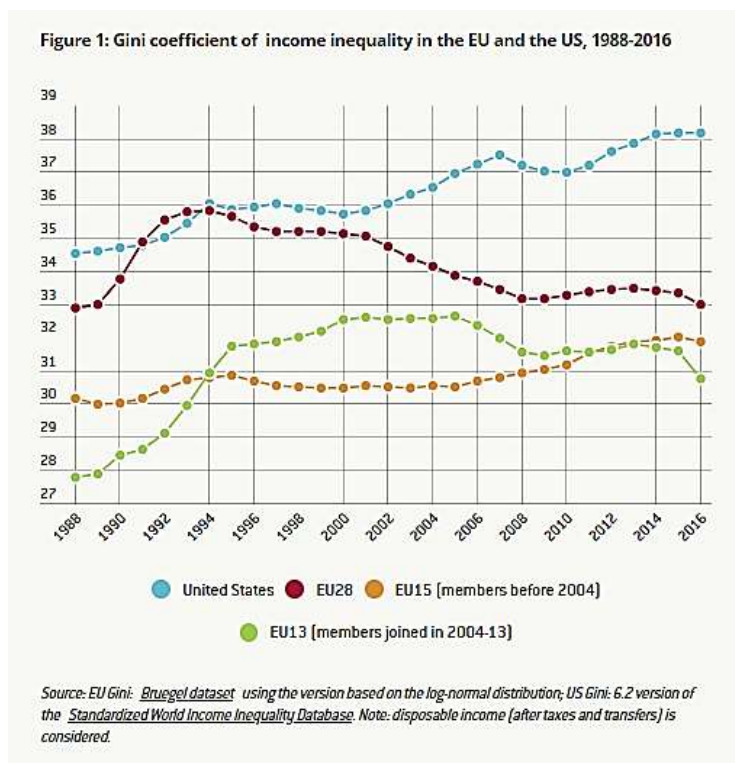


European income inequality begins to fall once again

di Zsolt Darvas

Income inequality among European Union citizens has previously shown strikingly different developments compared with income inequality among United States citizens. The economic collapse of post-communist countries after 1989 led to a rapid increase in income inequality among the combined group of citizens of the current 28 EU members until 1993. But from then on, inequality in the countries that now constitute the EU28 declined from 1994-2008 and thereafter remained broadly stable up to 2015, in contrast to increasing inequality in the US (illustrated in an [earlier post](#)).

The updated Bruegel income inequality dataset shows that the EU-US divergence was reinforced in 2016, with a marked decline in EU-wide inequality (Figure 1).



By splitting the EU into two groups based on the year of EU entry, Figure 1 shows that the recent decline in EU28 inequality could be primarily related to developments within the newer members (EU13 – countries joined in 2004-13), though there was some decline within the group of the 15 older members too (EU15).

Figure 2 scrutinises the factors behind the decline in EU income inequality (the same way I did in my previous post on [global income inequality](#) – see that post for explanations). The main reason behind the decline of 1995-2008 was income convergence: central, eastern and also southern European countries were able to increase their average income relative to richer European nations.

This convergence effect has more than offset the impact of increasing within-country income inequalities in this period. These findings hold for the EU28 as well as for the EU15 and EU13.

But the post-2008 period differs between the EU15 and EU13. There was economic divergence within the EU15, largely due to the weak economic conditions of southern European Member States. Interestingly, convergence with the group of 13 newer members continued in this period, while within-country inequalities generally increased.

2016 marks a change. Divergence of mean income within the EU15 stopped and there was even a small convergence, while within-country income inequalities fell on average both in EU15 and the EU13. The latter developments were driven by the two most populous countries in both groups: Germany (0.6 point fall in the Gini), the United Kingdom (0.9 point fall), Poland (0.8 point fall), and Romania (2.7 point fall). While, on average, within-country income inequality has declined in the EU in 2016, there were some countries where it actually increased, including in Italy.

All in all, the fall in EU-wide income inequality is good news, and it should also be welcome to see that, on average, both within-country and between-countries inequalities have declined in 2016. High levels of income inequality frequently reflect limited opportunities for poorer people and have various negative consequences (including poor health outcomes, weak social mobility and potential swings towards political populism), as we analysed in our [2016 report on inclusive growth](#) with Guntram Wolff.

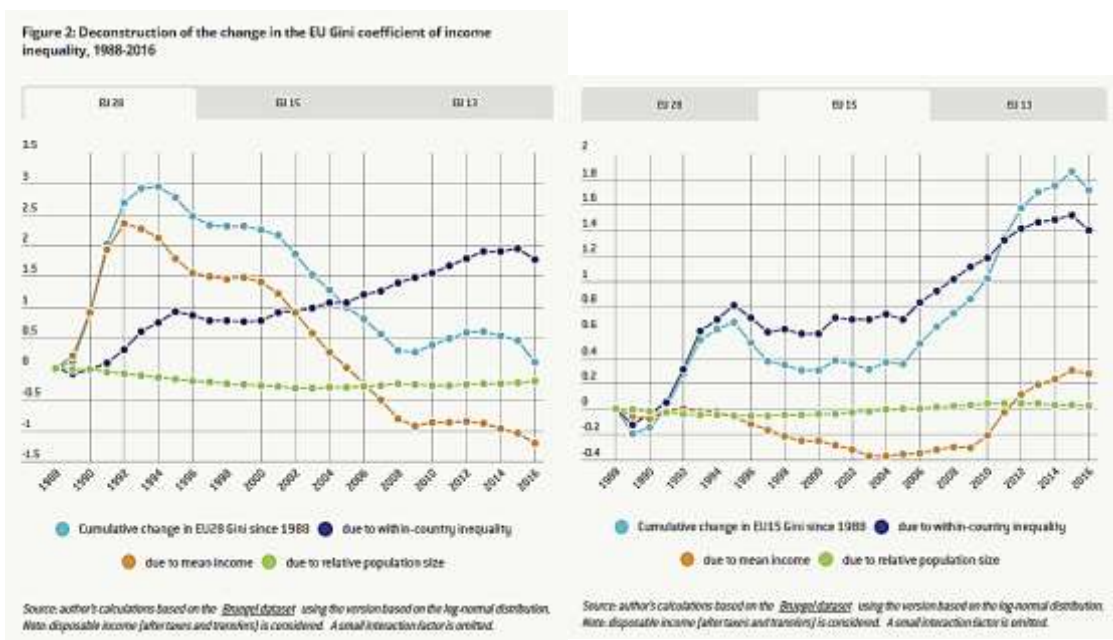
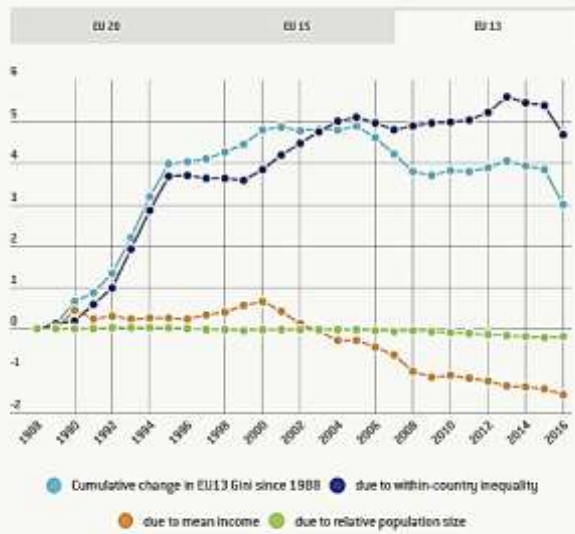


Figure 2: Deconstruction of the change in the EU Gini coefficient of income inequality, 1988-2016



Source: author's calculations based on the [Burgelman dataset](#) using the version based on the log-normal distribution. Note: disposable income (after taxes and transfers) is considered. A small interaction factor is omitted.