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# ECONOMIC INEQUALITY OF EU COUNTRIES

**Summary:** *The global economic crisis has revealed structural weaknesses of the economy and the shortcomings of economic policies of developed countries and developing countries, including the countries of Central, Eastern and Southeastern Europe that have registered deep decline in real GDP in 2009, after having several years of economic growth on average between 5% and 6%. In many developing countries the purchasing power of salaries and pensions and investment capacity have been reduced. In such economic situation countries in the region have asked for foreign financial aid, since the budgetary resources available and the inflow of foreign capital have been unable to alleviate the crisis. At the same time, many countries have implemented an anti-crisis program with a delay, while some countries have provided assistance to economy and population quickly. The IMF and the EU have provided their program of crisis aid to their members in accordance with established criteria. Economic inequality and crisis have mutually retroactive effect. On one hand, the high rate of inequality can be caused by the actions of negative economic factors, while on the other it extends and deepens the crisis in which the country is already in. The reason for this is that unequal societies cannot be both efficient and their economies stable and sustainable for a longer period. The same applies to the society in which they are created. The negative economic consequences of inequality can be the first to spot.*

**Key words:** *European Union, economic inequality, crises, macroeconomic indicators*

**JEL classification:** *E02, E24, F36*

## INTRODUCTION

The EU was founded in February 1992 by signing the Maastricht Treaty, in the Dutch town after which the agreement was named. After signing the agreement, the EU as a unified economic and trade organization consisted of twelve member states: Netherlands, United Kingdom, Belgium, France, Denmark, Germany, Spain, Italy, Portugal, Luxembourg, Greece and Ireland. This group of countries in 1995 was joined by Sweden, Austria and Finland. In 2004, ten countries joined the EU: the Czech Republic, Slovakia, Malta, Slovenia, Cyprus, Latvia, Estonia, Lithuania, Poland and Hungary. Romania and Bulgaria became members in 2007, and Croatia in July 2013. The current membership of the EU involves a population of nearly 500 million people in 28 member states.

Each country before the establishment of the EU had national policies and protected industry, border control, taxes and subsidies. Today, with the emergence of a single market, there are no barriers to investment, trade, employment and travel (Popović 2008, 26). The EU took a significant step towards unification when twelve of the fifteen countries become part of the economic and monetary union, the official system responsible for the formation of the single European currency - the euro. However, Denmark, Sweden and the United Kingdom decided not to be included in the monetary union. EU creates a single market through a system of laws applicable in all member states, which guarantee the free movement of people, goods, services and capital. EU by its further development on one of the world's richest markets is strengthening its economic power. European companies will continue to have an important role in the global economy. The goal of establishing the EU is creation of a free trade and trade between member states, as well as the elimination of trade barriers (Prokopijević 2005 36). The benefits of the EU are numerous, starting with the fact that there is no visa regime, there is a number of subsidies for member states, the reputation that the state receives by entering the EU, etc. In addition to these there are many other benefits that can be roughly classified into political, economic and financial benefits of the EU (Komšić 2013, 14). The positive economic effects for the member states mainly come through more intense and liberalized trade, efficient allocation of resources in the EU, lower interest rates and much greater inflow of foreign investments.

## 1. MACROECONOMIC INDICATORS FOR THE EUROPEAN UNION

### 1.1. Gross domestic product

In absolute terms, the EU28 revenue is mostly contributed to by the economy of Germany, Great Britain, France, Italy and Spain. The economies of these countries are at or above the EU average and the level of relative development. The economies of Austria, the Netherlands, Sweden, Ireland, Belgium and Finland are relatively developed compared to the EU average. Bulgaria and Romania have the lowest GDP per capita in the EU28 level.

Table 1. Growth rates and GDP per capita (EUROSTAT 2015)

| | Average annual growth GDP per capita | | | GDP per capita for 2014 (EU28=100) |
|---|---|---|---|---|
| | 1996-2001 | 2001-2013 | 2014 | |
| Austria | 2,4 | 1,3 | 3,0 | 127,7 |
| Belgium | 2,4 | 1,5 | 2,0 | 118,9 |
| Bulgaria | 3,1 | 6,3 | 6,2 | 37,9 |
| Ciprus | 3,0 | 1,3 | 2,4 | 91,6 |
| Czech Republic | 1,4 | 4,4 | 5,9 | 81,0 |
| Denmark | 2,1 | 1,6 | 1,4 | 124,0 |
| Estonia | 7,5 | 9,3 | 7,3 | 71,4 |
| Finland | 4,3 | 2,7 | 4,0 | 118,3 |
| France | 2,4 | 1,1 | 1,6 | 110,6 |
| Germany | 1,9 | 0,9 | 2,6 | 114,0 |
| Greece | 3,4 | 3,9 | 3,8 | 98,2 |
| Hungary | 4,8 | 4,5 | 1,5 | 64,1 |
| Ireland | 7,7 | 3,4 | 3,1 | 145,9 |
| Italy | 2,0 | 0,2 | 0,8 | 101,3 |
| Latvia | 7,2 | 9,6 | 10,9 | 57,9 |
| Lithuania | 5,7 | 8,6 | 9,4 | 59,8 |
| Luxembourg | 5,1 | 3,0 | 2,8 | 279,2 |
| Malta | 2,7 | 1,2 | 3,1 | 77,1 |
| Netherlands | 3,1 | 1,1 | 3,3 | 131,2 |
| Poland | 4,4 | 4,2 | 6,6 | 54,4 |
| Portugal | 3,3 | 0,2 | 1,6 | 73,6 |
| Romania | -0,7 | 6,4 | 6,4 | 40,2 |
| Slovakia | 2,7 | 5,9 | 10,3 | 68,3 |
| Slovenia | 4,2 | 4,0 | 5,5 | 90,1 |
| Croatia | - | - | 1,9 | 65,2 |

| | | | | |
|---|---|---|---|---|
| Spain | 3,7 | 1,7 | 2,0 | 104,1 |
| Sweden | 3,1 | 2,7 | 2,0 | 123,6 |
| Great Britain | 2,8 | 2,1 | 2,7 | 117,8 |
| EU28 | 2,7 | 1,6 | 2,5 | 100,0 |

But the economy of the EU member states are not equally dynamic. This is affected by the achieved level of development, economic structure and other factors. And the Community itself through a common policy aims to accelerate growth in less developed countries. Table 1 shows the dynamics of GDP per characteristic periods and relative development of the State, and the GDP per capita was measured at 2014 prices. The level of GDP per capita compared to the EU (last column) is calculated from the PPS (purchasing power standard), or the adjusted purchasing power standards.

Overall, in the reporting period the EU has higher growth rates than the United States. Second, the rates at the level of the developed countries are stable, but not the highest in the Community. Finally, the growth rates of the less developed EU countries are higher than average, which confirms the successful implementation of the joint, and in particular, cohesion policy. All this affects the growth of productivity, of both the EU and its member states (Eurostat 2015).

### 1.2. The movement of inflation

The inflation rate is the average change (increase) in the price level. Inflation compares the current level of prices with the prices during some previous moment or period. For example, most often we speak of inflation in comparison to the same period last year, but its movement can be expressed on a monthly basis, based on the averages in annual, quarterly, or other period. Methods of calculating inflation use the retail price index, producer price index and so on. Under normal circumstances, macroeconomic inflation is linked to the phases of the economic cycle. In developed economies, inflation has a tolerable level when moving in the range 0-4% per annum.

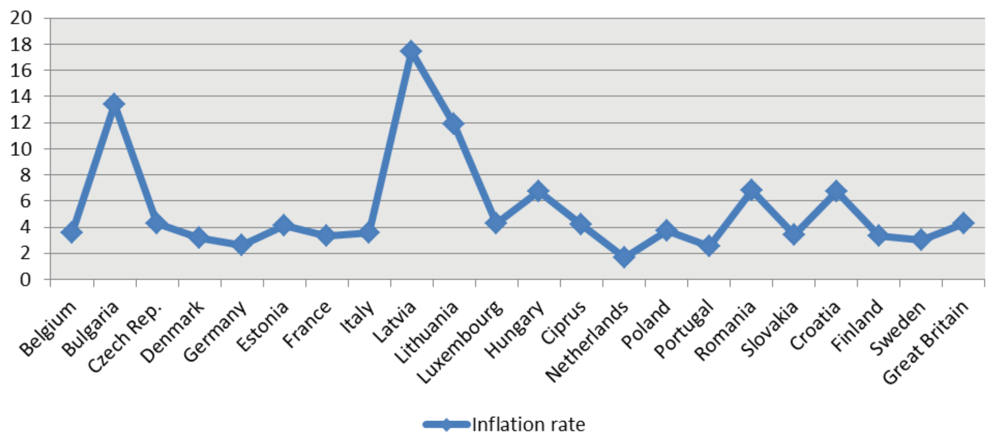


Chart 1. Inflation in the EU in 2014 in % (EUROSTAT 2015)

On the Chart 1 we see inflation in December 2014. In EMU, the area using the euro as a common currency, food prices grew at a rate of 6%, while for example transportation costs (whose prices largely depend on the growth in oil prices) grew by 4.8%. Analytically, the general rise in prices was mostly influenced by the prices of petroleum products, cereals, bread, milk, eggs and other food products. All this is reflected in the overall price level in the EU at the beginning of 2014.

The Chart shows that the lowest December price increase had Netherlands 1.7%, Portugal 2.5% and Germany 2.6%. This situation could be explained by the fact that the inflationary spiral began to form a steep rise in the price of energy and agricultural products. If it is known that the Netherlands and Portugal have developed their own agricultural production, while Germany is a leading industrial country, we could find reasons to absorb the higher price growth in these countries. In many countries of the EU28 the inflation from 3.0 to 4.3% was recorded, which can be assessed as high, but still tolerable level of general price increases. It is a heterogeneous group of countries, both in terms of size, the level of GDP and population, and in their economic structure. The next group are countries in transition, which recorded an inflation rate from 6.7% in the Czech Republic to 17.4% in Latvia (Eurostat 2015).

Such high rates of inflation explain that the countries in question are a poorer EU countries, which have not accumulated significant reserves for depreciation of global disorder in the sector of price and industry because they have not yet been structurally transformed (Marković and Furtula 2015, 442). We should not ignore that the high inflation in some countries is caused by faster economic growth than the average in the EU. Increasing demand in these countries, along with structural changes in the different sectors (industry specific), induces a process that affects the price increase.

### 1.3. Investment activity

Macroeconomics under the investment studies the so-called optimal stock of capital without which it is not possible to determine the optimal ratios of output and capital, and thus the volume of investments. Table 2 shows data on the share of investments at the level of the EU (and its members). Already at first glance, they point to the stability of the investment sector of the European economy, which is in this stage of development and level of economic development expected (Eurostat 2015).

Table 2. Share of total investment in GDP in % (EUROSTAT 2015)

| | 2000 | 2004 | 2006 | 2008 | 2012 | 2014 |
|---|---|---|---|---|---|---|
| Belgium | 20.8 | 19.6 | 21.0 | 22.7 | 21.8 | 21.6 |
| Bulgaria | 15.7 | 20.5 | 25.9 | 33.4 | 28.8 | 27.9 |
| Czech Rep. | 28.0 | 25.8 | 24.6 | 24.0 | 23.2 | 22.9 |
| Denmark | 20.2 | 19.3 | 21.3 | 21.5 | 20.0 | 19.8 |
| Germany | 21.5 | 17.5 | 18.2 | 19.2 | 18.2 | 18.2 |
| Estonia | 26.0 | 31.0 | 33.9 | 28.4 | 23.7 | 23.8 |
| Ireland | 23.2 | 24.3 | 27.0 | 21.1 | 15.9 | 13.5 |
| Greece | 21.6 | 22.6 | 22.5 | 19.3 | 18.4 | 18.5 |
| Spain | 25.8 | 28.0 | 30.7 | 29.4 | 25.2 | 23.3 |
| France | 19.5 | 19.3 | 20.7 | 21.9 | 21.2 | 20.9 |
| Italy | 20.3 | 20.5 | 21.1 | 20.9 | 18.5 | 18.4 |
| Ciprus | 17.0 | 19.0 | 20.6 | 23.3 | 22.7 | 22.6 |
| Latvia | 24.2 | 27.5 | 32.6 | 30.2 | 26.0 | 25.1 |
| Lithuania | 18.8 | 22.3 | 25.2 | 24.8 | 19.8 | 18.9 |
| Luxembou | 20.8 | 21.1 | 18.5 | 20.1 | 18.8 | 18.5 |
| Hungary | 23.0 | 22.5 | 21.6 | 20.2 | 18.9 | 18.6 |
| Malta | 22.9 | 19.0 | 20.0 | 16.2 | 16.8 | 17.3 |
| Netherland | 21.9 | 18.8 | 19.7 | 20.5 | 19.6 | 19.0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Austria | 24.0 | 22.0 | 21.7 | 22.4 | 20.5 | 20.4 |
| Poland | 23.7 | 18.1 | 19.7 | 22.0 | 20.7 | 20.2 |
| Portugal | 27.1 | 22.6 | 21.7 | 21.7 | 18.8 | 17.4 |
| Romania | 18.8 | 21.8 | 25.6 | 33.3 | 31.8 | 31.9 |
| Slovenia | 26.1 | 24.9 | 26.3 | 28.0 | 24.5 | 23.8 |
| Slovakia | 25.8 | 24.0 | 26.5 | 25.9 | 24.9 | 24.5 |
| Croatia | 22.7 | 22.4 | 21.2 | 20.1 | 18.9 | 17.4 |
| Finland | 19.4 | 18.2 | 19.3 | 20.6 | 19.4 | 18.9 |
| Sweden | 17.6 | 16.4 | 18.2 | 19.5 | 17.2 | 16.8 |
| G. Britain | 17.1 | 16.7 | 17.2 | 16.7 | 15.4 | 14.4 |

The table shows that investments at EU level are uniform. This state is most affected by the investment trends in the most advanced and largest national economies. From the table it can be concluded that the total investment amounts to about one-fifth of GDP, which can be considered a percentage that exists in developed and stable economies.

Other, less developed countries have a higher share of investment in GDP (around 29% of Bulgaria and Romania 32%), as expected, due to the adjustment of economic structure to new market requirements. In these countries there are investments from other member states, in particular because of the possibility of engaging cheaper labor.

### 1.4. The movement in the unemployment rate

The unemployment rate is a basic indicator of the situation in this area. Factors that affect its changes are different, both in direction and intensity. This is especially true in the complex state structure, such as the EU administration. Economic theory is not explicit in the assessment that the unemployment rate is considered acceptable. It certainly depends on the state of the national economy, and economic trends at the global level.

During a major economic crisis and higher unemployment rates, some justification might be found. However, during the take-off phase of the global economy, lower unemployment rates than usual are expected. Therefore, it is considered that in the stable economic circumstances unemployment rate between 5 and 8% is acceptable, because full employment is not possible. Chart 2 shows the data on unemployment in the EU15 and the EU28.

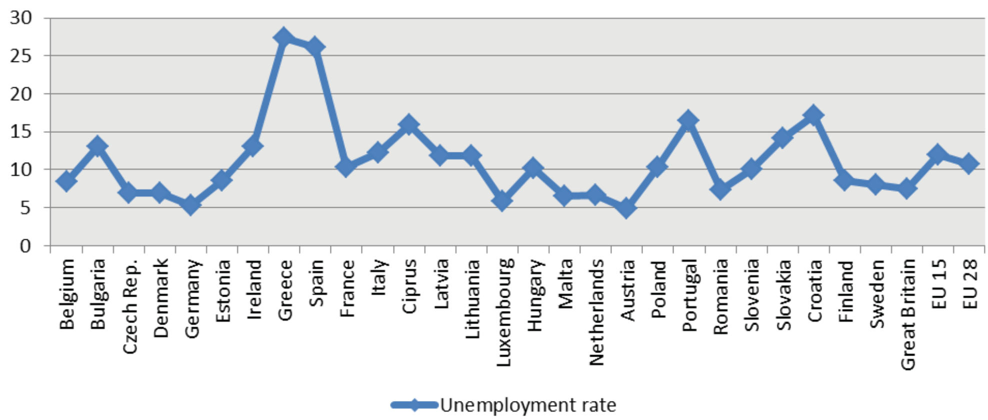


Chart 2. Long-term unemployment rate in the EU in 2014 in% (EUROSTAT 2015)

EU28 unemployment rate was higher than the rate in the EU15, which was expected, because the EU15 is made of developed countries. This confirms that the EU15 is economically more

developed than the EU28. In terms of unemployment rates by states, the greatest rates have Greece and Spain, and they recorded double-digit unemployment rates. Britain has a relatively low unemployment rate of around 7.5%. Unemployment in Germany is about 5%. Other States have heterogeneous unemployment rate (Eurostat 2015).
The causes of unemployment are very complex and differ from State to State. New countries are faced with problems of a structural nature, and the developed countries of the EU with other types of unemployment.

## 2. CAUSES OF INEQUALITY IN EU COUNTRIES

### 2.1. The global financial crisis

The global financial and economic crisis originated in the United States and affected all European and non-European countries through the expansion of the negative effects. Flywheel of the current crisis was the lack of confidence of participators in financial market after the collapse of the real estate market in the US, while its central cause is a system with shortcomings in the area of financial regulation and control based on the ideas of full liberalization of financial markets with mini-regulation and mini-control of investment banks and funds and ideas about complete freedom to create financial instruments. The fiscal policy of some countries favored the emergence of the global economic crisis through various forms of tax relief. This systematically increased indebtedness of companies and the population, which has increased the vulnerability of the financial crisis by encouraging borrowing, the emergence of complex arrangements and a number of financial instruments and derivatives. Transition countries, in defining and undertaking measures of fiscal policy, took into account the fact that the high level of indebtedness prevents expansionary fiscal policy, as well as high external deficits and overvalued currencies (Đorđević and Stojiljković 2009, 262).
The global economic crisis was created over the spread of financial instability. The depth and duration of the recession will depend on the depth and duration of the financial crisis and the response of economic policy and state regulations to the challenges of the crisis, and of re-establishing confidence in the financial system and increasing market liquidity. Regulatory reform is needed to ensure the reduction of risks that banks take that can lead to financial crisis. Fiscal measures to combat the crisis strengthened the banking industry, but need regulation that prevents large banks to retake the risks that led to the crisis (Vujović 2009, 117). The global economic crisis has revealed the real situation of each country. The crisis has made a deep decline in production, rising unemployment, a series of bankruptcies, reduction of wealth and other negative effects that are globalized, transferred to all countries and their economies. In all countries in times of crisis resources are piling up (unemployed workers, unused facilities, raw materials and semi-finished products, etc.) and are not mobilized and productively used to increase production, employment and incomes. Actors of mobilization of resources were affected by the depression and business inactivity, and institutional order has become ineffective in terms of direction of the economy and the coordination of economic trends. The crisis is largely transmitted through the system of international trade and finance, particularly through the rapid overthrow of demand and consequent drop in production and rising unemployment (Chambert and Gibson 2008, 659). Similarly, an increase in demand in foreign trade flows and more favorable international funding would enable more rapid recovery of the global and national economies. The speed of getting out of the crisis depends on the quality of institutions and success of the measures to stimulate the economy, which is determined by the state's capacity to formulate and implement a consistent economic policy at all levels.
The crisis has shown that on the global and national level stable and efficient system resistant to external shocks (shocks) including errors of economic policy has not been established. In a

regulated system, economic system (institutional) policy as a macroeconomic regulatory system is resistant to the economic and political failures and external attacks, and is able to absorb the negative effects of the disorder (Fabris and Aćimović 2010, 172). An incomplete or institutionally flawed regulatory system generates disorders and causes deterioration of the economy and the impoverishment of the community. It follows that the main causes of the crisis are the system mechanisms that are not resistant to external shocks and do not ensure macroeconomic stability and efficient functioning of the economy. It is therefore a priority to develop an institutional framework for better management of economic and social processes. This improves the system environment and institutional order in which economic policy is more effective since they are components of economic policy and its instruments determined by the system. Non-system (exogenous) causes of the crisis are government intervention, the intervention of international organizations and their impact on national economic policies and external shocks. At the same time, the international financial institutions as providers of credit, particularly the IMF do not contribute to the crisis if they affect the debtors to set up and manage economic policies well and to increase the rating of the country and thus contribute to reducing the negative consequences of the crisis (World Bank 2009, 7). One of the means of mitigating the crisis is the effect of aid on economic growth. However, more recent studies have not shown its significant impact (Amidžić and Kurteš and Rajčević 2016, 49).

## 2.2. Increase of economic inequality in global terms

The uneven redistribution of the effects of globalization has the effect of further enriching the rich and enpoor the poor (Radovanović and Radovanović 2011, 50). Highly unequal redistribution of wealth has brought with it as a result the increase in unemployment (due to reduced demand), stopping economic growth (or inability to survive in the long term) as well as reduced investment volume. Also, inequality can lead to a reduction in economic productivity due to poor situation of workers and their unequal position (Stiglitz 2012, 83-84). However, economic inequality can have a much broader, social, implications. Lack of access to quality education (due to the unfavorable economic situation) denies an individual to fully exercise their potentials which may cause an increase in dissatisfaction with not only their own situation, but also with the policy that those states have (Kaplow and Shavell 2003, 340). Similar applies to the denial of health services which could have consequences for his existence through the shortening of life expectancy. The sense of deprivation, if it is present over a longer period of time or is fueled by visible stratification could further dramatize the problem of inequality. Inequality (caused by economic inequality) causes frustration for individuals (and / or groups) who may request a change of government policy while in drastic cases that can lead to violent conflict of major proportions. The case of Greece shows the destructiveness that social stratification brings. Because of this, the problem of economic inequality becomes not only economic, but above all a social issue.

On one hand, globalization is viewed as the cause of global poverty, while on the other hand globalization is viewed as a way to reduce global poverty (Begić and Ristić 2013, 289). Inequality is not a phenomenon that is geographically isolated. High inequality is today present everywhere, even in those regions where it has traditionally been very low (Eastern Europe, South-east Asia). On the effects of the functioning of the economy in terms of the application of the active role of the state and the dominant neoliberal concept, there is evidence in the results achieved at the level of the world economy in the second half of the twentieth century and the first decade of the XXI century. Skidelsky compares the economic results achieved in the global regimes characterized by the dominance of the influence of Keynesian and liberal system, which the author defines as the Washington Consensus. According to data included in the analysis, the first system was dominant in the period from 1951 to 1980, and the second from 1980 to 2009. Empirical data related to the global economy, show two indicative results:

average growth rate of the world economy in the first period was 4.8%, and in another 3.2% (in fact, in the period from 1951 to 1973, world did not record a single year with less than 3% growth); according to the criteria of the IMF, in the first period, there was a single recession, while in the second period there were five recessions (Skidelsky 2011, 39).

Pursuant to the different experiences of functioning and reform of economic system and the creation of economic policies, it should be noted that there are countries that have not adopted a strict neo-liberal policies, which have achieved remarkable results, representing a reasoned alternative to reviewing the neoliberal economic concept. Unlike the devastating effects of free trade in all economies where implemented, completely the opposite result was achieved in China, where the economic activity is realized in terms of gradual reform and traditional mercantilist policies. Countries in transition and medium developed countries should take measures to strengthen the fiscal framework for risk management of government activities which are not currently covered by national budgets, and the complex conditions of financing would benefit from taking fiscal measures (Baraković and Plakalović 2016, 238).

One of the outcomes of two and a half decades of implementation of the transition process is the growing inequality in these countries. Despite the above finding, there is a small number of empirical studies that deal with the problems of inequality in countries in transition, its causes and consequences. At the same time, there is a number of articles in which, when considering the relevant aspects of the transition economies, it is noted that the growing inequality is one of the major limiting factors of performance of the process and that it has a negative impact on economic growth.

The trend of growing inequality is significantly influenced by some of the main transition processes: the liberalization of trade and economy, privatization of the state and social ownership, and deregulation of the economy and society (Bićanić and Franičević 2005, 16). The liberalization of economic flows, as a precondition for the establishment of economic and political freedom, had a significant influence on changes in the flow of income, which resulted in increased economic inequality (La Ferrara 2005, 906). Also, the implementation of privatization, in terms of the undeveloped markets and the absence of developed and consistent institutions, as well as the conditions of application of a complete and efficient regulation, enabled the reallocation of resources and property, which led to the seizure of huge extra profit. At the same time, by liquidation of a large number of industrial enterprises and domestic banks, deindustrialization was carried out in most countries in transition, resulting in the reduced number of employees, and because of a failure to comply with them, as well as to employees (pension and social security), there has been a drastic decrease in the standard of living. In fact, privatization and de-industrialization, due to which there has been a growing inequality in countries in transition, are two sides of the same phenomenon (Milanovic and Ersado 2010).

As part of the deregulation process, there was a reduction of social benefits, restrictions on access to social assistance programs, and the introduction of market regulation law on many social services. All these changes have had a negative impact on the socio-economic equality, and contributed to inequality being integrated in a social being (Wilkinson and Picket 2007, 1968). In fact, by these processes of transition, society is polarized on a small layer of transitional winners, who in a short period have gained enormous wealth, and a large number of transitional losers, who were brought to the brink of poverty.

The Organization for Economic Cooperation and Development (OECD), in its report entitled In It Together: Why Less Inequality Benefits All (OECD, 2015), notes that the economic inequality and the gap between the richest and the poorest is continuously growing. In recent decades, in many countries, even 40% of the population with lower income had little benefit from the resulting economic growth, and in some cases, real wages have declined. As a result, when, because of their low income, people are not able to reach their potential, when there is no growth in economic capacity and job creation, which has negative implications for the economy as a whole, the changes are necessary to reduce the existing level of economic inequality. Despite this reality, advocates of the current situation claim that the social and political costs of these changes are high (OECD 2015).

However, growing inequalities, and their consequences, in itself, are a sufficient argument to justify the implementation of policies for their reduction, as it is emphasized in the said Report. Specifically, in addition to the negative impact on social cohesion, high and growing economic inequality causes serious economic problems and a negative impact on long-term growth, threatening the sustainability of the economy.

## CONCLUSION

To slow down or stop the negative trend it is necessary to introduce new not only economical (progressive taxation, the minimum guaranteed wage) measures, but also measures that would operate on a non-economic causes of increasing inequality. Among those, the strengthening their trade union rights, the elimination of racial and gender discrimination, environmental protection for sustainable development occupy an important place (policy measures). However, in order for reduced inequalities to be sustainable it is necessary to significantly improve access of underprivileged groups to educational institutions, improve the quality of healthcare services that they receive and to strengthen the social protection program (social measures). Only in this way, individuals who are at the bottom of the income scale can achieve lasting progress on the social scale and prevent the negative implications that inequality brings. These are the foundations on which parties left from the center base their strategy to reduce inequalities.

The programs that have been introduced in some countries from the beginning of the 2000s led to a reduction in inequality at a time when in other parts of the world it has reached the highest rate in history. Positive results are in favor of these strategies and necessitate their analysis in order to be applied in other parts of the world where similar conditions are present.

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