Chapter 1

European Integration and an Institutional Theory of Inequality

Americans often look to Europe for proof that another world is possible. Americans argue that the United States is unusual in its fragmented and regressive welfare state, and its high and increasing level of economic inequality. We identify the Scandinavian welfare state as the zenith (if we are fans) or the nadir (if we are critics) of political economy, and the implication is usually that other political economies, ours included, should or could evolve or devolve in that direction. This book argues that although such intellectual and political habits matched the facts well enough into the 1980s or even the 1990s, those views are becoming obsolete, as Europe appears to be entering a new era of restructuring welfare states in a way that signals the beginning of retrenchment and the ending of Europe’s long-term trend toward income egalitarianism. In short, European integration has reorganized class struggle from the national level to the European level, entrenching a technocratic capitalism that weakens welfare states and widens income inequality by placing the state in service of market making.

With the European Union struggling through an economic crisis caused by US finance capitalism and amplified by its regional contradictions and institutional shortcomings, and the United Kingdom’s decision to exit the EU, the effects of European integration are coming into sharper focus. Since the 1957 Treaty

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Establishing the European Economic Community, the European Union has seen steady peace within its expanding borders, continued growth of its economy, and broadening relevance to the lives of its citizens. But how have the fruits of European labor been distributed? Who wins and who loses from European integration? How are citizenship rights and economic fortunes being distributed?

Answering these questions requires cross-national comparison of welfare states and income inequality, but such comparisons are complicated by conceptual, epistemological, and methodological challenges. How do we know the welfare state when we see it? How would we know if welfare states were becoming more similar or maintaining their differences? How much do welfare states have to change before we call it retrenchment? And what counts as income? Are taxes and welfare benefits included? Are the surveys—upon which nearly all inequality calculations are based—nationally representative? These issues and others render cross-national comparison opaque and open to manipulation: tell me what results you want, let me measure social policy and inequality differently across cases, let me cherry-pick the comparisons, and let me select which cases to show, and I will produce the results you want.\(^2\) For an illustration of the ease with which comparisons can be manipulated, see journalistic and partisan treatments that find their way into the popular press. Inequality is often in the news, but the carelessness with which it is often treated requires us to consider measurement.

Rigorous comparisons of welfare states and inequality regimes are possible thanks to the decades-long efforts of comparative welfare-state scholarship and LIS, formerly known as the Luxembourg Income Study, which provides state-of-the-art harmonized and standardized income survey data. Comparative welfare-state scholarship has produced a rare field where research cumulates, thanks in part to concerted efforts at building the research infrastructure through data dissemination and metadata development (Castles et al. 2010; Kenworthy and Hicks 2008). The Comparative Welfare States Dataset was one of the first projects that disseminated cross-nationally comparable data on advanced industrial welfare states (Huber et al. 1997), and it has since expanded to include both new
measures of inequality and poverty at the macro level, and additional countries (Huber et al. 2004). Armingeon et al. (2013) and Scruggs et al. (2013) have recently made major additional contributions by expanding the available array of welfare-state measures, countries, and years, such that today we have a good mix of measures.

Data from these sources do show that the US welfare state lags behind European welfare states on many dimensions. Consider one of the most commonly used comparative indicators, the percentage of gross domestic product (GDP) spent by a government on income transfers through sickness-insurance programs, family allowances, minimum income schemes, and pensions. Before the 2008–2012 recession, the US government spent about 12% of GDP per year on such transfers, compared to around 18% in Austria, Denmark, Finland, France, Germany, Italy, and Sweden (these data are taken from the figures shown in Chapter 3, viz. Figures 3.2 and 3.3). A different measure, more readily interpretable, is the generosity of unemployment insurance benefits, quantified as the percentage of wages that can be replaced by public income during an unemployment spell. Over the past 50 years in the United States, the unemployment insurance income replacement rate has remained stagnant and stingy, at between 10% and 15%. Contrast this with the more generous unemployment insurance in many European welfare states, where unemployed workers are entitled by citizenship right to 30%–40% of their wages (see Figure 3.7 in Chapter 3).

The LIS provides social scientists with elaborately documented, harmonized, and standardized individual-level and macro-level data on not just income and wealth but also various aspects of social policy. LIS also calculates “key figures” and disseminates them to the public. These statistics include the most commonly used measures of income inequality, such as the Gini coefficient, which quantifies the relationship between the cumulative distribution of household income and the percentile distribution of income-receiving units ranked by the quantity of income received. The Gini ranges from 0, which expresses a perfectly equal income distribution, to 1, which expresses a perfectly unequal income distribution. Other common measures include percentile ratios, which are calculated by dividing
the income received by a higher income unit at some percentile, over the income received by a lower income unit. For instance, the 90:10 ratio relates the income received by the 90th-percentile income-receiving unit to the income received by the 10th-percentile income-receiving unit. It can be interpreted as a “rich-versus-poor” comparison. Similar figures are available for 90:50, 50:10, and 80:20 comparisons.

The latest LIS Key Figures database shows that the United States still has one of the highest Gini coefficients of all the rich democracies: in 2016, it was .381. One must look to Brazil (.450 in 2013), Mexico (.459 in 2012), or South Africa (.572 in 2012) to find LIS Gini coefficients higher than in the United States. Across Europe ca. 2010, Gini coefficients were lower: .293 in Germany, .332 in Greece, .294 in Ireland, .319 in Italy, .283 in Luxembourg, .264 in the Netherlands, .343 in Spain, and .330 in the United Kingdom. These statistics are rigorously comparable: the surveys are nationally representative, the income-receiving unit is consistently defined as the household, and income is net of taxes and transfers. The 90:10 ratios, also calculated in the same rigorously comparable way, indicate that a household at the 90th percentile of the income distribution in the United States has an income 5.9 times that of a household at the 10th percentile. This ratio is notably lower in the United Kingdom, where the high-income household makes 4.1 times as much as the lower income household. In Germany the ratio is lower still, at 3.7, and in Denmark it is 2.9.

What about the Trends?

So far, so good for the usual story about Equal Europe versus the Unequal United States. It is true that today, European welfare states are more generous than the United States, and Europe is more equal than the United States, but what about the historical trajectory of political and economic inequality in Europe? The most striking structural transformation of European political economy since the 1980s is the development of European integration: the development of
supranational and subnational connections and organizations that span national boundaries, redraw institutional boundaries, and reconfigure authority (Hooghe et al. 2016; Schwan 2017). As Europe integrated, how have welfare states and income inequality changed?

Consider the long-term trends in welfare-state development and income inequality (Piketty 2014; Thelen 2014). In the United States, the earned income tax credit (EITC) has marked a significant expansion of the laggard American welfare state, and it now constitutes a substantial proportion of after-tax household income among the working poor. Health insurance coverage has also increased since the 2010 Patient Protection and Affordable Care Act ("Obamacare"), although this varies greatly by state of residence. In contrast, retrenchment has started to appear in many European welfare states, including Germany, in the form of the Hartz Reforms that limited unemployment insurance benefits and duration, and created deregulated, part-time, and low-wage “mini-jobs” (Bäckman 2008; Korpi and Palme 2003; Streeck 2009). Retrenchment extends even to Sweden, where unemployment benefits have been cut (Bäckman 2008), and many social services have been privatized (Kananen 2011), including schools owned by private-equity firms (Pollard 2013).

Despite the growth of the EITC, inequality in disposable household income (after taxes and transfers) in the United States has increased sharply, especially at the top of the income distribution. What is less widely recognized is that inequality is also on the rise in Europe (albeit at a slower pace), as Thomas Piketty’s Capital in the Twenty-First Century shows for Britain, France, and other rich countries. The LIS data show that from 1973 through 1997, the Gini coefficient increased by .01 per decade, a small but statistically significant increase (Beckfield 2006). Current LIS Key Figures show that this increase has accelerated since the turn of the century: Austria, Denmark, Finland, Germany, Luxembourg, the Netherlands, and the United Kingdom all have higher levels of income inequality ca. 2015 than they did in the 1990s. Ireland and Italy are the only clear cases of decreasing inequality.
Figure 1.1 illustrates the upward trend in income inequality in Europe. Specifically, it plots the LIS estimates of the Gini coefficients for EU members by year, and it includes the fitted line and 95% confidence interval from a regression of Gini on year (using a quadratic specification for the trend). Each circle is one Gini coefficient for one country-year, and the shaded area is the 95% confidence interval. In this figure, the country identifiers are suppressed, to draw attention to the general trend: income inequality is on the rise within the nation-states that are currently members of the European Union. Interestingly, the European Union’s increase from an average Gini

![Figure 1.1](image-url)

** FIGURE 1.1 **

The Trend in Income Inequality in EU Member Nations, 1980–2010

*Notes:* Data are from the Luxembourg Income Study (LIS) Key Figures, downloaded July 22, 2013. Data points are country-years; countries are Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.
around .26 in 1980 to an average Gini around .31 is not far off from the United States’ increase from a Gini of .30 in 1980 to .37 in 2010. The comparison is .05 versus .07—smaller than we might expect, given the usual story told about the dynamic market of accelerating inequality in the United States versus the regulated market of stable, low growth and low inequality in the European Union.

Previous research, using the spottier data available before the 1980s, has established that income inequality on average followed a downward trend in postwar Western Europe (Pontusson 2005). Figure 1.2 shows this decrease in income inequality, for the country-years that are available in Deininger and Squire’s (1996) “high-quality” data.

**FIGURE 1.2**

The Trend in Income Inequality in EU Member Nations, 1960–1980

*Notes:* Data are from the Deininger & Squire “high-quality” World Bank data. Data points are country-years; countries are Belgium, Denmark, France, Germany, Ireland, Italy, Netherlands, and the United Kingdom.
Turning to welfare states, Figure 1.3 shows the trends in spending on transfers for the EU-15 (data are shown for welfare states outside the European Union in Chapter 3). The best linear fit suggests a slight decline in transfers expenditure, from about 16% of GDP to about 15% of GDP, on average. Clearly the welfare state survives, but its growth has ended (the apparent uptick in the 2008 and 2009 figures is a denominator effect, caused by declining GDP during the recession). Comparing Figure 1.3 to Figure 1.4 makes this clear: during the 1960s and 1970s, EU welfare states grew from an average 9% of GDP spent on transfers to an average 14% of GDP spent on transfers. Rather than retrenchment, we may have witnessed the onset of retrenchment, in the form of a significant restructuring of the welfare state toward more reliance on wage-labor markets and more individualization, especially if we focus on

**FIGURE 1.3**

The Trend in Welfare Transfers Expenditure in the EU-15, 1980–2010

*Notes:* Data are from the *Comparative Political Dataset I* (Armingeon et al. 2013).
The contemporary increase in inequality in Europe thus reverses or at least halts a long-term trend toward equalization. Likewise, the end of welfare-state expansion and the arguable onset of welfare-state cutbacks marked a notable shift in the organization of citizenship rights in the European Union. What caused these reversals? The following chapters build the argument that (a) European integration has changed the rules of political economy in the European Union through juridical and market integration, (b) European integration has restructured welfare states toward increasing commodification, and (c) European integration has contributed to the polarization and convergence of national income distributions.
I argue that regional integration—the construction of transnational political economy in bounded and negotiated places—has restratified Europe by building new institutions and altering old ones. The policy of integrating polities and societies by first making markets through legal means has changed the rules of the game and in so doing created winners and losers. The objective of this book is to show how regional integration accomplished what national politics could not: the institutionalization of a European technocratic capitalism that defines the operation of the market itself as the overarching priority across policy domains, technicizes political representation (Smith 2006), and enforces market objectives through formal legal means, informal social means, and economic incentives. This institutionalization—or rule formation—fundamentally redefined and reformed European welfare states by putting them in service of the market (Azmanova 2013). The consequence of these institutional shifts has been to (a) reduce the ability of European citizens to support a high standard of living without reliance on the market, (b) shrink the middle class, (c) reduce incomes at the bottom of the stratification order, and (d) raise incomes among the highly educated and geographically mobile elite at the top of the stratification order.

Current Approaches to the Welfare State and Income Inequality

The impact of European integration on welfare states and income inequality has been difficult to identify. The facts on the ground determine some of this difficulty. First, the European Union has no legal authority to make social policy, and the “social dimension” of the European Union is underdeveloped, meaning that the largest effects of integration are probably indirect and unintended (Falkner 2010). Second, the European Union does not have the power to tax, meaning that any redistribution from the European level would have to go through the small contributory EU budget, which is currently around 1% of EU GDP (Pisani-Ferry 2014). Third, European
welfare states are still very large and redistributive, despite some signs of liberalization (Thelen 2014).

The conflation of regional integration and globalization also makes it difficult to identify the impact of European integration on the welfare state and income inequality. I argue that attending to regional integration (1) clarifies that much of what we think of as “globalization effects” are really “regionalization effects” because half or more of international investment and trade flow are within the boundaries of Europe, and (2) regional institutions sometimes mediate globalization’s effects, as regional organizations with legal jurisdiction adopt and modify ideas taken from global (meaning trans- or omni-continental) organizations.

In the 1980s and 1990s, social scientists raced ahead of reality, as many heralded or lamented the arrival of a new global age, complete with global markets, a world society, a world polity, and a world culture. Globality was blamed or credited as the cause of nearly everything, including, but certainly not limited to, changes in welfare states and changing patterns of inequality. In the 2000s, a new wave of social science produced evidence that if national and welfare-state boundaries were weakening and international exchanges were strengthening, they were doing so within regions (Alderson 2004; Ferrera 2005; Katzenstein 2005). This regional integration is particularly pronounced in the political domain, where the network of states and international organizations is the most densely interconnected in Europe (Beckfield 2010).

When considering the distributional effects of European integration, we must analyze both the welfare state and economic inequality, among and within nations. Taking this approach raises three central questions. First, has European integration produced a European economy where an individual’s economic fortunes are increasingly denationalized, or does the accident of birth into one European nation rather than another continue to have a major impact? Second, has European integration rearranged citizenship rights, such that an individual’s nonmarket resources are more or less generous and more or less similar across European nations? Third, how does the construction of an integrated European economy
matter for bottom-line household incomes? These questions motivate the empirical chapters of this book.

While the direct effect of European integration on welfare states is thus of central importance to identifying winners and losers—and for a vivid example of this, witness ongoing austerity politics in Greece, Portugal, and Spain, as of this writing—one path from European integration to income inequality runs through the welfare state. This means that an analysis of the distributional effects of European integration needs to consider not just the direct effects on welfare states but also the indirect effects on income inequality through the welfare state. For instance, the European Union exerts constraints on national taxation policy, even though it lacks authority to levy taxes (Genschel and Jachtenfuchs 2011, 2014).

Despite the prominence and power of the European Union, most debate over welfare-state trends concerns how the formation of international markets affects welfare states (Brady et al. 2007; Guillen 2001; Swank 2010). On one side of the great welfare-state debate, scholars argue that international finance markets should force a race to the bottom, as newly mobile capital searches the globe for the lowest taxes and the most flexible employment regimes. Opposing this view, others argue that international product markets are good for welfare states, as market uncertainty, economic dislocations inherent in trade, and relocation of production facilities drive democratic demands for unemployment benefits and active labor market policies.

The influential work of the “varieties-of-capitalism” school has demonstrated that both views could be wrong, as coordinated market economies and liberal market economies, which support very different welfare states, are both consistent with international market exchange (Hall and Soskice 2001). While these questions have been framed in terms of “globalization,” the abstract processes that connect international financial and product markets to the welfare state should apply in Europe if they apply anywhere, given that
capital mobility and the integration of markets for goods and labor have progressed furthest in Europe.

Debates over globalization in the income inequality literature can be redirected to consider how European integration creates winners and losers (Aghion and Williamson 1998; Alderson and Nielsen 2002). On one side of the debate, scholars argue that (1) wage competition lowers wages at the bottom and raises wages at the top of the income distribution, and (2) employers have more power against organized labor in cross-nationally integrated economies. Opposing this view, others argue that (1) more open economies also have corporatist bargaining institutions, which tend to equalize wages, and (2) international openness transfers productivity-enhancing technology, which levels economic differences between economies. Again, the best terrain for evaluating and extending this debate lies between the Atlantic and the Urals, since economic openness, market integration, and wage competition are most advanced in Europe. While an analysis of the distributional effects of European integration matters substantively for the roughly 500 million people living in Europe, it also carries implications for the general political economy of inequality.

Specifically, I propose that redirecting social science attention from globalization to regional integration also helps advance a turn toward institutions in explaining inequality (Alderson and Nielsen 2002; Brady, Blome, and Kleider 2016; Gottschalk and Smeeding 1997; Korpi and Palme 1998). Research on income inequality has in the past two decades turned to emphasize institutions—rules of the distributional game that are often proxied by measures of labor market policy, and social welfare benefits—in understanding why income inequality varies across place and time. Comparative research using LIS data shows that the institutions most strongly associated with income inequality are unionization, decommodification, and corporatism, in that order. Unions bring more equal distributions of income by raising incomes of workers and flattening wage distributions within segments of the labor market covered by
collective bargaining agreements. Decommodification, defined as the extent to which public policy allows for the maintenance of a decent standard of living independent from the exchange of labor for cash, also lowers inequality by setting a “floor” beneath which citizens rarely fall. Corporatism, or tripartite bargaining among the state, employers, and labor, evens out the income distribution by moderating wage demands, stabilizing employment, and evening the wage distribution within segments of the labor force covered by collective bargaining.

These institutional factors seem to affect income inequality above and beyond the key economic factors identified by the classic work of Simon Kuznets. Kuznets explained the inverted-U-shaped relationship between income inequality and economic development as a function of the decline of the agricultural sector and the rise of the industrial sector. As labor moves out of the agricultural sector, which is characterized by low average wages, into industrial employment, which is characterized by higher average wages, the overall level of inequality in the labor market increases initially and later declines. Indeed, as late as the 1967–1992 period examined by Arthur Alderson and Francois Nielsen (2002), this “sector dualism” and the percentage of the labor market employed in the agricultural sector were still two of the strongest correlates of income inequality. While this book focuses on the role of European integration in the changing pattern of social stratification in Europe, other macro-structural factors are important parts of the explanations for these trends as well. One reason the models discussed in subsequent chapters always include controls for the year of observation is that many of these other structural changes display strong secular trends, and changes in welfare states and income inequality also trend over time. Figures 1.8, 1.9, and 1.10 show how agricultural, industrial, and service sector employment shares are changing over time, inside and outside the European Union. These figures replicate evidence from earlier studies on the decline of the agricultural and industrial sectors, and the rise of the service sector, where unionization rates are lower and short term, temporary contracts are more prominent, and wage dispersion is much greater (OECD 2011, 2015).
The Regional Revolution

To understand the effects of regional integration on citizenship rights and economic inequality, then, requires going beyond the conventional social science wisdom and developing an account of how the postwar regional revolution in political economy changes the institutional arrangements that guide the economic activities of states, firms, unions, and households.

I argue that the received wisdom on inequality and the welfare state misses an ongoing regional revolution that started in the 1950s and is generating transnational political economies that are globally present but at the same time differ from globalization. Regional political economies institutionalize themselves in widespread locations, but they institutionalize in different ways and with different results, contributing to “a world of standards but not a standard world” in Timmermans and Epstein’s (2010, p. 69) evocative phrase. In reforming political boundaries, regional integration follows a logic similar to the national revolution conceptualized by Stein Rokkan and Seymour Martin Lipset (1967): the construction of the European Union creates a new center and thus new peripheries. The region becomes a new object of political contestation and a new political subject with consequences of its own for its constituent polities and economies. In other words, regional integration is not epiphenomenal to national politics and processes but itself causes changes in national politics and processes, as evinced by the 2016 UK vote to leave the EU.

The development of regional political economy is suggested by trends in one of the most common measures of macroeconomic integration: the regional trade share. Regional trade shares show, for imports, exports, or both, what proportion of internationally traded goods are traded within the region. It is a cruder but more widely available measure than intra-European migration by origin and destination (for excellent work on migration see Recchi and Favell 2009, 2019). It is also available for far more countries and years than capital flows; such data indicate more integration of interbank lending markets than corporate bond markets or mortgage
markets (Adam et al. 2002), though the more important fact for my purposes is that capital integration more broadly far outstrips the regionalization of labor unions and social policy.

Figure 1.5 shows the trend in the regional trade share for the EU-15, or what I will call here Core Europe. The regional trade share is calculated from the International Monetary Fund’s Direction of Trade Statistics, which is the most comprehensive source of data on imports and exports. The trend is strongly toward a higher regional trade share, meaning that more of the traded production in core European economies is directed toward other core European economies, especially since the rapid increase during the earliest

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**FIGURE 1.5**

The Regional Trade Share in the Core Europe of the EU-15, 1948–2008

*Notes:* Data are from the IMF Direction of Trade Statistics CD-ROM. The EU-15 are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.
stages of integration in the 1950s and 1960s. During this formative period of the European Coal and Steel Community and the European Economic Communities, the trade share grew from an already high level of 42% in 1948 to 61% by 1970. Integration was revived by the Single Market Program (SMP) of the 1980s, and the trade share peaked at 68% in 1991.

In the years since technocratic capitalism took hold in the European Union in the 1980s, the European Union has expanded dramatically. If what are sometimes called the new accession countries are included in the analysis, depicted in Figure 1.6, we observe a similar trend. The big difference between the trend for Core Europe

![Graph showing the Regional Trade Share in the EU-27, 1948–2008.](image)

**FIGURE 1.6**

The Regional Trade Share in the EU-27, 1948–2008

*Notes:* Data are from the IMF Direction of Trade Statistics CD-ROM. The EU-27 are Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.
compared with the trend for the European Union as currently composed is that Core Europe became less economically integrated after 1992, while the European Union as currently composed continued the upward trend in economic integration after 1992. What this means is that the boundaries of export markets in the European Union have followed its changing political boundaries.

The regional trade share demonstrates that trade increasingly flows within the boundary of the European Union. A different way to say this is that European market exchange is increasingly Europeanized in the postwar years. Fascinatingly, this regionalization is not limited to Europe. Consistent with Min Zhou’s work on the sociology of international trade, which demonstrates increasingly strong gravity effects through the world economy (Zhou 2010), economic integration is on the rise in several of the world’s macroregions. While this is not the place for disentangling the directionality of this association between political integration and economic integration (for that, see Gershenson and Beckfield 2011), Figure 1.7 illustrates that regional integration is not confined to Europe, although there it may have attained its strongest expression to date. In earlier research, I showed that regional integration also characterizes the evolution of the world polity in the postwar period, through the increasingly regional character of international organizations (Beckfield 2010; McKeever 2008).

This regional revolution in (but not limited to) Europe supplants the national revolution of the nineteenth and early twentieth centuries, and reverses the long-term trend toward income equality that characterized postwar Europe until the 1970s. Social scientists often refer to this postwar period as the *trentes glorieuses* of the welfare state, as social policy grew more generous and more encompassing, particularly in Scandinavia. In the 1970s and 1980s, the national revolution lost initiative, as the regional revolution accelerated, in part with claims to solve the economic problems that beset the nation-state. With hindsight we can see that a pivotal event was the Single European Act (SEA) of 1985, which revived the regionalization project in Europe by elevating the market itself as the foremost policy priority and set the foundation for the
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Maastricht treaty of 1992 and the introduction of the Euro common currency in 1999. Today, as the European Union confronts a prolonged, unevenly distributed economic recession (Matthijs 2016); a refugee crisis from Syrians and Afghans crossing its Eastern and Southern borders; and the UK’s vote to leave the EU, the regional revolution appears to be stalling again, as it did in the 1970s. And as in the 1970s, if the European project is to advance, deeper political integration may be necessary.

FIGURE 1.7

The Regional Trade Share in the EU-27, NAFTA, and ASEAN

Notes: Data are from the IMF Direction of Trade Statistics CD-ROM. The EU-27 (marked with a circle) are Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom. NAFTA (marked with a square) is Canada, Mexico, and the United States. ASEAN (marked with a triangle) is Brunei, Cambodia, Indonesia, Laos, Malaysia, Burma, Philippines, Singapore, Thailand, and Vietnam.
**FIGURE 1.8**

Trends in Agricultural Employment as a Percentage of the Total Labor Force
FIGURE 1.9

Trends in Industrial Employment as a Percentage of the Total Labor Force
FIGURE 1.10

Trends in Service Employment as a Percentage of the Total Labor Force
European Integration: Solving Problems with Markets

European integration is a set of processes that form connections among people, organizations, markets, and states within the politically negotiated and historically variable boundaries of Europe. It is both a reorganization of European societies and a society-building experiment that attempts to forge political integration through economic integration. To a sociologist, then, what is striking about the evolution of European integration in the latter half of the twentieth century is its establishment of social ontology: if sociology is the study of the social facts and forces that exist between and among people, those facts and forces are increasingly regional in Europe. That is, European integration, mostly through the ongoing institutionalization of the European Union, has achieved a reality, such that the social things that exist between and among people are increasingly bound up with Europe.7 The specific idea of Europe that has shaped policy is a Europe of political integration through economic integration: make common rules and common markets will follow, and common markets will drive the demand for European polity and society (Swedberg 2014). The idea that market integration drives social and political integration has strong political and scientific roots, but it also carries a range of consequences, intended and unintended (Genschel and Jachtenfuchs 2014).

This section presents a case study of European integration that highlights the development of its sociologically relevant features. If the sociologically striking attribute of European integration is its ontology—its very being as a changing part of the social context in Europe—then how should we conceptualize it? It has been conceptualized by Andy Smith (2006) as a single and regular (but incoherent and fragmented) government, by Jan Zielonka (2006) as the establishment of empire, by Neil Fligstein (2008) as the organization of social fields, and by Beate Kohler-Koch (2003) as the institutionalization of multilevel governance. The central organization in these narratives and in mine is the European Union, although, important as the European Union is, it is one of thousands
of organizations that define their scope and purpose as explicitly European. Indeed, so many organizations now structure the European field that much of what we think of as political globalization (Slaughter 2004) or the formation of a “world polity” (Meyer et al. 1997) is really European integration.

In explaining how this multidimensional integration of Europe matters for the welfare state and inequality, the central characteristic of the case is the establishment of technocratic capitalism in the 1980s. The European Union federalized technocratic capitalism by defining it, applying it to EU member states, and enforcing its application through normative and legal mechanisms. Rather than attempting to present a history of the European Union, then, I trace the development of technocratic capitalism in the European Union, from its roots before the European Coal and Steel Community, to its jurisdictional formalization in the Rome Treaty, to its surprising policy specification in the 1960s and 1970s, to its elevation as foremost policy priority in the SEA of 1985, to its economic sequelae in the 1990s, to its unanticipated consequences in the economic recession that began in 2008. These changes have contributed to an ongoing individualization of European society (Münch 2012), recommodification of labor through an increased dependency on markets and risks (Azmanova 2012), and surprising constraints on areas of social policy that were once the exclusive domain of nation-states, including taxation (Genschel and Jachtenfuchs 2011, 2014).

Technocratic capitalism defines markets as legitimate solutions to problems, prioritizes market exchange over other social relations, and enforces the use of economic tools for a changing set of well-defined actors. Technocratic capitalism captures two striking developments in EU policymaking, particularly since the 1980s: the identification of problems by policymaking elites in the functioning of European capitalism, and the identification of solutions by policymaking elites as technologies of the market. Technocratic capitalism draws on laissez-faire neoliberalism (especially the Chicago School variant that influenced international economic circles), but it is not completely overlapping with this variant of neoliberalism because of its recognition that markets are generated and regulated
by states, and they can be used by states to solve problems. The European Union’s regulations on gender pay equity are a case in point: they aim to improve the efficient matching of the supply of labor to the demand for labor by providing equal market rights to men and women. The problem identified is with the functioning of the market, and the technology applied is state regulation that is argued to enable market forces. In this way, contemporary EU technocratic capitalism is more in line with the earlier variant of neoliberalism articulated at *La Colloque Walter Lippmann* in 1938, where “neoliberal” designated that free markets themselves were inadequate in the service of liberty and required modern policy for their success (Denord 2009). In using technocratic capitalism to connote the turn toward identifying problems in market terms and designing solutions in market terms, I use “technocratic” narrowly, without adopting its broader meaning as a system where political elites are selected on the basis of technical knowledge. Selection is certainly involved in technocratic capitalism as I use the phrase here, but it is the selection of problem definitions, tools, and technologies, not people.

I combine the development of technocratic capitalism as a coherent set of “scripts” in the 1980s, with a pragmatist approach to understanding action (Gross 2009). Briefly, Gross shows how actions aggregate to social mechanisms in chains, where the first link is actors, then habits, then problems, then resolutions. Extending this pragmatist view helps us to think about how European integration matters for actors in the political arena. European integration changes the constellation of actors involved in social policy by creating new organizations and altering the boundaries and composition of the social field (Fligstein 2008). These actors employ a range of habits to solve the problems they face (e.g., pre-SEA monetary flexibility and fiscal flexibility). As integration deepens, European integration presents actors with new problems to solve (e.g., tax competition [Genschel et al. 2011], capital mobility, the conditions of entry into the European Union, and concerns about economic performance). Actors then create new solutions to these problems (including strengthening the federal structure of Europe).
My argument is that this last step—the resolution of problems as they bump up against habits—is deeply affected by the turn toward technocratic capitalism in the 1980s, because the very definition of problems and the proffered tools for their resolution shifted toward an asocial conception of markets. In this way, the many organizations of the European Union act as a “knowledge regime” that helps policymakers understand national problems (Campbell and Pedersen 2014).

This regime developed over five relatively distinct periods in the modern history of the European Union. The first period, from 1957 to 1973, could be called the institution-building period, when the customs union was constructed and the basic rules of integration were established. The second period, from 1973 to 1985, is the renaissance of market technology. The third period, from 1985 to 1999, is the enforcement of market discipline through an increasingly federal structure. As Huber and Stephens (2001) and Tsebelis (1995) show, a federal structure reinforces market competition and creates veto points, institutionalizing conservatism. Moreover, Lancaster and Hicks show that federalism at the national level constrains social policy, limiting transfers and reducing the social wage from unemployment insurance (Lancaster and Hicks 2000); this logic may extend to supranational, regional federalism as an institutional structure. The fourth period, beginning around the turn of the century and extending through the onset of recession in 2008, is the period of expansion and consolidation. The fifth period begins with the 2008 economic crisis and continues to Brexit and the possible onset of the Second Eurosclerosis. This book focuses on the third and fourth periods, 1985–2008, when technocratic capitalism was institutionalized by the SEA and the European Court of Justice (ECJ), and this institutionalization started to structure welfare states and raise income inequality.

Social scientists have long noted the contradiction between European welfare states (and the low level of income inequality they create) and the neoliberal turn of European integration in the 1980s. For example, in the debate over welfare-state retrenchment that drove much of the comparative political economy literature in
the 1990s, many welfare-state scholars cited the neoliberal character of the European Union in implicating European integration as a cause of retrenchment (Huber and Stephens 2001; Korpi 2003; Scharpf 1996). As evidence for its neoliberal character, scholars noted its emphasis on free trade, common markets, tight monetary policy, privatization of public services, deregulation of markets, and tax competition (Boje et al. 1999; Genschel et al. 2011; Mattli 1999; Pierson 1996; Pierson and Leibfried 1995; Pitruzzello 1997; Rhodes 1995, 1996; Schulz 2000; Streeck and Schmitter 1991). Fritz Scharpf conceptualized this emphasis as “negative integration,” or the removal of barriers to trade and market regulations, which came to surpass “positive integration,” or regional regulations that correct market dysfunctions (Scharpf 1996, 1997, 1999; also see Offe 2000). The difference between positive integration and technocratic capitalism is that the former describes a horizontal relation between state and market where each competes for sovereignty, while the latter describes a vertical relation where the state supports market making.

Evelyne Huber and John Stephens cite “the move to financial deregulation that had begun in the early 1970s [that] was essentially completed in western Europe by the beginning of [the 1990s] due to the Europe 1992 [single-market] project” as a force for retrenchment in the 1990s. The recent Eurozone crisis has made it even more clear how European integration can constrain taxation systems, even beyond the strong tendency toward tax competition (Genschel et al. 2011). Tax competition and regulatory competition push in the same market-making direction, and Scharpf cites political integration through the European Commission and the ECJ as forces that bring EU member states into such competition:

Through the “constitutionalization” of competition law, the European Commission and the European Court of Justice have greatly reduced the capacity of democratic polities at the national level to impose market-correcting regulations on increasingly mobile capital and economic interactions. As a result, national polities find themselves under conditions of a
“competition among regulatory systems” that may prevent all of them from maintaining market-correcting policies that were previously supported by democratic majorities. (1999, p. 2–3)

It is now clear that the central event in the development of technocratic capitalism in European integration was the SEA, which revived European integration in the 1980s by implementing qualified majority voting (QMV) on the Council of Ministers for matters concerning the internal market. QMV was consequential for market construction because it ceded some sovereignty over macroeconomic policy from the member states to the European Union; with QMV, decisions that were framed as in service of market making could be taken without the stringent requirement of unanimous agreement. This created an unusual combination of a federal political structure with a reduction of veto points, but only in one policy domain: market making. Why would the member states agree to this?

The SEA was an initiative of the European Commission, urged by multinational capital (Bornschier 2000; Fligstein and Mara-Drita 1996) as a set of technical fixes to the operation of the European market. These were seen as small-scale solutions at the time, but they had large unanticipated consequences. Large employers and capital investors were interested in building the single market to access larger pools of labor and capital, and the Commission was interested in building the single market to revive the European project. Capitalists and the Commission also drove the SMP, the collection of legislation under the “Europe 1992” banner that liberalized trade (Fligstein and Mara-Drita 1996). The goals of the single-market program were to “promote trade, increase competition, and promote European-wide economies of scale and scope by eliminating non-tariff trade barriers, such as differences in taxes, regulations, and health and safety standards” (Fligstein and Mara-Drita 1996:9). The European Union thus makes some social policy options incompatible with the SMP, thereby restricting state sovereignty in the area of social policy (Pierson 1995), despite the fact that the European Union formally excludes itself from policymaking in the
politically sensitive area of welfare-state policy. For instance, private firms can sue state monopolies in public service provision on the grounds that such monopolies restrict the single market. This is one channel for indirect effects of the European Union on welfare states (Falkner 2010).

Instead, the European Union devotes itself to the technology of market exchange as a mechanism to achieve other aims. EU policy pairs deregulation and limited social policy (Streeck and Schmitter 1991), and it requires member states to accept free trade, capital mobility, and a minimum of state intervention in the market (Boyer and Drache 1996:19–20). And again, because of QMV, these rules can be established with less than unanimity. The drive to Economic and Monetary Union (EMU) and the adoption of the common Euro currency also reflects the market orientation of the European Union. A key part of EMU is the Maastricht treaty’s convergence criteria, which (among other requirements) restrict government budget deficits to 3% of GDP. This constrained national policymakers, particularly in the 1990s, although France and Germany famously flouted these rules (Pisani-Ferry 2014). At the time, despite well-known sensitivities and divergences in welfare-state policies, the Commission noted that this requirement makes pension reform (e.g., raising retirement ages, discouraging early retirement, and using tax incentives to claw back benefits) essential (Commission 2001).

EU technocratic capitalism can also be seen in the founding treaties of the European Union, which matter because the ECJ has led political integration through juridical integration and rulings that interpret the treaties as market-first legal instruments. Another reason the treaties matter is that the European Union lacks a constitution, and so the treaties and the ECJ rulings around them, the acquis communautaire, serves as the European Union’s de facto constitution. Article 2 of the 1957 Treaty of Rome commits the regional polity to the pursuit of various ends through market means. The key phrase of this article is “by establishing a Common Market and progressively approximating the economic policies of Member States,” which has been interpreted by the ECJ as an enforceable
commitment to market tools as the first priority of policy, to be protected against infringement by other priorities (Alter 2001). The article mentions the “accelerated raising of the standard of living” as a central aim of the then-EEC, and in addition to the economic narrowness of this end, what is striking is the narrowness of the economic means to achieve it. The technology and the tools the member states commit to using are markets.

Successive revisions of the treaty incorporated the pursuit of sometimes-egalitarian ends through inegalitarian means. An example can be seen clearly in the gender equality clause (Article 3, revised) and later gender-equality directives. These commit the polity to “eliminate inequalities, and to promote equality, between men and women” (Treaty Establishing the European Community, consolidated version, C-325, 2002). The gender equality clause has led to the development of a significant new policy domain in Europe, guided by the European Council’s Equal Pay Directive. This Directive—and the national legislation implementing it in the member states—promotes market equality for women and men, where women are equally free to sell their labor in deregulated (or, more accurately, differently regulated) markets. Cipollone, Patacchini, and Vallanti (2013) show provisional, survey-based evidence of strong increases in female labor force participation in the European Union since 1990, particularly in labor markets where deregulation is paired with welfare-state compensation.

In the years following the SEA, the contradiction between egalitarian ends and market technology grew increasingly apparent. The public budget was increasingly seen as an impediment to the implementation of market technologies. In its recommendations to the member states on fiscal policy, the Commission highlights the “adverse effects of public expenditure” and notes that “the completion of the internal market will, independently of Community tax approximation measures which are directly connected with it, make for increased competition between public finances in different countries” (Commission 1989). The technology of the internal market itself places downward pressure on public spending, because employers and investors can favor the most efficient member states.
In keeping with its mission of advancing the European market, the Commission identifies specific policies that it considers as barriers to the development of efficient markets. This is one way the European Union matters for social policy, despite lacking legal “competence” in the domain according to the principle of subsidiarity. For example, in its 2000 “social policy agenda,” the European Commission links the welfare state to economic growth and jobs, crediting the European welfare state for investing in human capital, while at the same time noting that the welfare state must “modernize” and “adapt to the changing world of work” (Commission 2000:11). The central goal of the social policy agenda is promoting employment by moving “from an agenda of tackling social exclusion to one which fosters social inclusion” (12). The Commission notes that “in practice this will mean adapting social protection systems to make work pay and provide secure income, make pensions safe and pension systems sustainable, promote social inclusion and ensure high quality and sustainability of health care” (20). The Commission advocates “an active welfare state that encourages employment participation” (Commission 2002:20). With the objective of sparking job growth, the Commission recommends that member states cut employers’ social security contributions (Commission 1993) and modernize pension systems to ensure labor market flexibility (Commission 2001:7).

Another route from the European Commission to the social policy domain is through its constitutional charge to foster the convergence of social and economic policy among EU member states. As the European Union has expanded to include 27 member states by 2007, social welfare policy has remained part of the treaties that have been institutionalized by the ECJ as a constitution. For instance, Article 140 of the post-SEA revised 1957 Rome Treaty commits the Commission to promote cooperation in the areas of “employment, labour law and working conditions . . . social security . . . [and] the right of association and collective bargaining between employers and workers” (Treaty Establishing the European Community, consolidated version, C-325, 2002:95). This is the legal
authority for the Open Method of Coordination (Heidenreich and Zeitlin 2009).

The clear implication of this legal commitment is that the founding states of the European Union anticipated common developments in social policy, which would reduce differences among the welfare states of EU members. Indeed, as early as 1967, the Commission took on the task of “promoting close collaboration between the Member States in order that the essential ‘convergence’ of national social policies may be progressively achieved” (Commission of the European Economic Community 1967b). The Commission actively monitors social policy developments, and it has published comparisons of the social security systems of the member states since the 1960s (Commission of the European Communities 1976).

This commitment to common social policies and social change through market integration continued in the proposed Constitution for Europe, which was rejected in referenda by French and Dutch voters. Article III-103 contains the key phrase: “the functioning of the internal market, which will favour the harmonisation of social systems.” The Commission’s belief in political and social integration through economic integration (an ironically Marxian idea) is thus maintained and continues even amid the Greek debt crisis, with calls from the Commission and others for “solidarity” through market discipline. It is also notable that the still-proposed constitution anticipates the “harmonization of social systems” through the “functioning of the internal market”—in other words, it should be regional economic integration, and not regional political integration, that drives harmonization. What this language misses, of course, is the Polanyian point that institutions are causally necessary for markets, and the free market is a fiction.

While the European Union’s founding and revised treaties reflect the connection between regional integration and the convergence of European welfare states, the treaties do not contain specific policy recommendations. An example of the diffusion of more specific welfare-state models is the European Commission’s white paper on social policy, European Social Policy: A Way
Forward for the Union (Commission of the European Economic Community 1994). The white paper makes specific policy recommendations, and it is clear that the Commission views the development of common social policies as part of the ongoing creation of the European polity and market. The Commission proposes “a wide-ranging technical revision and restructuring of the coordination of social security provisions” (Commission of the European Economic Community 1994), and it commits to “coordinating provisions for certain new types of benefit created by Member States in recent years, such as education benefits and benefits for persons in need of long-term care.” The European Union’s role in national welfare states and welfare policy is a controversial and, to date, limited one, but it is clear that the European Union does engage the welfare state through the dissemination of policy scripts. Further indication of this engagement of social policy and this drive toward coordination is the Commission’s 1993 Green Paper on European Social Policy, which identified “convergence of social policies” and “extension of the coverage of social security coordination” as areas for further action (Commission of the European Economic Community 1993).

Another example of a specific EU policy that should pressure welfare states to become more similar is the “convergence criteria” of the Maastricht treaty that require low public-sector deficits and low debt levels (Boje et al. 1999; Pierson 1996; Pitruzzello 1997; Rhodes 1996; Schulz 2000). Compliance with these convergence criteria limits deficit spending in EU welfare states, and thus it should level out differences in welfare-state spending among EU members. EU policy is enforced through several mechanisms, ranging from less formal public pressure placed on member states by high-profile European Commission publications such as the “Internal Market Scoreboard” to lawsuits brought by the European Commission against the member states in the ECJ. In the area of fiscal policy, the Commission makes specific recommendations for each of the member states to align their receipts and expenditures (Commission 1989:32–39) and tax legislation (Commission 1967a, 1980, 1993, 2001). Moreover, Genschel et al. demonstrate that the
European Union constrains policy in the area of taxation, despite its inability to levy taxes (Genschel et al. 2011).

Regional policy in other domains may have an indirect effect on welfare policy. One of the European Union’s general policies that should foster welfare-state isomorphism is the reduction in economic inequality among EU states and regions. Toward this end, the European Union provides poorer member states with development aid in the form of “structural” and “cohesion” funds. These funds include the European Agricultural Guidance and Guarantee Fund (established in 1962 to aid rural areas) and the European Regional Development Fund (established in 1972 to even out the dramatic economic disparities among subnational regions within the European Union). If economic disparities among EU member states are reduced through EU policy, then welfare states in the poorer countries should have the resources to catch up to the more generous EU welfare states. European welfare states may grow increasingly similar with deepening integration, given that regional integration reduces economic differences among national economies in Europe (Ben-David 1993) and thus makes similar resources available to European states.

In addition to these indirect economic pathways, EU treaties also provide for direct political pathways to welfare-state convergence. The Maastricht convergence criteria and the structural and cohesion funds represent two examples of specific EU policy that should bring convergent change to EU welfare states. Regional political integration creates more diffuse institutional forces as well. In support of “ever closer union,” the European Commission—the body of the European Union charged with promoting and monitoring integration—publishes policy papers and issues directives, many of which are aimed at “harmonizing” the policies of member states. Even more diffuse institutional pressures are also at work in the European Union. The European Union has a common currency, open internal borders, and Europe-wide elections for the European Parliament. The free movement of capital and labor within Europe may also create demands for the alignment of welfare states, as corporations seek common tax and regulatory environments and
workers seek familiar or portable social programs. Research on the effects of adoption of the single European currency supports this view, in that monetary union reduces national sovereignty in the areas of fiscal and monetary policy (Dyson 2000; cf. Garrett 2000; Pierson 2001). Scharpf (1999) goes even further, arguing that “negative integration,” or the removal of barriers to international economic exchange within the European Union, undermines national sovereignty in the area of social policy and produces “regulatory competition”:

Negative integration disables existing national policy solutions by prohibiting subsidies to producers, monopolistic and cartelized practices in the provision of goods and service, and all regulations that have the effect of protecting domestic producers from foreign competitors or of restricting in any way the free mobility of goods, services, capital, and labour across national boundaries. As a consequence, national firms are exposed to more intense competition from suppliers producing under different national systems of taxation, regulation, and industrial relations—which greatly reduces their opportunities for shifting to consumers the costs of higher taxes and wages or more burdensome regulations. At the same time, national capital owners, firms, and skilled professionals are themselves free to move to locations governed by different regulatory regimes. The theoretically expected result, then, is a form of economically motivated “regulatory competition” among nation states and unions which undercuts their capacities to regulate and tax mobile factors of production, and to improve the distributive position of labour through collective bargaining. (84–85)

The more direct impact of freedom of movement within the European Union can be seen in the 1961 European Social Charter, which is referenced in the Maastricht treaty and the provisional European Constitution. Article 12 of the Charter commits the signatories
to take steps, by the conclusion of appropriate bilateral and multilateral agreements, or by other means, and subject to the conditions laid down in such agreements, in order to ensure: a equal treatment with their own nationals or the nationals of other Contracting Parties in respect of social security rights, including the retention of benefits arising out of social security legislation, whatever movements the persons protected may undertake between the territories of the Contracting Parties. (Council of Europe 1961:8)

This is one example of how freedom of movement within the European Union creates pressures for isomorphism among welfare states. In Ferrera’s (2005) terms, such agreements redraw the boundaries around social citizenship in the European Union.

Finally, it should be noted that the European Union also has effects through domestic democratic politics. Here, I build on the argument of Katerina Linos, who shows how domestic politics is often the engine of policy diffusion, because national policymakers can use evidence from peer nations as evidence for the reasonableness of their proposals (Linos 2013). Common membership in the European Union can be used as a resource by political actors, since the familiarity of the European Union to voters legitimizes and amplifies the signal of emulation. In this way, domestic de-regulation of temporary and fixed-term contracts, which can reinforce dualism (Rueda et al. 2015), is arguably reinforced within the European Union, as political actors attend most closely to labor-market reforms in other EU member states.

Outline of the Argument

The following chapters trace how this regional revolution reversed the long-term trend toward more equality in Europe. The narrative in a nutshell is that in defining its problems in market terms and using market tools to solve those problems, the European Union has cemented a technocratic capitalism that has changed
the political-economic rules of the game in Europe. These regional institutional changes started to bring welfare-state restructuring and convergence in the 1990s, and these changes in turn have contributed to a more economically unequal Europe.

How would we know that the rules of political economy in Europe have changed, if indeed they have? Chapter 2 describes the development of European political economy since the 1957 Rome treaty. I focus on the measurement of regional integration, the distribution of wealth across the member states of Europe, and the winners and losers from integration. I take a juridical approach to measuring political integration, and I use ECJ cases to measure the formal legal integration of the national polity into the regional polity. When a member state sends cases to the ECJ for review, it cements a legal link—institutionalizes a rule of the game—that incorporates EU rules into national law. Economic integration is measured as the regional trade share, which is a conventional measure in the macroeconomic literature. The regional trade share captures the percentage of international economic exchange that is subject to, guided by, and in part caused by EU rules. A broader measure of European economic integration—and indeed one of the anticipated consequences of European integration—is economic convergence, and so that chapter also evaluates the extent to which people and organizations in Europe are working in national economies that are becoming more or less similar. That chapter shows that economic output grew in volume and equalized in distribution, especially in the earlier institution-building stage of European integration. Convergence in Europe stalled in the 1980s, bounced around through the 1990s, and reversed course in the 2000s. The ongoing economic crisis in Europe has exacerbated the recent trend toward economic divergence, as Northern Europe maintains slow growth and Southern Europe suffers severe recession.

Chapter 3 examines the distribution of economic output across European welfare states. Here, I am conceptualizing the welfare state as both a cause of inequality (Esping-Andersen 1990) and a kind of inequality. Analysis of income inequality, especially since the emergence of the LIS in the 1980s, identifies the welfare state
as a major cause of social inequality, and so that part of my conceptualization is familiar. The welfare state itself as a kind of inequality is more unusual, but it fits the European case since such a large share of an average European household’s available resources can be traced to the welfare state. Considering the welfare state as a kind of inequality between European populations, then, broadens my consideration of inequality from a narrow focus on economic inequality to include a consideration of political inequality (Bruzelius et al. 2017). The ongoing economic crisis in Europe, which began in the aftermath and transatlantic spillover of the US financial meltdown of 2008, has demonstrated the broad social relevance of the welfare state as a dimension of social inequality, as politicians in richer countries scold politicians in poorer countries for expanding their citizenship rights too generously.

Looking at the welfare state as both a stratifier of goods and also a stratified good in itself advances two debates that have motivated decades of welfare-state scholarship: the retrenchment debate and the convergence debate. The first task of the chapter is to convince the reader that meaningful restructuring has actually happened; such evidence is presented to counter arguments that even neoliberals like Margaret Thatcher and Ronald Reagan failed to reform welfare states when they had power in the 1980s. In a nutshell, my response to the no-retrenchment argument is two-fold: first, that argument overlooks important actions taken at the EU level that prioritized the market and strengthened market discipline; second, retrenchment was contested, and it simply took time for the defenders of the welfare state to lose their fights. The second task of the chapter is to evaluate whether retrenchment in European welfare states has anything to do with European integration. In strengthening the causal inference, I rely on case-based evidence of specific policy changes that were justified as necessary because of the European Union and model-based evidence that shows strong associations between political integration and retrenchment, net of measured and unmeasured differences between welfare states that also contribute to retrenchment. These first two tasks are central to the argument about how European integration has affected income
inequality, given the enormous effects of social policy on income inequality in Europe.

Chapter 3 also shows that regional integration has contributed to the convergence of European welfare states, effectively reducing political inequality between citizens of different European nation-states. Convergence is defined as the reduction in measurable differences among welfare states, and it is measured with simple quantitative indices of dispersion. The evidence is clear that the amount of variation in the policy- and spending-based measures is on the decline in Europe, especially after the 1980s. I evaluate the role of European integration in this decline by comparing convergence trends in Europe to trends in other groups of welfare states, including other regional groupings, and the varieties-of-capitalism groupings. Only in Europe do welfare states converge. The inference that European integration causes welfare-state convergence is strengthened by models of differences between pairs of welfare states. Only between pairs of European welfare states do differences decline.

Chapter 4 shifts from the direct effect of European integration on household well-being in terms of social citizenship rights, to the indirect effects of European integration on household income. The chapter begins with a consideration of how social science theory connects within-nation income inequality to European integration, and it analyzes trends in income distributions within nations using panel models. I then use predictions from those models to understand how much regional integration contributes to our understanding of income inequality trends in the post-Euro (1999–present) period. That chapter also evaluates the changing contributions of within-country and between-country inequality to total income inequality in Europe, thus bringing the argument back full circle to the question of how we account for the end of the trend toward more equality in so many European nations.

Chapter 5 concludes the book and discusses the 2008–2012 EU recession and sovereign-debt crisis, as well as Brexit, in light of the book’s argument. I summarize the main findings, detail the limitations of my research, and elaborate the implications of my
argument for the social science of stratification, as well as for the political questions of where Europe goes from here. To consider these implications systematically, I first analyze the recent (and in some national economies, still ongoing) recession through the lens of unequal Europe. I then evaluate three counterfactual scenarios. The first is Global Europe: what if Europe globalized instead of regionalized? The second is Economic Europe: what if Europe integrated economically without integrating politically? The third is Social Europe: what if the neoliberal turn had failed to dominate European-level policy and jurisprudence in the 1980s?