Income Inequalities in the European Union: Norm or Crisis?*

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The aim of this article is to analyse the level of income inequality in the European Union based on the Gini coefficient index, income quintile ration and poverty rate. The author has attempted to answer to the following questions: Has the existing social inequality been deepened or levelled as a result of the emergence of the economic recession in 2008? Whether and to what extent the redistribution of income reduced inequality?, and What consequences for the social structure may result from changes in inequality? Quoted data shows that there exist disparities in income distribution in the EU, with the lowest and highest rates reached by both, the developed economies and the developing economies, as well as those countries whose economic situation deteriorated significantly as a result of the financial crisis. It is therefore difficult to talk about the strong impact of the crisis on the significant deterioration of the financial situation of population and increase of the economic stratification of the EU societies, based on the Gini and the S80/20 quintile share ratio. The article provides data illustrating the fact the countries best coping with the problem of inequality are those which implement effective redistribution. The results of studies presented suggest that the growing wealth inequality in advanced economies is largely driven by the growing concentration of wealth at the top, which, combined with increasing poverty at the bottom leads to the erosion of the middle class.

Keywords: Income Inequalities, European Union, Economic Crisis, Economic Growth

I. INTRODUCTION

Social inequality is a fundamental aspect of every social structure. It is formed as a result of the lack or limited access for individuals or groups to goods which are valued in a society, such as material resources, power,
prestige, health or education. They exist in every socio-political system despite sometimes quite radical political experiments and programs to combat them. Differences among countries concern the sizes and types of inequality, the scope of inequality inheritance, as well as the opportunity for upward mobility within the social hierarchy. Throughout ages inequality mechanisms and views on their role in the system of social relationships have evolved. At the contemporary stage of capitalism that gives primary role to economic criteria of distribution and does not take into account social mechanisms to negotiate benefit-sharing, stratification is progressing. In a recent 2015 study by the IMF entitled “Causes and Effects of Inequality: A Global Perspective” the authors argue that growing prosperity of 20 percent of the richest population causes a slowdown in GDP growth in the long term, while growing prosperity of the 20 percent of the poorest accelerates GDP growth (Dabla-Norris et al., 2015). It is therefore in the interest of countries to reduce inequalities.

In the European Union of the 21st century social inequality is growing deeper and deeper both in objective and subjective dimension. Developed by the EU, cohesion policy as described in the Treaty on the Functioning of the European Union and the Treaty on the European Union, aimed at overall harmonious development of the Community by reducing economic, territorial and social disparities among countries and regions has not brought expected results.¹ The 2012 edition of Benchmarking Working Europe focuses on what we see as one of the root causes of the Great Recession, namely the issue of inequality going far beyond income inequality. Growing inequality leads to growing sense of injustice and lack of social cohesion both within and across countries, and at the same time, to a loss of human potential in its broadest sense. A spectacular example of the failure of cohesion policy is Brexit. Disintegrative tendencies can be observed also in other EU countries.²

The financial crisis started in 2008 multiplied the challenges lying before cohesion policy, and at the same time reduced the willingness of rich societies to share funds with others. EU policymakers have cut the cohesion policy budget and adopted the anti-crisis strategies-known as the austerity policy-which reduces investment and redistribution feasibility.

¹ Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union 2012/C 326/01.
² According to a recent survey by Pew Research Center as many as 61 percent of French population have an unfavourable opinion of the EU, and only 38 percent have positive opinion about it. Not only Marine Le Pen on the right wing wants a referendum about leaving the EU. The same postulate has been raised by Jean-Luc Mélenchon, a former member of the socialist Lionel Jospin’s cabinet. They both want to remove in 2017 the incumbent President François Hollande-defender of integration and the least popular leader in the history of the French State. See: Euroskepticism Beyond Brexit. http://www.pewglobal.org/2016/06/07/euroskepticism-beyond-brexit/.
contributing to growing inequalities. However, the underlying claim of cohesion policy is that prosperity grows if income inequality declines.

The empirical study results prove the existence of statistically significant correlations between the level of poverty and economic growth. In the case of social inequality, its correlation with economic growth is not so straightforward. Explaining the character of the correlation between inequality and economic growth has key significance for policies, including cohesion policy facing two alternatives: economic efficiency or social justice (Stiglitz, 2012). Do inequalities decrease or increase in periods of economic growth becoming one of the causes of crisis? Do inequalities which grow as a consequence of budgetary cuts affect economic growth?

Inequality and its impact on economic growth, standard of living and politics are the subjects of numerous studies, economic analyses and lively debate among researchers. This article does not aspire to recollect all the topics of the debate or the results of analyses of the relationship between social inequality and economic growth. It focuses instead on the diversity of income distribution levels across the European Union countries, augmenting the asymmetry in the internal relations of European societies. The article is rather an attempt to answer the question whether existing income inequalities in the studied economies have increased or decreased as a result of the financial crisis in 2008. Another question is also whether the EU and its cohesion policy have proved to be effective enough to balance off the liberal tendencies on the internal market. The reference material of the article are the data collected and compiled by the influential international institutions, such as Eurostat, the International Monetary Fund (IMF), the World Bank and the Organisation for Economic Cooperation and Development (OECD). Reports published by these organizations indicate that the problem of social inequality and public institutions’ policies aiming to reduce them remains at the centre of their interest.

II. CONCEPTUAL FRAMEWORK

The concept of economic growth has fundamental meaning in capitalist economies. The neo-liberal paradigm dominant since the 1980s in economics and socio-economic policy made at least two assumptions important from the point of view of feedback between inequality and economic growth. First, it assumed that social inequality is a source of motivation for individuals’ work and innovation, commitment and creativity, which in consequence promotes economic growth following the functional theory of stratification. And secondly, it assumed that economic growth is accompanied by improvement of the material situation of groups with low income.
This improvement results from stimulation of growth and investment in business, which through new jobs and earnings translates into benefits for the poorest, that is so called trickle-down effect. In the light of these views increase of social inequality is not an important issue, both from the point of scientific theory and business practice as well as from its social and political implications.

The globalisation process and the accompanying increase in economic inequality as well as social and financial crisis that hit the developed economies in 2008, have led to the emergence of a number of studies, presenting different approaches to the problem of inequality. Recent studies from the first two decades of the 21st century call into question the basic premise of the neoliberal economic theory that economic inequality is a precondition for maintaining economic growth. In general and facing empirical data such positive relationship does not exist and inequality is usually negatively correlated with economic growth (Davtyan, 2014).

The analyses by Alberto Alesin and Dani Rodrik (1994), Francois Bourguignon (2004), and Nancy Birdsall (2005) have shown that developing countries having high rates of inequality usually develop more slowly (Alesina and Rodrik, 1994). The above results were confirmed by the studies by Isabel Ortiz and Matthew Cummings in 2011 (Ortiz and Cummings, 2011). Based on data for 131 countries, the authors argue that between 1990 and 2008 the countries that have increased the level of inequality measured by the Gini index experienced a slower annual growth of GDP per capita over the same period of time. These authors also documented that many countries with a low rate of economic growth are characterized by a high level of wealth accumulation by the upper class.

They conclude that extreme inequality in the distribution of wealth at the global, regional and national level, combined with the negative effects of high income amplitudes, should lead to the debate on contemporary concepts of economic growth with equity in the centre of the agenda (Rodrik, 2011). In turn, the study by Jonathan Ostry et al. (2014) shows that increase in income inequality always has significant and, in most cases, negative impact on economic growth, while redistribution has the overall pro-growth impact on one sample or no growth impact on the other sample. Increasing inequality, according to the authors, especially if inequality is already at a high level, results in low growth, if any growth at all, or the growth that is not sustainable in the long term.

An important contribution to the discussion on the role of stratification in creating prosperity has also been made by the studies of economists such as Joseph Stiglitz, Paul Krugman, Dani Rodrik and Thomas Piketty. There is not enough space in the article to review all of them so only some elements of those theories that have become recognised globally are indi-
The book “Capital in the 21st century” by T. Piketty was published in 2014. The author undertakes substantial modification of the research approach to the problems of inequality. His analyses are focused mainly on the trends occurring in developed countries and far more strongly expose the role of enrichment than impoverishment in the processes of inequality development.

The trend of growing inequality has existed for years. In the years 1930-1975 it was substantially lessened because of the two world wars and the Great Depression. In the 21st century once again inequality is growing, particularly since the moment Ronald Reagan and Margaret Thatcher reduced the taxes on the wealthy and cut the growth of government spending on infrastructure. This was also the time when the trade unions were devastated. The world is moving, according to the author, in the direction of patrimonial capitalism, in which inherited wealth dominates over economy, and the birth (or marriage) status determines not only the wealth but also the influence and power. The consequence of this trend is usually the appearance of oligarchy that is the power of the minority pursuing its own interests.

Piketty is considered to be the founder of the law of functioning and development of the market economy that is shaped the processes of convergence and divergence of income in the capitalist system. The formula \( r > g \) is considered by many to be the symbol of “Capital.” \( R \) is the rate of growth on equity, while \( g \) is the rate of the global economic growth. \( R \) bigger than \( g \) means that income from equity, such as rents, dividends, interest and royalties from land ownership, financial or real estate equity are growing and will grow faster than income from work. “Wealth collected in the past re-capitalises itself faster than production and sales growth rate,” says Piketty.

At the beginning of the 21st century inequalities are advancing due to, according to Piketty, three overlapping trends: concentration of capital ownership, upward trend in capital-income ratio and slower economy growth rate. If in a given country the low rate of economic growth is permanently exceeded by the rate of return on capital, then the economic inequality is increasing. To avoid deepening inequality, Piketty proposes a radical solution - the taxation of large capitals and increase of tax rates on high income. There should be an 80-percent tax for the richest and 1- or 2-percent tax on capital. In addition, to prevent capital flight to tax paradies, such taxation system should be introduced on a global level.

Piketty argues that only state intervention can reduce the drastic income and wealth inequality. Only the introduction of appropriate fiscal tools is able to prevent the rules of rentiers who live off the income gener-
ated by capital rather than participate in production. Piketty has no illusions that in the structure of modern growth, or in the laws of market economy, there are forces of convergence leading naturally to reducing wealth inequality and harmonious stability, “the dynamics of wealth distribution reveal powerful mechanisms pushing alternately toward convergence and divergence (greater equality and inequality in the distribution of wealth and income). Furthermore, there is no natural, spontaneous process to prevent destabilizing, inequallitarian forces from prevailing permanently.” (p. 463).


Both authors Stieglitz and Piketty, however, differ fundamentally. Piketty analyses historical inequality from the perspective of long duration, going back to the 18th century. In addition, his analyses cover many countries and continents. Stieglitz in turn mainly focuses on the past decades and the United States. However, the fundamental difference between the authors lies in the fact that Piketty looks for the causes of inequality and its evolution, while Stieglitz analyses its effects. The economists however agree on one point: today the most important and most difficult problem to solve, in terms of income inequality, is the differences resulting from the inherited capital.

The huge disproportions in salaries are also important, but not equivalent. They do not threaten social cohesion as much as inequality of capital. Both authors believe that in the economic system there are no internal inequality self-levelling mechanisms. This role must be performed by the state by redistributing income, which is an instrument for equalizing opportunities, reducing inequality and stabilizing demand. According to Stieglitz, it is not the welfare state or excessive long-term debt and deficit that were the causes of the European crisis. It was the policy of excess savings and cuts on public spending leading to reduction of internal demand.

The author convincingly argues that the stimulation of economic growth needs not take place as a result of tax reduction for the richest and austerity. It is worth adding that Stieglitz criticises inequality from the liberal-economic perspective. He believes that inequality is axiologically neutral. He does not criticise capitalism and market-based solutions. He only postulates stability and balance in the management of wealth, poverty, unemployment, discrimination or profit. Inequality is therefore not unfair in itself, but in distorted proportions may become pathology for the system threatening high economic growth and democracy. Capitalism in itself and democracy are to complement each other and be the guarantees of freedom.
At the end it should be added that the discussion on inequality takes place not only among economists but also among the representatives of other social sciences. There are more and more works pointing to an unprecedented scale of contemporary inequality, with destructive consequences for the quality of life and social cohesion. Works by Danny Dorling, Goran Therborn, Robert Reich, and above all, one of the most frequently quoted authors Richard Wilkinson and Kate Picketty (Dorling, 2010) have contributed to the fact that excessive income inequality typical of the globalization era stopped to be a taboo subject.

Graphs and statistics presented by Wilkinson and Picketty show that in more unequal societies, social problems occur three to ten times more often than in more egalitarian ones. Regardless of the overall wealth of the country, almost every contemporary social or ecological problem—illnesses, loss of a sense of community, violence, drug abuse, obesity, lack of free time, mental health disorders, or the number of committed crimes—occurs with greater intensity in societies with greater inequality. Observed in both groups of comparable societies correlates are statistically significant and may not be regarded accidental.

In the light of the above mentioned authors’ studies, Scandinavian countries and Japan perform best as countries where social inequality is at the lowest level, people live longest lives, enjoy better physical and mental health, and social problems are less common. At the opposite extreme end are the Anglo-Saxon countries. Large disparities in income distribution result in much poorer quality of life indicators, also for the wealthiest citizens. Interestingly, similar correlations exist among the different states of the USA. Where there is greater equality, greater comfort of life is experienced.

In the second part of the article I will try to show to what extent the above views and findings refer to the European Union countries. Is rising inequality the cause of the Great Recession? More specifically, are we talking about the level of inequality or the change in inequality, are we talking about inequality of wealth or income; and how are we measuring it? And whether redistribution done by governments, for example in the form of tax reliefs, affects the levelling of inequality? If so, to what extent it affects?

1. Trends in Inequality of Income in the EU

In order to characterize the economic inequality in the EU, three widely available indicators were used for benchmarking: Gini coefficient, S80/

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[3] It informs about the degree of concentration of specific goods (income, property, etc.) in society. Gini coefficient assumes values between 0 and 1 (in some cases the value is multiplied by 100 and presented on the scale from 0 to 100). The lower the value of the index, the more equal the distribution of income in society.
S20 income distribution index\(^4\) and the at risk of poverty index.\(^5\) These indicators are benchmarked by Eurostat, which collects annual data for the European Union countries. Eurostat has created EU-SILC, the System of Statistics of Income and Living Conditions for the European Union Countries,\(^6\) whose primary goal is to provide fully comparable data on the level and distribution of income, the scope and variation of poverty and social exclusion for both current and future members of the European Union. The above indexes of economic inequality not only allow to assess of the level of a society’s stratification, but also to determine the degree of inclusiveness of economic growth, that is, if all social groups equally benefit from it, and if the growth is unequal, if the richest people are the only beneficiaries.

In the European countries over the last dozen of years, the income discrepancies have been growing. Table 1 shows the Gini coefficients for the European countries in the years 2007, 2008-2014 and 2015.\(^7\)

Eurostat data show that over the last decade, the EU countries reached the Gini coefficients ranging from 23 to 38. If the value of the index is at the level of 20 to 30, this means that there is little income stratification in the country, the government implements the model of welfare state and the GDP growth is accompanied by increase in the level of inhabitants’ wealth. The 30-45 range means the average level of income stratification and lower impact of GDP growth on increase of the purchasing power of the whole society. In consequence, this may result in increasing levels of poverty and exclusion. If the Gini index exceeds 45, it deals with the economy of high income stratification, in which only a small population group benefits from growth. The data in Table 1 shows that the EU economies belong to the category of countries with low or medium income stratification both before and after the crisis.

Before the crisis (2007) the highest Gini value was recorded for Romania -37.5,\(^8\) and the lowest for Slovenia -23.2. Comparing 2007 to 2008, we observe that the level of the Gini index increased for 13 economies, for

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\(^4\) An index illustrating economic inequality is the S80/S20 income distribution index, also called the income quintile share ratio. This index points to the ratio of the total income received by the 20% of people with the highest income (top quintile) to the total income received by the 20% of people with the lowest income (lowest quintile).

\(^5\) The Eurostat studies assume relative approach to measuring poverty and the risk of poverty index (after allowing for social transfers in income) is considered to be the percentage of population in households whose total disposable income is below 60% of the median disposable income for the whole country. This measure therefore indicates a group of people in each country in a relatively most vulnerable income situation (without reference to the level of income in the remaining countries).

\(^6\) EU-SILC survey is a voluntary, representative questionnaire survey of private households, through direct interview with the respondent.

\(^7\) The table does not include Croatia which joined the EU in 2013. It does include Great Britain who voted for leaving the EU structures in June 2016.

\(^8\) Such a high growth of household income distribution inequality index occurred in the economy of Romania immediately after joining the EU in 2007. Earlier, the index remained around the level of 25. Probably in the central planning system more egalitarian income policy was implemented, whereas in the market economy significant inequalities emerged in income distribution.
it remained unchanged, while 12 EU countries recorded its decline. At the same time, neither growths nor declines were significant except for France (+3.2), Latvia (+2.1) and Malta (+1.8), where the Gini rose above 1.5 points.

| TABLE 1. GINI COEFFICIENT OF EQUIVALISED DISPOSABLE INCOME - EU-SILC SURVEY |
|-----------------------------|----------------|----------------|----------------|
|                             | 2007     | 2008<sup>9</sup> | 2014<sup>10</sup> | 2015<sup>11</sup> |
| **ANGLOPHONE**              |          |                |                |                |
| UK                          | 32.6     | 33.9           | 31.6           | 32.4           |
| Ireland                     | 31.3     | 29.9           | 30.8           | -              |
| **CONTINENTAL EUROPE**      |          |                |                |                |
| Austria                     | 26.2     | 27.7           | 27.6           | 27.2           |
| Netherlands                 | 27.6     | 27.6           | 26.2           | 26.4           |
| Belgium                     | 26.3     | 27.8           | 25.9           | 26.2           |
| Luxembourg                  | 27.4     | 27.7           | 28.7           | -              |
| France                      | 26.6     | 29.8           | 29.2           | 29.2           |
| Germany                     | 30.4     | 30.2           | 30.7           | -              |
| **EASTERN EUROPE**          |          |                |                |                |
| Slovenia                    | 23.2     | 23.4           | 25              | 24.5           |
| Poland                      | 32.2     | 32.0           | 30.8           | -              |
| Hungary                     | 25.6     | 25.2           | 28.6           | 28.2           |
| Slovakia                    | 24.5     | 23.7           | 26.1           | 23.7           |
| Czech Rep.                  | 25.3     | 24.7           | 25.1           | 25.0           |
| Latvia                      | 35.4     | 37.5           | 35.5           | 35.4           |
| Estonia                     | 33.4     | 30.9           | 35.6           | 34.8           |
| Lithuania                   | 33.8     | 34.5           | 35              | 37.9           |
| Romania                     | 37.8     | 35.9           | 34.7           | 37.4           |
| Bulgaria                    | 35.3     | 35.9           | 35.4           | 37.6           |
| **NORDIC EUROPE**           |          |                |                |                |
| Denmark                     | 25.2     | 25.1           | 27.7           | 27.4           |
| Sweden                      | 23.4     | 24.0           | 25.4           | 25.2           |
| Finland                     | 26.2     | 26.3           | 25.6           | 25.2           |
| **SOUTHERN EUROPE**         |          |                |                |                |
| Malta                       | 26.3     | 28.1           | 27.7           | 28.1           |
| Cyprus                      | 29.8     | 29.0           | 34.8           | -              |
| Spain                       | 31.9     | 32.4           | 34.7           | 34.6           |
| Italy                       | 32       | 31.2           | 32.4           | -              |
| Greece                      | 34.3     | 33.4           | 34.5           | 34.2           |
| Portugal                    | 36.8     | 35.8           | 34.5           | 34.0           |


<sup>9</sup> Green colour-growth compared to the year 2007.
<sup>10</sup> Red colour-growth compared to the year 2007.
<sup>11</sup> Blue colour-growth compared to the year 2014.
The analysis of the variability of Gini Coefficient in 2007 and 2008, immediately before and during the crisis indicates that among the 13 economies in which the rate increased significantly were the most developed economies of North and Continental Europe and not those in which the crisis overlapped with the transition process.

The data for the year 2014 compared with the figures for 2007 (Figure 1) point to an upward trend - as many as 18 countries recorded increase of the level of the Gini Coefficient and 8 recorded its decrease. The highest growth rate in the period was recorded for Cyprus (+5.0), Hungary (+3.0), Spain (+2.8) and France (+2.1), and the biggest drop for Romania (-3.1) and Portugal (-2.3).

There has been no increase of the Gini Coefficient recorded for such countries as Finland, Ireland, the UK, Belgium, the Netherlands, Poland, Portugal and Romania. This means that in the period analysed, there was no increase in income stratification measured by the Gini coefficient neither in the group of countries with the UK, Poland, Portugal and Romania having Ginis of between 0.30 and 0.35, nor the group of other countries as Finland, Belgium, the Netherlands and the Czech Republic having values of between 0.25 and 0.30. These countries sustained income inequality at a similar level before and after the crisis.

**Figure 1. Gini Coefficient of equivalised disposable income - EU-SILC survey**

Source: Own elaboration based on www.epp.eurostat.ec.europa.eu
In 2015, the upward trend of income inequality in comparison with 2014 persisted in the UK, Belgium, Netherlands, Lithuania, Romania, Bulgaria and Malta.

The analysis of the Gini coefficient variability indicates that in the European Union, which is a mosaic of countries with different levels of economic development and different cultures, there is a huge diversity in terms of economic inequality both as to the levels of inequality and the change of inequality. The question: “Have the existing inequalities been deepened or levelled as a result of the financial crisis of 2008, based on analysis of the Gini coefficient measuring income inequality?”, has no clear answer. Among the 15 countries where the rate increased after the crisis, the majority were the Southern European and Central and Eastern European countries, but there was also Denmark and Sweden for many years ranked as the countries with relatively low income stratification. Similarly, the 13 countries increasing inequality were recorded before the crisis and a decline after the recession. In this group, there are countries with different Gini index levels, representing different European regions.

In summary, the analysis of income disparities has shown that regardless of the ups and downs of the Gini coefficient for individual countries, higher than the EU average level of inequality persists in Southern Europe. However, there is no dominant pattern in the countries of Central and Northern Europe.

Figure 2 shows positive correlation between the level of GDP per capita and income equality for the separate groups of the so-called “old” and “new” Member States (EU15 and EU13). It is clear that this division only partially fulfils the above condition of similarity. Data presented in the graph indicate that placement on the axis of the EU13 countries such as Malta, Poland, Croatia, Romania and Bulgaria illustrates the tendency towards decline of income inequality together with the growth of economy. Hungary, Slovakia, the Czech Republic and Slovenia are below the dotted line indicating average correlation, which means that they have lower levels of inequality than it would be expected given their level of GDP per capita. On the other hand, Latvia, Estonia and Lithuania, situated above the dotted line, conversely, have a higher level of inequality than their GDP level would indicate. Among the EU15 member nations, Finland and Sweden have lower levels of inequality than their GDP per capita would suggest, while Ireland and Germany show slightly higher.12

The correlation coefficient for the Gini coefficient and the GDP Purchasing Power Standard per inhabitant indicates the presence of a statisti-

12 See the chapter about measurement and methodology. http://ec.europa.eu/social/main.jsp?catId=1050&amp;intPageId=1874&amp;langId=en.
cally significant relationship between two values: income inequality and economic growth pace. The correlation, however, does not examine the cause-effect relationships. It does not answer the question of whether inequality is a source of faster growth, or its result.

**Figure 2. The relationship between income equality and GDP per head,**

*2012 income year*

It is worth noting here that in all countries, Gini coefficients based on the total equivalised disposable household income point to less inequality than the Gini for pre-tax and transfer, so called “Market Income.” The difference between Market and Disposable Income Inequality is a measure of the level of redistribution.

Figure 3 shows the impact of these social transfers in reducing inequality by showing difference between Gini coefficient of equivalised disposable income before social transfers (pensions excluded from social transfers) and disposable income Gini coefficients based on total equivalised disposable household income.

As expected, income inequality would be higher in all countries, if there were no social transfers. The highest values of transfers occur in Ireland (14.9 p. MI) and Denmark (10 p. MI), the lowest (less than 3 p. MI) in the Czech Republic, Italy and Greece. Transfers do not significantly affect inequality in eight EU countries in which market income is reduced by less than 5% as a result of transfers included in the household income. Impact of redistribution on reduction of market inequalities is particularly evident in Ireland, where the latter are among the highest in the EU.
At the global level, income is far more unequally distributed than within the EU. According to OECD, over the past three decades, income inequality has risen in most countries, reaching in some cases historical highs. Today, the Gini coefficient stands at an average of 0.315 in OECD countries, exceeding 0.4 in the United States and Turkey and approaching 0.5 in Chile and Mexico. In the main emerging economies, income inequality is higher than in the OECD area; in some it has increased over the past decade but there are encouraging signs of stabilisation (e.g. China) or even declines in some of them (e.g. Brazil)” (OECD, 2015, p. 5).13

Gini coefficient is one of the most commonly used indexes of social inequality and it is used to quantify the unequal distribution of household income. Its advantage is simple and clear interpretation. However, an unquestionable drawback of the tool for measuring inequality is impossibility to interpret the differences in the case where the index values are at a similar level. This is so because the index is a total aggregate measurement. It is not sufficiently detailed to explain the differences between the subgroups within the distribution. It does not contain information about the sources of income. In one set we have the subsets of the population who receive income of different levels and from different sources, that is, from labour, capital or both of those sources while these groups cannot be compared.

From this point of view, the most basic measurement of actual levels of inequality is a widely used in the EU index income quintile ratio (the

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13 In It Together. Why Less Inequality Benefits All: Overview of inequality. Trends, Key Findings And Policy Directions.
S80/20 ratio). It is the ratio of the average income of the richest 20% of the population to the average income of the poorest 20% of the population in the country. The larger the index value, the more unequal the distribution.\footnote{Comparative categories in positional measures of income disparities can be distinguished on the basis quartile, quintile, decile or percentile groups.}

In 2007 the smallest income disproportions occurred in the Swedish, Slovenian, Slovakian and Czech economies, where the income of the richest was 3.5 times greater than that of the poorest. The greatest inequalities in income distribution were recorded for Romania and Bulgaria, which reached the index level of more than 7. The high quintile ratio in Romania and Bulgaria is generated, not just because the rich in these countries are especially well off, but also because the poor are especially poor (Figure 4).

**FIGURE 4. THE S80/S20 MEASURE OF INEQUALITY IN HOUSEHOLD DISPOSABLE INCOME (2007-2014 INCOME YEARS)**

![Graph showing income quintile ratio for different countries](image)

Source: Own elaboration based on www.epp.eurostat.ec.europa.eu.

In the years 2007-2014 the largest increase in the income quintile ratio was recorded for Spain (1.3 p.p.), Estonia (1.0 p.p.) and Cyprus (1.0), while the largest decline of the ratio was recorded for Romania (0.9 p.p.). Changes in income inequality since 2007, covering the period of economic recession in most countries consisted of their increase.

According to the average of the 28 EU member states, the average income of the richest 20% population of the studied societies is 5.2 times
higher than that of achieved by the poorest 20%. More interesting results here could be brought by comparisons on the global level than the EU level. Social economies of Nordic countries are characterized by low levels of stratification, while the different consequences are associated with the operation of a liberal economic policy of the United States, where the richest part of the population earns 16 times more than the poorest.

Another graph (Figure 5) shows the income disparities by quintiles. On average in Europe in 2014, those in the highest (fifth) income quintile earned almost 40% of the total revenue, and those in the lowest quintile (first) earned less than 10%. Distribution of income by quintiles is similar in all countries. In the EU-28 on average of 8% of the total income goes to the first quintile, 39% to the fifth quintile and respectively 13%, 17% and 23% to the second, third and fourth quintiles.

**Figure 5. Income discrepancies across quintiles in European Union, 2014 income year**

![Income discrepancies across quintiles](source: Own elaboration based on www.epp.eurostat.ec.europa.eu)

Income inequality is closely linked to wealth and poverty. According to analysts of the International Monetary Fund (IMF) in advanced economies, the gap between the rich and poor is at its highest level since decades. The latest report, Causes and Consequences of Income Inequality: A Global Perspective (2015) states: “Rising income inequality in most advanced economies has been driven primarily by the growing income share of the
top 10 percent for the United States (Piketty and Saez, 2003). Indeed, the
top 10 percent now has an income close to nine times that of the bottom
10 percent.” Meanwhile, growing wealth by the richest groups has no
positive effect on economic growth. What is more, the increase of inequal-
ity between the small group of the richest and the rest of society has led,
according IMF analysts, to the crisis. The report authors also point to the
erosion of the middle class (Atkinson et al., 2011).

The trend focusing on inequality of wealth has appeared in the reflection
on inequality relatively recently. Until now, the access to the data in
this area has been difficult. Currently, the information is available but it is
usually dispersed and heterogeneous, making comparative analyses diffi-
cult. To compare the distribution of wealth in different countries one
should, of course, use the same definition of wealth. Typically, wealth is
defined as the current market value of all assets possessed by households,
after deduction of all debts.15

Concentration of wealth can be studied based on various sources such as
tax declarations or, as in the case of the EU, Household Finance and Con-
sumption Survey (the HFCS),16 which provides harmonized micro-data on
household wealth. Both data source, however, have their serious limita-
tions, e.g. survey data are not available for the long term perspective,
there are also problems with measurement of income of the richest. The
rich fall into the category of respondents is difficult to reach, and they can
also understate their ownership which in turn can affect with the represen-
tativeness of the survey sample.

For the European Union the data on the inequalities of wealth come
from the Household Finance and Consumption Survey (HFCS). Table 2
shows the Gini coefficients calculated on the basis of HFCS. The data
show that the Gini coefficient for the tax on net wealth (for the net
wealth) is at the level of 0.45 (Slovakia) to 0.76 (Austria and Germany).
Lack of data makes it difficult to say whether these differences reflect the
real economic phenomenon or are subject to measurement uncertainty.
Table 2 shows the wealth share of the top 10 percent and the top 1 per-
cent in the Euro Area population. The larger share of the wealth of the
richest of the smaller share of the wealth of the rest, so the greater the
inequality of outcomes and opportunities.

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15 According to international standards codified in the System of National Accounts, assets
are understood to be / include financial and non-financial assets, for which property
rights vested to them can be identified; and which provide economic benefits to their
owners.

16 The HFCN conducts the Eurosystem’s Household Finance and Consumption Survey
(HFCS), which collects household-level data on households’ finances and consumption.
The dataset for the first wave of the survey was released in April 2013.
https://www.ecb.europa.eu/pub/economic-
The presented data were published in 2016, presented by the OECD wealth distribution database.

<table>
<thead>
<tr>
<th>Country</th>
<th>Gini coefficient</th>
<th>Top1% Share</th>
<th>Top 10% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>-</td>
<td>13.3</td>
<td>44.9</td>
</tr>
<tr>
<td>Austria</td>
<td>0.762</td>
<td>24</td>
<td>61.7</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.608</td>
<td>12.6</td>
<td>44.1</td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td>15.5</td>
<td>50.3</td>
</tr>
<tr>
<td>Cyprus</td>
<td>0.698</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Denmark</td>
<td>-</td>
<td>25</td>
<td>-</td>
</tr>
<tr>
<td>Finland</td>
<td>0.664</td>
<td>12.4</td>
<td>45</td>
</tr>
<tr>
<td>France</td>
<td>0.679</td>
<td>18</td>
<td>50</td>
</tr>
<tr>
<td>Germany</td>
<td>0.758</td>
<td>24.5</td>
<td>59.6</td>
</tr>
<tr>
<td>Greece</td>
<td>0.561</td>
<td>8.5</td>
<td>38.8</td>
</tr>
<tr>
<td>Italy</td>
<td>0.609</td>
<td>14.3</td>
<td>44.8</td>
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<tr>
<td>Luxembourg</td>
<td>0.661</td>
<td>22.4</td>
<td>51.4</td>
</tr>
<tr>
<td>Malta</td>
<td>0.6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.564</td>
<td>23.9</td>
<td>59.6</td>
</tr>
<tr>
<td>Norway</td>
<td>-</td>
<td>17.9</td>
<td>50.1</td>
</tr>
<tr>
<td>Portugal</td>
<td>0.67</td>
<td>21.3</td>
<td>52.7</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>0.448</td>
<td>7.9</td>
<td>32.9</td>
</tr>
<tr>
<td>Slovenia</td>
<td>0.448</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Spain</td>
<td>0.58</td>
<td>15.2</td>
<td>43.5</td>
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<tr>
<td>Sweden</td>
<td>-</td>
<td>-</td>
<td>57.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-</td>
<td>17.5</td>
<td>46.6</td>
</tr>
<tr>
<td>United States</td>
<td>-</td>
<td>41.8</td>
<td>77.2</td>
</tr>
</tbody>
</table>


Note: - data is missing.

The distribution of data clearly reflects significant disparities between the countries of the Euro Area in terms of concentration of wealth. The top 1% of the population of Denmark, Germany, Austria, Netherlands and Luxembourg concentrates in their hands from 20 to 25% of their countries’ wealth. For comparison, among the European Union countries included in this comparison analysis, the top 1% percent in Greece and Slovakia is at least twice less wealthy.

This applies both to the wealth share of the top 1% and top 10%,
which are formed in the US respectively at the levels of 41.8% and 77.2%. According to data cited by Piketty it was always so. In the 19th century, in the US there was a relative equality, excluding racial differences. The concentration of wealth at that time was very high in Europe. In the twentieth century, the trend got reversed (Figure 6).

**FIGURE 6. TOP WEALTH SHARES IN EUROPE AND US. 1810-2010.**

To conclude, the above data respond to the question of the distribution of wealth in prosperous EU countries as compared to the US, the country known to be one of the most unequal in the world. Available data indicate that in terms of wealth inequality situation of the EU countries compared to the US is quite unique. Many American observers see Europe as excessively egalitarian and, conversely, many European observers perceive the US as being too unequal. This means that there has been not only a reversal of the trend in the objective levels of inequality of wealth, but also in the views on the level of wealth inequality optimal for economic growth. The chart by T. Piketty illustrates that both the EU countries and the US have experienced increases and declines of these inequalities, which means that we are not doomed to inequality exacerbated by the rapid enrichment of the richest. According to the author of the above graph-politics and markets can lead to big changes.

Data from Luxembourg Income Study Database, World Bank and IMF staff calculations\(^\text{17}\) show that wealth inequality is more extreme than in-

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\(^\text{17}\) *Other sources:* The world distribution of household wealth, 2008. In J.B. Davies (ed.) *Personal Wealth from a Global Perspective* OUP.; *OECD*; Luxembourg Income Study Database; *Socio-Economic Database for Latin America* and the *Caribbean* (SEDLAC); World Bank; Eurostat.
come inequality. In developed economies, the average income Ginis are about half the size of wealth Ginis. There are at least two explanations for this situation: increase of the stagnation of wages, which makes the employees with lower and middle incomes not able to save money and the lower propensity of the wealthy to consume whilst the rich have additional income via interest rates on their savings and investments. The results obtained from the above-mentioned studies confirm the thesis by Piketty and Saez (2014) that the growing wealth inequality in advanced economies is largely driven by the growing concentration of wealth at the top (Piketty and Saez, 2014).

The issue of distribution of resources in society is inextricably linked to poverty. Poverty reflects the deficiencies of systems for equitable redistribution of resources and opportunities. The subject of poverty is very wide. To describe the complex nature of poverty, different measures are used. At the EU level, there has been used a wide set of measures covering sixteen key indexes (including the percentage of population at risk of poverty, indexes of access to health care, early school leavers, in-work poverty etc.) since 2001.

This article will only present data illustrating the extent of poverty using the “at risk of poverty rate”. Individuals are considered to be at risk of poverty if their income is below 60% of median income. Figure 7 shows the distribution of the rate across countries.

In 2014 the poverty rate in the three member states - Romania (24.4%), Spain (23.3%) and Greece (23.2%) reached the highest level. At least one-fifth of the population in these countries was rated to be at risk of monetary poverty. Among the Member States, the lowest percentage of population at risk of poverty was in the Czech Republic (9.1%), Finland (12.4), Netherlands (12.5%), Slovakia (12.5) and Austria (12.9).

In comparison to 2007 the increase in the risk of poverty was recorded for almost all EU countries. Only in three countries (Poland, Latvia, Bulgaria) it has slightly decreased. In the years 2007-2014, at risk of poverty rate rose for the whole European Union by 2.2 percentage points up to 17.2%. The largest increase in population at risk of poverty was recorded for Spain (6.4%), Sweden (4.5%) and Greece (4.3).

The figures inform about the percentage of poor population in different countries, but do not reflect differences in living standards. It is clear that deep poverty is present in those Member States that have both a low overall standard of living and a high level of relative poverty.

The data indicate that the financial and economic crisis, which began in 2008 and the accompanying austerity programmes have significantly increased the extent of poverty. This is particularly evident in the case of countries which have received the support of international organizations
(IMF, ECB, and EU Commission) under the condition of huge budgetary cuts. In most countries, poverty has not only increased, but due to the crisis it has also become more severe. Among those experiencing monetary poverty more people have moved down the ladder of income distribution.

**FIGURE 7. AT RISK OF POVERTY RATE (CUT-OFF POINT: 60% OF MEDIAN EQUIVALISED INCOME AFTER SOCIAL TRANSFERS) FROM 16 TO 64 YEARS IN 2007-2014**

![At risk of poverty rate in the EU as % of the population](Image)

Source: Own elaboration based on www.epp.eurostat.ec.europa.eu.

Data quoted in the article suggest that the observed both income and wealth disparities, and the risk of poverty are increasing in most countries of the European Union. The reasons for these changes are rooted in the globalization of trade, technological changes and the rise in demand for low-paid and low-skilled jobs in the service sector and a highly qualified staff in the sector of modern business services and in tax and redistribution policies orientated towards market dogmatism. In the middle of the wealth distribution structure, there is the “middle class.” Until now it has been believed that the middle class is a very important component of the developed countries, stabilizing social order, ensuring the balance of the social system, reducing tension and conflict between the radicalism of the social bottoms and conservatism of social heights as well as the foundation of the economic welfare of society.

All these advantages of the middle class, in fact, did not stop the processes leading to the emergence of extreme wealth inequalities determined by affluence of a small group of the richest population. So far the labour
markets have provided income for middle-class households. Current changes mean that the position of the middle class is weakening, that has profound socio-economic implications. The top of the structure has been dominated by well-educated and well-paid specialists, which has led to moving of this category up the social structure and growing of the distance to other market participants. On the other hand, at the bottom of the structure and the opposite labour market, the wages of workers, especially those with low qualifications are stabilising or declining. Stratification is deepened by low-wage market, with relatively high numbers of short-term and part-time jobs.

IV. CONCLUSIONS

The article assesses the level of inequality, income stratification and poverty in the European Union in two time periods in 2008 and 2014, that is, before and after the economic recession. The comparative analysis of the level of inequality in the European countries allows to draw upon the following conclusions:

Eurostat statistical data document the fact that in European countries income inequality measured by the Gini coefficient places itself within the range of 20 to 45, on the scale of 0 to 100. EU economies can therefore be classified into the group of small or medium income stratification.

The impact of social transfers in reducing inequality is visible in all EU Member States and ranges from a decline by 2.5% of the Gini in Greece and Italy to 15% decline in Ireland. Social policy of the Member States to a varying degree and with various results soothes liberal tendencies on domestic markets.

The analysis of economic inequality of the EU economies on the example of the income quintile ratio 80/20 showed that the disparity between income earned by the richest and the poorest population before and after the recession have slightly increased. Polarisation of income in the EU is at a medium level. The richest part of the population earns 5.2 times more than the poorest.

Romania and Bulgaria record the largest gap illustrating the “social distance” between households belonging to the 20% of the richest in relation to the remaining 80%. In the Czech Republic this gap is the smallest.

In Europe, societies with the least inequality also have the lowest poverty rates and better economic performance. The main reason is the fact that their governments have set to ensure adequate minimum income, providing good access to services within the system of social protection and guaranteed minimum wages. Studies on the state of inequality formu-
late just such recommendations for public policy. They postulate the activation of economic growth, transformations of the branch structure, supporting education and the development of social capital, fair tax reforms and improvement of the system of social benefits.

Generally it can be concluded that the European economies are characterized by a relatively unequal distribution of income yet. A large scale redistribution contributes to the reduction of social disparity. The high direct and indirect costs of inequality commonly rose in public debates, both nationally and in cross-country comparisons, incline Europeans to look for different solutions. Solutions applied until now can hardly be considered a breakthrough. The fact that the problem has existed since ancient times and still remains unresolved is illustrated by the words of the Greek philosopher Plutarch: “An imbalance between wealth and poverty is the oldest and worst ailment of all republics.”

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