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The Welfare State in Europe: Economic and Social Perspectives

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Poverty and Inequality

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Abstract and Keywords

This chapter is about the state of inequality and poverty in Europe. We observe differences in poverty rates and income inequality across European countries. At the one extreme, there are the Benelux and Nordic countries with little poverty and small inequalities. At the other extreme, there is a mixed group consisting of Southern, Eastern, and Anglo- Saxon countries. Changes in poverty and inequality over time have been rather small. A number of reliable signals, such as aging and restrictive public finance point to an increase of poverty and inequality in the near future. Finally, we show that beyond the traditional social polarization based on income and wealth, there is a deeper and multicausal divide that represents the most serious challenge to our welfare states.

Keywords: equivalence scale, Gini coefficient, Lorenz curve, populism, poverty line, poverty rate, regression

Key Concepts

equivalence scale

Gini coefficient

Lorenz curve

populism

poverty line

poverty rate

regression

2.1. Introduction

The failure of the market system to satisfactorily achieve the objectives that our society has set itself is at the heart of the welfare state. This failure is of two types: the 'traditional' market failure that comes from the inability to produce an efficient allocation of resources, and the rather 'normal'¹ failure to provide an equitable outcome. To measure the performance of the market and of the welfare state in terms of equity, we focus on two standard concepts: poverty and inequality.

Poverty and inequality are indeed two ways of characterizing the equity of income distribution. But a number of economists² do not want to consider distributional issues at all. According to them, any ideas about the right income distribution are value judgments, and there is no scientific way to resolve differences in matters of ethics. The problem with this view is that **(p.12)** decision-makers care about the distributional implications of policy. Yet if economists ignore distribution, policymakers may end up paying no attention at all to efficiency, focusing only on distributional issues.

In this chapter, we approach the issue of income distribution from the viewpoint of poverty and inequality. Then we look at the effect of social protection on each one and we conclude with the question of populism and social divide.

2.2. Comparing Poverty

In measuring poverty and income inequality, we will focus on the household as the reference unit, and on disposable income as the source of well-being for the household. To standardize the disposable income of heterogeneous households we use an equivalence scale. This is a rather arbitrary choice and it can have implications. The scale recommended by the OECD is used most often in the figures presented here. It assigns a weight of 1.0 to the first adult in a household, 0.5 to each additional adult, and 0.3 to each child. The equivalent (or standardized) income of a household is obtained by dividing its disposable income by the equivalence scale value, e.g. 2.1 for a couple with two children.

Income distribution can be considered in terms of its dispersion. Thus one looks at the entire distribution of income. Alternatively, it can be studied by focusing on the bottom of the distribution, namely on the extent of poverty. To measure the level of poverty one traditionally computes the number of households below the 'poverty line', a fixed level of real income considered enough to provide a minimally adequate standard of living. Not surprisingly, there is no agreement on how to determine what is adequate. The poverty lines can be based on basic needs (the cost of minimum food requirements) or on some percentage of mean or median income. The latter approach is based on the idea that poverty is a situation of relative deprivation, and that the poverty line should, therefore, be linked to some indicator of the standard of living in society. We will use this approach, which is objective, financial, and relative. It is particularly fit for international comparisons. Unless mentioned otherwise, our poverty line will be 50 per cent of median income.

Table 2.1 shows the proportion of people below the poverty line (50 per cent of median income) in EU28 plus the US. In 2015, poverty rates range from 5.3 in Czechia³ and in Finland to 19.8 in Spain. One can distinguish countries with relatively low rates (below 7 per cent): Czechia, Finland, the Netherlands and France; and those with high rates (above 15 per cent): Bulgaria, Romania, Spain and Greece. This can be contrasted with a rate of 17.5 per cent in the US.

(p.13) If one were to look in more detail, one would observe the types of individuals who are particularly subject to poverty: young households and female-headed households in which no husband is present. Low educational level and persistent unemployment are also factors of poverty. The size of the family, particularly when no economies of scale are accounted for, also leads to poverty. This pattern of poverty according to household types applies to most European countries. As we see below, the observed poverty levels are the result of two main sources: the market outcome and the presence and effectiveness of social protection.

Table 2.1. Income, poverty and inequality in the EU28, 2015

Country	GDP per head (2010 dollars and prices)	Poverty rate (50%)	Persistent poverty rate (50%)	Gini coefficient (%)	Social spending (% of GDP)*
Austria	42 750	8.3	4.7	27.2	30.0
Belgium	39 944	7.8	3.4	26.2	30.3
Bulgaria	–	15.5	10.9	37.0	18.5
Croatia	–	13.5	7.7	30.4	21.6
Cyprus	–	9.0	2.5	33.6	23.0
Czechia	28 729	5.3	1.3	25.0	19.7
Denmark	42 198	7.1	1.8	27.4	32.9
Estonia	25 587	12.5	6.7	34.8	15.1
Finland	37 582	5.3	2.4	25.2	31.9
France	36 789	6.5	2.8	29.2	34.3
Germany	42 850	10.2	5.3	30.1	29.1
Greece	24 306	15.0	8.6	34.2	26.0
Hungary	23 854	9.0	3.6	28.2	19.9
Ireland	50 217	8.8	2.8	29.8	20.6
Italy	32 677	13.4	8.2	32.4	29.9
Latvia	22 098	14.7	5.7	35.4	14.5

Poverty and Inequality

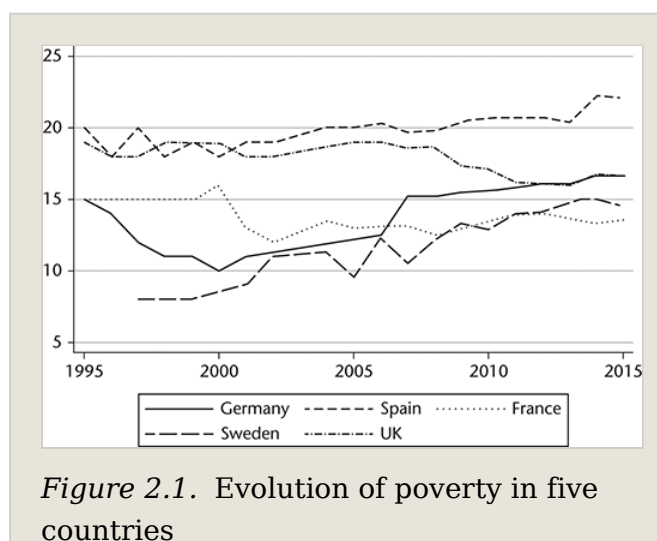
Country	GDP per head (2010 dollars and prices)	Poverty rate (50%)	Persistent poverty rate (50%)	Gini coefficient (%)	Social spending (% of GDP)*
Lithuania	25 609	14.4	7.9	37.9	14.7
Luxembourg	87 313	8.2	5.6	28.5	22.7
Malta	–	8.5	6.2	28.1	18.2
Netherlands	45 305	5.8	2.3	26.7	30.9
Poland	23 884	10.7	5.5	30.6	19.1
Portugal	26 243	13.8	7.8	34.0	26.9
Romania	–	19.8	13.6	37.4	14.8
Slovakia	27 417	8.4	5.0	23.7	18.5
Slovenia	28 151	8.4	3.9	24.5	24.1
Spain	32 209	15.9	10.5	34.6	25.4
Sweden	44 090	8.0	2.7	25.2	29.6
United Kingdom	38 378	9.7	2.6	32.4	27.4
United States	51 450	17.5*	n.a.	39.4*	19.2

Note: * stands for the year 2014

Sources: Eurostat (2017a, 2017b), OECD (2016a, 2016b, 2016c)

Admittedly our approach to poverty is a bit simple. It can only be explained by our concern for international comparisons. Clearly, sociologists tend to go deeper and look for causes. For example, one might wonder what the long-term unemployed, young people looking for work and on training schemes, single mothers, young couples crippled by the impossibility of paying bills (p.14) and rent, all have in common? In an interesting paper, Castel (2003) puts forward the hypothesis that they express a particular mode of dissociation from the social bond: a disaffiliation. This is a condition of misery different from that of poverty in the strict sense. The latter can perhaps be read as a state, whose forms can be listed in terms of lack (lack of earnings, of housing, of medical care, of education, lack of power or of respect). By contrast, situations of destitution constitute an effect at the place where two vectors meet: one, the axis of integration/non-integration through work; the other, an axis of integration/non-integration into a social and family network. Present-day insecurity largely results from the growing fragility of protective regulations which were implemented from the nineteenth century onwards in order to create a stable situation for workers: the right to work, extended social protection, coverage of social risks set up by the welfare state. Castel describes the specific nature of present-day insecurity as relating to the structure of wage society, its crisis or its disintegration since the mid-1970s. This analysis although very relevant cannot lend itself to straightforward comparisons. We come back to this in the section on the social divide.

Over the last two decades, poverty has increased in several countries. Figure 2.1 provides the evolution of poverty in five European countries. The UK is the only country that has experienced a decline in poverty over the period 1995–2015. Spain, Sweden, and Germany have gone through an increase of poverty though at different levels.



(p.15) 2.3. Comparing Inequality

The headcount poverty rate used here, as well as alternative measures of poverty, focus on a particular population. It is often argued that poverty alleviation is not the sole redistributive objective of social policy, and

that insuring that income is more equitably distributed is just as important.

There exist a number of summary statistics aimed at compressing a vast amount of information concerning differences in income distributions. These statistics, which measure in particular the degree of dispersion or of inequality of peoples' incomes, quite often convey value judgments. For example, under some assumptions, and keeping aggregate income constant, more inequality is shown to imply less social welfare.

Note: Poverty is defined as the % of people in the population with a disposable income below 60% of the median income

Source: Eurostat (2017a)

In this chapter we will use the Gini coefficient as a measure of inequality. To obtain this coefficient, one first compares the cumulative distribution of income to the cumulated distribution of households in the population concerned. This is the Lorenz curve, which plots the percentage of income received by the bottom 20, 30, etc. per cent of the population. If there were full equality, x per cent of the population would receive x per cent of the aggregate income, and then the Lorenz curve would lay along the diagonal of the diagram in Figure 2.2. The further the curve is away from the diagonal, the further the distribution from full equality, and therefore the greater the inequality.

The Gini coefficient is calculated by dividing the area between the Lorenz curve and the diagonal, by the area of the triangle formed by the diagonal and the axes. In Figure 2.2, there are two hypothetical Lorenz curves corresponding to two countries: b , for Borduria and s , for Syldavia. The Gini coefficient of **(p.16)** Syldavia is equal to the area S divided by the area $S + B + A$ and that of Borduria is equal to $S + B$ divided by $S + B + A$. Clearly, income is more unequally distributed in Borduria than in Syldavia.

Table 2.1 presents the Gini coefficient of EU28 countries plus the United States. As in the case of poverty, one can distinguish two groups of European countries. The Nordic countries, Belgium, Czechia, Slovenia, and the Netherlands have the lowest coefficients. In contrast Romania, Bulgaria, and Lithuania have the highest coefficients, closer to that of the USA. This clustering is quite similar to that obtained in other studies. As we show in the next section, the ranking of countries by either the Gini coefficient or the head count poverty rate can be explained in part by the differing form and extent of social protection, as well as by the role of redistributive income taxation.

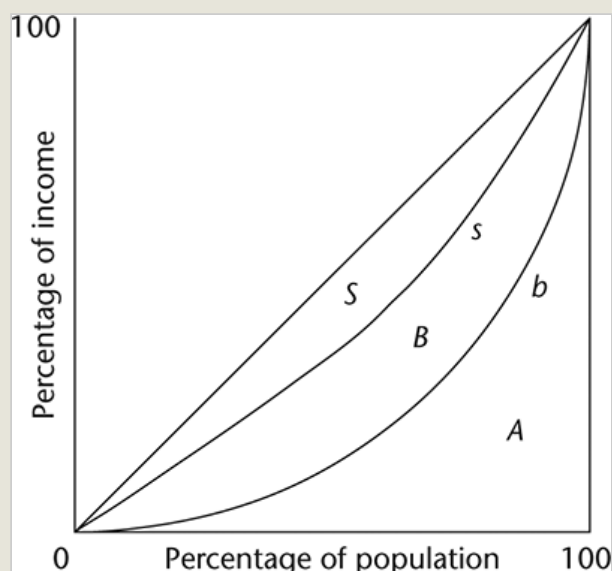
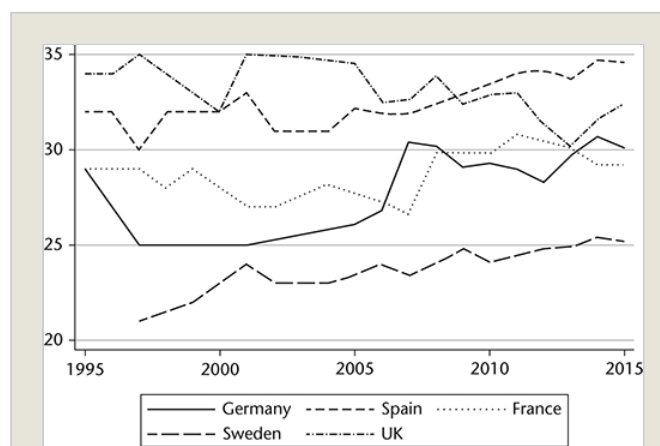


Figure 2.2. Lorenz curves

Figure 2.3 gives the changes in inequality from mid-1990 to mid-2010 for a number of European countries. It appears that during that period, the Gini coefficient increased steadily in Sweden. It also increased in Spain and in Germany after a sharp decline in the latter. In France, it remained broadly stable. In spite of these contrasting trends, the overall pattern has not changed much: low inequality in the Nordic countries, Czechia, Slovenia, and the Netherlands and higher inequality in the Anglo-Saxon, the Southern European countries, and most East European countries. Increasing inequalities after 2008 were largely driven by growing unemployment in many countries **(p.17)** following the great recession. A number of studies signalled widening wage differentials as the main reason behind this evolution⁴.



It should be noted that the Gini coefficient does not account for what is happening at the extremes of the income distribution. It particularly forgoes the concentration of income in the top percentile of the distribution. The share of the richest 1 per cent in total pre-tax income has increased in most European countries in the past three decades, particularly in some English-speaking countries but also in some Nordic (from lower levels) and Southern European countries⁵. Today, these shares range between 7 per cent in Denmark and the Netherlands up to almost 15 per cent in the UK (20 per cent in the United States). This increase is the result of the top 1 per cent capturing a disproportionate share of overall income-growth dividend over the past three decades. This explains why the majority of the population cannot reconcile the aggregate income-growth figures with the performance of their incomes.

Figure 2.3. Evolution of inequality in five countries

Note: Inequality is the Gini index

Source: Eurostat (2017a)

2.4. Redistributive Effect of Social Protection

The extent of poverty and inequality studied thus far concerns incomes that are net of direct taxes and which include social protection transfers. We now want to look at the impact of such transfers on poverty and inequality. To do so we proceed in two stages: at the aggregate level and at the level of households.

2.4.1. Effect on the Poverty of Households

To measure the impact of social protection, we simply compare poverty rates before and after transfers. The practical advantage of this method is that it does not require data on gross income, just on disposable income and on transfers. One major disadvantage of this method is that it overestimates the impact of transfers on poverty. The extent of the bias depends on the level of taxation that low-income households pay. Another and more serious pitfall of this approach is that it assumes a constant behaviour. Indeed it is clear that without some social benefits individuals would change their behaviour regarding retirement, work, health treatment, and so on.

As it appears in Table 2.2, for the most recent year (2015), poverty alleviation (APO) defined as the difference between poverty rates before and after transfers ranges from 33.3 in Hungary to 21.3 in the Latvia. For the year 2005, the range goes from 36.1 for Hungary to 14.1 for Cyprus. These figures are quite high. They reflect the generosity of the transfer systems but also the level **(p.18)** of gross income poverty. What is may be more interesting is the change in poverty alleviation over the two subperiods (1995–2005 and 2005–2015). For the first subperiod, it increased for most countries except for Ireland, the Netherlands, and Spain. For the more recent subperiod, for which we have more observations, the outcome is mixed. In the chapter on globalization, we will try to relate these changes in poverty alleviation (DAP) to economic integration and factor mobility.

Table 2.2. Poverty alleviation (1995-2015)

	POV	APO	DAP	POV	APO	DAP
Austria	5.8	29.6	2.6	8.3	30.2	0.6
Belgium	7.7	29.5	1.5	7.8	31.1	1.6
Bulgaria	12.5	27.0	–	15.5	21.4	–
Croatia	–	–	–	13.5	25.8	–
Cyprus	9.0	14.1	–	9.0	23.5	9.4
Czechia	5.5	27.5	–	5.3	26.4	–1.1
Denmark	5.7	28.0	–	7.1	29.5	1.5
Estonia	11.3	22.8	–	12.5	21.7	–1.1
Finland	5.0	30.2	–	5.3	32.3	2.1
France	6.4	32.3	4.3	6.5	32.4	0.1
Germany	6.7	31.7	8.7	10.2	28.9	–2.8
Greece	12.6	20.8	4.8	15.0	31.6	10.8
Hungary	7.5	36.1	–	9.0	33.3	–2.8
Ireland	11.2	24.1	–6.9	8.8	32.3	8.2
Italy	12.4	23.8	4.8	13.4	26.2	2.4
Latvia	12.7	22.9	–	14.7	21.3	–1.6
Lithuania	14.3	23.2	–	14.4	23.2	0,0

Poverty and Inequality

	POV	APO	DAP	POV	APO	DAP
Luxembourg	7.3	26.3	0.3	8.2	29.1	2.8
Malta	7.2	18.2	–	8.5	23.4	5.2
Netherlands	6.2	25.4	–0.6	5.8	27.8	2.4
Poland	14.5	30.3	–	10.7	26.9	–3.4
Portugal	12.5	22.1	7.1	13.8	29.1	7.0
Romania	–	–	–	19.8	24,0	–
Slovakia	8.2	26.2	–	8.4	23.3	–2.9
Slovenia	7,0	28.2	–	8.4	27.4	–0.8
Spain	13.1	19.5	–4.5	15.9	25.8	6.3
Sweden	5.0	30.3	–	8.0	28.7	–1.6
United Kingdom	11.8	26.4	2.4	9.7	29.9	3.5
Period	2005	2005	1995–2005	2015	2015	2005–2015

Notes: POV: Poverty rate (50% median income), APO: Poverty alleviation: poverty before minus poverty after transfers, DAP: Increase in poverty alleviation

Source: Eurostat (2017a)

2.4.2. Aggregate Effect on Poverty and Inequality

Another approach to the same issue is to consider the aggregate relationship between social spending, and either the poverty rate or the inequality measure. To do that we use the data from Table 2.1. Figure 2.4 provides the line of regression of the poverty rate against social spending. We see clearly that **(p. 19)** social transfers exert a clear-cut effect on poverty and that there is a negative correlation between the two variables.

The results presented in Table 2.3 confirm that larger social expenditure corresponds to lower poverty levels. Tests on the time stability of the estimated coefficients suggest that the impact of social transfers on poverty rates has not changed over time.

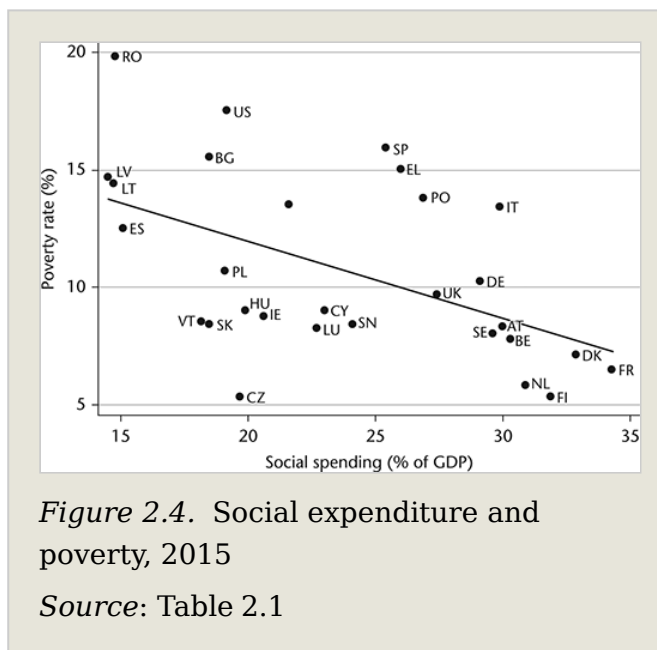


Table 2.3. Impact of social spending on poverty and income inequality (2015)

Dependent variable	Constant	Social spending	R ²
Poverty rate	18.51 (7.12)	−0.328 (−3.09)	0.261
Gini coefficient	38.91 (12.58)	−0.347 (−2.75)	0.219

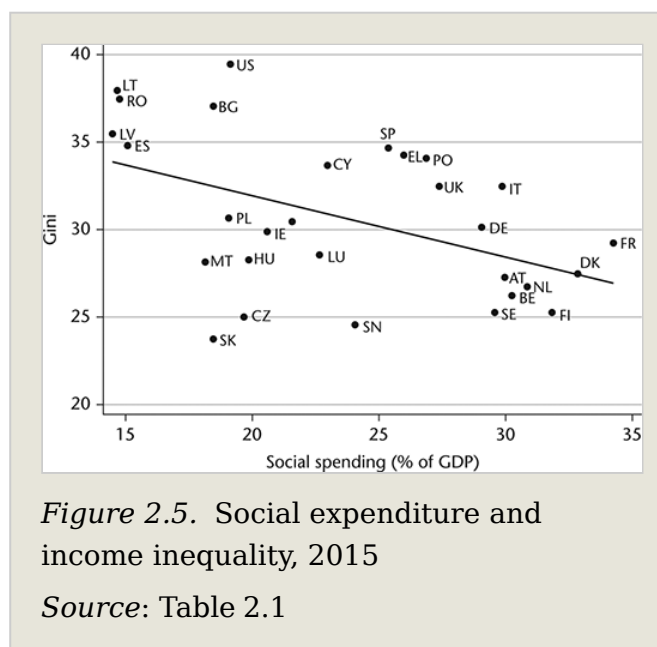
Note: *t*-value between brackets

Source: Table 2.1

We should, however, be cautious in interpreting these relations. Indeed they can indicate that social protection ‘works’. Yet at the same time, this can simply mean that countries with low poverty rates have a strong preference for social protection. Furthermore, part of the redistribution can be prior to social protection spending. For example, it has been shown that the distribution of wages tends to be more equal in countries with a corporatist setting **(p.20)** than in countries where wage is exclusively set by the market. Moreover, we know that corporatist countries tend to have rather generous welfare states. This points to something to which we return in Chapter 5. Even though this book focuses on the spending side of the welfare state, one should remember that social protection can influence resource allocation and income distribution by other means such as social legislation.

The relation between social protection and an inequality indicator such as the Gini coefficient is not so clear. But it is clearly negative, as shown by Figure 2.5 and the correlation coefficient is equal to about 22 per cent. Table 2.3 gives the regression of the Gini coefficient against social spending. The estimators are quite significant. However, the same reservation made for the poverty rate holds for the indicator of inequality. A society with incomes that are more or less equal can have a strong preference for social protection. Thus the causality link would be reversed. The truth is very likely to be somewhere in between. During the great recession, the role of welfare state redistribution in reducing inequality was important. This was especially true in countries hardest hit by the crisis in the European periphery, where welfare states largely cushioned growing market income inequalities⁶.

(p.21) 2.4.3. Permanent
Inequality and Poverty across
European Countries



The comparison presented so far can be criticized because it relies on single-year incomes or earnings. It has long been recognized that there could be high annual-income inequality even if the inequality of lifetime (also called permanent) income is very low. The more households move up and down the income ladder throughout their life-cycle, the more single-year inequality will deviate from the inequality of income measured over a longer period of time. As a consequence, if there are differences in income mobility across countries, single-year inequality ranking may yield a misleading picture. Naturally, the same remark applies to poverty measures. In comparison to poverty over time or across countries, instantaneous poverty does not necessarily evolve as persistent poverty. Table 2.1 provides, besides the standard rate of poverty, a rate of persistent poverty that shows the percentage of the population living in poverty in the current year and at least two out of the preceding three years.

To illustrate this point, consider two countries in which individuals live for three periods of equal length. Population is constant. In country *A*, each individual earns very little in the first period, but makes up for it in the two following periods. A cross-sectional view of country *A* shows that one third of the population is poor (the young generation) and two thirds (the middle aged and the old generations) have a reasonable income. As a consequence, one has a poverty rate of 33 per cent. Yet, in life-cycle terms, everyone is alike and there is no poverty. In country *B*, 20 per cent of the population is persistently poor through the three periods. The others have a constant income. Cross-sectional poverty is thus 20 per cent. This rate is also the rate of persistent poverty.

This example is presented in Table 2.4. One can easily check that the same conclusion applies for inequality measures.

Table 2.4. Life-cycle income

Periods	Society A Generations			Society B (20%/80%) Generations		
	t	t + 1	t + 2	t	t + 1	t + 2
1	10	10	10	10/35	10/35	10/35
2	40	40	40	10/35	10/35	10/35
3	40	40	40	10/35	10/35	10/35
Average cross-sectional income		30			30	
Average life-time income		30			30	
Cross-sectional poverty		1/3			1/5	
Persistent poverty		0			1/5	

It is thus widely agreed that lifetime income, if available, should be used to assess inequality and poverty measures. It could bring a different view, **(p.22)** supplementing that obtained with income obtained in a given period.

Unfortunately, to compare income inequality and poverty across countries on longer time periods than one year requires data that are rarely available. We now examine the existing scanty evidence.

Using longitudinal data sets from four countries, Denmark, Norway, Sweden, and the United States, Aaberge et al. (2002) look at how the ordering of these countries with respect to income inequality changes when the accounting period is extended from one to several years. They show that the ordering by and large remains unchanged when the period is extended by up to eleven years (1980–90). The United States is consistently the most unequal country in spite of a rather high income mobility. They conclude that extending the accounting period and taking account of income mobility have only minor effects on intercountry differences in income inequality.⁷ This conclusion is similar to that obtained by Burkhauser and Poupore (1997) and Burkhauser et al. (1997) in their comparison of Germany and the United States. It is also the same as that of OECD (1996a) that looks at a larger set of countries.

There is indeed a belief that higher inequalities do go hand-in-hand with greater mobility over the working life with the consequence that mobility being an equalizer of long-term earnings would imply a lower degree of persistent inequality. This belief does not seem to be supported by the facts. Using a consistent comparative dataset for fourteen countries—the European Community Household Panel—Sologon and O'Donoghue (2012) show that the country ranking in long-term earnings inequality is similar to the country ranking in annual inequality, which is a sign of limited long-term equalizing mobility within countries with higher levels of annual inequality. Garner et al. (2016) reach the same conclusion using a larger sample of industrialized countries.

With respect to poverty measurement, research has increasingly focused on persistent income poverty. Using the first three waves of the European Community Household Panel, Whelan et al. (2003) compare for 1995 cross-sectional income poverty at 60 per cent of median income with persistent poverty at 70 per cent of median income. The first ranges from 10.7 per cent in the Netherlands to 21.7 per cent in Portugal and the second from 6.3 per cent in Denmark to 19 per cent in Portugal. Here again the rank correlation between these two indicators is high. Breen and Moisis (2003) use the first four waves of the European Panel. A comparison between poverty rate in wave 4 and the percentage of households being poor in the four waves shows again a rather high correlation. Their main conclusion is that mobility in poverty is highly overestimated if measurement error is ignored. More recently, **(p.23)** Vaalavuo (2015) has analysed long-term poverty in Europe. The idea is that fighting persistent poverty should be a priority for governments. Poverty is never pleasant but the longer one spends in poverty, the harder and the more insidious it becomes. She finds that the duration of poverty varies greatly between countries: on average 37 per cent of the poor are poor only for one year (out of four possible years). In the UK and Austria it is around half of the poor and in Romania only a fifth of the poor. The likelihood of long-term poverty varies across age groups and countries: in Slovenia, Finland and Cyprus, elderly people are more at risk of long-term poverty; in the Netherlands, Belgium, Portugal and Romania children face a higher risk. Finally, she finds that instantaneous poverty and persistent poverty are highly correlated.

To conclude, there is no doubt that looking at lifetime income inequality and persistent poverty is important; it brings an alternative viewpoint to the issue of inequality and exclusion. To date, mainly for statistical reasons, there are few studies comparing lifetime income inequality and lifetime income poverty in the European Union countries. Moreover, the existing studies show that the ranking based on yearly income is not much different from that based on lifetime income.

2.5. Social Divide and Populism

Traditionally, the study of social polarization focuses on income inequality and poverty, which both call for corrective tax and social policies. This narrow approach is increasingly questioned, as the phenomenon is complex and involves health status, quality of jobs, education, migration background, and digital connections. A large fraction of the population feels destitute because of low life expectancy, miserable dwellings, poorly paid and unstable jobs, feelings of discrimination on the part of the native-born children of immigration, distance from the city centres, etc. Besides this complexity, another key feature of the social divide is that it rests not only on the realities just mentioned but also on perceptions and fears that might not be well founded but yet generate resentment. A typical example of that is the perception that outsourcing and capital mobility are the causes of many problems even when this is proved wrong. Another example is the fear that foreigners will take your job even in areas where there is no immigration. A third feature of the widespread social divide is dynamic. A major source of social anger is downward social mobility that people perceived as not being taken care of by distant policymakers.

This increasing social divide is often viewed as the source of the populist revolt observed in a number of countries as well as the electoral failure of progressive parties that have been unable to rethink their mission and their **(p.24)** purpose. It is about time that they realized that the grievances expressed by their traditional constituency are about social esteem, not only about wages and incomes.

The link between the social divide and extremism is now well documented. In that respect, the experience of the twenties and the thirties is quite interesting. Three economists, O'Rourke et al. (2012), have carefully studied the determinants of 171 elections held between 1919 and 1939 in a number of countries. Their analysis suggests that the danger of political polarization and extremism is greater in some national circumstances than others. It is greatest in countries with relatively recent histories of democracy, with existing right-wing extremist parties, and with electoral systems that create low hurdles to parliamentary representation of new parties. Above all, it is greatest where depressed economic conditions are allowed to persist.

Two other researchers, Geishecker and Siedler (2012), using seventeen years of the German Socio-Economic Panel, examine whether job-loss fears impact on individuals' party identification. They find strong and robust evidence that subjective job-loss fears foster affinity for parties at the far right-wing of the political spectrum. The importance of subjective fears has an interesting parallel in history: recent studies on the elections in the Weimar Republic have presented evidence that it was mainly those who feared a loss of work or economic status who supported the Nazi party.

Becker et al. (2017) analyse the determinants of the Brexit vote. They find that the 2016 Brexit referendum result is strongly correlated with various fundamental characteristics of the voters across the 380 local authority areas. Having few or no qualifications is a strong predictor of the Brexit vote. Furthermore, areas with a strong tradition of manufacturing employment were more likely to vote Leave, and also those areas with relatively low pay and high unemployment. They finally also find evidence that the growth rate of migrants from the twelve EU accession countries played a role in the vote to Leave.

Autor et al. (2016) study the populist vote in the 2016 American presidential elections. Growing import competition from China has contributed to the disappearance of moderate legislators in Congress, a shift in congressional voting toward ideological extremes, and net gains in the number of conservative Republican representatives, including those affiliated with the Tea Party movement. Also areas with larger housing-price declines embrace ideologically more-extreme legislators.

A recent study by Algan et al. (2017) tries to explain the Front National (FN) vote during the recent French presidential election. According to this research, a sense of deteriorating wellbeing is one of the main explanations for rising support for the FN, cutting across most boundaries of age, education, or economic status. The researchers explain this link between well-being and **(p. 25)** FN as a 'crisis of hope', saying that after almost ten years of financial crisis, many people—well beyond the working and middle class—have lost hope of a better future. They have the feeling of being left behind. Age, income, employment status, and level of education do remain relevant but are less important to voting intentions than how gloomy one is about one's future.

To sum up this evidence, we indeed see that the concept of social divide is more complex than the traditional polarization in terms of wages and incomes. The question is then of how to fight problems such as loss of hope for a better future, the prevalence of medical and internet deserts, gender gaps, racial discrimination, and social immobility. What is clear is that the traditional recipes of our welfare states are not working. It does not mean that they have to be abandoned but that they have to be reformed in such a way that the focus is not just on income but other factors that explain the feeling of being left behind. Among the policy measures one might have in mind, one can list: improve public schools with a concern for true equal opportunity; give workers a voice in their companies; fight the rural digital divide and the medical deserts; enhance public transport; erase residential ghettos; dismantle no-go zones; foster participative democracy and active citizenship. Clearly some of these policies are beyond the scope of this book.

2.6. Conclusion

We can now wrap up this chapter on inequality and poverty in the EU, and restate our main findings. First, there are important differences in poverty rates and Gini coefficients across European countries. At the one extreme, there are the Benelux and Nordic countries with little poverty and small inequalities. At the other extreme, there is a mixed group consisting of Southern, Eastern, and Anglo-Saxon countries. Secondly, a part of these differences is attributable to differences in social spending. Thirdly, changes in poverty and inequality over time, have been rather small. Keeping in mind that the most recent figures available are a few years old, there are a number of reliable signals pointing to an increase in the near future of poverty and inequality. The main factors leading to this conjecture are unfavourable social and demographic trends, as well as increasingly restrictive public finance. Finally, we have shown that beyond the traditional social polarization based on income and wealth, there is a deeper and multicausal divide that represents the most serious challenge to our welfare states. Unfortunately the extent of that social divide is not easy to measure and even less to compare across countries.

Notes:

(¹) Normal as long as altruism is assumed away.

(²) The best advocate of this view is undoubtedly Robert Lucas (2005) when he writes: 'Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution...The potential for improving the lives of poor people by finding different ways of distributing current production is nothing compared to the apparently limitless potential of increasing production'.

(³) The alternative, and less formal name, recently introduced, for the Czech Republic.

(⁴) Eurofound (2017).

(⁵) OECD (2014), Stiglitz (2015).

(⁶) Eurofound (2017).

(⁷) See also Bjorklund et al. (2002).