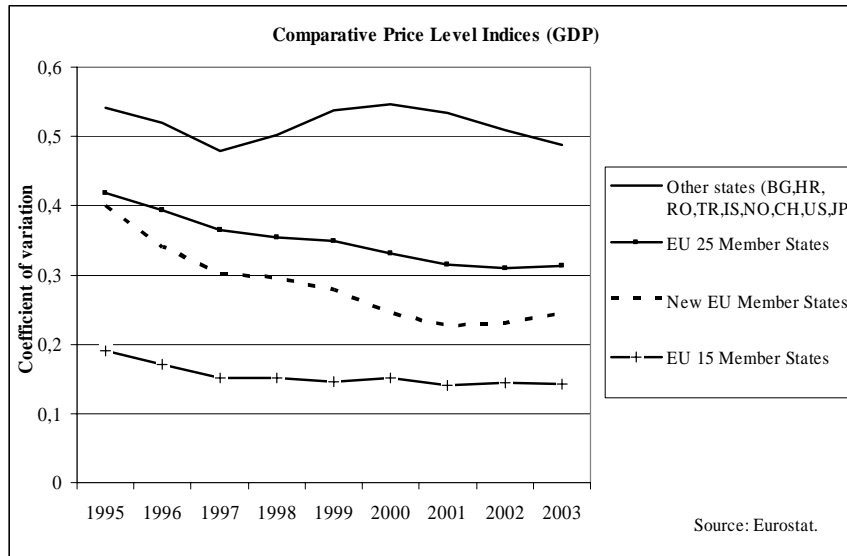
3. The Europeanization of social inequalities and the emergence of European patterns of regulation: A further interpretation of the Europeanization thesis refers to the development of European structures, which have a substantial impact on the emergence and the handling of social inequalities. The fact that a substantial part of the national social politics is already shaped by European guidelines, sentences and coordination efforts, even if, officially, the national states can still shape autonomously their social security systems (see Leibfried and Pierson 2000 and Mau 2003). In the following three chapters we will theoretically and empirically analyze these interpretations of the Europeanization thesis. At first we concentrate on the theoretical bases of the "methodological nationalism" (Smith 1995) of the inequality research, secondly we will focus on system-theoretical considerations of the functionally differentiated world society and then we will analyze the interdependence of boundary creation and structuring processes in the work of Stein Rokkan.

1. Dominant role of national structures of social inequality

The "methodological nationalism" of the research on social inequalities is characterized by the idea that social classes, mobility processes and inequality-generating und regulating institutions can and should be analyzed within the context of nation-states. This "methodological nationalism" reflects the fact that norms of social equality are institutionalized mainly on the level of nation-states. Social inequalities are not any unequal distribution of resources and social positions or any stable limitation of the access to desirable social goods or social positions (Kreckel 1992: 17). Only if there are standards of equality which justify calling the uneven distribution of resources and social positions unequal, do social inequalities exist; otherwise the notions of "heterogeneity" and "disparities" are more appropriate (see Blau 1977 and Heidenreich 2003). So far, such norms of equality and solidarity are hardly institutionalized above the level of nation-states. The analysis of social inequalities therefore has focused mainly on the analysis of national inequalities, since disparities between members of different states are not evaluated as violations of an equality standard. This is true also for the international comparison of national patterns of social inequality (Breen 2004).

This situation is changing due to the European integration in two dimensions. On the one hand, the structures of social inequality are shaped by the European liberalization of the goods, services, capital and labor markets. One of the most effective forms of social closure (M. Weber), the nation-state, is challenged by the creation of the Common Market. An indicator for the effectiveness of this market is the convergence of national price levels, which were measured in Figure 1 by the coefficient of variation (standard deviation divided by the mean). Already in the 1990s, the gradual integration of the ten new EU member states in the Common Market induced a rapid convergence of the price levels (see figure 1). This indicator refers to an intensified competition within the enlarged European Union and thus to a European impact on the structures of social inequalities.

Figure 1: Price convergence indicator (coefficient of variation of comparative price level index for gross domestic product in %; 1995-2003)



A decisive factor for the transformation of the national structures of social inequality is the question of whether the increasing European integration of the national economies has an impact on the social situation of the European population and their perceptions of social inequalities. An indicator for the objective impact is the public expenditures for social protection as a proportion of the gross domestic product (GDP) for the former 15 EU members and further 15 OECD countries. A slight decrease of the average amount of social protection can be observed since 1992. This decrease is higher in Ireland, Finland, the Netherlands and Sweden. Germany, Greece and Portugal, however, have increased their social protection expenditures. Altogether a clear convergence of the public social expenditure ratios both in the EU and in the other OECD countries can be observed (see figure 2). This indicates that the national welfare states can face the challenges of an aging population and a liberalized economy within the financial limits defined by increasingly intense international competition on costs and taxes. The national states cannot decide largely independently on the organization and the extent of their own social protection systems.

On the other hand, supranational norms of equality are gradually emerging within the economically and politically integrated European Union. This is demonstrated for example by transfer payments between richer and poorer EU countries especially since the "Southern enlargements" of the EU. Also the perception of income inequalities is no longer focused exclusively on the average national income. This explains why two thirds of the Portuguese and half of the Greeks, but only one quarter of the British and the Irish deign themselves as poor, although the proportion of "objective" poverty, measured in relation to the national median, is nearly the same in these countries (approximately a fifth; **cf. figure 3**). The number of the households in financial difficulty is more strongly correlated by the average gross domestic product per inhabitant than by the respective national poverty ratio. This points to the fact that the own standard of living is perceived ever more in an international context. Gallie/Paugam (2002: 11) notice:

"Clearly, in countries where there are still some very poor regions, those who live in them may feel frustrated when they compare themselves with those in other, better-off regions of their country, or even elsewhere in Europe, whose living standards they know more about, partly because travel is more frequent and partly through the media."

Figure 2: Development of the public social protection expenditures in 30 OECD countries (1981-2001)

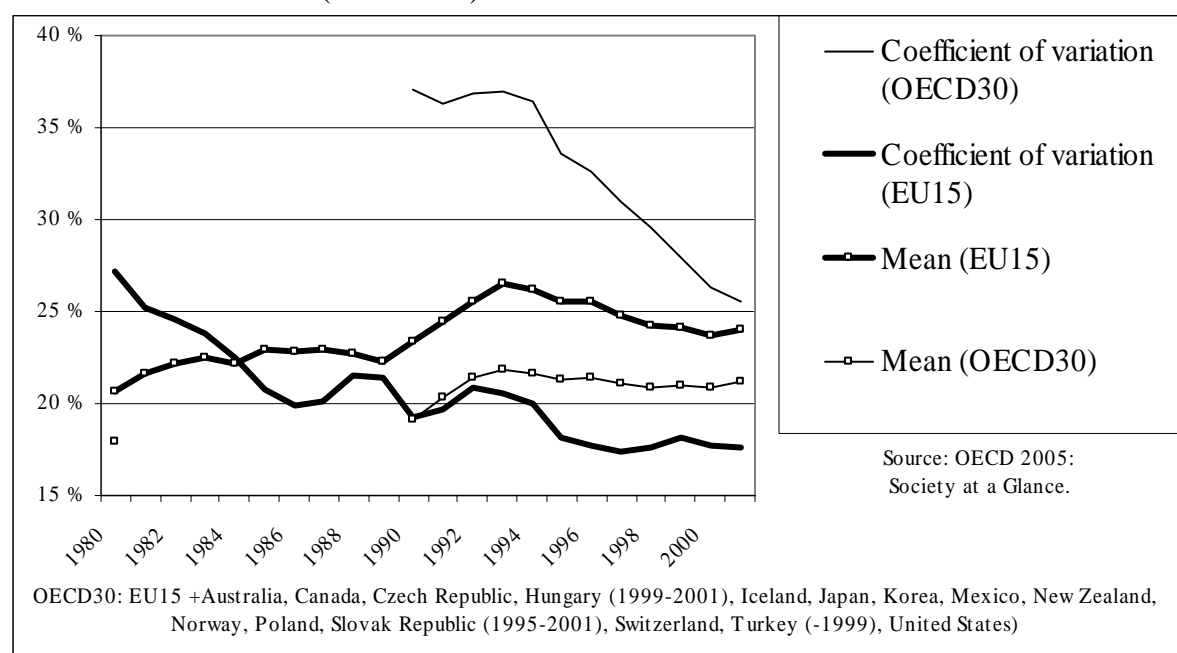


Figure 3: Comparison of objective and subjective poverty (1997; 2001)

	Gross domestic product per inhabitant (2001; PPS)	Income inequality (1997; P90/P10)	% % living in households at risk of poverty (2001) ⁽¹⁾	Dissatisfaction with financial situation (%; 1997)	households in financial difficulties (%; 1997)	% who consider themselves poor (2001) ⁽²⁾
Belgium	24.000	3,6	13	53	29	32
Denmark	25.800	2,5	10	30	23	9
Germany ⁽³⁾	22.500	3,6	11	61	21	14 ⁽³⁾
Greece	15.100	5,8	20	93	83	54
Spain	18.900	5,3	19	77	62	34
France	23.500	3,7	15	70	40	30
Ireland	26.300	4,1	21	63	52	24
Italy	22.400	4,6	19	82	42	41
Luxembourg	43.600	3,3	12	56	35	8
Netherlands	25.400	3,1	11	46	36	18
Austria	25.500	3,1	12	49	39	16
Portugal	15.800	5,7	20	90	67	66
Finland	23.300	2,7	11	60	36	30
Sweden	23.800	2,6	9			20
United Kingdom	23.600	4,9	17	51	35	27

(1) European Community Household Panel, threshold of poverty risk: 60% of the national median income, "modified" OECD scale, in which the first adult of the household counts 1, others aged 14 years or more count 0.5, and children under 14 count 0.3.

(2) Eurobarometer 56.1, Poverty and social devaluation, 2001. These are the percentages of individuals whose total net income is below what they consider absolutely necessary for a proper standard of living.

(3) Western Laender of Germany: 11%, eastern Laender: 24%.

Source: Eurostat Structural indicators; Eurobarometer 56.1; European Communities, 2002: European social statistics. Income, poverty and social exclusion: 2nd report. Luxembourg: Office for Official Publications of the EU.

In conclusion: The European countries are strongly integrated economically. The creation of the Common Market and the Eastern enlargement are indicators of an economic liberalization, which has limited the expansion of the public social security expenditures. This indicates that the social situation of the European population is increasingly shaped by supranational developments and decisions. Also for the subjective perception of poverty the national space is no longer the only framework of reference for the evaluation of social inequalities. This refers to an opening of national equality and inequality conceptions and to the increasing impact of transnational causes of unequal life chances. In defense of the "methodological nationalism", it can be pointed out however, that the nation-state is still the most important arena for the analysis, the perception and the regulation of social inequalities. This can be explained by the path-dependency of national welfare systems, employment regulations and industrial relations as well as by the institutional complementarities between these different institutional orders. In this perspective, the "Europeanization of social inequalities" points to the fact that supranational actors and organizations increasingly decide on the distribution of scarce and valuable resources and positions. But this does not undermine the dominant factor role of national arrangements.

2. Individualization and marketization of social inequalities

In the context of a system-theoretical perspective, the Europeanization of social inequalities can be interpreted as a stage on the way to a functionally differentiated economy, policy and society. So far social inequalities have been articulated and regulated in the national context, i.e. in a segment of the global political system. The Europeanization and globalization of the economy induces a gradual shift to supranational forms for the articulation and regulation of social inequalities (Luhmann 1997: 148-149). In the context of a functionally differentiated world society, segmentary forms of differentiation such as the nation-state are increasingly forced to adapt. Since social inequalities are the result of different social systems, which are only partially organized on a territorial basis (economics, professions, education, science, technology, families...), the Europeanization of national class structures can thus be interpreted as an indicator of the limitations of a primarily political and national regulation of social inequalities.

In this perspective, "Europe" is only a "bridging concept" between the concept of a national society and a functionally differentiated world society, whose implementation has been effectively supported by the liberalization of the European markets. Stable European patterns of social inequalities similar to the national class structures are highly improbable in view of the limited financial resources of the European Union and the open economic, political and socio-cultural borders of Europe. In this diagnosis, system-theoretical considerations come to the same conclusions as the "euro-pessimistic" view of Scharpf (1999) and Streeck (1997).

In this perspective, the Europeanization of social inequalities therefore refers above all to the opening of national patterns of social inequalities caused by European liberalization processes. "Europe" is analyzed as a step to global patterns of social inequality. These patterns will probably be characterized by a stronger impact of market processes on the social situation of the individuals. The Europeanization and globalization of the goods, services, capital and labor markets reduce the scope for redistributive programs; the social situation depends more strongly on individual employability. The state can ensure at the most only equal starting conditions - in particular by a good education – but not equal outcomes (Muench 2001). The redistribution between different social classes becomes increasingly difficult. An indicator for a stronger dependence of the social situations on the market

positions of the individuals would be an increase of the income inequalities in the member states of the European Union. This can be actually observed in most European countries (with exception of Denmark; see **table 4**).

Table 4: Overall Trends in Income Distribution: Summary Results from National and Cross-national Studies

	Mid/Early 1970s to Mid/Late 1980s	OECD Study 1980s	Mid/Late 1980s to Mid/Late 1990s	Development of the decil ratio (D9/D1)
Austria	0	0	++	2.89 (1997) - 3.73 (1997)
Belgium	0	+	+	2.77 (1988) - 3.19 (1997)
Czech Republic	na	na	+++	2.37 (1992) - 3.01 (1996)
Denmark	na	na	-	3.22 (1987) - 2.85 (2.85)
Finland	-	0	+	2.59 (1987) - 2.9 (2000)
France	-	0	+	3.46 (1989) - 3.54 (1994)
Germany	-	+	+	2.99 (1989) - 3.29 (2000)
Hungary	na	na	++	3.39 (1991) - 3.47 (1999)
Ireland	-	0	++	4.23 (1987) - 4.33 (1996)
Israel	--	-	++	3.91 (1989) - 4.48 (2000)
Italy	0	+	++	2.94 (1987) - 2.98 (1999)
Netherlands	na	na	++	3.51 (1986) - 3.59 (1999)
Poland	-	+	+	2.71 (1987) - 2.96 (2000)
Sweden	++	+++	++	3.79 (1986) - 4.58 (1999)
United Kingdom	++	++	++	5.71 (1986) - 5.45 (2000)

+++	Significant rise in income inequality (more than 15 percent increase)
++	Rise in income inequality (7 to 15 percent increase)
+	Modest rise in income inequality (1 to 6 percent increase)
0	No change (-1 to =1 percent change)
-	Modest decrease in income inequality (1 to 6 percent decrease)
--	Decrease in income inequality (7 to 15 percent decrease)
---	Significant decrease in income inequality (more than 15 percent decrease)
na	No consistent estimate available.

Source: Smeeding (2002); last row own addition on the basis of www.lisproject.org (accessed on 17.10.04)

Another indicator for a stronger economic dependence of social situations would be the increase of regional differences (Luhmann 1997: 167) - an increase, which, paradoxically, may be accompanied by a convergence of national levels of economic prosperity, since the less wealthy countries usually achieve higher economic growth rates. In 16 of the 21 European Union member states, for which the appropriate data is available, the regional inequalities increased in the period 1995-2002; only in Italy could they be clearly reduced (**table 5**). The regional inequalities in the Central European countries and in Portugal, Finland and Sweden increased most. This increase refers to the fact that in open, transnational spaces inequalities increase in the national territory, since some regions - mostly capital regions - successfully assert themselves as regional centers in global networks of communication, exchange and value-creation. However, the still low level of regional inequalities, for instance in Sweden, Spain, Greece and the Netherlands, also points to the fact that such a trend can be politically shaped. In particular the Western European nation-states can still reduce quite effectively the level of regional inequalities, if this goal has a high political priority.

Table 5: Regional inequalities of economic performance (change of the national coefficient of variation 1995-2002 of the regional – NUTS III – GDP per inhabitant)

Country	1995	1996	1997	1998	1999	2000	2001	2002	Change
Belgium	0.37	0.38	0.37	0.38	0.38	0.37	0.37	0.37	0%
Denmark	0.28	0.27	0.27	0.25	0.27	0.27	0.27	0.28	-1%
Germany	0.40	0.40	0.40	0.41	0.41	0.42	0.42	0.42	7%
Estonia	0.23	0.24	0.26	0.28	0.27	0.29	0.29	0.30	27%
Finland	0.20	0.21	0.21	0.23	0.25	0.24	0.24	0.25	26%
France	0.43	0.44	0.46	0.46	0.46	0.47	0.48	0.48	10%
Greece	0.23	0.25	0.23	0.22	0.21	0.23	0.23	0.23	1%
Ireland	0.21	0.22	0.23	0.26	0.25	0.24	0.23	0.26	25%
Italy	0.35	0.35	0.34	0.34	0.34	0.34	0.34	0.33	-7%
Latvia	0.34	0.34	0.39	0.46	0.50	0.52	0.50	0.56	64%
Netherlands	0.19	0.20	0.20	0.20	0.21	0.21	0.22	0.21	10%
Austria	0.30	0.30	0.30	0.29	0.29	0.29	0.29	0.29	-2%
Poland	0.26	0.25	0.25	0.25	0.28	0.43	0.43	0.46	77%
Portugal	0.26	0.26	0.27	0.29	0.29	0.29	0.29	0.37	43%
Sweden	0.14	0.15	0.17	0.18	0.18	0.19	0.18	0.18	30%
Slovakia	0.42	0.42	0.43	0.44	0.44	0.45	0.47	0.48	16%
Slovenia	0.23	0.23	0.22	0.23	0.24	0.24	0.24	0.25	10%
Spain	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.21	-1%
Czech Republic	0.31	0.30	0.33	0.38	0.39	0.40	0.44	0.44	44%
Hungary	0.38	0.40	0.42	0.42	0.44	0.49	0.47	0.51	34%
United Kingdom	0.52	0.52	0.55	0.58	0.57	0.57	0.56	0.57	10%
EU 21 average	0.48	0.48	0.48	0.49	0.49	0.48	0.48	0.48	1%

Source: Eurostat, REGIO-Database (accessed on 7.3.05)

In conclusion: In the context of a system-theoretical approach the emergence of a European welfare state cannot be expected since the relative closure of such a new, supranational pattern of segmentary differentiation is extremely improbable given the global reach of functionally differentiated social systems. In addition, a European or global solidarity cannot rely on the same motivational resources as the national welfare state. Therefore, in the tension between economic and political determinants of social inequalities, the income and life chances of individuals will be shaped more strongly by the respective market situation. Indicators for this are an increase of individual income inequalities and larger regional differences in most of the member states of the EU. At the European level, however, this does not lead to an increase of social inequalities. The reduction of the appropriate decil ratio even indicates a convergence of the economic performance per inhabitant in the strongest and the weakest European regions, since poorer countries and regions can increase their economic performance more than the rich ones.

3. On the way to a European-wide class structure and welfare regime?

Instead of a gradual opening and globalization of national arenas, it can also be expected that, in the long run, the European Union evolves into a new, state-like political regime (Bornschiefer 2000a). From this perspective an Europeanization of social inequalities would imply the emergence of European-wide patterns of social inequalities, European-wide equality standards and a European-wide regulation of social inequalities. The congruence between equality norms, economic boundaries and sociopolitical forms of regulation which has been lost at the national level could be reestablished at the European level. Thus the question arises as to whether Europe can attain such a new supranational equilibrium between economic challenges and regulatory capacities favoring perhaps on a long-term basis even the

emergence of European class structures. These questions can be discussed on the basis of the approach proposed by Stein Rokkan (1999).

Boundary building and structuring are the two crucial concepts, with which Stein Rokkan analyzes the processes of state formation in Europe. The ethnic, religious, social and economic disparity has been reduced by the creation of the relatively homogeneous Western European states. The gradual development and solidification of national boundaries made it possible for the emerging Western European States to develop internal military, administrative, economic, social and cultural structures. National boundaries were the indispensable prerequisite for building the state, the development of a national community, the emergence of a democratic order, and the development of redistributive systems of social security (Ferrera 2003: 616).

The European integration changes the relationship between boundary building and structuring. On the one hand the opening of national borders in the course of the current denationalization processes may cause a partial “unfreezing” of national cleavages and conflicts and an increase of social inequalities on the national level. At the European level a "return" of the European disparity, attempts for the European-wide regulation of these disparities and attempts to stabilize the borders between "Europe" and its neighbors can be expected (**overview 6**).

Overview 6: Structuring and boundary building in Europe

	National level	European level
Boundary building	Opening by processes of Denationalization (1)	New borders between European Union and its environment? (5)
Regulation (“structuring”)	“Unfreezing of national cleavages (2)	Development of new, European-wide patterns of regulation (6)
Patterns of social inequality	Increase of social inequalities in the national context (3)	"Return" of the European disparity (transformation of disparities into social inequalities) (4)

(1) The denationalization and globalization of the economy can no longer ensure the congruence between economic and political challenges and decision-making capacities on socio-political issues (Zuern 1998). National borders are increasingly open.

(2) The transfer of competences to the European level and the liberalization of the economy may contribute to the “unfreezing” of national, up to now institutionally crystallized cleavages and conflicts (Ferrera 2003). Thus regions, which, up to now, have had a peripheral position in the context of a nation-state, can now position themselves as local interfaces of transnational exchange processes (Bartolini 2000). National social classes are also confronted with new chances and risks by the opening of national spaces: In particular younger, urban, well-trained persons belong to the "winners" of Europeanization processes, while older, less qualified employees in rural regions are confronted with the risks of open boundaries (Muench 1999).

(3) The "unfreezing" of formerly nationally domesticated and regulated cleavages and conflicts is illustrated by the increase of social inequalities.

(4) At the European level the enlargement and deepening of the European Union is accompanied by a "return" of the pre-national disparity. The socio-cultural and economic differences between the different European states can now be politically articulated in the context of the European Union - for instance in the negotiations on the EU budget and the amount of transfer payments. A strict separation between national spaces characterized by civil, political and social equality norms, and international spaces, which are structured in the context of the "Westphalian order" exclusively by the mutual recognition of sovereign states without any standards of social equality, cannot be maintained any longer.

(5) On the basis of the approach proposed by Stein Rokkan it can be asked whether the EU succeeds in developing new external boundaries. Such boundaries interrupt transnational exchange relations and thereby prevent exit options. Bartolini (2005, Chapter 7) doubts that such a European border can be developed, he stated "„the fundamental *openness* of the new system and in its limited capacity to generate European-wide territorial consolidation while actively removing inner-European boundaries.“ He substantiates this claim with the openness of the European Common Market, with the transnational, deterritorialized character of European law, the purely technical orientation of the European monetary policy and the continuous enlargement processes, which prevent a territorial consolidation:

„the European single market becomes only a section of the global market ... This openness of the national as well as European legal systems can be seen as (...) a ‘privatisation’ and ‘de-territorialisation’ of the production of rights and of stabilised and generalised behavioural conformity associated with the truly transnational character of the new ‘Lex Mercatoria’ (...)The EMU cannot be used to reintroduce a level of closure of the European economies that is coherent and useful to the desired structure of the European system, and, in the end, functional to the EU interests and economic hegemony (...) the current ongoing and apparently unbound enlargement process ... continuously redefining the borders of the system, also continuously redefines the scale and the complexity of its decision-making processes..” (Bartolini 2005, cited on the basis of the manuscript)

(6) From the reciprocal effect between external fixing of the boundaries and internal structural image processes it can be derived that the possibilities for the development of independent samples of the social integration are thereby also limited. The European Union would not however be a "transnational area", characterized by the spatial compression of communications, co-operation and adjustment structures, a relatively closed area, which limits the exit options of central participants so that independent structure and system education processes open free spaces.

To 5 (boundary building):

From my point of view, the diagnosis of an open European space underestimates the processes of economic and legal closure in Europe. On the one hand, a globally integrated market does not exist. The globalization of the economy is mainly the effect of a stronger regional integration in Europe, Asia, and America and an intensification of the exchange between these triad regions. The European national economies especially are strongly interconnected among themselves. On the other hand this strong regional integration is made possible by the European legislation (*acquis communautaire*). The EU is a common legal space; clear and guaranteed legal rights are an important condition for transnational investments. The economic and legal integration of the European markets is documented in extraordinarily intensive commercial exchanges between the EU member states (**see table 7**). In 2002, nearly two thirds of the foreign trade of EU states was directed to other EU member states. The extraordinarily intensive trade and capital integration between the European states points to the fact that the EU is much more than an open space. It is developing itself in the direction of a transnational space characterized by the spatial agglomeration and intensification of social relations, value-chains and governance structures. This space is not characterized by clear administrative and legal separation between insiders and outsiders, but

by the intensification of communication and regulation, by a high degree of economic integration and by unified politico-economic conditions.

Table 7: Europeanization and globalization of external trade in Europe

	Share of trade in national GDP (1990)	Share of trade in national GDP (2002)	Share of trade within EU15 (2002)
Austria	39.0	51.7	64.4
Belgium	69.9	82.0	71.8
Czech Republic	43.9	66.3	
Denmark	33.3	41.5	68.2
Finland	23.5	34.5	59.3
France	21.7	26.1	63.7
Germany	25.1	33.9	54.9
Greece	23.0	25.1	48.0
Hungary	..	65.1	
Iceland	33.6	38.6	61.5
Ireland	54.7	85.2	65.6
Italy	19.7	26.5	55.7
Luxembourg	102.2	136.9	82.3
Netherlands	52.6	60.1	65.1
Poland	23.4	31.3	
Portugal	36.2	33.9	79.1
Slovakia	29.9	75.4	
Spain	18.0	29.1	69.3
Sweden	29.4	40.7	60.0
Switzerland	35.1	40.5	68.5
United Kingdom	25.3	27.7	55.7
EU15	38.2	48.1	61.1
United States	10.3	11.7	20.0
Japan	9.9	10.6	13.9
OECD average	32.0	43.1	

Share of trade with EU15: Percentage of imports from EU on total imports plus percentage of exports to EU on total exports divided by 2.

Share of trade in GDP: Average of imports and exports (of both goods and services) at current prices as a percentage of GDP

No data available for Cyprus, Estonia, Malta, Latvia, Lithuania, Slovenia.

Source: OECD Factbook 2005 and Eurostat.

To 6: (new forms of structuring social relations at the EU level)

Given these open boundaries, the question arises as to how the EU, in such a “compression space”, can handle social inequalities. The emergence of a European welfare state similar to national welfare states cannot be expected. This does not mean however that the European Union will not become an important layer for the handling of social inequalities. A paradigmatic example for this is the Open Method of Coordination. This method has been developed since the European Councils of Amsterdam (1997) and Lisbon (2000). It should contribute to the modernization and homogenization of the national economic, social and employment policies. This method takes into account the institutional diversity of the national orders and the reluctance of nation-states to transfer the corresponding competences to the European level.

The Open Method of Coordination is characterised by processes, in which Member States jointly review and compare the attainment of commonly-agreed objectives, for example on the basis of national action plans and peer reviews. Such a comparison facilitates reciprocal learning. If the objectives are not achieved, this does not result in any formal sanctions. In its most advanced form, the OMC is characterised by common guidelines and objectives, by (partially quantified) indicators, by the elaboration of national action plans, by a joint evaluation of the results and by the exchange of best practices. If the common objectives are not attained, that does not involve formal sanctions. This method is characterized by the principle of subsidiarity, by the crucial role of mutual, recursive learning processes, by the absence of sanctions and by participative patterns of decision-making (Mosher and Trubek 2003). It is used in particular in the field of employment, poverty and pension policies.

The Achilles heel of the Open Method of Coordination is its effective implementation at the national level. Up to now, it is open to question whether the objectives, guidelines and recommendations developed on a European level will be accepted on the national level, since the guidelines are not legally binding and participation is limited to high-ranking national and European experts. Meyer and Umbach (2004) examined the implementation of the European employment strategy (EES) and answered this question as follows:

- In many countries (in particular Belgium, France, Portugal, Sweden, United Kingdom) the EES led to considerable procedural innovations. Cooperation within and between the ministries was improved – for example through working groups and ad hoc meetings.
- At the end of the 1990s a general reorientation of the national employment policies can be observed: "Most significantly the EES impacted on promoting issues such as shifts towards a preventive approach and active labour market measures, gender equality, lifelong learning, tax and pension reforms and a stronger coordination of educational, training and employment policies with the EU member states." (Meyer and Umbach 2004: 5)
- The interest of the national public media in the EES - with the exception of Austria and the Netherlands - was low. The public labor-market discussions are still largely dominated by national interests and issues. For a limited circle of experts and political elites, however, the EES contributes to a change in the orientations and perceptions.

There is some evidence that national debates and strategies on labor market reforms are only marginally influenced by the EES: So far learning takes mainly place within the small circles of the national administrative elites; the objectives and models of the EES are hardly ever made public within the national context. The participation of national parliaments, regions, social partners and non-governmental organizations is still in its infancy.

A European-wide coordination of the social and employment policies is still at the beginning. Nevertheless the EU has already developed promising instruments, in order to contribute to the European-wide regulation of social inequalities in the enlarged union. Complementary to the redistributive EU policies (in particular the agricultural and structural policies) and in addition to the legal harmonization of the national systems of social security, the OMC can contribute to a modernization of national social and employment policies. The European Union could thus evolve into a new societal field, characterized by new, European patterns of perceiving, articulating, and regulating social inequalities.

In conclusion: A perspective inspired by the approach of Stein Rokkan permits the debate on the Europeanization of social inequalities to be put into a broader context. European patterns of social inequalities are the result of national opening, liberalization and re-regulation processes and the European-wide creation of new boundaries and regulation structures. On the one hand, it has to be asked whether the opening of national spaces causes the "unfreezing" of national cleavages and institutionally regulated conflicts (for example between capital and labor). On the other hand it has to be asked whether an external European

boundary and European-wide ways of dealing with social inequalities can be established. While the first question has to be answered with a ‘yes’, the characteristics of the EU have to be taken into account in order to answer the other two questions. The EU is not a superstate, but a relatively closed space characterized by intensive patterns of communication, exchange, and regulation integrated in global communication and value chains. Confronted also with national competences and traditions, it can regulate social inequalities only in an indirect and procedural way. Quick successes cannot be expected.

4. Summary

The European Union is faced with the challenge of developing new ways of dealing with social inequalities. It becomes increasingly risky to ignore the social inequalities in the EU member states and the considerable differences of the economic performance – especially because these inequalities, in at least three dimensions, are to be attributed to the consequences of EU policies: On the one hand the liberalization of the European goods, service, labor and capital markets, on the other hand on the Eastern enlargement, by which countries with completely different labor costs, productivity levels and tax systems were integrated and thirdly on the introduction of a common currency, with which the possibility of a national monetary and exchange rate policy and thus important possibilities for the stimulation of the economy and for the reaction to productivity differences were abolished.

In this contribution three different analytic perspectives for the analysis of the Europeanization of social inequalities have been pointed out (**overview 8**): *First of all* it can be assumed that the increasing economic interdependencies in Europe are causing substantial new challenges for the national social security systems. Due to institutional lock-in effects and complementarities, a fundamental change of national patterns of social inequalities cannot be expected. Therefore national class structures and national ways of dealing with social inequalities can also be expected in the future. *Secondly*, the liberalization of the European states can be analyzed as a phase on the way to a consistent functional differentiation, in which the segmentary differentiation of the political and legal system, i.e. the nation-states, is gradually replaced by global structures. A Europeanization of social inequalities is only a stage on the way to patterns of global inequalities. These patterns will be characterized by a stronger dependence of individual living conditions on market outcomes. Indicators for such a shift are the increase of income inequalities in most European countries and the increase of regional inequalities especially, but not only, in Eastern Europe. *Thirdly* following Stein Rokkan it can be asked whether new patterns of the social integration and regulation of social conflicts can evolve at the European level. A condition for this would be the stabilization of a social and symbolic EU boundary. In this case the European development could follow the example of the nation-states characterized by the interdependency of external boundary building and internal structuring processes: The locking of exit options would be a condition for the opening of European options for voice. Such a development path is quite unlikely, since Europe is not a closed supranational space, but a polycentric space characterized by the concentration of networks of communication, exchange, and value creation. Only to a limited extent can the European Union develop its own ways of dealing with social inequalities. It is limited to an indirect, moderating role, which must take into account the competencies and the grown institutional structures of the nation-states and the global reach of many European actors.

Overview 8: Social inequalities between national institutions, globalization and European regulations

	Continuation of national patterns of social inequality	Emergence of an open European space	European-wide patterns of perception and regulation of social inequalities
System of social inequalities (<i>Systembild</i>)	National patterns of redistribution	EU as arena and/or transmission belt for global liberalization processes	European-wide interdependencies caused by EU monetary, liberalization and social policies
Social conditions (<i>Lagebild</i>)	National classes shaped by national institutions	Individualized conditions shaped by increasingly global markets	Crucial role of center-periphery differences for the viability of the EU
Perception of social inequalities (<i>Mentalitätsbild</i>)	National communities and life styles	Individualization	“Territorialized” view of social inequalities
Conception of social space implied	National spaces as relatively closed “container space”	Open, transnational spaces “between globalization and localization”	Emergence of a relatively closed supranational “container space”
Empirical evidence	Crucial role of national identities and social security systems despite Europeanization and globalization	Increasing social and regional inequalities in European states; open EU boundaries	European coordination of national social and employment policies; European processes of social closure

In conclusion: The European Union is increasingly confronted with the social consequences of its decisions. In particular the Common Market, the Eastern enlargement and the monetary union have a substantial impact on the living conditions of the European population. This increasingly affects the popular support for the integration project (for example in the referenda on the new constitutional treaty) and the bargaining and exchange processes at the European level (for example on the new European budget 2007-2013). This points to the limits of the “methodological nationalism” of the inequality research which assumes that norms of social equality, social classes, social mobility and inequality-reducing institutions can be situated and analyzed only at the level of the nation-state. Both the creation of social inequalities and their regulation are now already shaped to a large extent by the decisions and regulations of the European Union. However, despite the predictions of the compensation thesis (Rieger and Leibfried 2003), this will not lead to a European welfare state which resembles the national welfare states. Rather the methodological nationalism rightly points to the central role of national institutions and their inertia. Secondly, the system-theoretical perspective points with equally good reason to the open boundaries of Europe. Thirdly, the interdependencies of boundary building and structuring which are at the core of the Rokkan approach point to the possibilities of the European institutions to develop relatively autonomous ways of regulating social inequalities at the European level – a possibility which has been discussed taking as an example the Open Method of Coordination. The Europeanization of social inequalities therefore will occur in a complex form, which can be

analyzed only on the basis of all the three perspectives mentioned: The dominant role of regulative (instead of redistributive) social policies at the European level and the low impact of European-wide norms of equality and solidarity refer to the national perspective, the stronger market dependence of social situations and the regionalization of social inequalities point to the system-theoretical perspective which expects a functionally differentiated global society with a reduced scope for political interventions, while the European-wide coordination of national social and employment policies and the impact of European-wide redistributive agricultural and regional policies point to the role of the European governance level also in the field of social policies. In contrast to the nation-states, which exclusively occupied a social space and whose institutions all referred to the same space, Europe thus is a transnational space shaped by the intersection of several social, national, European and global spaces and institutional orders. The patterns of social inequalities in Europe are therefore the result of global market interdependences, European governance structures and national institutions and redistributive policies.

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The Europeanization of social inequalities. Between national institutions, European regulations and global markets

Martin Heidenreich



Social inequalities as crucial challenge for the EU

- Dimensions and reasons of the current crisis of the EU:
 1. Fifth EU Enlargement: Unsolved institutional, budgetary, fiscal, and social challenges
 2. Euro: Inflexible labor market structures => Slower adaptation to asymmetric shocks
 3. Constitutional treaty: Failed ratification would mean deep institutional crisis
- Common denominator: Erosion of public support for European integration:
 1. Enlargement: Increased wage and tax competition
 2. Euro: Contribution to slow growth and high unemployment?
 3. Constitutional treaty: Ratification depends on public support. At least in France and Germany fear of liberalized markets

Thesis: A political deepening of the EU depends on the ability to handle the social and occupational consequences of its policies. The European states and the European Union have to develop new ways of dealing with social inequalities



Three approaches

1. „Illuminated“ methodological nationalism (R. Breen): Opening of national "inequality spaces"; supranational actors influence individual living conditions. But: Still dominant role of national patterns of regulation and national class structures (only national norms of equality and solidarity)
2. Shift to a functionally differentiated world society (N. Luhmann): Europeanization of social inequalities as a first step to global patterns of social inequality
3. Emergence of European patterns of regulation: Repetition of formally national processes of boundary building and internal structuring on a higher level (S. Rokkan, P. Flora)

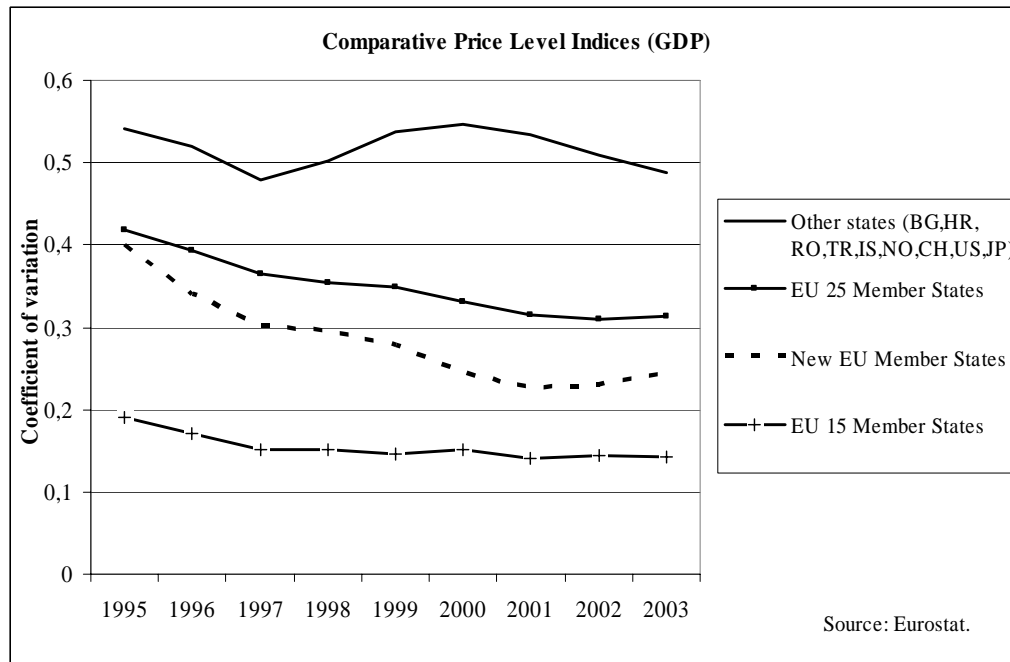


1. Dominant role of national structures of social inequality

- “Methodological nationalism“: Social classes, mobility processes and inequality-generating und regulating institutions can be analyzed mainly at the national level. Norms of solidarity and equality are mainly institutionalized at the national level
- Limits of the MN
 - Liberalization of the goods, services, capital and labor markets (*convergence of price levels*) => Increased competition => *convergence of the levels of public social expenditures*
 - Emergence of supranational norms of equality (European-wide redistribution policies, *supranational poverty perceptions*)
- Nevertheless: Dominant role of national regimes (inertia, path-dependency, institutional complementarity)



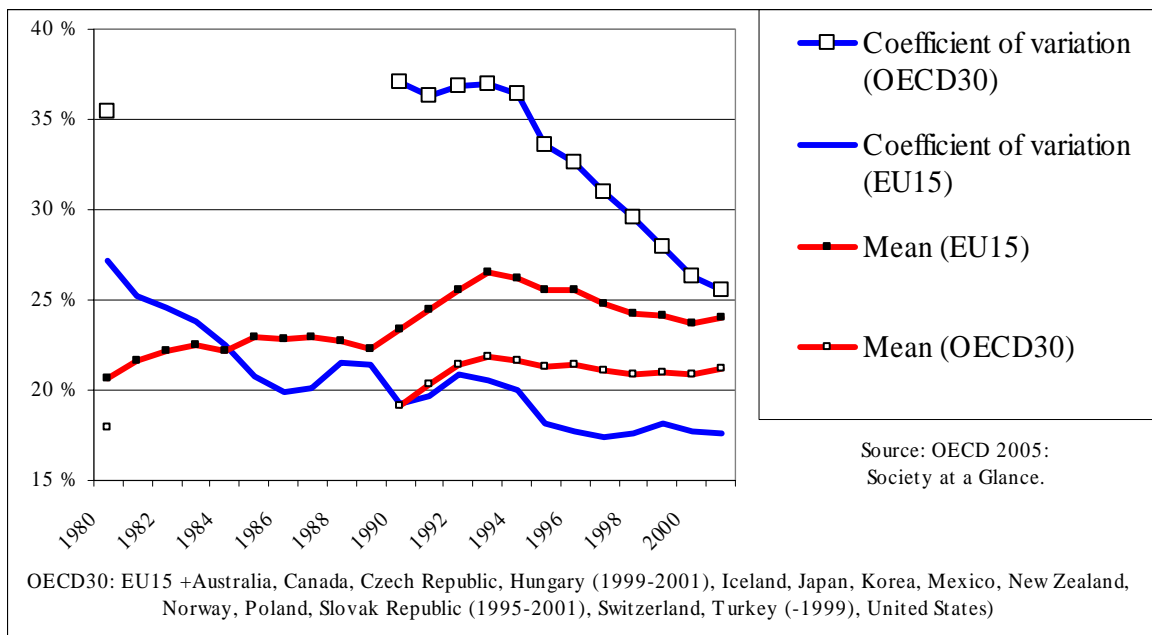
Price convergence in Europe



Indicator: Coefficient of variation of comparative price level index for gross domestic product in %; 1995-2003)

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Development of public social protection expenditures in 30 OECD countries (1981-2001)



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Comparison of objective and subjective poverty (1997; 2001)

	Gross domestic product per inhabitant (2001; PPS)	Income inequality (1997; P90/P10)	% % living in households at risk of poverty (2001) ⁽¹⁾	Dissatisfaction with financial situation (%; 1997)	households in financial difficulties (%; 1997)	% who consider themselves poor (2001) ⁽²⁾
Luxembourg	43,600	3.3	12	56	35	8
Ireland	26,300	4.1	21	63	52	24
Denmark	25,800	2.5	10	30	23	9
Austria	25,500	3.1	12	49	39	16
Netherlands	25,400	3.1	11	46	36	18
Belgium	24,000	3.6	13	53	29	32
Sweden	23,800	2.6	9			20
UK	23,600	4.9	17	51	35	27
France	23,500	3.7	15	70	40	30
Finland	23,300	2.7	11	60	36	30
Germany	22,500	3.6	11	61	21	14 ⁽³⁾
Italy	22,400	4.6	19	82	42	41
Spain	18,900	5.3	19	77	62	34
Portugal	15,800	5.7	20	90	67	66
Greece	15,100	5.8	20	93	83	54

Source: Eurostat

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7

2. Individualization and stronger economic determination of social inequalities in a functionally differentiated global society

- Nation-state: Segmentary form of differentiation (especially of the political and legal system)
- Functionally differentiated society as a world society: No common boundaries of different subsystems beyond the global level => "Europe" or nation-states as inherently instable forms of social organization
- Europeanization of social inequalities as a first stage to global patterns of inequality
- Individualization and stronger dependence of social situations on market and on the individual employability
 - Liberalization of European markets
 - Limits of national redistributive policies
 - *Increase of income inequalities in European states*
 - *Increase of regional inequalities in European states*
 - Convergence of income and regional inequalities in Europe



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8

Overall Trends in Income Distribution: Summary Results from National and Cross-national Studies

	Mid/Early 1970s to Mid/Late 1980s	OECD Study 1980s	Mid/Late 1980s to Mid/Late 1990s	Development of the decil ratio (D9/D1)
Austria	0	0	++	2.89 (1997) - 3.73 (1997)
Belgium	0	+	+	2.77 (1988) - 3.19 (1997)
Czech Republic	na	na	+++	2.37 (1992) - 3.01 (1996)
Denmark	na	na	-	3.22 (1987) - 2.85 (2.85)
Finland	-	0	+	2.59 (1987) - 2.9 (2000)
France	-	0	+	3.46 (1989) - 3.54 (1994)
Germany	-	+	+	2.99 (1989) - 3.29 (2000)
Hungary	na	na	++	3.39 (1991) - 3.47 (1999)
Ireland	-	0	++	4.23 (1987) - 4.33 (1996)
Israel	--	-	++	3.91 (1989) - 4.48 (2000)
Italy	0	+	++	2.94 (1987) - 2.98 (1999)
Netherlands	na	na	++	3.51 (1986) - 3.59 (1999)
Poland	-	+	+	2.71 (1987) - 2.96 (2000)
Sweden	++	+++	++	3.79 (1986) - 4.58 (1999)
UK	++	++	++	5.71 (1986) - 5.45 (2000)

Source: Smeeding (2002) and own additions.



Regional inequalities of economic performance

Country	1995	1996	1997	1998	1999	2000	2001	2002	Change
Poland	0.26	0.25	0.25	0.25	0.28	0.43	0.43	0.46	77%
Latvia	0.34	0.34	0.39	0.46	0.50	0.52	0.50	0.56	64%
Czech Republic	0.31	0.30	0.33	0.38	0.39	0.40	0.44	0.44	44%
Portugal	0.26	0.26	0.27	0.29	0.29	0.29	0.29	0.37	43%
Hungary	0.38	0.40	0.42	0.42	0.44	0.49	0.47	0.51	34%
Sweden	0.14	0.15	0.17	0.18	0.18	0.19	0.18	0.18	30%
Estonia	0.23	0.24	0.26	0.28	0.27	0.29	0.29	0.30	27%
Finland	0.20	0.21	0.21	0.23	0.25	0.24	0.24	0.25	26%
Ireland	0.21	0.22	0.23	0.26	0.25	0.24	0.23	0.26	25%
Slovakia	0.42	0.42	0.43	0.44	0.44	0.45	0.47	0.48	16%
France	0.43	0.44	0.46	0.46	0.46	0.47	0.48	0.48	10%
Netherlands	0.19	0.20	0.20	0.20	0.21	0.21	0.22	0.21	10%
Slovenia	0.23	0.23	0.22	0.23	0.24	0.24	0.24	0.25	10%
UK	0.52	0.52	0.55	0.58	0.57	0.57	0.56	0.57	10%
Germany	0.40	0.40	0.40	0.41	0.41	0.42	0.42	0.42	7%
Greece	0.23	0.25	0.23	0.22	0.21	0.23	0.23	0.23	1%
Belgium	0.37	0.38	0.37	0.38	0.38	0.37	0.37	0.37	0%
Denmark	0.28	0.27	0.27	0.25	0.27	0.27	0.27	0.28	-1%
Spain	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.21	-1%
Austria	0.30	0.30	0.30	0.29	0.29	0.29	0.29	0.29	-2%
Italy	0.35	0.35	0.34	0.34	0.34	0.34	0.34	0.33	-7%
EU 21 average	0.48	0.48	0.48	0.49	0.49	0.48	0.48	0.48	1%

Change of the national coefficient of variation 1995-2002 of the regional - NUTS III - GDP per inhabitant)
Source: Eurostat, Regio Database (accessed 4/12/2005)



3. On the way to a European-wide class structure and welfare regime?

- External boundaries and internal structuring (Rokkan):
 - Ethnic, religious, social and economic heterogeneity has been reduced by the creation of homogeneous Western European states:
 - Closure of exit-options as a prerequisite for state building, nation building, democracy and social security (Ferrera)
- European integration
 - National level: “Unfreezing” of national cleavages; increase of social inequalities
 - European level: “Return” of the European heterogeneity
 - Open questions:
 - Creation of a new European boundary?
 - Emergence of European-wide regulation of social inequalities?



Structuring and boundary building in Europe

	National level	European level
Boundary building	Opening by processes of denationalization (1)	New borders between EU and its neighbors? (5)
Regulation (“structuring”)	“Unfreezing of national cleavages (2)	Development of new, European-wide patterns of regulation? => OMC (6)
Patterns of social inequality	Increase of social inequalities in the national context (3)	“Return” of the European diversity (transformation of disparities into social inequalities) (4)



	Share of trade in GDP (1990)	Share of trade in GDP (2002)	Share of trade within EU15 (2002)
Austria	39.0	51.7	64.4
Belgium	69.9	82.0	71.8
Czech Republic	43.9	66.3	
Denmark	33.3	41.5	68.2
Finland	23.5	34.5	59.3
France	21.7	26.1	63.7
Germany	25.1	33.9	54.9
Greece	23.0	25.1	48.0
Hungary	..	65.1	
Iceland	33.6	38.6	61.5
Ireland	54.7	85.2	65.6
Italy	19.7	26.5	55.7
Luxembourg	102.2	136.9	82.3
Netherlands	52.6	60.1	65.1
Poland	23.4	31.3	
Portugal	36.2	33.9	79.1
Slovakia	29.9	75.4	
Spain	18.0	29.1	69.3
Sweden	29.4	40.7	60.0
Switzerland	35.1	40.5	68.5
UK	25.3	27.7	55.7
EU15	38.2	48.1	61.1
United States	10.3	11.7	20.0
Japan	9.9	10.6	13.9
OECD	32.0	43.1	

Source: Eurostat.



The European dimension of foreign trade in the EU: A process of social closure?

Conclusion: Social inequalities between national institutions, globalization and European regulations

	Continuation of national patterns of social inequality	Emergence of an open European space	European-wide patterns of perception and regulation of social inequalities
System of social inequalities (<i>Systembild</i>)	National patterns of redistribution	EU as arena and/or transmission belt for global liberalization processes	European-wide interdependencies caused by EU monetary, liberalization and social policies
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Perception of social inequalities (<i>Mentalitätsbild</i>)	National communities and life styles	Individualization	“Territorialized” view of social inequalities
Conception of social space implied	National spaces as relatively closed “container space”	Open, transnational spaces “between globalization and localization”	Emergence of a relatively closed supranational “container space”
Empirical evidence	Crucial role of national identities and social security systems despite Europeanization and globalization	Increasing social and regional inequalities in European states; open EU boundaries	European coordination of national social and employment policies; European processes of social closure

