

## Income inequalities in Europe

Two Eurofound researchers, Enrique Fernandez-Macias and Carlos Vacas-Soriano, put on line a work on "Income inequalities and employment patterns in Europe before and after the Great Recession." The title is already explaining the objective that the two authors aim to: verify the effects of the economic crisis on income distribution. I chose nine of the countries, that is four countries of southern Europe, the two largest of the euro-zone countries, and the two English spoken, plus Sweden. Table I shows the Gini index, which measures inequality, from zero (perfect equality) to one (total inequality), relative to disposable household income between 2008 and 2013:

Table I

	2008	2013	Var.%
France	0.294	0.289	-1.7
Germany	0.281	0.297	+5.7
Greece	0.334	0.357	+6.9
Ireland	0.287	0.318	+10.8
Italy	0.311	0.328	+5.5
Portugal	0,352	0,348	-1.1
Spain	0.318	0.353	+11.0
Sweden	0.242	0.252	+4.1
UK	0.322	0.316	-1.9
EU	0.330	0.336	+1.8

As you can see, in three countries (France, Portugal and the United Kingdom) the inequality fell slightly, with the Gini index falling. But in the four countries it has been a clear worsening: in particular in Spain (+ 11%), but also in Greece (+ 6.9%), Germany (+ 5.7%) and Italy (+ 5.5%). In the EU as a whole the worsening (+ 1.8%) was rather limited.

Sweden, despite a significant worsening (+ 4.1%) is still the most egalitarian country, while Greece, which in 2008 was exceeded by Portugal in the ranking of inequality, in 2013 passed overhead. Overall, the four countries of southern Europe have the greatest inequalities, followed by Ireland and the UK, while France and Germany have less inequality. Note that between the two largest EU countries, the relationship has changed, and this despite the fact that unemployment has grown far more in France than in Germany.

The household disposable income is due to wages and other remunerations that are determined in the market, and by public intervention through monetary transfers and taxes on families. Table II shows the Gini values both before (the market only) and after (public intervention) at the beginning of the Great Depression:

Table II 2008

	Before	After	Change%
France	0,431	0,294	-31.8
Germany	0.425	0.281	-33.9
Greece	0.451	0.334	-25.9
Ireland	0.494	0.287	-41.9
Italy	0.423	0.311	-26.5
Portugal	0,470	0,352	-25.1
Spain	0.423	0.318	-24.8
Sweden	0.365	0.242	-33.7

UK	0,465	0,330	-29.0
EU	0.459	0.322	-29.8

In Table III we have the same Gini indexes of the market distribution (before) and of the public intervention (after) five years later:

Table III 2013

	Before	After%	Change%
France	0,428	0,289	-32.5
Germany	0,428	0,297	-30.6
Greece	0,516	0,357	-30.8
Ireland	0.541	0.318	-41.2
Italy	0.447	0.328	-26.6
Portugal	0.508	0.348	-31.5
Spain	0.487	0.353	-27.5
Sweden	0,369	0,252	-31.7
UK	0.467	0.316	-32.3
EU	0.472	0.336	-28.8

It can be seen that before the crisis (Table II) in the countries of southern Europe the decline in inequality between before and after was less than other countries, especially Ireland. The reduction in these countries is in fact lower than the average of the entire EU, which also includes the eastern countries with a low level of welfare. The reason is because, in the southern Europe countries, welfare expenditures in relation to unemployment and to support of poor families have less weight. After the crisis (Table III) in these countries the rise in unemployment and poverty has increased expenses (apart from Italy, where the effect was almost zero), so the difference from other countries decreased, because in Germany, Ireland and Sweden there has been a reduction of the redistributive welfare. In summary, whereas before the crisis the difference before-after ranged from a minimum of Portugal (-25.1) to the maximum Ireland (-41.9), after the crisis the difference goes from Italy (-26.6) Ireland (-41.2). Another interesting aspect is the one that focuses on changes in the market Gini indexes before and after the crisis. In Table IV shows the relative variation of the first column of Tables II and III, and is also reported, for ease of comparison, the relative variation of the family disposable income indices (after the public intervention) from the third column of Table I:

Table IV

	var before	var after
France	-0.7	-1.7
Germany	+0.7	+5.7
Greece	+ 14.4	+6.9
Ireland	+9.5	+10.8
Italy	+5.7	+5.5
Portugal	+8.1	+1.1
Spain	+15.1	+11.0
Sweden	+1.1	+4.1
UK	+0.4	-1.9
EU	+2.8	+1.8

As you can see there is a clear difference between the four countries of southern Europe, with the addition of Ireland, that is among the countries where the crisis has hit the harder, and the other four. In the other northern countries, variations of Gini indices relative to market distribution (before) were minor, and in France the variation was slightly negative. In Germany and Sweden, compared to a slight deterioration in market distribution (before) there is a marked deterioration in the distribution of disposable income (after), due to a downsizing of the welfare carried out by right-wing governments. But in the other countries the market distribution changes were very strong, going from 15.1 in Spain to 5.7 in Italy. The reason is due both to the explosion of unemployment and to the wage compression, such as, in particular, in the Irish case. The intervention of the welfare state reduced, but did not prevent the worsening of income distribution in Greece, Ireland, Spain. The reduction was almost nothing in Italy, whereas in fact, very strong in Portugal, where it completely offset the deterioration in market distribution, creating a small but significant reduction of the Gini household disposable incomes.

In conclusion, the Great Recession has generally worsened the distribution of household incomes, particularly in the most affected countries, where the market distribution has undergone a strong deterioration. The presence of important welfare state, beyond the differences between the various countries, plays a significant role in alleviating the inequalities determined by the dynamics of the market, and constitutes a characteristic feature of European civilization, which should be corrected and improved, but absolutely defended.