

# European Integration and Income Inequality

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*Globalization has attained a prominent place on the sociological agenda, and stratification scholars have implicated globalization in the increased income inequality observed in many advanced capitalist countries. But sociologists have given much less attention to a different yet increasingly prevalent form of internationalization: regional integration. Regional integration, or the construction of international economy and polity within negotiated regions, should matter for income inequality. Regional economic integration should raise income inequality, as workers are exposed to international competition and labor unions are weakened. Regional political integration should also raise income inequality, but through a different mechanism: political integration should drive welfare state retrenchment in market-oriented regional polities as states adopt liberal policies in a context of fiscal austerity. Evidence from random-effects and fixed-effects models of income inequality in Western Europe supports these arguments. The results show that regional integration explains nearly half of the increase in income inequality in the Western European countries analyzed in this article. The effects of regional integration on income inequality are net of several controls, including two established measures of globalization, suggesting that a sociological approach to regional integration adds to our understanding of rising income inequality in Western Europe.*

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The construction of a regional political economy in Western Europe through the creation, expansion, and institutionalization of the European Union (EU) raises a critical sociological question: what role has European integration had in the recent widely noted increase in income inequality within Western European societies? Many political scientists and EU scholars have speculated on the implications of European integration for national income inequality. Many argue that European integration should exacerbate income gaps in EU countries (Boje, van Steenberg, and Walby 1999;

Kosonen 1995), but others suggest that European integration actually may insulate EU countries against the polarizing effects of globalization (Moses 1995). Although sociologists of stratification, especially U.S.-based sociologists, have not yet devoted sustained empirical attention to European integration (Therborn 1999), sociological approaches to income inequality readily extend to regional integration, and these approaches suggest that regional integration should affect income inequality. Given the centrality of economic inequality to the discipline of sociology (Kenworthy forth-

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coming) and the historic significance of the European integration project, sociologists should examine the consequences of European integration for income inequality.

The formation of the 6-nation European Economic Community (EEC) in 1957, its expansion and transformation into the 15-nation EU by 1995, and its further expansion to 25 nations in 2004 constitute a dramatic and far-reaching contemporary development in international political economy that encompasses more than 375 million people and is restructuring society, culture, economy, and polity in the advanced capitalist countries of Western Europe. The EU has progressed further toward integration than other regionalist efforts such as the North American Free Trade Agreement, the Common Market of the Southern Cone, and the Association of Southeast Asian Nations (Fligstein 2005; Mann 1997; Stone Sweet, Fligstein, and Sandholtz 2001).

The original architects of European integration, particularly financier and diplomat Jean Monnet, French Foreign Minister Robert Schuman, and German Chancellor Konrad Adenauer, conceived of integration as a means to maintain peace and promote economic development in war-ravaged Europe. The 1957 Treaty Establishing the European Economic Community also included provisions aimed at reducing economic inequalities between sub-national regions.<sup>1</sup> Since 1957, the EU has introduced a common currency, eliminated many internal border controls, and established a supra-national polity. This polity includes the European Commission, which proposes legislation, sets the agenda for integration, and monitors compliance with European law; the European Parliament, which debates legisla-

tion; and the Council of the European Union, which enacts legislation. The EU also includes the European Court of Justice, which has been essential to the process of integrating regional law into national law through its judgments, and thereby institutionalizing the fundamental rules of regional integration in Europe (Fligstein and Stone Sweet 2001).

The two essential dimensions of European integration are political integration, or the creation of the regional polity and the diffusion of regional rules, and economic integration, or the intensification of regional economic exchanges such as trade and investment (Fligstein and Stone Sweet 2002). The relative progress of economic and political integration in the EU is debated, with some finding deeper economic integration (Scharpf 1997), others seeing political integration as more advanced (Therborn 1999), and still others finding that economic and political integration reinforce each other (Fligstein and Stone Sweet 2002). I argue that both political and economic integration affect income inequality, but through different mechanisms. The sociological approaches to income inequality and regional integration developed in the following discussion suggest that political integration should increase income inequality through its effects on the welfare state, whereas economic integration should increase income inequality by undermining the position of labor through the pressures of international wage and employment competition.<sup>2</sup>

This article extends sociological approaches to income inequality and develops hypotheses concerning the impact of regional political and economic integration on income inequality. These hypotheses are tested with data on Western European countries for the period 1973–1997 and panel methods that account for unmeasured heterogeneity between countries. Using novel measures of regional political and economic integration, this analysis finds evi-

<sup>1</sup> Inequality among individuals within member countries drew less attention. Article 158 (originally Article 130) commits the European Community to “aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas.” To this end, Article 159 (originally Article 131) establishes the “structural funds,” which in 1992 consumed 28% of the EU budget (Bornschiefer et al. 2004). These funds are the European Agricultural Guidance and Guarantee Fund, the European Social Fund, and the European Regional Development Fund (European Communities 2002).

<sup>2</sup> Both of these arguments imply that the precise pattern of change in income inequality should be one of “polarization” (Morris, Bernhardt, and Handcock 1994). The observed pattern of change in core societies wherein income inequality has risen, including the Western European societies scrutinized in this analysis, is one of polarization (Alderson, Beckfield, and Nielsen 2005).

dence that regional integration is associated with income inequality: political and economic integration increase income inequality, although the effect of economic integration is attenuated at the highest levels of integration. The finding that regional integration is associated with income inequality in Western European countries holds across several statistical models, including fixed-effects models and models that incorporate controls for economic development, national welfare spending, and globalization.

## BACKGROUND

Much writing on regional integration, especially discussion of the EU, centers on inequality. Some accuse the EU of expanding inequalities by contracting the welfare state (Boje et al. 1999), whereas others predict that inequality will grow with future integration (Kosonen 1995). Still others view the EU as a way for member states to resist the effect of globalization on inequality (Moses 1995). Finally, some argue that the impact of regional integration on inequality is uneven, with certain inequalities (viz., gender inequality) alleviated by the “regulatory supra-state” (Walby 1999). Although there is no shortage of *interest* in the consequences of regional integration for inequalities, empirical sociological *research* on income inequality has largely neglected the role of regional integration. In this article, I extend sociological approaches to income inequality and identify pathways from regional political and economic integration to inequality. These arguments bring regional integration into the explanation of rising income inequality in Western Europe.

### *ECONOMIC INTEGRATION, LABOR, AND INCOME INEQUALITY*

The argument that globalization, defined as “a process (or set of processes) which embodies a transformation in the spatial organization of social relations and transactions . . . generating *transcontinental* or *interregional* flows and networks” (Held et al. 1999:16; emphasis added), increases income inequality rests on the idea that the labor/capital balance of power is a key determinant of income inequality. Many take for granted the idea that labor strength reduces

inequality (Harrison and Bluestone 1988). Cross-national work shows that globalization weakens labor by creating an international labor pool (Alderson and Nielsen 2002; Brady and Wallace 2000; Volgy, Schwarz, and Imwalle 1996).

Regional integration and globalization often are conflated in academic and popular discourse because both involve the intensification of economic, political, cultural, and social flows that cross national boundaries. I argue that regional integration and globalization are distinct processes (Held et al. 1999:5; Huber and Stephens 2001:7; Kim and Shin 2002; Scharpf 1997; Walby 1999). Regional integration and globalization can be conceptualized as alternative *forms* of international embeddedness. There are three key distinctions between these forms. First, regional integration is geographically bound. Globalization is often defined as the intensification of cross-border flows, and the borders crossed are any national borders: United States–Germany trade is as much globalization as France–Germany trade. But regional integration involves the intensification of international interaction within bounded regions. The geographical boundedness of regional integration is relevant to the effect of economic integration on income inequality because political institutions and human capital stocks should be more similar within than between regions, creating more intense market competition within than between regions.

A second difference between regionalization and globalization is political: regional polities are more strongly institutionalized than the world polity. Regional polities such as the EU can compel compliance with their directives. For instance, the EU required its members to meet budgetary and other requirements before joining the currency union. Only a select few global organizations, such as the World Trade Organization (WTO), have such coercive power, and the WTO’s power is not nearly as far-reaching across policy domains as that of the EU. This is crucial for the mechanism through which economic integration is expected to affect income inequality. According to the institutionalist approach to markets (Fligstein 2001), the establishment of common understandings, rules, and laws shapes market behavior. This implies that firms considering international expansion should be most likely to expand with-

in the EU (thus submitting labor to increased regional, but not necessarily global, competition).

Finally, regional integration differs from globalization in that regionalization has progressed further than globalization. Indeed, much of what is denoted in the literature as globalization may be characterized more accurately as regionalization (Fligstein 2001:196-203) or even Europeanization (Fligstein and Merand 2002). For instance, Fligstein and Stone Sweet (2002) show that nearly half of all world trade occurs within the EU, and Alderson (2004) finds that the vast majority of the “globalization” of production occurs among advanced industrial economies, most of which are located in Europe and North America. Globalization and European integration are distinct processes, and as such may be related to income inequality in different ways.

In summary, I emphasize that regionalization and globalization are distinct forms of international embeddedness. Regionalization and globalization represent different structures of internationalization, or “denationalization” (Sassen 2006). Although both involve increasing density of economic and political ties that span international boundaries, regionalization is geographically and politically bounded, whereas globalization is unbounded. How is it that the two processes could have different effects on income inequality? Building on the work of Alderson (2004) and Western (1997), I argue that economic integration raises income inequality through the expansion of market competition. Given that labor unions are largely organized at the national rather than the regional level (Streeck and Schmitter 1991), the expansion of the market through regional economic integration subjects labor to increased competition, which undermines unionization (Western 1997). If labor markets expand more readily and labor is more competitive within regions (given that human capital may be more similar within than between regions, firms can more easily exercise control over subsidiaries within than between regions, and political institutions are more similar within than between regions), then regional integration is likely to exert a large effect on labor unions. And if trade is more regionalized than globalized (Fligstein and Merand 2002), the effects of regionalization to date may outweigh the effects of globalization to date.

Although globalization and regional integration are clearly distinct processes, the logic of labor strength as a key mediator can be extended to regional integration. Because economic integration creates a larger labor market and increases wage competition between workers (Alderson and Nielsen 2002; Western 1997), economic integration can be expected to increase income inequality as workers are exposed to the competition of regional labor markets.<sup>3</sup> These ideas have not been synthesized in this way or subjected to empirical analysis, but there is evidence for the operation of these mechanisms: the formation of the EEC created a regional market by raising the volume of international trade and investment (Ben-David 1993); economic openness raised the likelihood of union decline in the advanced capitalist countries (Western 1997); and income inequality is lower where labor unions are stronger (Alderson and Nielsen 2002). Also, there is evidence that economic insecurity among workers increases in industries with increasing foreign investment (Scheve and Slaughter 2004), suggesting that workers accurately perceive international competition.

An initial exploratory analysis of the relationship between economic integration and national income inequality produced evidence of a positive effect of economic integration that weakened or even reversed at the highest levels of economic integration. Although unanticipated, this finding is consistent with the historical development of political institutions that insulate workers against the pressures of international competition in the small, open economies of Western Europe (Cameron 1978; Huber and Stephens 2001:7; Katzenstein 1985). Corporatist bargaining that coordinates the state’s macroeconomic policy, labor unions’ wage demands, and corporations’ employment

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<sup>3</sup> Actual labor migration is not necessary for expansion of the labor pool and the intensification of economic competition, given that the relocation of manufacturing facilities and cross-border capital investments (i.e., capital mobility) can substitute for labor mobility. International migration within Western Europe is quite limited, despite the relaxation of border controls, the introduction of the common Euro currency, and the implementation of various policies meant to encourage labor mobility (Favell 2003).

decisions stabilize the national economy against the vicissitudes of international markets. Strong welfare states insulate workers against economic vulnerability through generous unemployment benefits and training programs (Katzenstein 1985). These corporatist states (e.g., Belgium and the Netherlands) are deeply embedded in the regional European economy (Fligstein and Merand 2002). This suggests that the effect of economic integration on income inequality may be dampened at the high levels of economic integration exhibited by small, open corporatist states. Regional economic integration—the expansion of markets to the regional level from the national level—should increase income inequality as workers are exposed to the wage competition of a larger labor pool, but this effect may be dampened or even reversed at very high levels of regional economic integration, because those economies are stabilized by strong welfare states and corporatist institutions. In the following discussion, I use models with interaction terms to assess these arguments.

***POLITICAL INTEGRATION, THE WELFARE STATE,  
AND INCOME INEQUALITY***

The sociological approach that ties income inequality to the welfare state also has implications for the relationship between regionalization and inequality. States profoundly structure stratification: economic policy produces and reproduces social cleavages (e.g., tight monetary policy restricts inflation and benefits the privileged stratum, whereas full employment policy benefits the disadvantaged [Boix 1998; Hibbs 1987]). The welfare state shapes stratification directly through income transfers (Korpi and Palme 1998), and ample research shows that the welfare state reduces inequality and poverty (Alderson and Nielsen 2002; Brady 2005; Kenworthy 1999; Moller et al. 2003).

If the welfare state dampens inequality, then the question becomes what effect European integration has on the welfare state. Many welfare state scholars implicate European integration in the retrenchment of Western European welfare states (Huber and Stephens 2001; Korpi 2003; Scharpf 1996). Four arguments link regional political integration to welfare state retrenchment through political mechanisms.

First, regional integration constrains welfare spending via policy feedbacks. Second, regional integration constrains welfare spending through the diffusion and adoption of classical-liberal policy scripts. Third, regional integration facilitates retrenchment through the politics of blame avoidance. Fourth, regional integration limits national autonomy by tying the economic fortunes of the national economy to the regional economy.<sup>4</sup>

The first argument highlights the so-called “convergence criteria” in the 1992 Maastricht treaty that set the path to the Economic and Monetary Union (EMU). The criteria require that state budget deficits be no greater than 3% of the gross domestic product (GDP), and this requirement initiated proposed welfare state cutbacks (Huber and Stephens 2001). This can be understood as a policy feedback effect, whereby accession to the EMU pressures states to reform social welfare policy (Pierson 1996; Pitruzzello 1997; Rhodes 1996; Schulz 2000). As Huber and Stephens (2001:234) write, “the convergence criteria contained in the Maastricht accord pressed further austerity on all member governments.” Likewise, although Pierson (2001) is skeptical of the argument that globalization is linked to welfare state retrenchment, he does argue that the EMU is one force that pressures European countries toward austerity.

The second argument, that the EU diffuses market-oriented policy scripts, is more general.<sup>5</sup> The EU is a market-led project in which “negative integration,” or the removal of barriers to trade and market regulations, surpasses “positive integration,” or regional regulations that correct market dysfunctions (Scharpf 1996). Very generally, the EU advances market-centered policies, such as deregulation, privatization,

<sup>4</sup> Whereas this article focuses on income inequality as a dependent variable, analysis reported elsewhere suggests that regional integration is also associated with welfare-state retrenchment, net of appropriate controls drawn from the extensive literature on the welfare state. This is consistent with the argument that identifies the welfare state as one mechanism through which regional integration has an impact on income inequality (Beckfield 2005).

<sup>5</sup> Gillingham applauds the classical-liberal character of European integration, writing that the EU has produced “an invisible hand that is no longer lamed” (Gillingham 2003:xii).

tion, tax competition, and “market compatibility requirements” (Pierson and Leibfried 1995; Rhodes 1995; Scharpf 1997). Huber and 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. Scharpf calls this dynamic “regulatory competition,” and he specifically cites political integration through the European Commission and the European Court of Justice as forces that bring EU member states into this competition. More broadly, the EU has established several mechanisms for the generation, diffusion, and adoption of common policy objectives, including, most recently, the Open Method of Coordination (Hemerijck 2005; Zeitlin 2005).

The third argument is that under the “politics of retrenchment,” whereby strategic political actors seek to avoid blame for rolling back popular welfare programs, politicians in EU member states can blame the EU for retrenchment (Pierson 1996). This suggests that retrenchment may go further inside the EU than outside it because non-EU member states may be unable to shift blame so easily. To anticipate the methodological details discussed later, both EU and non-EU states are included in the analysis reported in this article.

The fourth argument that links regional integration to the welfare state identifies a logic that ties policy options to economic forces. Regional *economic* integration may constrain the welfare state by placing common economic pressure on all members of a regional economy. For instance, national welfare states may find it difficult to maintain policies to promote full employment when intensified trade ties their economic fortunes to developments in other national economies within the integrated regional economy (Korpi 2003:603).

In summary, EU scholars have argued that European integration is related to various inequalities through several different channels. The sociology of income inequality can be developed in a way that incorporates both regional and global integration, but the possible role of regional integration in increasing income inequality in Western Europe has not been assessed empirically. In the following dis-

cussion, I examine the evidence that this article brings to these claims.

## DATA AND METHOD

The dependent variable is the Gini coefficient, a common measure of inequality that varies from 0 to 1, where 0 is perfect equality and 1 is perfect inequality (Firebaugh 1999). The data come from the Luxembourg Income Study (LIS; 2003) “key figures” database. The LIS calculations of the Gini coefficient are based on post-tax and posttransfer incomes. I use 48 observations (from 12 Western European nations) for which data also are available on the key independent variables. Appendix A lists the 48 country-years included in the analyses and shown in the tables. For ease of presentation in the tables, the Gini coefficient is multiplied by 100. I note that supplemental analysis shows that the results are substantively identical if the Gini coefficient is replaced with the 90:10 or 90:50 income ratio.

Political integration is measured as the number of cases referred from national courts to the European Court of Justice under Article 177 of the 1957 Treaty Establishing the European Economic Community. This measure improves on measures of integration used in previous work on other consequences of EU membership.<sup>6</sup> Under Article 177, if a case is relevant to EU law, the national court may, and sometimes must, forward the case to the European Court of Justice, the judicial body with final and binding authority to interpret EU law. Under this so-called “preliminary reference” procedure, the European Court of Justice issues rulings that are incorporated into national law by the national courts (Stone Sweet and Brunell 1998a, 1998b). In the language of integration theory within political science, the number of cases forwarded from member states of the EU in a given year is an indicator of “jurisdictional integration” (Nye 1968:867). An increase in the cases sent to the regional court

<sup>6</sup> For instance, in studies of regional integration and economic growth, integration has been measured with an indicator variable for “member of the EU” (Henrekson, Torstensson, and Torstensson 1997) or a count of the number of years a state has been a member of the EU (Bornschieer et al. 2004).

indicates increasing integration of regional law into national law in that the measure faithfully reflects the role of the European Court of Justice in laying “the legal foundation for an integrated European economy and polity” (Burley and Mattli 1993:42). The preliminary reference procedure forms “vertical networks” between national and supranational actors that “enable the supranational institution to be maximally effective” (Slaughter 2004:13–14) and are “instrumental in promoting European integration” (Carrubba and Murrah 2005:399). The European Commission tracks the number of Article-177 cases as an indicator of the “application of Community law by the national courts” (Commission of the European Communities 1989). Fligstein and Stone Sweet (2002) use the number of Article-177 cases, measured at the regional level of analysis and disaggregated by policy domain, as an indicator of the political institutionalization of the EU. Data are available through 1997 and originate with Stone Sweet and Brunell (1999).

I argue that this measure is a valid proxy for political integration, but other measures, such as contributions to the EU structural and cohesion funds, have utility, especially in research on between-country economic inequality (Bornschieer, Herkenrath, and Ziltener, 2004). Depending on the relationship between economic growth and within-country income inequality experienced by the poorer members of the EU, these transfer payments may reduce inequality within countries, just as they have fostered economic convergence between countries (for an analysis of economic convergence, or between-country economic inequality using the same measures of integration used in this article, see Beckfield [2005]). Conceptually, the contrasting effects of regional integration on income inequality within versus between countries also are consistent with Herkenrath et al. (2005:364), who argue for convergence and divergence as dual outcomes of globalization and regionalization.

I assessed the validity of the Article-177 cases measure of political integration by calculating Pearson correlation coefficients between it and each of several alternative measures, most of which are available for fewer country-years. The number of Article-177 cases is significantly and positively correlated with the number of years a state has been a member of the

EU ( $r = .70; p < .05$ ), and also with the square of the number of years ( $r = .69; p < .05$ ). The proportion of European Council directives integrated into national law also is significantly and positively correlated with the cases measure ( $r = .80; p < .05$ ). The cases measure also is significantly and positively correlated with the percentage of the population that approves of efforts toward European integration ( $r = .35; p < .05$ ). Finally, the cases measure is positively and significantly associated with the number of regional nongovernmental organizations ( $r = .55; p < .05$ ). It is not possible to enter all these alternative measures into the regressions later in place of the preferred Article-177 cases measure because most are available for only a very narrow range of countries or years.

Economic integration is measured as the percentage of a country’s total exports that go to EU countries, or the intraregional trade share. The intraregional trade share is the conventional measure of economic integration in the economics and political science literatures, and it captures the pattern rather than the level of trade (Caporaso 1976; Frankel 1997; Nye 1968; Sapir 1992). Because the EU expanded from 6 members in 1957 to 15 members by 1995, two versions of this intraregional trade share measure can be calculated. In the one version, the EU is defined as the 6 original members of the EU (then the EEC), and in the other version, the EU is defined as the 15 members of the EU as of 1995. By these measures, economic integration increases if countries within the region trade with each other more, whereas economic integration decreases if countries within the region trade with each other less, as a proportion of their total trade. Again, this measure captures the pattern rather than the level of trade.<sup>7</sup> The EU-15 measure more faithfully reflects European integration because an aspect

<sup>7</sup> To address the possibility that a low level of overall trade relative to GDP may confound the relationship between this measure and income inequality, I added exports as a percentage of GDP to the REMs and FEMs (specifically, Model 3 of Tables 1 and 2). Including export share did not change the results. I also reestimated these models with total economic openness (the sum of exports and imports as a percentage of GDP) as a control, and the results again were substantively identical.

of European integration is the expansion of the EU, but I also use the EEC-6 measure as a robustness check, and I find that the results are consistent. Data come from the International Monetary Fund's (IMF) *Direction of Trade CD-ROM* (IMF various years) and were kindly provided in dyadic format by Andrew Rose.<sup>8</sup>

The analysis includes controls for year, real GDP per capita, social security transfers, and outflow of foreign direct investment per worker. Year is included in the models to control for the linear increase in income inequality in these countries, and to guard against spurious associations among variables with common trends. Year is coded as follows: 1 (1950), 2 (1951), . . . , 48 (1997). Real GDP per capita is included to control for the strong relationship between development and inequality demonstrated in previous work (Nielsen and Alderson 1995). The GDP data come from the Penn World Table (Heston, Summers, and Aten 2002), and real GDP per capita is coded in thousands of 1996 dollars. The measure of social security transfers as a percentage of GDP is incorporated into the models because welfare state effort has been shown to reduce inequality and poverty. Data come from the OECD's *Historical Statistics* (2001; various years [a]) and *Statistical Compendium* (2003). Finally, outflow of foreign direct investment (FDI) per worker (capital flight) is included to control for the role of globalization in the increase in income inequality observed in OECD countries. The FDI data come from the IMF's (various years) *International Financial Statistics*, and the labor force data come from the OECD (1995, 1998, various years [b]). Consistent with previous work, this variable is logged. Because of the clear directionality of the hypotheses tested in this analysis (positive for political integration, the linear economic integration term, year, GDP, and capital flight; negative for the economic integration quadratic term and social security transfers), I perform one-tailed hypothesis tests.

<sup>8</sup> Figures for Germany refer to West Germany through 1990. Export data are reported for the Belgium–Luxembourg Economic Union (BLEU) rather than separately for Belgium and Luxembourg. Thus, the data on economic integration for Belgium refer to the BLEU, and I do not use data on the other variables for Luxembourg.

The data form an unbalanced panel, with countries contributing different numbers of observations depending on data availability (Appendix A). The data thus incorporate both between- and within-country variation. I pool these sources of variation together because the argument for an effect of regional integration on income inequality rests on both cross-national institutional differences and historical institutional change, because income inequality varies more between countries than within countries, and because combining the observations allows for conservative statistical tests that incorporate key controls. Ordinary least squares (OLS) estimation often is inappropriate for use with such data because the errors are likely to be correlated within panels, and the unmeasured heterogeneity that causes this correlation may bias parameter estimates (Greene 2000). Two common solutions to this problem are the generalized least squares (GLS) random-effects model (REM) and the OLS fixed-effects model (FEM).

The REM adjusts for within-panel error correlation by including a normally distributed panel-specific error term. Therefore, the REM often is considered a better choice if the data reflect a random sample. The REM also preserves both between- and within-country variation, both of which are important to the analysis. This is in contrast to the FEM, which differences away all between-country variation in subtracting each observation from the within-country mean. The FEM often is considered a better choice where the analyst has data on the entire population of interest. It also should be noted that the REM estimator does not require a large number of observations per country for consistency, whereas the FEM does. Because the number of years in the data is small relative to the number of countries, and because much of the meaningful variation in income inequality is between-country rather than within-country, for this study the REM is more appropriate than the FEM. However, as a robustness check, I also estimate the FEM. The FEM provides a stringent test of the hypothesis that regional integration affects income inequality, given that the associations between the regional integration covariates and income inequality are estimated net of all unmeasured between-country effects. The FEM is equivalent to a model with indicator variables for each country. It simulates statistical “control” for other between-country



differences as well, including stable differences in natural resource endowments, population size, and other factors. It also guards against the possibility that enduring cross-national differences (in orientation toward liberal economic policy, for instance) lead to integration *and* income inequality, causing a spurious association.

The small size of the sample raises methodological challenges. One problem is that there are insufficient degrees of freedom to estimate coefficients for all the controls that could conceivably be drawn from the literature. The central objective of this study is to assess the relationship between regional integration and national income inequality. However, because it is necessary to include a few key controls, I use the following strategy to deal with the small sample problem. The baseline model has only four covariates (political integration, the linear and squared terms for economic integration, and year). Each of the other three controls is added sequentially, and a model then is estimated with a full complement of controls (because the intermediate models do not differ substantively from the full models, I do not show results for the intermediate models here).

Outliers can be especially problematic in small-sample studies. Examination of residual-versus-predicted value plots suggests that outliers are not a problem in this analysis because no residual is more than 2.6 standard deviations from the regression line.

Results based on small samples can also be especially sensitive to the specific composition of the sample. Estimating FEMs helps to guard against this potential problem by, in essence, including an indicator variable for each country in the sample (and in this way "controlling" for country).

## RESULTS

Figure 1 plots income inequality (measured as the Gini coefficient) against year, and verifies the recent increase in income inequality within the Western European countries in this sample. The observations are marked with country-year codes. For instance, FRA94 refers to France 1994. The line shown in the graph is the regression line from the bivariate REM. The upward trend is distinct and statistically significant at the .05 level. Net of the unmeasured het-

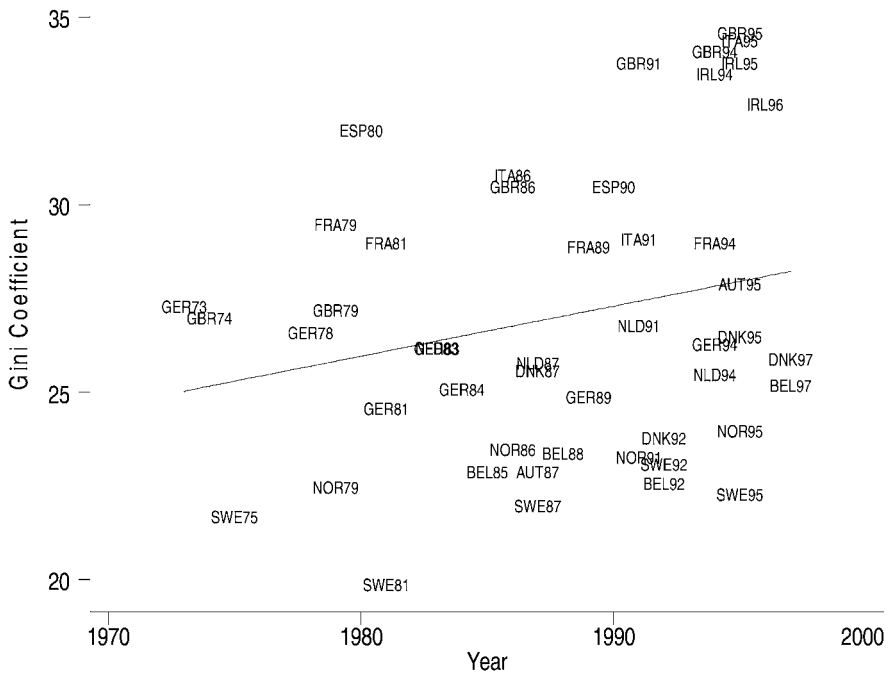
erogeneity captured by the country-specific error term in the REM, each decade brought a 1.33-unit increase in the Gini coefficient, which corresponds to an increase of about .23 standard deviations.

Figure 2 shows the relationship between income inequality and political integration. Consistent with the argument that regional political integration increases income inequality, there is a positive bivariate relationship between the Gini coefficient and the number of Article-177 cases forwarded to the European Court of Justice. The line in the graph is the fitted line from a bivariate random-effects regression of inequality on political integration. Although the slope is positive and statistically significant at the .05 level, there is a good deal of dispersion around the regression line.<sup>9</sup> For instance, among the countries with no Article-177 cases, the Gini coefficient ( $\times 100$ ) varies from about 20 to about 34. However, the size of the effect is substantial. The standardized coefficient shows that a standard deviation increase in political integration is associated with a .34 standard deviation increase in income inequality. This suggests that political integration may be related to income inequality in these Western European countries.

Figure 3 suggests that economic integration also is related to income inequality. The line in the graph is the regression line of a REM that includes only a second-order polynomial specification of the measure of economic integration.<sup>10</sup> The graph suggests a curvilinear relationship between economic integration and income inequality: as intraregional exports approach 60% of total exports, income inequality increases, but as intraregional exports surpass about 65%, it decreases. Belgium, the Netherlands, and Norway have surpassed this level of economic integration. Although both terms reach statistical significance (at even the .001 level), it is unclear whether this relation-

<sup>9</sup> Readers might worry that the observation for Italy 1995 is an influential observation that biases the slope upward. Excluding this observation does decrease the slope somewhat (from .083 to .061), but this difference is small (less than the standard error).

<sup>10</sup> Supplemental analysis shows that a quadratic specification fits the data better than a linear specification.



**Figure 1.** The Trend in Income Inequality in Western Europe

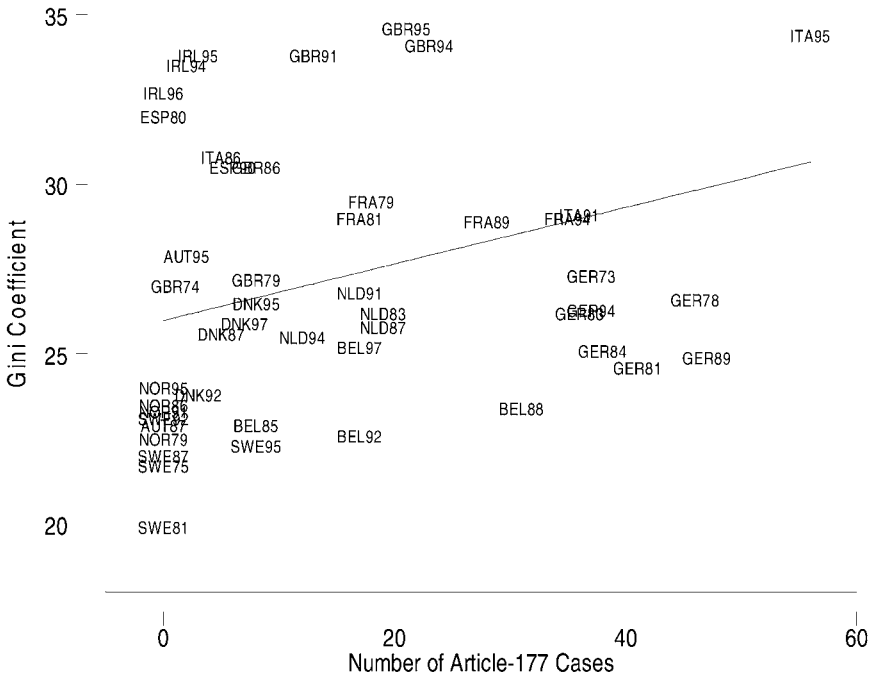
*Note:*  $n = 48$ . Income inequality is measured as the Gini coefficient; data from the Luxembourg Income Study. Line represents predicted values from random-effects regression of income inequality on a linear year term ( $b = .133$ ;  $SE = .039$ ). Data points marked with country-year codes: AUT = Austria, BEL = Belgium, DNK = Denmark, FRA = France, GER = Germany, IRL = Ireland, ITA = Italy, NLD = Netherlands, NOR = Norway, ESP = Spain, SWE = Sweden, GBR = United Kingdom.

ship exists net of the temporal trend in income inequality.

Table 1 shows results from REMs of national income inequality that control for the year of observation and the other covariates discussed previously. Model 1 includes only the year covariate to obtain a baseline estimate of the trend in income inequality. Does European integration explain this trend? Consistent with the argument that regional integration increases income inequality, there is a positive, statistically significant relationship between the Gini coefficient and the number of Article-177 cases forwarded to the European Court of Justice. To gauge the substantive significance of this effect, I used the estimated regression equation to simulate the expected change in income inequality for an increase from the minimum level of integration to the maximum level of integration (in this sample, the minimum number of Article-177 cases is 0, and the maximum is 56). Such an increase in political integration is expected to raise the Gini coefficient from 27.55 to 30.64,

or about .8 of a standard deviation. This is a substantial change. For instance, the difference between the average Gini coefficients of Germany and Norway also is about .8 of a standard deviation. Political integration explains a fairly large proportion of the trend: the coefficient estimate for the year term decreases in magnitude from .133 to .105 after political integration is incorporated into the model. I note that the size of the political integration coefficient actually *increases* slightly in the full model with controls.

Model 3 includes the measure of regional economic integration, the percentage of total exports from a national economy sent to the EU (specifically, the EU-15). This model also includes the square of this measure to assess the hypothesis that the effect of economic integration decreases in the most regionally integrated economies. The results are consistent with the argument that regional economic integration raises income inequality, and that this effect is attenuated at high levels of economic integra-



**Figure 2.** Income Inequality and European Political Integration

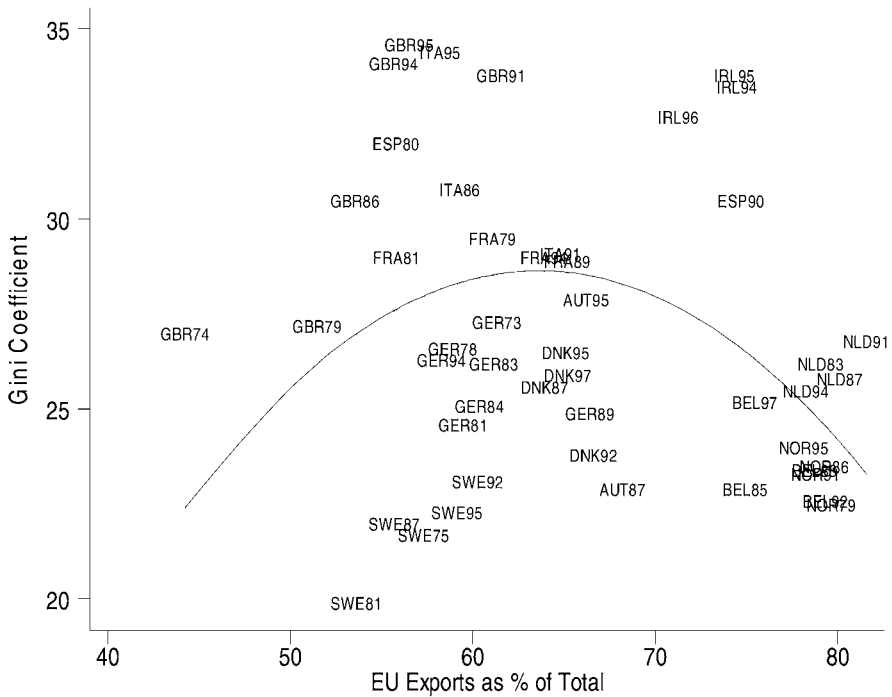
*Note:*  $n = 48$ . Income inequality is measured as the Gini coefficient; data from the Luxembourg Income Study. Line represents predicted values from random-effects regression of income inequality on the measure of political integration ( $b = .083$ ;  $SE = .031$ ). Data points marked with country-year codes: AUT = Austria, BEL = Belgium, DNK = Denmark, FRA = France, GER = Germany, IRL = Ireland, ITA = Italy, NLD = Netherlands, NOR = Norway, ESP = Spain, SWE = Sweden, GBR = United Kingdom.

tion. The inflection point, at which the effect equals zero, is about 60%, indicating that regional economic integration raises income inequality where exports to the EU constitute less than a distinct majority of total exports. For instance, an increase in economic integration from the minimum level found in these data (44%) to the inflection point is associated with an expected increase in the Gini from 24.89 to 28.69, or about one standard deviation. This is similar to the increase in income inequality in the United Kingdom over this period. Increasing economic integration from 53% to 60% (approximately Sweden's change) yields an expected increase in the Gini from 27.83 to 28.69, or about .22 standard deviations.

Including both political and economic integration in the model of income inequality reduces the coefficient for the trend from .133 to .071. This suggests that regional integration explains nearly half of the increase in income inequality that these 12 Western European countries have experienced over the period

1973–1997 examined in this analysis. Consistent with the argument that political integration raises income inequality by constraining the welfare state, the association between the Article-177 cases measure of political integration and the Gini coefficient is positive and statistically significant. Consistent with the argument that economic integration raises income inequality by exposing labor to international markets, the export share measure of economic integration is positively and significantly associated with the Gini coefficient, and this association does, as expected, decrease at high levels of integration. But do these estimates of the effects of regional integration hold up to controls?

Model 4 shows results from REMs that control for year, economic development (real GDP per capita), the welfare state (spending on social security transfers as a percentage of GDP), and globalization (capital flight, or outflow of foreign direct investment per worker). The coefficient for economic development is negative,



**Figure 3.** Income Inequality and European Economic Integration

*Note:*  $n = 48$ . Income inequality is measured as the Gini coefficient; data from the Luxembourg Income Study. Line represents predicted values from random-effects regression of income inequality on exports to the EU as a percentage of total exports ( $b = 2.106$ ;  $SE = .519$ ) and its square ( $b = -.017$ ;  $SE = .004$ ). Data points marked with country-year codes: AUT = Austria, BEL = Belgium, DNK = Denmark, FRA = France, GER = Germany, IRL = Ireland, ITA = Italy, NLD = Netherlands, NOR = Norway, ESP = Spain, SWE = Sweden, GBR = United Kingdom.

**Table 1.** Random-effects Regressions of Income Inequality on Regional Integration and Other Covariates, 12 Western European Countries, 1973–1997

Variable	Model 1	Model 2	Model 3	Model 4
Political Integration	—	.052*	.055*	.058*
		(.031)	(.029)	(.030)
Economic Integration	—	—	1.639*	1.248*
			(.514)	(.577)
Economic Integration <sup>2</sup>	—	—	-.013*	-.010*
			(.004)	(.005)
Year	.133*	.105*	.071*	.346*
	(.039)	(.041)	(.042)	(.117)
GDP Per Capita	—	—	—	-.573
				(.319)
Social Security Transfers	—	—	—	-.206
				(.141)
FDI Outflow	—	—	—	-.253
				(.402)
Constant	21.847*	22.251*	-24.917	-8.387
	(1.910)	(1.903)	(15.541)	(17.679)
R <sup>2</sup>	.238	.289	.474	.424

*Note:*  $n = 48$ . Unstandardized coefficients; standard errors in parentheses. GDP = gross domestic product; FDI = foreign direct investment.

\*  $p \leq .05$  (one-tailed tests).

suggesting that increasing national wealth decreases income inequality. This negative coefficient is surprising in light of the U-turn literature, but it must be remembered that the model also controls for year, and that year and GDP per capita are highly correlated ( $r = .77$ ). Because these covariates are in the model as controls, and it is not the objective of this analysis to disentangle their effects, this collinearity is not especially troublesome (I note that dropping year from the model reverses the sign of the GDP coefficient). The results also show that regional integration affects income inequality net of the welfare state, although it is surprising that the effect of welfare spending is not itself significant.<sup>11</sup> The results for FDI outflow suggest that regional integration affects income inequality net of globalization. It is noteworthy that FDI outflow itself does not significantly affect income inequality, suggesting that globalization may not matter for income inequality, net of regionalization. To assess whether this null result is driven by measurement error, I replaced FDI outflow with another common measure of globalization, economic openness (imports plus exports as a percentage of GDP, with data from the *Penn World Table* [Heston et al. 2002]), and the results were substantively identical to those shown.

Table 2 shows results from FEMs that control for all unmeasured country effects. Again there are four models: a baseline model that estimates the trend, a model that adds political integration, a model that adds economic integration, and a model that includes the controls. The results are consistent with those shown in Table 1, except that the effect of political integration does not reach significance in the second model. In Model 3, which includes both

<sup>11</sup> This nonsignificant result for the welfare state effect may be attributable to measurement error. Replacing the classic social security transfers measure with total public social expenditure (the OECD's "SOCX" measure) produces significant results for welfare spending, as does replacing the transfers measure with Lyle Scruggs' decommodification index (Scruggs and Allan 2004). In models that add the welfare state measures to the Model 3 specification shown in Table 1, the effects of these alternative welfare state measures are significant and negative, and the results for the regional integration covariates are substantively identical to those shown.

political and economic integration, the political integration coefficient is statistically significant and approximately the same size as in the REM (.063 vs .055). The economic integration coefficients also are slightly larger in the FEM (1.836 vs 1.639 for the linear term and  $-.015$  vs  $-.013$  for the squared term). It is especially interesting that the coefficient for the year trend fails to reach significance in Model 3, suggesting that regional integration explains the rise in income inequality within these Western European nations. In Model 4, the effects of regional integration remain substantively identical to those shown in Table 1. In contrast, none of the controls reaches significance, but in this context it should be reiterated that this FEM can be interpreted as a model that includes an indicator variable for each of the 12 countries that contribute observations. As such, the FEM represents a conservative test.

I have suggested that the positive effect of economic integration on income inequality may be attenuated at high levels of integration because the most deeply integrated economies have developed institutions that insulate labor from the pressures of international competition. However, the analysis so far has demonstrated only that the effect of economic integration does in fact decrease at high levels, not why it does so. Empirical assessment of the argument that the impact of economic integration varies according to the strength of the welfare state and the level of corporatism is straightforward, and can be accomplished by introducing interaction terms. If my argument is correct, we would expect negative interactions between economic integration and both welfare effort and corporatism.

Table 3 shows results from models that introduce these interaction terms. Model 1 includes an integration-by-corporatism interaction, in which the measure of corporatism is Kenworthy's 11-item scale made available in the *Comparative Welfare States Data Set* (Huber et al. 2004; Kenworthy 2003). Because of missing data on this key measure, this model uses only 36 observations. The results are consistent with the argument that the effect of economic integration is attenuated in corporatist countries: where corporatist bargaining insulates labor against some of the pressure of international competition, the effect of economic integration is reduced. In other words, exposing

**Table 2.** Fixed-effects Regressions of Income Inequality on Regional Integration and Other Covariates, 12 Western European Countries, 1973–1997

Variable	Model 1	Model 2	Model 3	Model 4
Political Integration		.054 (.035)	.063* (.031)	.068* (.033)
Economic Integration			1.836* (.558)	1.602* (.624)
Economic Integration <sup>2</sup>			-.015* (.005)	-.013* (.005)
Year	.132* (.040)	.102* (.043)	.063 (.043)	.018 (.181)
GDP Per Capita				.303 (.481)
Social Security Transfers				.026 (.203)
FDI Outflow				-.453 (.412)
Constant	21.638* (1.569)	21.969* (1.552)	-30.582* (16.569)	-25.666 (18.612)
R <sup>2</sup>	.238	.289	.477	.499

Notes: n = 48. Unstandardized coefficients; standard errors in parentheses. GDP = gross domestic product; FDI = foreign direct investment.

\*  $p \leq .05$  (one-tailed tests).

labor to a regional market fails to have the expected effect of raising income inequality where corporatism protects labor. Model 2 includes a regional integration-by-social security transfers interaction. These results are inconsistent with those from Model 1: the economic

**Table 3.** Random-effects Regressions of Income Inequality on Regional Integration and Other Covariates, 12 Western European Countries, 1973–1997

Variable	Model 1	Model 2	Model 3
Economic Integration	.220* (.100)	.212 (.187)	.516* (.260)
Neo-corporatism	10.640 (9.873)		
Neo-corporatism × Economic Integration	-.338* (.153)		
Social Security Transfers		1.073 (.803)	
Social Security Transfers × Economic Integration		-.017 (.011)	
Decommodification			.777 (.567)
Decommodification × Economic Integration			-.018* (.009)
Year	.004 (.049)	.129* (.061)	.161* (.046)
Constant	18.365* (5.910)	9.167 (11.768)	-.757 (15.819)
R <sup>2</sup>	.324	.316	.284
Observations (n)	36	48	46

Notes: Unstandardized coefficients; standard errors in parentheses.

\*  $p \leq .05$  (one-tailed tests).

integration effect is not significant, and neither is the interaction term (nor are the coefficients jointly significant by an *F* test). Model 3 tests this hypothesis using an alternative, programmatic measure rather than a spending-based measure of the welfare state, Lyle Scruggs' decommodification index (Scruggs and Allan 2004; 46 observations are available). The results show that economic integration raises income inequality, but this effect is significantly weaker in highly decommodifying welfare states.

Results from FEMs (not shown) that include these interaction terms are generally consistent with those shown in Table 3, except for Model 2. In the random-effects estimation of Model 2, the main effect of economic integration and its interaction with social security transfers are nonsignificant, but in the fixed-effects estimation, these effects are statistically significant. In all three models, the association between economic integration and the Gini coefficient is positive and statistically significant, and the interaction term for economic integration and the welfare state is significant and negative. This suggests that the effect of economic integration on income inequality is buffered by strong welfare states and corporatist political economies.

### ADDITIONAL CONTROLS

I also estimated models controlling for other factors that may explain the increase in income inequality: unemployment, female labor force participation, union density, and deindustrialization (Alderson and Nielsen 2002). Unemployment can be expected to raise income inequality by shifting wage earners toward the bottom of the income distribution. Rising unemployment in Western Europe (Korpi 2003) is a prominent alternative explanation for rising income inequality, but REMs and FEMs suggest that regional integration affects income inequality, net of a control for the standardized unemployment rate (data come from the OECD's *Quarterly Labor Force Statistics* [1999] and *Main Economic Indicators* [2002]). Interestingly, while the regional integration coefficients remain statistically significant in these models, they also stay similar in size, except in the REM, in which the economic integration coefficients shrink. This suggests that the effect of economic integration may be partly explained

by cross-national differences in unemployment, which is consistent with the "employment competition" argument outlined earlier. In contrast, the stability of the political integration coefficient implies that political integration has an impact on income inequality through a different mechanism.

The increasing participation of women in the paid labor force also may affect income inequality. As women enter the paid labor force, income inequality may increase given women's lower average earnings (Thurow 1987), or it may decrease given that women's increased wage earning may result in more middle-income households (Cancian, Danzinger, and Gottschalk 1993). Using data on women as a percentage of the total paid labor force (United Nations 2002), I added this control to the Model 3 specification from Tables 1 and 2, and the results for regional integration in these models are substantively identical to those shown. Interestingly, whereas the female paid labor force participation covariate is not significant in the FEM, suggesting that women's presence in the paid labor force does not explain rising income inequality *within* societies, its negative and highly significant coefficient in the REM suggests important cross-national differences *between* societies.

The decline of unions in advanced capitalist countries (Western 1997) is another prominent explanation for the rise in income inequality, and, as I argue earlier, it is one factor that may connect regional integration to rising income inequality. Alternatively, variation in the strength of labor unions may create a spurious association between regional integration and income inequality if union weakness promotes both income inequality (as the existing literature suggests) and the entry of states into the EU. To evaluate these alternatives, I added a measure of union density to the Model 3 specification from Tables 1 and 2 (data on total reported union members as a percentage of the labor force come from Ebbinghaus and Visser [2000], OECD [1995, 1998], and Visser [1996]). Consistent with previous work, union density has a strong negative effect on income inequality, and this is true for both the REM and the FEM. More interesting is the change in the regional integration coefficients: the political integration effect *increases* slightly, suggesting that political integration works through other

mechanisms, whereas the economic integration coefficients decrease substantially, but remain statistically significant. Specifically, in the FEM, the economic integration effects decrease from 1.836 to 1.104 in the linear term, and from  $-.015$  to  $-.010$  in the quadratic term. This pattern of results lends some support to the argument that economic integration increases income inequality (at least in part) by weakening unions through the expansion of market competition.

Finally, I also estimated additional REMs and FEMs that include the proportion of the labor force employed in the industrial sector as a control. Again using the Model 3 specification (Tables 1 and 2), the results for both the political and economic integration coefficients are substantively identical, in both REMs and FEMs.

## DISCUSSION

Although the process of European integration can be identified as one potential explanation for rising income inequality in Western European nations, empirical evidence on this important question is scarce. This analysis is the first to assess the impact of regional political and economic integration on national income inequality in Western Europe. I use data on income inequality for 12 countries over the period 1973–1997, novel measures of political and economic integration, and panel methods that account for unmeasured heterogeneity between countries to test hypotheses drawn from extensions of sociological approaches to income inequality. The results show that regional integration affects income inequality: economic integration has a positive effect that is attenuated at high levels of integration, whereas political integration has a linear, positive effect. Regional integration explains nearly half of the rise in income inequality within these Western European countries over the period 1973–1997 examined in this analysis.

The central implication of this study is that regional integration is a significant part of the political and economic context that should be taken into account in studies investigating income inequality. National and global processes have been highlighted in work on economic inequality, and the results of this study show that regional processes also matter. Moreover, they

matter *net* of national economic development, the national welfare state, globalization, and other factors. Whereas globalization accounts for some of the recent increase in income inequality in advanced capitalist countries (Alderson and Nielsen 2002), regional integration also accounts for some of this increase. Taking this a step further, the nonsignificant effects of direct investment outflow, a common measure of globalization, imply that regional integration is more powerful than globalization in explaining recent trends in income inequality in Western European countries. This finding makes the relationship between globalization and regional integration of paramount importance. The presence of a significant association between regional integration and income inequality *net* of globalization provocatively implies that regionalization does not mediate globalization, but several more complex scenarios are still possible. For instance, does regional integration counteract globalization? Or reinforce globalization? Or lead globalization?

The results also hold important implications for world polity theory (Boli and Thomas 1999; Meyer et al. 1997). In general, world polity theory highlights the institutional mechanisms for the policy effects of political integration. Thus, an implication that can be drawn from this study is that the *regional* polity should be better incorporated into the theory. The findings of this study are consistent with the claim that the “policy scripts” diffused by the EU include (classical) liberal scripts that foster welfare state retrenchment (Beckfield 2005). This is in contrast to world polity research that shows largely progressive effects of embeddedness in the world polity on a range of civil rights policies. It could be that regional scripts and world scripts are contradictory, and if this is the case, then under what circumstances do regional scripts prevail over world scripts? If regional and world scripts are instead reinforcing, and if becoming integrated into the European regional polity increases income inequality, at least in part, by contracting the welfare state, then this lends some support to the argument that the world polity diffuses a package of scripts consisting of liberal economic policies and progressive civil rights policies (Beckfield 2003). This line of reasoning also suggests that world polity research should attend to the impact of global



political institutionalization on global economic inequality.

The issue of global economic inequality has received increased attention (Firebaugh 2000; Goesling 2001; Herkenrath et al. 2005), and the finding that European integration increases income inequality is an important one in light of this work. Some argue that since between-country inequality has stabilized or decreased in recent decades after a long-term divergence (Firebaugh 2000; Goesling 2001), total world income inequality is increasingly driven by within-country inequality as the ratio of within-country inequality to between-country inequality has increased since 1980 (Goesling 2001:753). As within-country income inequality in Western Europe has increased, and is at least partly explained by regional integration, regional integration may be a force for increased world income inequality. Of course, this depends on income inequality trends within other countries, although there is compelling evidence that income inequality in many countries has risen in recent years.

Another important issue in this context is not only the relationship between European integration and inequality, but also regional integration more generally and inequality. The question of what impact regional integration in other parts of the world has on inequality is one that future research should address. For instance, the case of North American integration through the North American Free Trade Agreement would provide a fruitful comparison, given that political integration is not as well developed in North America as it is in the EU. More broadly, attention to how the effect of regional integration on income inequality may vary across regions would be informed by the emerging "varieties of regional integration" literature (Duina 2005, 2006).

Finally, the finding that regional integration, but not globalization, is associated with the rise in income inequality in Western Europe may help to account for the weak effects of globalization on the welfare state that have been observed in previous work (Brady, Beckfield, and Seeleib-Kaiser 2005). It may be regional integration, not globalization, that structures the welfare state in the advanced capitalist countries of Western Europe. The results of this study suggest a central role for the welfare state in mediating the effects of regional integration

on income inequality, because welfare effort dampens the effects of both political integration and economic integration. There also is evidence that regional political integration may increase inequality through its negative effects on the welfare state, but it seems that these negative effects may be transmitted through some welfare state domain other than social security transfers. The crucial question, then, is what precisely is the impact of regional integration on the welfare state? The results shown in this analysis are consistent with the argument that stronger welfare states are more resistant to the pressure of regional integration (also see Beckfield [2005]).

Although this study has a number of implications and suggests a variety of directions for future work, it also is important to note the limitations of the analysis. Perhaps the key limitation is the one that plagues many studies of national income inequality: the small sample problem. The best data on national income inequality in Western Europe come from the Luxembourg Income Study, and this dataset provides only 48 country-years for which information on the key independent variables also is available. The consequence of the small sample problem for this study is that there simply are not enough observations to incorporate all the controls suggested by the literature. The REMs and FEMs used in this analysis help by statistically accounting for all those unmeasured time-invariant factors that might be included in synthetic models of income inequality, but these models do not solve the problem.

Another limitation of this study concerns the measurement of political integration. The concept of national polities joining together to form a regional polity with common, region-wide policies is difficult to operationalize in a way that captures cross-national and longitudinal variation in the process. The measure used here, a count of the number of cases forwarded from the national court to the European Court of Justice under Article-177 of the Rome Treaty (itself a modification of the measure used by Fligstein and Stone Sweet [2002]), is appealing because it has face validity (in that more cases forwarded suggests that the national polity is ceding more judicial authority to the regional polity), and because it is relatively sensitive (in that it allows both international and longitudinal variation). The obvious alternatives seem

worse. One alternative is an indicator variable for membership in the EU, whereas another is a count of the number of years a country has been a member of the EU. These alternatives would introduce serious measurement error. Although future work should pursue improved measurement of regional political integration, I note that the classical econometric errors-in-variables approach shows that the OLS estimator suffers from attenuation bias and inflated standard errors in the presence of measurement error (Wooldridge 2003:306). This implies that the statistically significant political integration coefficients in the models shown earlier, if affected by this kind of measurement error, are likely to be conservative estimates.

A final limitation of this study is that, by design, it addresses only the political and economic dimensions of regional integration. Although I argue that the political and economic dimensions are essential in the context of European integration, future work should consider the role of cultural and social integration. That is, if it can be argued that European nations are becoming more oriented toward "Europe" culturally (possibly through increasing consumption of EU cultural goods or increasing production of EU-wide understandings and meaning structures), then what are the consequences of this process for economic inequality?

Moreover, if social interaction and migration patterns are becoming more regional as they are structured by the EU, this social integration also may have consequences for inequality. These questions fall outside the scope of this study, but a full understanding of the consequences of European integration is impossible without appreciation of all its dimensions.

Acknowledging these limitations, this article shows that the recent rise in income inequality within Western European societies is partly explained by regional integration. As Western European states have grown more deeply integrated into the regional polity of the EU, and as national markets have opened to more intense regional competition, income inequality has risen. This relationship between regional integration and income inequality appears net of statistical controls for other factors offered as explanations for the "Great U-Turn" on inequality (Harrison and Bluestone 1988), including economic development, welfare retrenchment, union decline, unemployment, corporatism, and two measures of globalization. Both the political and economic dimensions of regional integration are associated with income inequality, supporting the argument that both the expansion of economic competition and the deepening of political institutionalization matter for inequality.

## APPENDIX

**Table A1.** Countries and Years Included in the Analysis

Country	Observations (n)	Years
Austria	2	1987, 1995
Belgium	4	1985, 1988, 1992, 1997
Denmark	4	1987, 1992, 1995, 1997
France	4	1979, 1981, 1989, 1994
Germany	7	1973, 1978, 1981, 1983, 1984, 1989, 1994
Ireland	3	1994, 1995, 1996
Italy	3	1986, 1991, 1995
Netherlands	4	1983, 1987, 1991, 1994
Norway	4	1979, 1986, 1991, 1995
Spain	2	1980, 1990
Sweden	5	1975, 1981, 1987, 1992, 1995
United Kingdom	6	1974, 1979, 1986, 1991, 1994, 1995

Note: n = 48.

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