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## The Issue Of Income Inequality In Europe

Regarding macroeconomic challenges in Europe, the issue of income inequality is at the center of discussion in many areas in contemporary society and serves as an integral part of developed economies. In fact, from the economic point of view income inequality is widely viewed as one of the most significant and discriminatory inequalities. As a result, the conflict between equality and justice remains an unsolved issue in the current European society, with European governments seeking to level their economies. Attempting to balance the existing inequalities can, on one hand, significantly increase the spending of public budget; on the other hand, however, having unchecked and unregulated socioeconomic differences can be a danger to society. While income inequality is often viewed as a natural characteristic of a functioning society, it is also essential to consider it as a potential threat to the economic development, particularly in the case of its extreme values.

Though income inequality has declined worldwide, it still must be perceived as a global problem. The global income inequality has dropped significantly since 2000, yet inequality is increasing within most countries, especially developed ones. In general, the global trend has displayed the striking extent of income polarization, with vast concentrations of wealth belonging to less than seven percent of the population. Thus, it is predominantly the lowest income groups of the population that are the most adversely affected group of the population by income inequalities and stratification. The need for socioeconomic cohesion and inclusive growth, as a result, is at an all-time high for governments and multilateral organizations, including the European Social Fund.

### Issues Stemming from Income Inequality

The rise of inequality as a topic of interest has been particularly significant in high-income countries in the European Union as well as emerging market economies, where it has been connected with social stagnation and distress, while also being linked economic issues such as unemployment. In fact, studies have revealed that unemployment has been a major source of economic inequality in most of the developing and less developed economies of the world, with the unskilled laborers being the most negatively impacted in these cases. Causes of this issue, according to economists, include the economic reforms and deregulation of labor markets, both of which have contributed to a great extent of the problems related to unemployment and inequality. Furthermore, the rise of the use of capital-intensive technologies in markets such as the manufacturing sector has led to a shrinkage in jobs available, which has contributed to the problem of inequality. The decline of job security combined with the limited job opportunities has

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led to the spread of the continuing problem of inequality in European countries.

Scoping beyond economists and development scholars, income inequalities involve the general public, in particular during and in the aftermath of political events in Europe such as the EU referendum in the UK. However, the perception of inequality in many contexts is way above its actual levels, meaning that the new wave of interest has emerged in times of stress for European welfare. Thus, effective policy measures by European states are needed to bring about some positive changes in the economies that are plagued by these high rates of unemployment and inequality, as the primary distribution of income is largely influenced by the states. European states use their economic policies to determine the income differences among its citizens, with this area of fiscal policy being of great importance. It is this area that, by setting the level of tax levies, regulates not only the revenue of the state budget, but can also reduce the gap between the available income of the population by implementing the redistribution function. The European Social Fund (ESF) is one of these instruments that have been used to reduce income inequalities by tackling unemployment to achieve socio-economic cohesion. This paper will first examine the issues stemming from income inequalities within Europe and the EU, then outline and analyze the role that the ESF has played in reducing these inequalities to attain economic cohesion in Europe.

## The Effect of Inequality in the EU

Before delving into the exact role that the European Social Fund has played in tackling income inequality issues, it is important to first define and outline the problems that are derived from inequalities in Europe. The topic of inequality in Europe showcases the complex pattern of possible issues and dimensions that can be measured in different ways. Inequality exists due to different factors such as income and wealth, between different entities including households, labor and capital, and regions and countries, with economics and statistics providing various indicators to measure these inequalities. The primary focus of this paper will be income inequality and its effects on European countries. Income inequality can be difficult to measure, since income — along with its development and distribution — can point to certain problems that also appear in Europe's development, particularly from an international perspective. To define income, it is often outlined as Gross Domestic Product (GDP) per capita, or as household income based on household surveys, which in European countries is the EU Survey of Income and Living Conditions (SILC).

The market income of households is much more unequally distributed than the disposable income, which includes transfers and social benefits while subtracting taxes. Household income can be further adjusted by taking into account household size (net equivalent income) or the non-monetary benefits resulting from public goods or services. Inequality in Europe is considered to have three main dimensions; these dimensions include within member states,

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between member states, and in the European Union altogether. Within member states, inequality has increased in most countries over the last decades, taking into account the effects of changes in the exchange and inflation rates.

As pointed out by scholar Milanovic (2010), when inequality between states grow, it is likely to affect the social and economic cohesion among the citizens of the area. Therefore, if the income differentials between European countries that are geographically close to one another increase, they are likely to catalyze migration from country to country, as standard migration models recognize. On the contrary, as the Reflection Paper on the Social Dimension of Europe (2017), when the living and working conditions converge, it can make the difference between a person moving to another country as a result of a positive choice and a person being driven to move by economic necessity. Prior research and data collection used to obtain EU-wide inequality measures, such as the European Union Statistics on Income and Living Condition (EU-SILC), has acknowledged that income is the most comprehensive approximation of living standards.

Additionally, differences and income inequalities are not only visible between countries, but also within them; political debates and conflicts focus primarily on inequality within member states. A standard measure of inequality is the Gini coefficient, where the closer the Gini is to the value one, the greater the inequality. The highest Gini can be found in Latvia and Germany with 0.785 and 0.762 respectively, with the lowest being found in Slovakia and Malta with 0.492 and 0.586. These Gini measures can be used as a gauge of economic inequality by measuring income distribution and help underline the problems that stem from income inequalities. In fact, problems that arise from these income discrepancies are accompanied by other social issues and inequalities of life expectancy, health, and education in European households. These problems tend to depend on policies enforced by the EU, with some of these policies affecting the growth, wages and social benefits in European countries such as Greece, Spain, Portugal, Ireland and Cyprus; for instance, EU actions such as liberalization, integration, and regulation of markets determine the economic opportunities of citizens. As a result, EU-wide income has noticeable economic effects including migration, as lower-income EU citizens are likely to migrate to richer member states in order to improve their income opportunities. Thus, this process affects the income and employment opportunities of low-skill workers in high-wage countries and ultimately contributes to higher inequality.

These effects also have political implications, as they may have contributed to the rise of populism, including the Brexit voters in the UK that may have been motivated by the fear of too much immigration from poorer member states. The persistent high inequality between member states leads to migration from poorer into richer countries. In fact, countries in Central and Eastern Europe (CEE) such as Romania, Latvia, and Lithuania have lost more than ten percent of their labor force due to emigration. This often leads to the process known as brain drain, a

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phenomenon where the most qualified workers leave for jobs that offer better pay within the EU. At the same time, the low wages in the poorer countries attract foreign investment in low-skill industries. The two of these processes increase the gross national income, but in the richer EU member states, these developments will only increase inequality. As a result, commissions such as the European Social Fund are necessary to tackle issues stemming from income inequality.

## Functions of the European Social Fund

To give a brief history of the European Social Fund, the organization first came into being as the European Economic Community (EEC) in 1957. The Treaty of Rome eventually established the European Social Fund (ESF), which was enacted to help workers in economic sectors that were modernizing their production processes. It is the main financial instrument of the EU for supporting employment in its member states as well as promoting economic and social cohesion. Functions of the ESF included grants that were offered for short-term re-training courses so that workers could learn new skills. Other functions include making money available for resettlement to help unemployed people relocate for work, with the estimate that the ESF helped one million people get back to work between 1960 and 1973.

Since then, the European Social Fund has developed and adapted to the changing challenges faced by the EU member states, and to the evolving political and economic landscape of the European Union. In particular, the ESF moved to fund more vocational purpose courses during the early 1970s, specifically in its support for agricultural workers. Due to technological innovation, an increasing number of agricultural workers had fewer employment opportunities. The ESF helped these farmers in re-training and finding new jobs. The following decade, the ESF focused on fighting financial inequalities in the poorest regions of Europe, including Greece, Portugal, Italy, and Spain. In the 1990s the ESF again focused on the demands of the single market, seeking to ensure that as many people as possible could find work.

Since then, the European Social Fund has made other adaptations to accommodate the different needs of the EU member states and is currently funding job-focus programs. Additionally, it is funding language courses to provide aid to immigrants hoping to integrate within the job market. Therefore, throughout its entire existence, the ESF has been used as a crucial tool to allocate financial backing to projects across a wide array of locations and needs within the European Union. The organization is used by the government of each member state according to what it sees fit and to support the most immediate social and economic issues. Ultimately, the ESF is dedicated to improving the social cohesion and economic well-being across the regions of the European Union, with the funds of the organization serving as redistributive financial instruments that support cohesion within Europe, concentrating specifically on the less-developed regions. The objective of ESF spending is to support the creation of more and better jobs in the EU, meaning that it aims to improve the levels of

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employment, the quality of jobs, and the inclusiveness of the labor market; in other words, the ESF is an active challenger of the issues stemming from income inequality in Europe.

## **The Role of the ESF in Confronting Income Inequality Issues**

For over nearly 60 years, the work of the European Social Fund has provided important work and support for positive change in inequalities on local and national levels. It is through the ESF that the EU is able to channel financial resources toward individuals who are in need of support throughout its member states. The future of the European Social Fund will see the organization continue its role of being an integral part of the European plan to confront unemployment, poverty, and social exclusion within its member states — in other words, it has and will confront the issues stemming from income inequality in Europe.

An example of the European Social Fund challenging income inequality issues includes a recent ESF funded project in the United Kingdom. To relieve the issues caused by income inequality, the England ESF program invested over £2.5 billion of European funding in jobs and skills from 2007 to 2013. Results from this aid include 384,000 unemployed people that had been helped into jobs, over 150,000 participants have gained basic skills, and 418,000 young people helped to enter employment or education. In addition, this program offered English for Speakers of Other Languages (ESOL) courses and two-week courses that focused on extensive job search and job application support. The funding of the ESF played a key role in the government plans to tackle unemployment and to achieve economic cohesion; it contributed to the successful development of a program that helped individuals in finding work and in restructuring the system.

The ESF will continue to tackle unemployment and issues stemming from income inequality in general. As far ahead as 2020, the organization will continue to contribute to policies that will increase the employment rate, primarily by increasing the numbers of unemployed and economically inactive people entering sustainable jobs\*. Additionally, it has a strong focus on individuals at a disadvantage in the labor market and seeks to increase social inclusion, both of which would help tackle inequality issues. The ESF has also allowed local entities such as non-governmental organizations, regional councils, and individuals to be enlisted as social leaders that will help achieve objectives that have been agreed with European state and local governments.

The fact that the ESF has exhibited the capacity to keep adapting and reinventing itself proves that the organization is extremely focused and aware of the socioeconomic challenges that are facing the EU as a whole. By being adaptable, the European Social Fund has conserved its essence and importance in the changing international and economic climate. More importantly, the organization has proven itself as efficient at addressing and confronting the wide array of

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issues that are caused by inequalities and has shown that it will continue to fight these issues in the years to come.

## Conclusion

The European Social Fund is the main instrument of Europe for supporting jobs, helping people get better jobs and securing fairer job opportunities for all EU citizens; in other words, it does all that it can to confront and challenge issues stemming from income inequality. Indeed, the topic of income inequality in Europe highlights the complex pattern of potential issues and dimensions that can be measured in different ways. Inequality primarily exists due to different factors including income and wealth, along with different entities including households, labor and capital, and regions and countries, with economics and statistics providing various indicators to measure these inequalities. Issues that can arise from these income inequalities and discrepancies include problems dealing with life expectancy, health, and education in European households. It can even serve as a catalyst for migration movements within the EU.

The ESF, as a result, is committed to confronting these issues by investing in Europe's human capital, including its workers, its young people and all those seeking a job. It has the financing of £10 billion a year to improve job prospects for millions of Europeans, essentially to alleviate the challenges caused by the inequalities. The goals of creating more jobs and a socioeconomically inclusive society are at the foundation of the future strategy of the ESF to generate sustainable growth within the EU. With the current economic issues such as the rise in unemployment and poverty levels, the organization plays an important role in mitigating the consequences of income inequalities.

The money that is spent by the European Union via the ESF to tackle economic and social challenges is ultimately done to bring benefits to individual lives. Immigrants that face difficulty in adjusting to life in a new country and finding a job are able to better integrate into society, and unemployed individuals that were able to gain valuable experiences to aide in the job-finding process are both powerful examples of the way in which the ESF is able to tackle inequality issues and support sustainable growth. Ultimately, the European Social Fund is able to effectively make a stronger European Union that can help its own citizens by promoting sustainable actions to the world.

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