The Development of Social Inequalities in Europe

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The failed ratification of the constitutional treaty indicates that the process of European integration is increasingly threatened by feelings of uncertainty and precariousness. This may be the result of increasing social inequalities in the European Union (EU). A better understanding of the patterns and dynamics of social inequalities therefore may contribute to a better understanding of the current crisis of the EU. In this chapter, we analyse the state and the development of within-nation and between-nation inequalities in the enlarged EU. It can be shown that income and regional inequalities are increasing in most of the EU member-states, while between-nation inequalities in Europe remain stable or even decline in the last years. This is an indicator that the EU as a relatively homogeneous economic, legal and political field succeeds in promoting the social cohesion of its member states. But even if the EU contributes to the reduction of social inequalities in Europe, this may not increase the support for the European integration, because norms of solidarity are mostly limited to a national community. A continuation of the European integration therefore requires transnational concepts of solidarity and justice.

Social Inequalities: A Challenge in the Process of European Integration

Social inequalities and social classes have been analysed almost exclusively within a national framework of reference. There are persuasive reasons for this: In the 20th century the welfare state provided increasingly comprehensive protection against different social risks. Social risks and inequalities that are increasingly the result of global networks of exchange and competition are still perceived, articulated and regulated mainly at a national level (Breen and Rottman 1998). Nation-states are still the largest known level, at which the norms of equality and solidarity are anchored effectively; the target group for socio-political expectations and claims are found almost solely at nation-state level (Beckert *et al.* 2004).

However, transnational dynamics and international developments have an increasing influence on the distribution of scarce resources and attractive positions, and therefore on people's life chances. Above all, this applies to the European Union (EU), which, since its foundation, has successfully stimulated the economic integration of the European economy. This has also been perceived increasingly by the European population and to a large extent explains the resistance to the continuation of the European integration process. Actual examples of this are the failed ratification of the European constitutional treaty in the Netherlands and in France (2005), thc resistance to the liberalisation of the services market, which led to a departure from the proposed country-of-origin principle in the Directive on Services in the internal market (COM(2004)2), and the scepticism towards the accession of Turkey and other countries (European Commission 2006).

The compensation thesis (see Rieger and Leibfried 2003; Sinn 1995; Rodrik 1997) would interpret this scepticism against a further Europeanisation and globalisation of the economy as an indication, that a further enlargement and economic integration of the EU without new forms of social compensation for the losers of these integration processes is hardly possible. However, a European social policy similar to the national ones is prevented by the principle of subsidiarity: Faced with the reservation of nation-states to delegate social policies to the EU and the extraordinary heterogeneity of national social security systems, a European welfare state or a significant growth of international transfer payments cannot be expected. The EU is therefore confronted with a trilemma of political deepening, budget neutrality and enlargement (Heidenreich 2003).

However, this trilemma can be avoided, if the process of European integration itself leads to a reduction in social inequalities. A convergence of the standards of living and income could be achieved not only by transnational transfers but also by the economic integration process itself and a regulatory harmonisation (Bornschier 2000). The catch-up processes of the four cohesion countries (Ireland, Spain, Portugal, and Greece) and the rapid development of the central European transition states (European Commission 2004) supports such an expectation.

Through the Europe-wide integration and regulation of markets and by the harmonisation and coordination of national economic, employment and social policies, the EU could contribute to the reduction of social inequalities at a European level and create a relatively homogeneous social, political and economic field within the framework of an economically-integrated world society. Even if such a convergence process at the European level could be observed, this does not exclude increasing social inequalities within the European nation-states.

In the next section, we will discuss how the Europeanisation of social inequalities can be theoretically analysed. A system-theoretical

perspective for the analysis of social inequalities in transnational, but not completely globalised spaces will be developed (2). On this basis we will analyse the development of income inequalities in Europe (3). In the next step, we will examine another crucial dimension of social inequalities – the development of regional disparities within Europe. It can be shown that the national inequalities in both dimensions more likely tend to increase, whilst the individual income inequalities and the regional inequalities in Europe as a whole decrease (4). This will be interpreted as an indicator for the effectiveness of a European regulatory model (5).

The European Space between Openness and Closure

On the global level, Firebaugh (2003) has developed an impressive thesis: He splits the period since the beginning of the industrialisation into two phases, the first being characterised by the reduction of within-nation income inequalities and an increase in the between-nation inequalities (1820-1970). In the second phase since the 1970s, between-nation income inequalities have been stabilised and since the 1990s even decreased, whilst the within-state inequalities in many countries are increasing again.[1] Firebaugh and Goesling (2004) explain this global convergence by the economic advancement of China, India and some smaller South Asian countries during the globalisation of the economy. For the debate on the Europeanisation of social inequalities,[2] this requires a clear distinction between inequalities within the nation-nations and inequalities between them. In both dimensions, social inequalities can increase or decrease. Therefore, in a general perspective, four different scenarios can be distinguished (see Table 1).

1 Firebaugh (2003: 26) reconstructs the average incomc inequality from 1820 to 1992 in 33 homogeneous countries or groups of countries. He points out that the inequality reached its maximum within thesc (groups of) countries in 1910 and then – with the creation and expansion of national welfare states – receded quickly until the 1970s. This was accompanied by an accelerated increase in the inequalities between the states. The decrease since then can be explained above all by thc above-average growth of China and South Asia. In Western Europe the weighted within-nation income inequalities rose from 1980 to 1995 (+7.7% to +10.4% taking the Theil respectively the MLD indices; cf. Firebaugh (2003: 161)), while the inequalities between the 16 West European countries possibly decreased (Firebaugh and Goesling, 2004: 296).

2 'Europeanisation of social inequalities' refers to transnational processes caused by the European integration, which shape the distribution of scarce and desired goods and positions thus shaping the life chances, the social identities, the interests and values of individuals and social groups (cf. Heidenreich 2006).

Table 1: Trends of Between-Nation and Within-Nation Inequality in Europe. Four Scenarios

	Development of within-nation income inequalities in Europe	Development of between-nation income inequalities in Europe
Increasing inequalities	b) A European version of the great U-turn-thesis (Alderson and Nielsen 2002): "Unfreezing" of national cleavages and patterns of inequality due to the Europeanisation of national spaces (H1)	c) Economic liberalisation, Europeanisation and globalisation => Europe as an open space without boundaries results in a differentiation of economic performance and living conditions
Stable or decreasing inequalities	a) A European version of the "inverted-U curve" hypothesis (Kuznets 1955): Institutional inertia and more inclusive labour markets may explain reduced inequality	d) Structural coupling of functionally differentiated systems within a territorial segment of the world society may result in the creation of a relatively homogeneous European space (Luhmann-Stichweh) (H2)

Firstly: The development of within-nation inequalities in Europe can be discussed starting from the hypothesis of the inverted U-turn proposed by S. Kuznets (1955). This hypothesis refers to the development of social inequalities in the course of national industrialisation processes and predicts low inequalities at the beginning of the industrialisation process, a noticeable increase during the transformation to an industrial society and a decrease in developed, wealthy societies. This hypothesis inspired an extensive discussion of the relationship between growth and social inequalities, in which the original argument of Kuznets – the different developments of advanced and traditional sectors of the economy – has been broadened by other factors. Korzeniewicz and Moran (2005) refer in particular to the role of demographic transitions and labour-market institutions (for example education and wage-setting institutions). Kenworthy points especially to the fact that increasing inequalities of income can be compensated for by an increased employment rate (Kenworthy, 2004; Kenworthy and Pontusson 2005).

Secondly: Since the 1980s, however, an increase in income inequalities has been observed in many countries – particularly in the USA and Great Britain. Alderson and Nielson (2002) and Alderson *et al.* (2005) explain this "great U-turn" by the globalisation of the economy – particularly by the increased importance of trade between the developed and lesser-developed countries and the increase in foreign direct investment. This thesis can also be adapted to the European situation: The population is confronted with new chances and risks through the economic integration of the national economies: Whilst young, well-trained

employees belong to *those who profit from Europeanisation*, poorly qualified, older employees are confronted rather with the negative consequences of the Europeanisation processes (Münch 1999). The increase of within-nation inequalities and therefore the different chances and risks for diverse social groups can bring about the *unfreezing* of formerly nationally domesticated and regulated conflicts (Ferrera 2003). The following hypothesis therefore can be formulated:

> The Europeanisation and globalisation of the economy will lead to an increase of the within-nation income inequalities in Europe, since the European integration implies the liberalisation of the European goods, services, capital and labour markets and increasing foreign direct investments and trade with other countries (H1).[3]

Thirdly, another scenario would be the increase of the between-nation income inequalities in Europe. Former national barriers to market entry have been increasingly undermined by the liberalisation of goods, services, capital and labour markets. This can lead to a stronger differentiation of the various national economies in Europe. As the inequalities arising from this can hardly be compensated for by between-nation transfers, this could lead to an increase in social inequalities. This could be justified by the argument of Bartolini (2005, Chapter 7) who states the fundamental *openness* of Europe and the limited capacity to generate European boundaries – a diagnosis he explains by the openness of the European Internal Market, by the transnational, de-territorialised character of European law, the purely technical orientation of the European monetary policy and the continuous enlargement processes, which prevent a territorial consolidation.

Fourthly, even if the European space is not marked by a clear-cut, either military, political or administrative difference between inside and outside, the European Union is not a completely open space. Europe can be analysed more adequately as a trans-national space characterised by dense patterns of communication, cooperation, exchange and regulation and a homogeneous legal basis, the community acquis. In the tension between national spaces and a global society, the European Union is neither a closed "container" nor a completely open space, but a space characterised by the intensification of social relations.

This leads to the question of how such a supranational space can be analysed. In the following, a system-theoretically inspired proposal is

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3 The percentage of imports from the EU15 compared to total imports fell from 64.5% in 1992 to 60.2% in 2003, as did the percentage of exports to total exports (67% and 61.9% respectively) (Source: Eurostat). Measured against the flow of direct investment from the EU25 countries the same is true: 55.3% (2004) of all the European direct investment was made in non-EU countries (Passerini 2005). In 2002, this figure was 73.2%.

developed, in order to analyse the peculiar characteristics of the European interaction and regulatory structures between the nation-state and the global society. In the next step, we will interpret the stabilisation or reduction of social and regional inequalities as an indicator for the effectiveness of this compression process.

On the basis of Luhmann's analysis of social inequalities (cf. Luhmann 1985), Europe has to be analysed as a specific social field shaped both by a functionally differentiated world society and a political and legal system which is still differentiated according to segmentary logics. *Segmentary differentiation* refers to the division of thc society into sub-systems such as families, clans or villages that are principally homogeneous, of equal status and similar internal structures which are largely independent of each other. Examples of societies based mainly on this form of differentiation are archaic societies such as tribal societies, which define their basic units by kinship, and village societies, which are based on territorial proximity. The exchange relationships are based on reciprocity: It is expected that the members of a family, a village or a tribe will stand up for each other. Social differences in societies differentiated in homogeneous segments are based on the distinctions between members and non-members; internal differences playing a minor role.

A *functionally differentiated society* on the other hand is marked by operatively closed subsystems, which have specialised in various functions for the whole system. Examples of this are the functions of material reproduction (economy), the production of new discoveries (science) or the making of collectively-binding decisions (polity). The function, for which each sub-system is exclusively responsible, is the central point of reference for its own reproduction. A functionally-differentiated society always tends to be a world society, as function systems cannot be bounded to a limited space (Luhmann 1997: 166): "Because function systems such as economy or science, politics or education, medical treatment or law each have their own requirements on their boundaries, which cannot be no longer integrated precisely into one space or with respect to one group of people" (Luhmann 1997: 149; own translation).

Modern examples for segmentary differentiation are the nation-states or the EU. However, such a segmentary differentiation affects only the political and legal systems: In the *Westphalian* world of nation-states the other sub-systems – for example, the economy, the family, art and culture, mass media, science and technology – are organised on a supranational level. Within the context of the modern, functionally differentiated world society, only the political and legal systems are differentiated in various, relatively homogenous territorial segments. The reason for this is that processes of consensus formation and forms of representation

are, up to now, only conceivable within territorially-bounded communities. Faced with the paramount importance of politics and law, this leads to a regionalisation of society: States and other political entities such as the EU therefore combine functional and segmentary forms of differentiation: While the functionally differentiated system of world politics and law is internally largely organised in segments, other functional systems as the economy, science, technology, etc. abandon increasingly such ties to national boundaries. However, this does not mean a deterritorialisation of social processes: "The importance of territorial boundaries lies in the inter-dependency between the political system and the legal system on the one side and functionally differentiated systems on the other side" (Luhmann 1997: 167).

Stichweh (1999) analyses these interdependencies with the concept of *structural coupling*, which Luhmann (1997: 779) defines as the "intensification of certain paths of reciprocal irritation with total indifference to the environment of the remainder". By way of example, science and economy are linked by the generation and use of technical, economically useful knowledge. Science and politics, on the other hand, are linked by research policies. Although science in itself is a globally-operating system, the European research policy for example can induce the Europeanisation of science, if the financing of basic research can be guaranteed along political lines. The impact of "Europe" can therefore be explained by locally and regionally differing forms of structural coupling between functional systems (Stichweh 1999: 289).

This poses the question as to how an increasingly globalised economy and the European regulatory structures interact in the structuring of social inequalities. We expect the development of a relatively homogeneous European field (Fligstein and Stone Sweet 2002) which can be explained by the interaction of global subsystems (as the economy) and European politics and law. The EU supports the regionalisation of different sub-systems – and thus also the emergence of regional patterns of social inequality – in four different ways: Firstly, through its structural and regional policy the EU pursues to a limited extent a policy of supranational redistribution. Secondly, the European-wide legal harmonisation of the social security regulations contributes to a modernisation of the European labour market and social security structures (Leibfried and Pierson 2000: 279). Thirdly, soft forms of governance such as the open method of coordination will also contribute to the modernisation of national social and employment regimes (Zeitlin and Pochet 2005). Fourthly, the European economies are strongly interconnected. This strong regional integration is made possible by common rules and legal norms, i.e. the community acquis and its approximately 20,000 legal documents. Europe is a common legal space; the predictability of legal decisions associated with it is an important prerequisite for crossborder investments. In these ways, the EU can contribute to the reduction of income inequalities in the EU.

In a Polanyian framework, this could be interpreted as the combined result of disembedding and reembedding processes: While national institutions like the social security systems or industrial relations succeeded especially after WWII in taming the "satanic mill" of self-regulating markets, the Europeanisation and globalisation of the economy challenged the social order of the "Westphalian" world based on national patterns of redistribution, conflict resolution and political integration. The European level therefore might emerge as a new level embedding the economy in a transnational order (Polanyi 1991; Kreckel 2006).

> It can be expected, that the integration of European goods, serviees, finance and labour markets as well as their homogeneous regulation plus the supra-national coordination and harmonisation of national social and employment policies in Europe can contribute to a reduction of the between-nation inequalities in Europe, as less prosperous states profit over proportionally from the integration of the European markets and the standardisation of the basic legal conditions and social policies (H2).

Both thcse hypotheses will be examined in the following chapter, first using the example of individual (4) and then regional (4) inequalities.

The Development of Income Inequalities in Europe

The hypothesis of increasing within-nation income inequalities can be confirmed in most European states. On the basis of the *Luxembourg Income Study*, Smeeding (2002) confirms that in the 1980s and 1990s there had been an increase in income inequalities in most European countries (with the exception of Denmark and Slovenia):[4] Indicated by an increase of the decile ratio D9/DI, the inequality of disposable income increased especially in Belgium, Czech Republic, Sweden, Slovakia and Great Britain (Table 2, right-hand columns).

The unequal distribution of disposable income can, however, be explained only partly by the unequal distribution of gross earnings (as calculated by the OECD). On the contrary: In four countries the inequality in gross earnings by those in full-time employment has even de-

4 On the basis of the data compiled by Deininger-Squire, Firebaugh (2003: 161) observes that between 1980 and 1995 there was also a clear increase in the weighted national income inequalities in Western Europe (+ 7.7% and + 10.4% respectively on the Theil and MLD indices). Similarly strong were the increases in income inequality in Southern Europe (5.6% and 12.6%, cf. fn.1). In Eastern Europe, in the four English-speaking countries (AUS, CAN, NZ, USA) and in Asia the increase in income inequalities was even more pronounced.

creased, while the inequality in disposable income – though partly in different time periods – has increased (Belgium, Finland, France and Ireland). Increasing inequalities are therefore also the result of different employment regulations: In countries with selective employment regimes, the possibilities for members of poor households to increase their household income by more than one job are worse. This then leads to a smaller disposable income, as this income is calculated as household-related and, using the equivalence scale, is attributed to the individual members of the household:

Table 2: Earnings and Income Inequalities (Gross earnings and disposable income; D9/D1; 1979–2000)

	D9/D1 ratios of gross earnings, 1979–2000			D9/D1 ratios for disposable income, working-age households, 1979–2000		
	Time period	Earliest observation	Most recent observation	Time period	Earliest observation	Most recent observation
Denmark	1980-1990	2.13	2.16	1987-1992	3.22	2.85
Slovakia				1992-1996	2.25	2.88
Finland	1980-1999	2.47	2.36	1987–2000	2.59	2.90
Sweden	1980-1998	2.03	2.22	1981-2000	2.43	2.96
Netherlands	1979-1999	2.57	2.92	1983-1999	2.94	2.98
Czech Rep.	1996-1999	2.82	2.93	1992–1996	2.37	3.01
Slovenia				1997-1999	3.24	3.15
Austria	1996		2.78	1987-2000	2.89	3.17
Germany	1984-1998	2.88	3.04	1981-2000	2.89	3.29
Belgium	1986-1993	2.4	2.24	1988-2000	2.77	3.31
France	1979-1998	3.25	3.05	1979-1994	3.47	3.54
Hungary	1986-2000	2.6	4.92	1991-1999	3.39	3.57
Poland	1980-1997	2.88	3.54	1986-1999	3.51	3.59
Portugal	1985-1993	3.63	4.05			
Italy	1986-1996	2.22	2.39	1986-2000	4.05	4.48
Ireland	1994-1997	4.06	3.93	1987-2000	4.23	4.56
Great Britain	1979-2000	2.95	3.4	1979-1999	3.53	4.59
Spain	1995		4.22	1980-2000	4.37	4.78

Source: The decile ratio D9/D1 is the ratio of earnings at the top decile (the person 10% from the top) to those at the bottom decile (the person 10 percent from the bottom). Data for the gross earnings of those in full-time employment: http://www1.oecd.org/scripts/cde/default.asp; Data for inequalities of disposable income: http://www.lisproject.org/keyfigures.htm, as at: 5 March 2006.

> We observe sizeable increases in market household inequality in most countries. This development appears to have been driven largely, though not exclusively, by changes in employment: In countries with better employment performance, low-earning households benefited relative to high-earning ones; in nations with poor employment performance, low-earning households fared worse. (Kenworthy and Pontusson, 2005: 449)

The national employment rates, which are much higher in the Anglo-Saxon and Scandinavian countries than in Southern, Eastern and Continental European countries, therefore are an important determinant of social inequalities. The social situation of poor households depends more and more on the inclusiveness of national employment regimes. The best example of this is Italy: While the wage structures are relatively egalitarian (1996: 2.39), the decile ratio of the disposable income in 1995 was 4.65: The bad employment chances for southern Italians, women and older and younger people could not be compensated for by an equalitarian wage policy. The situation in the Netherlands is totally different: The considerable increase in wage inequalities in the 1980s and 1990s did not result in a noteworthy increase in household-related income inequalities, as households with low-wage-earners could improve their income situation due to the increase of part-time jobs. In Hungary too, nearly a doubling of gross earnings inequalities during the 1990s was accompanied by a relatively small rise in the inequality of disposable income, since the employment rate rose considerably over the same period (1996: 52.1%; 2000: 56.2% of population aged 15-64 years) – apparently especially in favour of poorer households. Social equality does not simply depend on an egalitarian wage structure and on a redistributive social policy, but also on inclusive labour markets.

Over the last decade, however, a rather different picture has emerged: From 1995 to 2004 the largest increase in income inequalities has been in the Scandinavian countries (Denmark, Finland and Sweden) – countries which, up to now, had been characterised by very egalitarian income structures. Härpfer and Schwarze (2006: 146) explain this by the restructuring of the Scandinavian welfare states. The greatest inequalities, however, are still recorded in Southern Europe (Portugal, Greece, Italy, Spain), in Great Britain and in Central Europe (Latvia, Estonia, Slovakia and Poland) (Table 3).

Table 3: Inequality of Income Distribution (EU25; 1995-2004)

	Time period	Gini coefficient		Income quintile share ratio	
		Earliest observation	Most recent observation	Earliest observation	Most recent observation
Belgium	1995-2004	29	26	4.5	4
Czech Republic	2001-2003	25	25	3.4	3.4
Denmark	1995-2004	20	24	2.9	3.4
Germany	1995-2004	29	28	4.6	4.4
Estonia	2000-2003	36	34	6.3	5.9
Greece	1995-2004	35	33	6.5	6
Spain	1995-2004	34	31	5.9	5.1
France	1995-2004	29	28	4.5	4.2
Ireland	1995-2004	33	32	5.1	5
Italy	1995-2004	33	33	5.9	5.6
Cyprus	1997-2003	29	27		
Latvia	2000-2003	31	36	5.5	6.1
Lithuania	2001-2003	31	29	5	4.5
Luxembourg	1995-2004	29	26	4.3	3.7
Hungary	2000-2003	26	27	3.3	3.3
Malta	2000-2000	30	30	4.6	4.6
Netherlands	1995-2003	29	27	4.2	4
Austria	1995-2004	27	26	4	3.8
Poland	2000-2003	30	31	4.7	5
Portugal	1995-2004	37	38	7.4	7.2
Slovenia	2001-2003	22	22	3.2	3.1
Slovakia	2003-2004	33	33	5.4	5.8
Finland	1996-2004	22	25	3	3.5
Sweden	1997-2004	21	23	3	3.3
United Kingdom	1995-2003	32	34	5.2	5.3

Source: Eurostat, http://epp.eurostat.cec.eu.int (5 March 2006). Cf. also Table 4.

The second question is whether the Europe-wide differences in income will gradually decrease or even increase through the opening, liberalisation and Europeanisation of national markets. For certain periods of time this question cannot be answered, as Europe-wide data on income equalities are only available for the period 1995–2004. On the basis of the European Community Household Panel and the new "Statistics on Income and Living Conditions" the following results can be reported (cf. Table 4 and Härpfer and Schwarze 2006):

- All indicators point to a decrease in income inequalities in the 15 hitherto EU member states.
- At the same time, the income inequalities and poverty risks in the new EU member-states have risen considerably in the last years.
- Faced with these diametrically opposed developments, the Gini-coefficient indicates a reduction in Europe-wide income inequalities, while the quintile share ratio S80/S20 indicates an increase. In view of the particular sensitivity of the Gini-coefficient for the average income range, this indicates an increase of inequalities in the very poor and the very rich households and a convergence in the average income range.

In conclusion: The income inequalities in the European states have risen considerably during the 1980s and 1990s. This can be interpreted as a consequence of the liberalisation of European markets and the opening of national spaces. The welfare state can still compensate only partially the increased biographical and income risks caused by the economic Europeanisation and globalisation processes. At the same time, the differences between the unequal distribution of disposable income and gross earnings indicate the considerable importance of national employment regimes: Inclusive labour markets can compensate for an unequal distribution of market income and thereby, like redistributive social policies, also contribute to a reduction in income inequalities. However, since the middle of the 1990s, with the exception of the Scandinavian countries, income inequalities in the enlarged EU have been stabilised in spite of the increase in the ten new member states. The reduction in income inequalities in the previous European Union (EU15) and the stabilisation of income inequalities in thc enlarged EU (EU25) can be interpreted as an indicator for the effectiveness of Europe-wide political, legal and social regulations. The two hypotheses concerning the development of within-nation and between-nation equalities can therefore be confirmed in the case of individual income equàlities. In the long run, this might imply that territorially based inequalities might gradually be replaced by other, European-wide inequalities (for example between employed and unemployed, between higher and lower qualified employees, between younger and older people or between employees in different industrial branches).

Table 4: Inequality of Disposable Income in the European Union Prior to (EU15) and Following the Fifth Enlargement (EU25)

Region	Time period	Indicator	Earliest obser-vation	Most recent obser-vation
EU (13 coun-tries – Sweden and Denmark excluded)	1995-2001	D9/D1 decile ratios	3.88	3.49
European Union (15)	1997-2001	Mean logarithmic deviation of disposable income(1)	0.159	0.147
European Union (25)	2001-2004	Gini coefficient(2)	0.31	0.29
European Union (15)	1995-2004	Gini coefficient(2)	0.30	0.29
10 new EU member states	2000-2004	Gini coefficient(2)	0.29	0.33
European Union (25)	1998-2004	Income quintile share ratio (S80/S20)	4.6	4.8
European Union (15)	1995-2004	Income quintile share ratio (S80/S20)	5.1	4.8
10 new EU member states	2001-2004	Income quintile share ratio (S80/S20)	4.3	4.8
European Union (25)	1998-2004	At risk of poverty rate(3)	15%	16%
European Union (15)	1995-2004	At risk of poverty rate(3)	17%	17%
10 new EU member states	2001-2004	At risk of poverty rate(3)	14%	16%

Indicators are based on ECHP (European Community Household Panel) survey data for 15 pre-enlargement member states (1994-2001) and on the EU-SILC Regulation (Statistics on Income and Living Conditions).

(1) The mean logarithmic deviation is derived by taking the average of the logarithms of the mean income divided by each respondent's income. It is a member of the generalised entropy family of income inequality measures.

(2) The Gini coefficient is a measure for the inequality of the distribution of the disposable income. It varies between 0 and 1, where 0 corresponds with perfect equality (where everyone has the same income) and 1 corresponds with perfect inequality (where one person has all the income, and everyone else has zero income).

(3) Cut-off point: 60% of median equivalised income after social transfers.

Sources: Eurostat, http://epp.eurostat.cec.eu.int (5 March 2006) and Härpfer and Schwarze (2006).

The Development of Regional Inequalities in Europe

Regional differences are another crucial dimension of social inequalities in Europe. On the one hand, they challenge the social integration of the population in territorially based systems of political domination because political dissatisfaction can be expressed not only through political protest and votes (voice), but principally also in attempts at separatism (exit). In the case of the EU, regional disparities can be articulated in the politically integrated Europe increasingly in transnational negotiations – for example in the negotiations on the budget of the EU and the amount of transfer payments (cf. Heidenreich 2003). Therefore, the political regulation of regional inequalities becomes an essential question for the future of the enlarged EU. However, in an intensified international competition on boundaries, political attempts to provide similar living conditions become increasingly difficult at both national and European levels. Also the chances and risks of the economic liberalisation are distributed unequally throughout Europe. Not all regions profit in the same way from the advantages of close and institutionally-stabilised patterns of cooperation and can transform themselves into innovative clusters in global communication, information and service networks.

As well as in the previous section, we will discuss now whether the limits of redistributive policies and the liberalisation of the markets will lead to an increase in the within- and between-nation regional differences or whether the unified regulation of the European economy and the European cohesion and harmonisation policies will lead to a reduction of the regional differences in Europe. The rapid catch-up process of the Central and Southern European countries following their accession to the EU speaks for the latter expectation. If this hypothesis could be confirmed, this would be another indicator for the effectiveness of the European institutions, market regulations and cohesion policies. Therefore, in this section the development of regional inequalities in the national and in the European context will be analysed.

Firstly, as an indicator of the regional prosperity level, the regional, purchasing-power adjusted gross domestic product per inhabitant will be used, even if this indicator cannot be equated with the disposable household income due to commuters, taxes, transfer payments and income from property. This indicator is available for the 1,214 European NUTS3 regions.[5]

[5] The Nomenclature of Territorial Units for Statistics (NUTS) is a three-level hierarchical classification that provides a single uniform breakdown of territorial units for the production of regional statistics for the European Union.

Table 5: Disparities of the Economic Performance (GDP *per capita*) in the NUTS3-Regions in the Enlarged European Union (1995 and 2003; EU25)

	Gini (1995)	Rank	Gini (2003)	Rank	MLD (1995)	Rank	MLD (2003)	Rank	Changes (1995-03)
Poland	0.147	11	0.202	17	0.034	10	0.089	19	163%
Latvia	0.182	17	0.275	21	0.056	15	0.135	21	140%
Portugal	0.124	7	0.190	15	0.030	8	0.060	12	101%
Ireland	0.117	5	0.150	9	0.022	5	0.038	8	77%
Sweden	0.072	1	0.096	1	0.010	1	0.017	1	71%
Hungary	0.196	19	0.245	20	0.066	19	0.109	20	65%
Estonia	0.167	14	0.212	19	0.053	13	0.086	18	64%
Czech Rep.	0.127	9	0.145	8	0.035	11	0.057	11	62%
UK	0.158	12	0.184	13	0.055	14	0.078	16	42%
Finland	0.108	3	0.124	5	0.019	2	0.026	5	38%
Slovenia	0.119	6	0.135	7	0.024	6	0.033	7	38%
France	0.164	13	0.166	11	0.056	16	0.075	15	33%
Slovakia	0.181	16	0.188	14	0.062	17	0.082	17	31%
Netherlands	0.110	4	0.121	3	0.019	3	0.024	4	27%
Greece	0.092	2	0.099	2	0.020	4	0.023	2	16%
Belgium	0.198	20	0.198	16	0.063	18	0.067	13	7%
Germany	0.213	21	0.206	18	0.072	20	0.075	14	4%
Spain	0.127	8	0.126	6	0.026	7	0.024	3	-5%
Austria	0.171	15	0.165	10	0.047	12	0.043	9	-9%
Denmark	0.135	10	0.122	4	0.032	9	0.026	6	-18%
Italy	0.195	18	0.172	12	0.075	21	0.049	10	-35%
EU25 total	0.239		0.225		0.107		0.090		-16%
Within					0.052 48%		0.060 67%		
Between					0.055 52%		0.030 33%		

The above values refer to the gross national product per inhabitant (in purchasing power standards) for the 1.214 NUTS3-regions of the EU25. The values are each weighted with the number of the population. Due to an insufficient number of cases the Gini-coefficient and the MLD for Luxembourg, Cyprus, Lithuania and Malta cannot be calculated. The NUTS3-level is the third territorial level below the national level (in Germany: Administrative districts, independent cities). The *Gini-coefficient* ranges from a minimum value of zero, when all regions are equal, to a theoretical maximum of one. The *Mean Logarithmic Deviation (MLD)* indicates the average deviation of the logarithm of the value-added from the mean logarithmic deviation. The MLD reacts particularly sensitively to changes in the lower income bracket. If the distribution is completely even, the MLD accepts the value zero. It has no upper limit.

Source: Own calculations on the basis of Eurostat, REGIO-Databank, http://epp.eurostat.ec.europa.eu; as at 5 September 2006.

In Table 5, the amount and development of the thus-defined regional inequalities from 1995 to 2003 is described using the Gini-coefficient and the mean logarithmic deviation (MLD). An important advantage of the MLD is its decomposability, i.e. it can be expressed by the sum of between-groups MLD and the weighted average of within-groups MLD. It becomes apparent, that the regional differences have increased in 17 of the 21 EU countries, for which the corresponding data can be calculated. Only in Italy, Denmark and Austria has there been a noticeable reduction in regional inequalities. The highest rises can be observed in the Central European countries and in Portugal, Sweden, Ireland and Finland. The economic development in the new Central European member-states is mostly concentrated in the metropolitan capital regions. The level of regional inequalities in most West European countries – in particular in the Scandinavian countries, Spain, Greece and in the Netherlands – is still quite low. These countries are able to counteract the trend towards higher regional inequalities.

Despite the increase in within-state inequalities, within a period of just eight years, there has been a reduction in the regional inequalities in the European space – around 16% as indicated by the MLD. This reduction is all the more worthy of note, since the proportion of within-state regional inequalities has risen considerably. This indicates that the large differenees between East and West Europe are rapidly diminishing. Within just eight years the proportion of between-nation inequalities has decreased from 52% to 33%.

The analysis of the regional employment and unemployment figures does not produce patterns. The within-state differences in the labour market situation are large in only a few countries (in particular, Germany, Belgium and Italy). In both dimensions the within-state differences are larger than the differences within the EU. There is also no recognisable clear trend: Whilst the within-state differences in the employment and unemployment rates from 1998-2004 and the between-nation differences in the regional employment rates decrease, the between-nation differences in the regional unemployment rates increase. This can be interpreted as an indication that the national regulation of the labour and employment situation is still of prime importance; on the basis of the indicators selected, an impact of the European employment strategy on the reduction of labour market inequalities cannot be identified (Table 6).

Table 6: Regional Differences in the European Employment and Unemployment Rates (1998-2004; EU25; NUTS2-Regions)

	Employment Rate					Unemployment rate (in % of the labour force)				
	MLD (1998)	Rank	MLD (2004)	Rank	Changes (1998-2004)	MLD (1998)	Rank	MLD (2004)	Rank	Changes (1998-2004)
Ireland			0.00005	1		0.00096	1	0.00019	1	-80.2%
Nether-lands	0.00048	2	0.00026	2	-45.8%	0.01802	4	0.00733	2	-59.3%
Sweden	0.00183	8	0.00098	6	-46.4%	0.01663	3	0.00865	3	-48.0%
Poland	0.00101	5	0.00208	11	105.9%	0.03423	7	0.01251	4	-63.5%
Greece	0.00183	7	0.00086	5	-53.0%	0.02245	6	0.0162	5	-27.8%
Finland			0.00157	8		0.03627	9	0.02085	6	-42.5%
Portugal	0.00057	3	0.00061	3	7.0%	0.00531	2	0.02988	7	462.7%
Hungary	0.00366	13	0.00442	16	20.8%	0.13233	16	0.03549	8	-73.2%
France	0.00307	10	0.00289	12	-5.9%	0.02068	5	0.03799	9	83.7%
Great Britain	0.00288	9	0.00172	9	-40.3%	0.09142	14	0.04415	10	-51.7%
Spain	0.00715	14	0.00392	15	-45.2%	0.04131	10	0.05098	11	23.4%
Slovakia	0.00327	11	0.00388	13	18.7%	0.08804	12	0.05412	12	-38.5%
Austria	0.00037	1	0.00062	4	67.6%	0.03537	8	0.06554	13	85.3%
Czech Rep.	0.00078	4	0.00155	7	98.7%	0.08946	13	0.08356	14	-6.6%
Germany	0.0016	6	0.00189	10	18.1%	0.08062	11	0.08423	15	4.5%
Belgium	0.00363	12	0.0039	14	7.4%	0.10154	15	0.1065	16	4.9%
Italy	0.01984	15	0.01305	17	-34.2%	0.17599	17	0.17102	17	-2.8%
EU25 total	0.01133		0.00795		-29.8%	0.14202		0.13939		-1.9%
Within	0.00485		0.00349		-28.0%	0.0718		0.06308		-12.1%
Between	0.00648		0.00447		-31.0%	0.07022		0.07631		8.7%

Employment rate: Employed in percentage of the working-age population (15-64 years). Number of cases: 225 (1998) and 249 (2004) from the NUTS2-regions. Due to an insufficient number of cases the values for Denmark, Luxembourg, Cyprus, Estonia, Latvia, Lithuania, Malta and Slovakia could not be used.

Source: Own calculations on the basis of Eurostat, REGIO-Databank, http://epp.eurostat.cec.eu.int; as at 5 March 2005.

Finally, it has to be discussed, as to whether the previously shown European convergence of the economic performance per inhabitant is likely to continue or whether a U-turn can be expected during the evolution to a knowledge-and-innovation-based society. A prerequisite for the continuation of the current cohesion process is that the scientific, technological and economic competences in Europe are also distributed evenly or that at least the inequalities of innovative competences are decreasing. With considerable differences in the technological capabilities of European regions, another U-turn could be expected, if the actual move towards cohesion, which was triggered by the extension of the community acquis to Eastern Europe and the incorporation of the central European countries into the Internal Market, should lose momentum.

This is quite likely. In order to demonstrate this, we will show in the following, that the input for innovation (research and development expenditures and personnel) and the output of innovative processes (patents, knowledge-based industries and services) are extremely unevenly distributed in Europe. The stronger economic regions invest far more in innovations than the poorer regions. One quarter of the Europe-wide research and development investment (R&D) is transacted in only seven regions – namely in four German regions (Upper Bavaria, Stuttgart, Darmstadt, Cologne), in Denmark, in the Ile-de-France (Paris) and in the Rhône-Alpes. In relation to the Gross Domestic Product (GDP) the picture changes somewhat: The administrative district of Darmstadt falls away and four Scandinavian regions move up: Nevertheless the picture remains of an extremely strong concentration of the R&D expenditures: The research-intensive European regions are located in Germany, Franee (above all in the East) and in a few Scandinavian, Southern English and North Italian regions. The regional disparities within the individual countries are just as large. Thus the Spanish innovation expenditure is concentrated in Madrid and Barcelona, the French in Paris and the Rhône-Alpes, the Italian in Milan, Turin and Rome etc.

This spatial concentration can also be substantiated statistically (see Table 7): The R&D expenditure, the patent applications at the European Patent Office (EPO) and the manufacture of high-value and leading-edge technology are considerably more unequally distributed than the value-added per inhabitant. With the exception of patent applications, 43% of which, during the period 2001-2003, were transacted by German firms, these inequalities are overwhelmingly within-state inequalities: The differences between the most technically efficient and the less technically efficient regions in a country are extraordinarily large (in particular in Poland, the Czech Republic and Germany, in which the Gini-coefficient of the regional R&D expenditure is over 0.3). However the between-nation inequalities in Europe are also considerable: Germany and France are amongst the leaders in investing in research and development, but so are Sweden, Finland and Denmark.

The unequal distribution of scientifically/technologically-qualified employees in the EU on the other hand is considerably less and roughly corresponds to the inequality of economic capability. These results show that the specialisation on knowledge-, research- and patent-intensive industries is a peculiarity of a few countries in the heart of Europe. In these regions high research expenditure and intensive patent activities are accompanied by a strong, knowledge-based industry.

Scientists, technicians and knowledge-based services, on the other hand, are more equally distributed in the member-states and in Europe. For our initial research question on the development dynamics of economic inequalities, this means that basing the economy more strongly on knowledge is probably accompanied by an increase in inner-European inequalities, even if the qualification prerequisites for knowledge-based occupations are distributed evenly.

Table 7: Regional Inequalities of Economic Performance, R&D Expenditures, Patents and Employment in Knowledge-Intensive Production and Services in the NUTS2-Regions of EU25 (2002)

	Gini	MLD	MLD within the countries (absolute; in %)		MLD between the countries (absolute; in %)	
Gross domestic product (GDP) per inhabitant (PPS)	0.19935	0.07237	0.03280	45%	0.03957	55%
R&D Expenditure in % GDP (1999-2003)	0.34175	0.20415	0.12145	59%	0.08270	41%
Patent applications (EPA) per million inhabitants	0.58571	0.90178	0.26948	30%	0.63229	70%
High tech and medium-high tech manufacturing (in % of total employment; 2004)	0.29686	0.16285	0.08993	55%	0.07292	45%
High tech manufacturing (in % of total employment; 2004)	0.36358	0.28184	0.15305	54%	0.12879	46%
Knowledge-intensive services (% of total employment; 2004)	0.14032	0.03142	0.01177	37%	0.01964	63%
Human resources in science and technology – education and/or occupation (% of total employment; 2004)	0.12063	0.02503	0.01134	45%	0.01370	55%
Human resources in science and technology – education (% of total employment; 2004)	0.18050	0.05668	0.01750	31%	0.03918	69%
Human resources in science and technology – occupation (% of total employment; 2004)	0.12686	0.02625	0.01092	42%	0.01532	58%
Human resources in science and technology – education and occupation (% of total employment)	0.16086	0.04154	0.01796	43%	0.02358	57%

Source: Own calculations on the basis of Eurostat, REGIO-Databank, http://epp.eurostat.eu.int. Number of NUTS2-regions included: 241-254. The values are weighted with the denominator of the respective indicator (the gross domestic product per inhabitant for example with the number of inhabitants in the respective region).

In conclusion: The expected increase in within-nation inequalities can also be demonstrated for regional inequalities. In open, transnational spaces some regions can position themselves successfully as regional knots in world-wide communication, innovation and value-added networks, while others fail in this respect. At the same time, peripheral regions can no longer profit to the same extent as in the post-war period from the legal, economic and social homogenisation of the national territory. Since the middle of the 1990s, in the central European countries in particular, a sharp increase in regional inequalities has been observed. At the same time a reduction in the regional inequalities in Europe and a clear reduction in the between-nation inequalities can be observed. The still considerable economic differences between East and West Europe are gradually diminishing. There are also poor regions in the West, just like there are rich regions in the East. This also applies to the foundations of the knowledge economy: It is not the case that the West European countries are totally set on knowledge-intensive products and the Central European countries on employment and environmentally-intensive products. In Central Bohemia in the Czech Republic, for example, the R&D ratio, at 3.5% of the GDP, is far above the European average. This indicates that the Internal Market and the institutional standardisation of the EU, through the common legislation (*acquis communautaire*) are causing a convergence of economic capabilities. Europe is no longer a traditional name for a sociologically meaningless region of the world society, but a social field, that is characterised by relatively homogeneous regulatory structures and political actors capable of making binding decisions. In contrast to the increasing heterogeneity in nation-states, the EU has succeeded in contributing to the standardisation of economic and living conditions in Europe. However, this target will not be achieved primarily by redistribution policies, but through the inclusion of poorer regions into the European-wide competition and innovation dynamics. However, in the future, this cohesion process can be counteracted by the considerable inequalities in the distribution of research expenditure, patents and high- and medium-tech businesses.

Summary and Conclusions

The failed ratification of the constitutional treaty indicates that the EU must develop new ways of dealing with social inequalities. It cannot ignore the increasing social inequalities in the EU member-states and the considerable differences in the economic potential, because they are also the result of three different European policies: Firstly, by the liberalisation of European goods, service, labour and finance markets; secondly, by the eastern enlargement, by which countries with completely different wage costs were integrated into the Internal Market and thirdly, by the introduction of a common currency, through which

flexible exchange rates and therefore possibilities for an autonomous monetary policy were abolished.

A precise understanding of the patterns and dynamics of social inequalities is a prerequisite for the evaluation of the chances to overcome the current crisis or at least stalemate of the European integration process. Two different aspects of inequalities in Europe have to be distinguished: The inequalities within and the inequalities between the member states of the EU. In these dimensions, two hypotheses have been developed and tested: On the one hand an increase in the within-state inequalities was expected because national solidarity and forms of redistribution are increasingly challenged in an increasingly open, liberalised economy. On the other hand a reduction of between-nation inequalities in Europe was expected because the EU has created a relatively homogeneous political, social and economic space within the context of a functionally-differentiated world society. The EU therefore is not a completely open space characterised by a market which is only a section of the global market, rules which are a transnational, deterritorialised '*Lex Mercatoria*', a common currency which cannot be used for a economic policy in the interest of the member states and an enlargement dynamics which undermines every effort to create a relatively closed European space and identity (Bartolini 2005: 370-374).

These two hypotheses were examined using the examples of income inequalities and regional inequalities of economic performance and innovation capabilities. The considerable increase in income inequalities in nearly all the EU states was interpreted as a consequence of economic liberalisation and an increasing dependency of social situations on the market. However, inclusive labour markets could contribute to a more egalitarian income structure. But the income inequalities did not increase in Europe as a whole. This can be interpreted as the result of the homogenisation of the European field: Both the *acquis communautaire*, which guarantees relatively homogeneous legal and regulatory conditions, and the European employment strategy could contribute to the reduction on income inequalities in Europe.

The increased openness and Europeanisation of national economies manifest themselves also in the increase in regional inequalities. This is true for the new Central European member-states in particular. The regional inequalities *between* the EU member-states, however, are clearly decreasing. This can be interpreted as an indication of the economic integration of Europe, the emergence of homogeneous regulatory structures in Europe and the effectiveness of the European cohesion and structural policies. This is a surprising result because the German Euro-sceptics (especially F. Scharpf and W. Streeck) have convincingly demonstrated the "constitutional asymmetry between policies promoting market efficiencies and policies promoting social protection and equality", between negative and positive integration (Scharpf 2002: 645). Therefore, even if the EU will not transform itself in a transnational welfare state, the market and employment-centred European social model described by Liebert and Andersson in this volume still might attain a crucial goal of these welfare states: The reduction of social inequalities and the diminution of territorially based patterns of inequality. In the medium term, however, this could be counteracted by the enormous regional concentration of the European research and development expenditures, patent activities and high-technology production.

Social inequalities can be analysed, therefore, less and less exclusively within the framework of nation-states. Both the causes of social inequalities as well as their regulation are increasingly shaped by the EU. However, this will not lead to a European social state according to the pattern of the national social states. Nevertheless, in the tension between national social policies and the global market forces, a social dimension of the European integration process can be discerned that is based on the supranational regulation of economic, social, regional, educational and employment policies, and aims at the integration of the national markets and the strengthening of individual employability and regional capabilities. These policies do not assume a dominant position of politics towards the economy (as this is the case in national social policies which are often understood as a "politics against the market") and thus are better adapted to the conditions of a functionally-differentiated society. These policies may explain the observed reduction of the individual and regional inequalities in Europe.

However, these transnational social policies do not solve the decreasing support of the European integration mentioned initially. The discontent with *Europe* is probably mostly a result of the increasing individual and regional inequalities on a *national* scale. This refers to a socio-political dilemma for the EU: On the one hand it cannot guarantee similar living conditions within the European nation-states. On the other hand, it contributes effectively to the reduction of between-nation inequality. But thus will not improve its public image, because for the employees in a Lower Franconian washing machine or automotive supplier plant, life will be considerably better for Polish, Hungarian or Slovakian workers after the relocation of the corresponding production processes. As long as the norms of solidarity refer primarily to a national community, the support of the European population for the continuation of the European integration process can thus hardly be guaranteed. This explains also the paradox that the increasing Europeanisation of social inequalities does not lead to a Europeanisation of social conflicts, but rather to a renationalisation of economic and social policies. A *social Europe* without European concepts of solidarity, equality and justice is thus hardly conceivable.

Is Stability Necessary for Growth?[1]

Iain BEGG

Over the last two decades, the emphasis in macroeconomic policy has shifted decisively to one that focuses on stability rather than active demand management. This was, arguably, needed to counter growing budget deficits and a propensity to inflation, but the chapter suggests that this policy position has been pushed too far. Too little attention paid to growth has adverse social consequences, because it entrenches high unemployment, leads to pressures to cut spendings on social aims, and may lock countries into a vicious circle. Although stability-orientated policies are rule-based and thus appear to be objective, the chapter points out that the policy approach does have distributive consequences, so that the normative dimension of stability cannot be ignored. Stability may be helpful for long-run growth and need not be incompatible with social solidarity, but it should be seen as part of a wider policy mix, not an end in itself.

The Problematique

An extreme view in contemporary macroeconomics is that only actions on the supply-side (principally aimed at boosting productivity) can produce enduring growth, with the corollary that attempts to stimulate demand will inevitably back-fire. The opposite is the strongly Keynesian position that the demand side is crucial and that supply improvements will follow from stimulation of demand, rather than vice versa. The Keynesian view – despite the fact that it emerged from the policy failings that gave rise to the Great Depression of the inter-war years of the 20th century – fell into disrepute after the 1970s, because it was seen to have led to progressively higher inflation and growing imbalances. The perceived failings of Keynesian demand management, together with the huge costs that were incurred before and after the signing of the Maastricht Treaty to slay the demon of inflation and put an end to fiscal profligacy, have given rise to a policy model in which stability has

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SALTSA

A Joint Programme for Working Life Research in Europe

SALTSA is a programme of partnership in European working life research run by the Swedish Confederations of Trade Unions (LO), Professional Employees (TCO) and Professional Associations (SACO). SALTSA was a cooperation venture of these three confederations and Swedish National Institute for Working Life until the Swedish government closed NIWL in 2006. The SALTSA programme continues in new forms.

The aim of SALTSA is to generate applicable research results of a high academic standard and relevance. Research is largely project-based.

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Lars Magnusson and Bo Stråth (eds.)

European Solidarities

Tensions and Contentions of a Concept

Arbetslivsinstitutet

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