

**THE NEW ECONOMIC REALITY:
AUSTERITY AND INCREASING INEQUALITY IN DEVELOPED COUNTRIES**

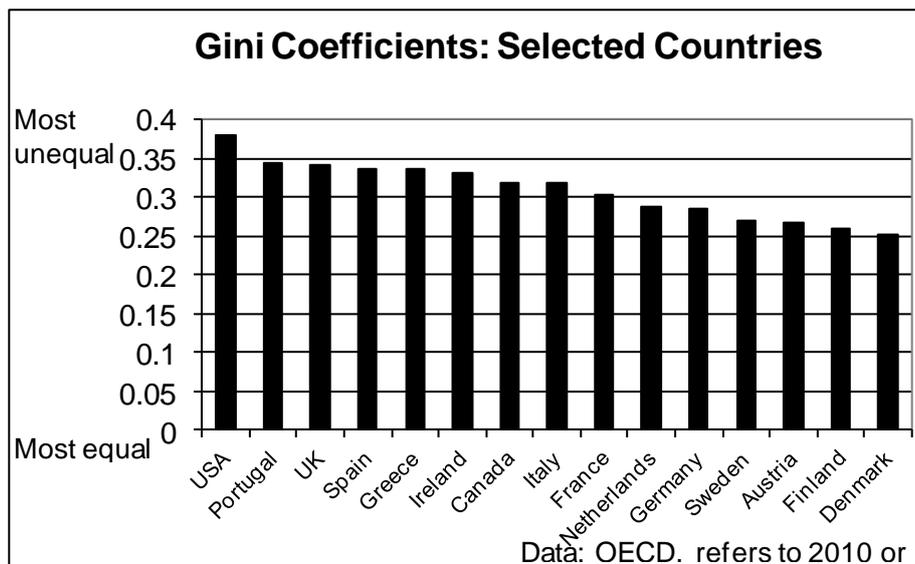
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There are many different responses that could have been chosen to deal with the crisis within the Eurozone. However, the general approach to deal with the crisis of the Eurozone is austerity. In general, these policies in the Eurozone are similar to the usual Washington Consensus policies that have been implemented in other places in the world. Many Europeans will have to get used to a more fiscally austere reality and a widening of inequalities resulting from austerity policies.

In terms of the currently-existing inequalities within the developed world, there is a great deal of variation. While no EU member state is nearly as imbalanced in terms of the distribution of wealth as the US, Portugal, the UK, Spain, Greece, and Ireland are those states that are closest to the inequalities of the US, as the OECD Gini coefficient data below illustrate. What is most interesting about these data are that they illustrate that states that are currently experiencing the worst of the financial crises in Europe are generally those states that seem to be the most unequal European states in the first place. There should be concern that not only will the current austerity cause a great deal of harm to many in those countries in which austerity programs are imposed but that these austerity programs may have a long-term effect, creating even greater rifts between the poor and the rich.



While the current inequalities in developed countries are a concern, the trend in many countries in recent decades should also be disturbing. The general trend illustrates that since the mid-1980s, there is an increase in inequality in the developed world. What is causing the general trend may be debated. While we see that those OECD states with welfare states generally based upon a liberal or conservative basis have retained high levels of economic inequality, those states with welfare states build largely upon social democratic principles have retained higher levels of equality. What is noteworthy is the general movement towards a widening chasm between the rich and poor in the developed world, so that even those that are usually held up as examples of egalitarian societies (Sweden, Denmark) illustrate that they too are susceptible to this general trend towards inequality.

There seems to be a significant recent acceleration of the trend towards economic disparity. A May report from the OECD reported that inequality has increased more in the first three years of the crisis (to the end of 2010) than it had in the previous twelve years. So, it would appear that financial crisis and policies to counteract the crisis are catalysts for inequality.

There are two concerns that should be brought up in terms of the austerity policies and their impacts upon the societies in which they are imposed. One is that it seems that austerity policies will increase the rift between the rich and

the poor. This will likely lead to a growth in social and political problems that may be associated with increasing inequalities, especially since many of the countries in which these policies are followed are generally more unequal than most other Eurozone societies in the first place. The other major concern is what types of policies will reverse the general trend towards inequality and what types of organizations and movements will support them. It would seem that there are strong institutional biases that encourage economic policies that create increasing inequalities but it is hard to imagine the strong counterparts that would encourage greater equality. While strong organized labor unions in the developed world supported more egalitarian societies after World War Two, such a strong and influential institution in developed countries seems to be generally lacking now.

While it is of concern to citizens throughout the EU as to whether austerity policies will actually turn things around for the countries with financial problems, it seems quite clear what type of societies will result after the austerity programs have been in place for some time. What we can expect are increased inequalities and the types of social and political concerns that such economically bifurcated societies foster. While the future is unwritten, it does seem that the trajectory of inequality is set and the global economic crisis and the policies put into place to deal with it are largely supportive of an increasing gap between the rich and poor. For those of us who are supportive of more egalitarian societies, it may be hopeful that the close relationship between the welfare states in Western Europe and national identity will at some time create social resistance to the undermining of the welfare state, an institution that is generally credited with easing the woes of the poor and in some societies may have been an important agent in creating opportunity structures for the poor and middle classes. However, without large and influential institutions that are systematically biased in favor of more equal societies, broad public resentment and resistance seems to be the only hope.