Introduction
Across the globe, there is increasing concern about income inequality. Empirical evidence suggests that over the last three decades, income inequality has grown in many developed economies (the extent and time frame of this trend varying considerably). The Great Recession starting in 2008–2009 intensified this concern due to the impact of the ongoing economic crisis on inequality levels, and the general perception that the increase in inequality may have been one of the factors triggering and protracting the crisis.

Although there is a large body of research on trends in income inequality in EU Member States, surprisingly few studies adopt an EU-wide perspective. In this context, this report has two main goals: to provide a comparative analysis of inequality trends in Member States over the course of the Great Recession (updating the picture given by previous international studies); and to discuss relevant trends and developments in inequality for the overall EU distribution of income – including the implications of economic convergence and divergence before and after the crisis. Most of the analysis in this report is drawn from the European Union Statistics on Income and Living Conditions (EU-SILC) for the period 2005–2014, with income data relating to the period 2004–2013.

Policy context
Evidence regarding the evolution of inequality in the EU as a whole is surprisingly limited, despite the growing interest in the phenomenon and the increasing level of European economic integration. In many EU policy documents, there is an implicit assumption that economic integration should lead to some degree of convergence in terms of income and wages and hence result in a reduction in EU-wide inequality (at least between countries). But the uneven effects of the Great Recession across EU Member States show that convergence is not an automatic outcome of economic integration: there is a need to monitor inequality trends at the EU level as well. Good EU-level statistics on income inequality trends could facilitate a better understanding of the wider implications of the European integration project and improve the coordination of existing policies to fight inequality. These include EU regional policy, focused on inequalities between countries, and European and national social policies targeted at inequalities within countries.

Key findings
EU-wide income inequalities: Before 2008, EU-level income inequalities across different sources of income had declined significantly as a result of a process of income convergence between countries (with inequalities within countries remaining rather stable). After 2008, EU-level income inequality grew for two reasons: firstly, the process of income convergence stalled, with income levels being more negatively affected in some peripheral countries than in the core EU Member States generally; and secondly, there was an expansion of income inequalities within countries in most sources of income.

Convergence in household disposable income: A detailed analysis of household disposable income shows that the process of income convergence prior to 2008 was driven mainly by a catch-up process in eastern European countries and a stagnation or decline in relative income levels in several high-income countries, such as Continental countries (Austria, Belgium, France, Germany, Luxembourg and the Netherlands) and the UK. The interruption of the process of convergence after 2008 is associated with a significant decline in relative income levels in some countries in the European periphery in the initial years (mainly the Baltic states, some Mediterranean Member States, and Ireland), while core European countries were more resilient. After 2011, paths began to diverge within the peripheral group, with the Baltic states and other eastern European countries recovering rapidly, while income levels experienced downward adjustments in Mediterranean Member States.
Inequality in household disposable income across countries: Inequalities in household disposable income grew in two-thirds of Member States over the whole period, continuing the general upward trend in inequalities identified by a number of different international studies. Nevertheless, this is mainly due to increasing inequalities after 2008, largely driven by growing unemployment in many countries during the recession. The finding that unemployment has been the main driver of growing inequalities during the Great Recession complements previous studies signalling widening wage differentials as the main reason behind growing inequalities in the decades prior to the crisis.

Counter-cyclicality of household disposable income inequalities: This central role of unemployment and its effect on labour income largely explains why inequalities in household disposable income have behaved countercyclically in recent years. Prior to the crisis, inequalities declined in more than half the Member States – mainly in the European periphery, which was experiencing an economic catch-up process. From the onset of the crisis, inequalities in household disposable income grew across two-thirds of the countries, mainly in some peripheral countries more severely hit by the crisis, but also in some core Member States (Germany) and some traditionally egalitarian countries (Denmark and Sweden).

Alleviating the effect: Two key mechanisms are shown to reduce levels of inequality. First, the role of welfare state redistribution in reducing inequality became even more important during this period, especially in countries hardest hit by the crisis in the European periphery, where welfare states largely cushioned growing market income inequalities. Second, the family pooling of resources reduced the inequality in labour income observed among individuals, although its effect weakened as the crisis progressed. This is due to the increase in the number of households with no labour income and, to a lesser extent, because of a long-term decline in the size of households.

Evolution of real income levels: An even more obvious impact of the Great Recession is revealed by information on real income levels; these were either pushed downwards, or their growth rate reduced. This correction was generally greater in the European periphery (in Mediterranean and some eastern European countries in a protracted way, and in Anglo-Saxon and Baltic countries during the initial stage of the financial crisis) and especially at the bottom of the income distribution, but it occurred as well, although more modestly, in Continental and Scandinavian countries. The deterioration in income levels from the onset of the crisis among some segments of the income distribution has squeezed the size of the middle class in a majority of countries. This is significant in some peripheral countries in eastern Europe and the Mediterranean, and in countries like Denmark, Germany and Sweden, where the middle class was starting to shrink even before the crisis.

Need for wider set of indicators: The impact of the crisis revealed by real income levels is not always reflected by relative inequality indices or by other indicators such as GDP per capita. This suggests that a wider set of indicators to assess well-being and economic prosperity in European societies needs to be considered in order to properly assess the fall in living standards associated with the Great Recession.

Further information
The report *Income inequalities and employment patterns in Europe before and after the Great Recession* is available at www.eurofound.europa.eu/publications

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