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# Inequality and populism in the European Union

Data and their interpretation for the  
FES-Policy Solutions International Think Tank meeting



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## **I. Introduction to Inequality and Populism in the Europe Union**

**Inequality has been one of the defining challenges of the 20th century, when the rise of social (and Christian) democracy and the labour movement contributed substantially to the creation of welfare regimes** that reined in the excesses of the capitalistic structures that had shaped the 19th century with its extreme inequalities. Increasingly, the welfare policies of the second half of the 20th century managed to create levels of equality that were unprecedented in modern European history (and, in combination with the accompanying levels of individual wealth, unprecedented in human history).

Though the modern **European welfare state is widely regarded as one of our principal civilizational achievements, it is undergoing significant cutbacks** after its peak period in the last decades of the 20th century. The values of egalitarianism that shaped the political thinking of this period are on the wane – at least in terms of actual public policies and social realities. There are also indications, however, that the changes on the ground do not necessarily reflect a changing public perception of the need to maintain high levels of social equality. **The realities of growing inequality are not in sync with public expectations**, which suggests that there is a gap between the ability of the democratic political structure to deliver and the public's ideas about what democratic politics should actually accomplish in terms of welfare and the distribution of wealth. And, on the whole, the gap is by no means the result of completely unrealistic expectations of the public (though in some respects it may be).

**The aim of the Friedrich-Ebret-Stiftung and Policy Solutions joint think-tank meeting in June 2015 was to dig deeper on these issues and to survey what progressive parties and organisations can do to achieve a greater congruence between public expectations and public policies.** Paradoxically, though social democratic parties have fought long and hard against those forces and pressures that lead to rising inequality, **for the most part they have not been able to make the political case that would have made voters endorse their corresponding agendas** and endow them with the necessary legislative majorities.

But if there is a growing discontent with the prevailing socio-economic realities, who if anyone benefitted from this? This issue in particular will be the focus of the present paper. **Starting from the hypothesis – which may or may not apply in reality – that populist and/or extremist parties have, on the whole, been better able to capitalise on the developments described above, we seek to find out**

**what the linkage is between growing inequality and the rise of populists and/or extremists.** By so doing, we hope that the present study can provide a useful starting point for the conference discussions about inequality, and especially the ways of combating the phenomenon through both, effective public policies and political communication.

At the same time, looking at inequalities alone will not suffice in capturing why populist and/or extremist parties have made electoral advances (assuming, of course, that there is a clear-cut relationship). **In addition to the relative position of citizens in economy and society, we must also be mindful of their absolute position, what happens to wealth in society overall and how citizens find their financial circumstances changing.** If everyone were to become poor all of a sudden, then this newly found equality would hardly serve to placate popular frustration with the growing inequality in society. The public aspiration is to spread wealth more justly, not to bring everyone down to the same level. If in a situation of great turmoil – and the crisis of 2008/2009 is certainly among the most prominent examples of turmoil in the history of the last decades – economic output plummets substantially, then citizens may be additionally upset by the fact that the wealthy retain their money and privileges, but **the core problem will nevertheless be economic decline itself.** And this does not at all negate the assumption that there may very well be a connection between the causes of a recession and the factors that cause the unequal distribution of wealth. While such a connection may very likely obtain, however, it is far from clear that wide segments will necessarily believe that this is indeed the case.

To account for the impact of economic troubles in general, we have augmented the fundamental target of our analysis, namely inequality, with a review of economic figures. Our study will therefore proceed as follows.

In Chapter 2, **we perform a detailed analysis of the electoral success of populist and/or extremist parties in the European political arena.** In particular, for reasons of better comparability we will focus on EP elections, where both different timings of elections and differences in electoral systems do not skew results. This comes at a price in the frequency of data points used, and may also cost in terms of potentially failing to capture some nuances in the intervening periods, but we believe these problems are offset by the benefits of such an approach. At the same we admit that defining populism and extremism is by no means a simple challenge or even one that we could hope to accomplish in the framework of the present study. Due to the absence of a professional/academic consensus especially when it comes to populism, any classification of parties along such lines will necessarily elicit protests and attempts to refute the underlying assessments, some of which may well be justified. Yet while individual parties may be subject to debate, in the case of most that we have included in the analysis below there is a fairly widespread consensus that they

are accurately labelled as populists and/or extremists. Moreover, reclassifying one or even a few parties that we grouped in this categories would not undermine our observations overall.

**In Chapter 3** we turn towards inequality. We had to limit ourselves once again for practical reasons: **We used the Gini coefficient as a proxy for inequality.** While this is somewhat reductionist, the fact is that there are few indicators that capture inequality across Europe in similar ways. Rough and insufficient as the Gini may be, it is still one of the better indicators available for the purposes of international comparison.

**Chapter 4** proceeds to **look at the economic figures in the period we investigated.** In particular, we were curious about how deep recessions went in the EU member states, and how long periods with negative growth lasted. **We assumed for the purposes of this study that both factors will likely increase popular frustrations.**

What our study does not include is a discussion of **why populist and/or extremist parties have been better able to exploit the widespread dissatisfaction with the prevailing economic circumstances** or why, for that matter, the parties of the mainstream left have by and large failed to reap the benefits of their longstanding scepticism of unfettered market operations. But this is not at all to say that this issue is not relevant; on the contrary, **it is one of the most relevant debates and one that must be among the core issues at an inequality conference. We hope that the present study will serve as a useful starting point for this debate.**

## II. The performance of populist and extremist parties in Europe – A comparative overview

A major aspect of this study is naturally the identification of **populist and/or extremist parties**, for we sought to assess the assumption that **these parties can benefit from economic turmoil**, as history has shown to painful effect. Several caveats are in order, however, for this is an extraordinarily complex issue that we will be able to address only with limited tools, some of which may be subject to debate.

The most important issue is of course that both terms are ill-defined, and populism is especially hazy. Moreover, while extremism theoretically implies a solid ideology, populism is primarily assumed to be flexible and attuned to popular concerns. In practice, these distinctions are often difficult to make. Any classification is further subject to debate because both populism and extremism are relative concepts that depend very much on the specificities of national politics. The famous adage about one man's terrorist being another man's freedom fighter applies of course to extremists and populists as well.

For example, the anti-euro party AfD in Germany, considered a populist movement in the domestic context, would easily qualify as a moderate conservative party in Hungary. Similarly, Geert Wilder's anti-immigration party in the Netherlands would in most respects also qualify as fairly liberal in Central and Eastern European (CEE) context, for example because of its commitment to gay equality. But the relative nature of the term is not necessarily a problem for our analysis; what matters, after all, is that **these parties compete in ways that can be regarded as populist in their own domestic contexts**. It is only natural that parties competing in such vastly differing environments are also very different, but in relative terms they can be just as remote from their respective political centres. Incidentally, these differences are also a key reason why populists in the European Parliament, especially on the right, have found it so hard to band together to form a parliamentary group.

To measure how the vote share of populist parties has evolved in the period under investigation, **we have looked at the EP election results in 2009 and 2014**. The reason for choosing EP elections rather than national ballots is that there is no difficulty in comparing electoral systems. Though thresholds differ, proportional representation must be used, which provides substantial uniformity and lends itself for better comparison than national parliamentary elections. We sought to strike a balance between the objective of capturing popular preferences in as much detail as possible and avoiding a database that is full with irrelevant splinter parties. As a result, we have made it a condition that to appear in our database, **a party must have won representation in the EP in at least one of the two elections under**

**consideration**, in which case its results in the other election – if they ran, that is – were included even if they did not achieve parliamentary representation in the other election. Parties that failed to achieve representation in both elections were not considered. We selected the parties to include based on our assessments of their policies and positions, also guided by the party group that they caucus with in the European Parliament.

*Table 1: The electoral performance of populist and/or extremist parties in the EP elections 2009-2014*

	Party abbreviation	Party group in the EP	EP election result 2009	EP election result 2014	Change 2009-2014
<b>Austria</b>			<b>17,30%</b>	<b>19,97%</b>	<b>2,67%</b>
Freedom Party of Austria	FPÖ	NA	12,70%	19,50%	6,80%
Alliance for the Future of Austria	BZÖ	NA	4,60%	0,47%	-4,13%
<b>Belgium</b>			<b>14,36%</b>	<b>4,16%</b>	<b>-9,94%</b>
Flemish Interest (Vlaams Belang)	VB	NA	9,85%	4,16%	-5,69%
List Dedecker (D)	LDD	ECR	4,51%		-4,51%
<b>Bulgaria</b>			<b>11,96%</b>	<b>13,60%</b>	<b>1,64%</b>
Attack	Ataka	NA	11,96%	2,96%	-9,00%
Bulgaria bez Cenzura		NA		10,64%	10,64%
<b>Croatia</b>			<b>5,77%</b>		<b>-5,77%</b>
Croatian Labourists – Labour Party		GUE/NGL	5,77%		-5,77%
<b>Cyprus</b>			<b>34,90%</b>	<b>26,90%</b>	<b>-8,00%</b>
Progressive Party of the Working People	AKEL	GUE/NGL	34,90%	26,90%	-8,00%
<b>Czech Republic</b>			<b>15,44%</b>	<b>16,22%</b>	<b>0,78%</b>
Czech Communist Party	KSČM	GUE/NGL	14,18%	10,98%	-3,20%
Party of Free Citizens	Svobodni	EFD	1,26%	5,24%	3,98%
<b>Denmark</b>			<b>33,23%</b>	<b>39,16%</b>	<b>5,93%</b>
Danish People's Party (Dansk Folkeparti)	O	EFD	15,30%	26,60%	11,30%
People's Party Against the EU	N	GUE/NGL	7,20%	8,00%	0,80%
Left Bloc	B.E.	GUE/NGL	10,73%	4,56%	-6,17%
<b>Finland</b>			<b>15,70%</b>	<b>22,20%</b>	<b>6,50%</b>
True Finns (The Finns Party)	PS	EFD	9,80%	12,90%	3,10%
Left Alliance	Vas.	GUE/NGL	5,90%	9,30%	3,40%
<b>France</b>			<b>21,80%</b>	<b>31,59%</b>	<b>9,79%</b>

National Front	FN	NA	6,30%	24,95%	18,65%
Libertas (Movement for France)	Libertas (MPF-CPNT)	EFD	4,60%		-4,60%
Left Front	FG	GUE/NGL	6,00%	6,34%	0,34%
New Anticapitalist Party	NPA		4,90%	0,30%	-4,60%
<b>Germany</b>			<b>7,50%</b>	<b>15,50%</b>	<b>8,00%</b>
THE LEFT	DIE LINKE	GUE/NGL	7,50%	7,40%	-0,10%
Alternative for Germany	AFD	ECR		7,10%	7,10%
National Democratic Party of Germany	NPD	NA		1,00%	1,00%
<b>Greece</b>			<b>20,20%</b>	<b>45,47%</b>	<b>25,27%</b>
Popular Orthodox Rally	LAOS	EFD	7,15%		-7,15%
Communist Party of Greece	KKE	GUE/NGL	8,35%	6,07%	-2,28%
Coalition of the Radical Left	SYRIZA	GUE/NGL	4,70%	26,57%	21,87%
Golden Dawn	XA	NA		9,38%	9,38%
Independent Greeks	ANEL	EFD		3,45%	3,45%
<b>Hungary (wo Fidesz)</b>			<b>14,77%</b>	<b>14,68%</b>	<b>-0,09%</b>
Jobbik	Jobbik	NA	14,77%	14,68%	-0,09%
<b>Ireland</b>			<b>13,86%</b>	<b>17,00%</b>	<b>3,14%</b>
Socialist Party	Soc	GUE/NGL	2,76%		-2,76%
Sinn Féin	SF		11,10%	17,00%	5,90%
<b>Italy</b>			<b>13,58%</b>	<b>31,33%</b>	<b>17,75%</b>
Northern League	LN	EFD	10,20%	6,15%	-4,05%
Communist Refoundation Party, European Left, Italian Communists	PRC, SE, PDCI		3,38%		-3,38%
Five Star Movement	M5S	NA		21,15%	21,15%
For Another Europe - With Tsipras	-	GUE/NGL		4,03%	4,03%
<b>Latvia</b>			<b>7,45%</b>	<b>14,25%</b>	<b>6,80%</b>
For Fatherland and Freedom/LNNK (National Alliance in 2014)	TB/LNNK	ECR	7,45%	14,25%	6,80%
<b>Lithuania</b>			<b>12,22%</b>	<b>20,89%</b>	<b>8,67%</b>
Order and Justice	TT	EFD	12,22%	14,27%	2,05%
Lithuanian Peasant and Greens Union	LVŽS	NA		6,62%	6,62%
<b>Luxemburg</b>			<b>3,41%</b>	<b>5,76%</b>	<b>2,35%</b>
The Left	Déi Lénk		3,41%	5,76%	2,35%
<b>Netherlands</b>			<b>32,94%</b>	<b>29,80%</b>	<b>-3,14%</b>
Party for Freedom	PVV	NA	16,97%	13,20%	-3,77%
Socialist Party	SP	GUE/NGL	7,10%	9,60%	2,50%



Green Left	GroenLinks	G/EFA	8,87%	7,00%	-1,87%
<b>Poland</b>			<b>27,40%</b>	<b>39,39%</b>	<b>11,99%</b>
Law and Justice	PiS	ECR	27,40%	32,33%	4,93%
Congress of the New Right (Kongres Nowej Prawicy)	KNP	NA		7,06%	7,06%
<b>Portugal</b>			<b>21,39%</b>	<b>17,62%</b>	<b>-3,77%</b>
Left Block	BE	GUE/NGL	10,73%	4,93%	-5,80%
Unitary Democratic Coalition	CDU	GUE/NGL	10,66%	12,69%	2,03%
<b>Romania</b>			<b>8,65%</b>	<b>2,70%</b>	<b>-5,95%</b>
Greater Romania Party	PRM	NA	8,65%	2,70%	-5,95%
<b>Slovakia</b>			<b>5,55%</b>	<b>3,61%</b>	<b>-1,94%</b>
Slovak National Party	SNS	EFD	5,55%	3,61%	-1,94%
<b>Spain</b>			<b>3,73%</b>	<b>17,96%</b>	<b>14,23%</b>
United Left- Initiative for Catalonia Greens-United and Alternative Left-Bloc for Asturias	IU-ICV-EUIA-BA	G/EFA, GUE/NGL	3,73%	9,99%	6,26%
Por la Democracia Social	Podemos	NA		7,97%	7,97%
<b>Sweden</b>			<b>8,93%</b>	<b>16,00%</b>	<b>7,07%</b>
Sweden Democrats	SD	NA	3,27%	9,70%	6,43%
Left Party	V	GUE/NGL	5,66%	6,30%	0,64%
<b>United Kingdom</b>			<b>16,50%</b>	<b>27,50%</b>	<b>11,00%</b>
UK Independence Party	UKIP	EFD	16,50%	27,50%	11,00%

What is apparent at first glance is that the **three parties that have experienced the greatest gains – Syriza in Greece, which has since won the national elections as well, the Five Star Movement in Italy (a new player in an already active Italian populist scene) and the Front National in France – are all parties competing in countries who economic woes are substantial.** Greece has been teetering on the brink of bankruptcy for years and has had to endure a massive drop in GDP, along with successive harsh austerity programmes. France and Italy are "merely" stagnating, but in addition to their funding and debt problems they are also struggling with unemployment and little to no growth.



Table 2. The top 10 countries where the popularity of populist parties increased the most between 2009 and 2014

Country	Change of votes of populist parties 2009-2014
Greece	25,27%
Italy	17,75%
Spain	14,23%
Poland	11,99%
United Kingdom	11,00%
France	9,79%
Lithuania	8,67%
Germany	8,00%
Sweden	7,07%
Latvia	6,80%

In fact, the **entire Mediterranean region, with the exception of Portugal, saw a huge rise in the support of populist parties** (31.3% for three parties in Italy, compared to only 13.6% and two parties in 2009; 45.5% for four parties in Greece, compared to 20.2% for three parties in 2009; 18% for two parties in Spain, compared to a single party at 3.7 in 2009; and 17.2% for two parties in Portugal<sup>1</sup> as compared to 21.3% for two parties in 2009). And these results may actually understate the trend in Spain, for buoyed by Syriza's election victory in Greece, Podemos has also seen its polling numbers rise since the EP election. At roughly 20% in the polls as of May 2015, it is below its peak figures of over 30%, but nevertheless far more popular than at the time of the EP election, when it won 8%.

The populist/extremist surge was of course not a limited southern or Mediterranean phenomenon. Two key distinctions set the Mediterranean region apart, however (Portugal being the exception, of course). For one, **in this region the challenges to the established parties came predominantly from the left**. In Spain and Portugal far-right populist parties are hardly discernible, and in Italy the Northern League actually lost 4% between 2009 and 2014. Greece, of course, became known for the success of Golden Dawn, one of the most virulently neo-Nazi parties in Europe, but this success is a relative one – at 9.4% it lags far behind the 32.7% that the two far-left parties won in the same election. Even if one adds the 3.5% of the considerably less radical right-wing populist ANEL party (which has since joined a coalition with far-left Syriza), the populist left far outweighs the populist right.

Of course, there is another key distinction between these three countries: In Greece, **the success of the far-left came at the expense of the total collapse of the centre-left**, Syriza essentially became the centre-left force in Greek politics. In Italy,

<sup>1</sup> The Left Bloc, which had been represented in the EP from 2009-2014 failed to win a seat in the May 2014 election.

by contrast, the Five Star Movement – more populist than left – succeeded while the centre-left government was actually rather popular and performed exceedingly well in the election. Finally, in Spain both mainstream parties have seen their vote share decline drastically, and PODEMOS may well overtake the social democratic PSOE in elections (at the moment, polls do not suggest it will), but unlike its Greek counterpart PASOK, PSOE looks more likely to hold on to an important position in the Spanish party system.

In any case, whatever the nuances may be, the point is that in these countries the far-left has benefitted considerably more from the rise of populism than the far-right. **In the countries of the wealthy North, the opposite tends to apply, it is primarily far-right populist parties that have succeeded.** A detailed review of the countries in question shows this clearly. In Denmark three populist parties (one on the far-right and two on the far-left) won 39.2% of the votes in 2014, up from 33.2% in 2009. The expansion owes exclusively to the success of the right-wing **Danish People's Party's**, which won 26.60% and **finished first in Denmark and among the top populist parties in all of Europe.** In terms of their overall results, the two left-wing populist parties lost votes. In Sweden both populist parties (one left and one right) increased their vote share, cumulatively from 8.93% in 2009 to 16% in 2014, but Sweden Democrats, the right-wing populist party took up almost 6.5% of the 7% total expansion. In Finland the 6.50% total gains of populists, from 15.7% to 22.2%, were roughly balanced, with the right-wing True Finns (The Finns Party) and the Left Alliance each taking roughly 3% more than in the previous election. But Finland was the exception in the region

**A similar trend as in the Scandinavian countries also prevailed in Germany and the United Kingdom:** There was a surge in the strength of populist forces (plus 7% in Germany and plus 11% in the United Kingdom), but all the gains accrued to right-wing populist parties, specifically the Alternative for Germany (AfD) and the United Kingdom Independence Party (UKIP). Though AfD's gains were more modest, it is the first right-wing populist party in Germany in a long time which has exceeded five percent nationally, the threshold necessary to gain representation in the *Bundestag*. UKIP finished first in the United Kingdom, but it was not able to hold on to its huge gains in the parliamentary elections in May 2015.

Apart from Germany and France, the aggregated results of populist parties stagnated in most of Western Europe (+2.67% in Austria, 2.35% in Luxemburg, -3.1% in the Netherlands, and +3.1% In Ireland), with the exception of Belgium, where the previously successful Flemish Interest party suffered a historic 10% loss.

While the analysis of these results, in particular the far-left/far-right divide between North and South requires more detail to allow for far-reaching conclusions, **there are indications that unlike in the South, the prevailing sentiment in the**

**North was not one of economic desperation or protest, but a fear that "aliens" would gnaw away at the prosperity in the North.** While economic factors clearly played a role in northern preferences, the emphasis did not seem to be on injustice or the distribution of wealth, but on preserving it from others. This does not rule out that the source of these choices is not similar, in that without an economic crunch neither phenomenon would likely have happened, but the situations of these two demographics are very different, as are the choice that voters took.

**Another key difference between North and South is of course that while in the latter countries populism appears to have the potential to completely revamp the party system, in the North the success of the populist far-right is mostly a shift in emphasis,** though a pronounced one (France, both a Mediterranean and a northern country, bears similarity to both these groups, as a populist party appears capable of upsetting the party system, but it is a right-wing one).

Both in France and in the United Kingdom the electoral system constitutes a serious impediment to the continued rise of the far-right. Despite winning the EP elections, UKIP received considerably less support in the British general election of May 2015, with many voters opting for the mainstream instead, either returning from their earlier protest stance or else voting rationally. Despite a fairly strong performance of 12.6% nationally (a 9% plus as compared to 2010), the anti-European populists won only a single seat in Parliament. In France, after a clear victory in the EP elections, the Front National performed more weakly than expected in the recent regional elections, and it may disappoint its leaders once again when the next parliamentary elections will take place, when the mainstream parties can use the run-offs to unite against the far-right. This renders a Syriza-like upset by the FN unlikely.

Table 3 - The top 10 countries based on the support of populist parties in the 2014 EP election (red – left-wing populism dominated; blue – right-wing populism dominated; black – n/a)

	EP election result 2014	EP election result 2009
Greece	45,47%	20,20%
Poland	39,39%	27,40%
Denmark	39,16%	33,23%
France	31,59%	21,80%
Italy	31,33%	13,58%
Netherlands	29,80%	32,94%
United Kingdom	27,50%	16,50%
Cyprus	26,90%	34,90%
Finland	22,20%	15,70%
Lithuania	20,89%	12,22%

Finally, **Central and Eastern Europe is a patchwork in terms of the results of populists.** It is crucial to point out that the distinction between populists and non-populists – which is always difficult as we pointed out above – becomes inordinately problematic in the new member states, where ideological cleavages between political parties tend to be hazy and most major parties engage in rather significant levels of populist rhetoric – to a large extent as a substitute for the meaninglessness of ideological heuristics. Thus many of the mainstream parties in this region would easily qualify as populists in established democracies, usually as right-wing populists regardless of the ideological label they embrace in their own countries. Fidesz in Hungary, which has recently proposed discussing the reintroduction of the death penalty and is pushing a tough anti-immigrant rhetoric, is a case in point, and in fact Law and Justice in Poland (PiS) was only one of three indubitably major parties (the Progressive Party in Cyprus and Syriza of Greece being the other two) which were in fact included as populist parties in our analysis. This renders an assessment of the prevailing levels of populism (presumably high) and extremism (likely relatively low) in region very difficult, and it needs to be emphasised that the data presented above would be but one element considered a full analysis; for the present purposes they will have to suffice, however.

Most striking about the Central and Eastern European is that **two of the three countries (Slovenia and Estonia) without extremist or populist parties** in Table I above **are from the Central and Eastern European region.** All of the MEPs from these countries have joined mainstream party family groups in the European Parliament. Another very striking aspect is that **except for the Czech communists**, a queer legacy of the old regime, and one-time modest success for a Croatian party, **there is not a single successful far-left party in these countries** – the lack of a potential for this particular slant of extremism is likely one of the few positive legacies of communism. This is especially remarkable in comparison with Western Europe, where only three countries (Austria, Belgium and the UK) lacked an electorally completely irrelevant far left party in both the 2009 and 2014 EP elections. An other interesting aspect of the results is that apart from Poland, the remaining **two Baltic states, Lithuania and Latvia are the only two countries in the region where populists have experienced a substantial surge since 2009.** Given the economic upheavals in the region since the crisis of 2008/2009, one would have expected more – as we noted previously, mainstream parties have probably absorbed some of the need for populist rhetoric – but it is no surprise that the Baltics, where the crisis hit especially hard, would be the countries where such a development was most pronounced. In Poland, the results mostly constitute a reestablishment of the general equilibrium, for the extreme right was unusually weak in 2009, in part as a result of the constant disintegration and self-demolition of extremist parties.

In the rest of the region populist and extremist politics has either stagnated or declined significantly, with the **once vibrant far-right parties in Slovakia and Romania almost disappearing completely**, while the model of successful far-right politics in the region, Jobbik, failed to expand its voter base for the first time in a decade, and in fact performing far below its level at the national parliamentary elections just a few weeks prior (this glitch in Jobbik's performance proved only temporary, however). After a very brief success, Croatia's far-left party faded out, while in the Czech Republic the relic of the former regime, the KSCM, is gradually aging out of the party system due to the composition of its electorate.

In the final analysis, most of the region's turmoil came either before the 2009 election (this is true in particular of Jobbik's rise in Hungary as well as the massive rearrangement of the Polish and Slovakian party systems, which all began before the crisis and were to a great extent even completed before the impact of the latter reached the region) or has resulted in electoral shifts between mainstream parties engaged in various levels of populist rhetoric and policies rather than the breakthrough of populist and/or extremist parties.

The **comparison between the Central and Eastern European region and southern Europe is very revealing, both in terms of the differences and the similarities**. The regions struggle with similar problems in terms of huge structural problems in the economy, low levels of labour market participation, problems with tax evasion, corruption, etc., and they were both hit hard by the crisis (though overall the levels of public debt are different). **While the southern Europeans turned in large numbers to the far left for relief, in Central and Eastern Europe the far-left is still beyond the pale for most voters**. Yet though the party political choices were different, it is also important to see that the actual rhetoric and the policies bore substantial similarities, too: Thus **nationalism and anti-western sentiments** (directed sometimes against the EU, sometimes against the US, the "Washington Consensus" or nebulous actors) **played a great role in the reaction to the crisis**, while in **Western Europe the reaction was directed more against immigration** in general and CES and Southern European states and immigrants from these countries in particular. The inequality dimensions likely played a key role in reactions across much of the continent, but in the CES and the South it was often directed against richer countries and regions, while in the wealthier countries the reactions often stemmed from strata that either felt or were actually vulnerable and felt they had to protect their material security and cultural integrity against outsiders.

### III. Charting Inequality - The Gini Rollercoaster

In the next step, we sought to find out **how income inequality had evolved during this time, tracking in particular the Gini coefficient** from the moment Eurostat data became available for all countries in the EU-28, that is 2005. Income inequality is of course only one dimension of inequality, but it is a **crucial dimension and the most consistently captured across the continent**, which makes it particularly suitable for a comparative analysis.

Nevertheless, certain caveats must be kept in mind when interpreting the data. Most importantly, the accuracy of income data is extremely varied across the EU. Underreporting income and paying cash to evade taxes and social contributions is rampant in Central and Eastern Europe, and it is presumed to be widespread in the southern parts of the continent as well. Correspondingly, while experts estimate that the shadow economies in all of the Western and Northern European EU member states with the exception of Belgium make up less than 20% of the overall economy – and usually significantly less – with only 18.1% and 18.4%,<sup>2</sup> respectively, only Slovakia and the Czech Republic are part of this elite circle. Among the rest of the member states, rates range from a "low" of 24.5% in Hungary to a high of 35.6% in Bulgaria.<sup>3</sup> Inequality figures based on official incomes may be extremely skewed in certain countries – when around 25%-35% of the economy is not captured by official statistics, then the shadow economy is essentially an encrypted black box that may hide a great slice of equality and inequality

Given that we are more interested in trends over the past few years than in absolute figures, this is not necessarily a huge issue, but it must be kept in mind when interpreting our conclusions. Furthermore, the rather rapid improvements in the new member states, while generally great news, complicates the picture further: Western economies are closer to whatever their conceivable peak values will be, and thus their figures are improving only slightly. In the economies that are undergoing a more rapid decline in the size of their shadow economies, there may be factors which lead to a significantly accelerated pace of "legalisation" in the incomes of certain specific strata, be it low or high income individuals. If that is the case, then statistics might capture higher or lower levels of inequality even if there is no actual change on the ground. With these caveats in mind, let us take a detailed look at the data.

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<sup>2</sup> All values average figures for 1999-2007.

<sup>3</sup> <https://openknowledge.worldbank.org/bitstream/handle/10986/3928/WPS5356.pdf?sequence=1>

Table 4: The Gini coefficient in EU member states and candidate countries that have since joined since 2005 (data for 2005-2013)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	Average
<b>Austria</b>	26,3	25,3	26,2	27,7	27,5	28,3	27,4	27,6	27	<b>27,0</b>
<b>Belgium</b>	28	27,8	26,3	27,5	26,4	26,6	26,3	26,5	25,9	<b>26,8</b>
<b>Bulgaria</b>	25	31,2	35,3	35,9	33,4	33,2	35	33,6	35,4	<b>33,1</b>
<b>Croatia</b>	30	28	29	28	27	31,6	31,2	30,9	30,9	<b>29,6</b>
<b>Cyprus</b>	28,7	28,8	29,8	29	29,5	30,1	29,2	31	32,4	<b>29,8</b>
<b>Czech Republic</b>	26	25,3	25,3	24,7	25,1	24,9	25,2	24,9	24,6	<b>25,1</b>
<b>Denmark</b>	23,9	23,7	25,2	25,1	26,9	26,9	27,8	28,1	27,5	<b>26,1</b>
<b>Estonia</b>	34,1	33,1	33,4	30,9	31,4	31,3	31,9	32,5	32,9	<b>32,4</b>
<b>EU (27 countries)</b>	30,6	30,3	30,6	30,9	30,5	30,4	30,7	30,4	30,5	<b>30,5</b>
<b>Euro area (18 countries)</b>	29,3	29,3	30	30,4	30,2	30,2	30,5	30,3	30,6	<b>30,1</b>
<b>Finland</b>	26	25,9	26,2	26,3	25,9	25,4	25,8	25,9	25,4	<b>25,9</b>
<b>France</b>	27,7	27,3	26,6	29,8	29,9	29,8	30,8	30,5	30,1	<b>29,2</b>
<b>Germany</b>	26,1	26,8	30,4	30,2	29,1	29,3	29	28,3	29,7	<b>28,8</b>
<b>Greece</b>	33,2	34,3	34,3	33,4	33,1	32,9	33,5	34,3	34,4	<b>33,7</b>
<b>Hungary</b>	27,6	33,3	25,6	25,2	24,7	24,1	26,8	26,9	28	<b>26,9</b>
<b>Ireland</b>	31,9	31,9	31,3	29,9	28,8	30,7	29,8	29,9	30	<b>30,5</b>
<b>Italy</b>	32,8	32,1	32,2	31	31,5	31,2	31,9	31,9	32,5	<b>31,9</b>
<b>Latvia</b>	36,2	38,9	35,4	37,5	37,5	35,9	35,1	35,7	35,2	<b>36,4</b>
<b>Lithuania</b>	36,3	35	33,8	34,5	35,9	37	33	32	34,6	<b>34,7</b>
<b>Luxembourg</b>	26,5	27,8	27,4	27,7	29,2	27,9	27,2	28	30,4	<b>28,0</b>
<b>Malta</b>	27	27,1	26,3	28,1	27,4	28,6	27,2	27,1	27,9	<b>27,4</b>
<b>Netherlands</b>	26,9	26,4	27,6	27,6	27,2	25,5	25,8	25,4	25,1	<b>26,4</b>
<b>Poland</b>	35,6	33,3	32,2	32	31,4	31,1	31,1	30,9	30,7	<b>32,0</b>
<b>Portugal</b>	38,1	37,7	36,8	35,8	35,4	33,7	34,2	34,5	34,2	<b>35,6</b>
<b>Romania</b>	31	33	37,8	36	34,9	33,3	33,2	33,2	34	<b>34,0</b>
<b>Slovakia</b>	26,2	28,1	24,5	23,7	24,8	25,9	25,7	25,3	24,2	<b>25,4</b>
<b>Slovenia</b>	23,8	23,7	23,2	23,4	22,7	23,8	23,8	23,7	24,4	<b>23,6</b>
<b>Spain</b>	32,2	31,9	31,9	31,9	32,9	33,5	34	34,2	33,7	<b>32,9</b>
<b>Sweden</b>	23,4	24	23,4	24	24,8	24,1	24,4	24,8	24,9	<b>24,2</b>
<b>United Kingdom</b>	34,6	32,5	32,6	33,9	32,4	32,9	33	31,3	30,2	<b>32,6</b>

The Gini data betray few if any systematic trends over the nine years for which we had Eurostat data for all of the countries concerned. **For the entire EU (only values for the EU 27 were aggregated), averages did not change significantly:** In the period under investigation, at its lowest in 2006, the EU's average Gini indicator stood at 30.3, and rose to its highest value, 30.9, in 2008. This average fluctuation was lower than the fluctuation experienced in any single country. It betrays a stability that far exceeded the values measured in member states, **a third of which (9) had differentials of over 4 points** between their lowest and highest figures during this period. Only a single country, **Finland, achieved a less than one point difference in the highest and lowest levels** of equality measured in this time. The vast difference between the averages of member states was not due to the impact of



large countries in the EU. **Germany, France and the United Kingdom had relatively high levels of fluctuation** in their respective Gini figures, only **Italy was among the countries with relatively stable figures** in the nine-year period analysed. Hence the stability of average European values must owe mostly to the fact that the fluctuations of member states balanced one another out.

What is most striking about the Gini data is that values were over the place over the years. **Both the highest and the lowest inequality values in individual countries appear to be randomly distributed throughout the time period investigated.** As we will see in the next chapter, this was very different in the case of economic growth, where most countries tended to have both their peaks and lows in the same year as the other EU countries.

**There were only four countries in the European Union which had their respective highest income inequality values in the first year under investigation and their lowest value in the last year examined.** Two of these, the **Czech Republic and Belgium, had a consistent trend of declining income inequality,** starting with already below average values to the third and eighth least unequal in the last year measured, 2013. Nevertheless, there also a few other countries with **near continuous declines in income inequality, specifically the United Kingdom and Poland,** which saw their inequality figures improve considerably (interestingly, the British trend only became pronounced in 2012 and 2013, thus already under Tory governance). The country with the highest inequality value by far in 2005, **Portugal, also made significant headway, though the fact that it still boasts the second highest inequality figures barely behind Greece is an indication of just how extremely unequal income distribution in this country was,** and to a large extent still remains. Ireland, Estonia, Lithuania and Slovakia made modest gains, though from very different levels.

Hungary was not only the country with the second highest difference between its peak and low values, but also the one with what may have been the oddest trajectory. **Income inequality experienced one of the largest annual leaps between 2005 and 2006, only to drop radically until 2010.** While in 2006 Hungary had the sixth highest income inequality values in the EU, by 2010 second it had clinched the spot as the second most equal country after Slovenia. These figures are odd given that between 2002 and 2006 the Socialist-led government had engaged in massive spending, which apparently either exacerbated inequalities or else failed to stem the growing inequality stemming from market distribution. Between 2006 and 2010, the centre-left government was engaged in a series of endless and deeply unpopular austerity programmes, but a variety of factors led to stunning improvements in pay equality. What is less surprising is that this trend was halted by the right-wing government which took power in 2010, though the numbers are still far from their peak in 2006 and below the European average, though high measured by the average

of the past decade and very likely rising, at least according to sociological analyses and press reports. Two countries that followed a very similar – though not as drastic – trajectory of improving inequality followed by a surge in wage differentials were Croatia and Italy, which both returned to their starting levels of inequality after near continuous declines in the Gini index until 2010. Another country with very strange figures was Bulgaria, which started off with one of the lowest levels of inequality (its Gini coefficient was the 4th lowest) in 2005, but within the span of a mere year saw a 20% rise in its index – the highest increase in any EU state during this period – and had dropped to the 26th place by 2008! **Though the Bulgarian Gini index improved very slightly over its peak in 2008, the country placed last in 2013.**

There was no country where income inequality widened continuously every year under investigation, but **there were a number where the numbers went up almost every year, especially Cyprus, Luxembourg, Sweden and Denmark.** The latter two are obviously still among the most equal countries in the EU, and despite elevated levels in the Gini, they held the same 1st and 3rd places (as in least unequal) in the EU in 2013 that they had occupied 8 years prior. Though with some fluctuations, Germany and France also saw their income inequality figures worsen over the years.

In the next step, it is interesting to compare both regional figures and trends, since they reveal a lot both about the type of economic arrangements that prevail regionally and also how these have evolved in the pre-crisis boom years and since the crisis. The data, and specifically the obvious regional clusters of data, clearly show **that the location of a country correlates highly with its inequality data** – as one would expect. But the point is more than just plain physical proximity: in short, **countries that are generally grouped together "culturally" (as a proxy for mentality, common history, etc.) do indeed display both similar numbers and trends that set them apart from other peer groups.** While usually this coincides with proximity, **cultural proximity trumps physical proximity.** Furthermore, while actual figures and trends both tend to correlate with the figures of other states in the "peer group", for obvious reasons variations in short-term trends and divergences from the mainstream of a given group are much more common when it comes to trends. It may not always be straightforward, but public policy clearly does have an impact on trends.

The most striking data comes from the Baltic states, which as a region feature by far the highest levels of inequality in the EU. **Lithuania and Latvia were the second and third most unequal countries in 2005 and then again in 2013,** and were either the most unequal countries or among the top in this category for the entire period under investigation. Estonia was also ranked high among the worst performing countries in this respect, but its values were nevertheless significantly better than the other Baltic states. The Baltics have chosen a particularly orthodox neo-liberal

approach to the market economy, which has resulted in very robust growth rates in the good years, and massive drops in the bad years – along with extremely uneven distributions. What makes this especially interesting in that as the next chapter will show in more detail, economically **the Baltic states – especially Estonia – are closely intertwined with the Northern countries**, which are in turn the most egalitarian in the European Union. This shows that **close economic ties need not at all feature a similar ideological outlook on setting the framework of market economy.**

Table 5 – EU countries and average GDP per capita and GINI coefficient between 2005 and 2013

Country	GDP per capita (average 2005- 2013)	Gini coefficient (average 2005- 2013)	Region
Austria	25,467	27.0	Western Europe
Belgium	28,689	26.8	Benelux
Bulgaria	33,611	33.1	Eastern Europe
Croatia	4,822	29.6	Eastern Europe
Cyprus	14,789	29.8	Southern Europe
Czech Republic	44,344	25.1	Central Europe
Denmark	31,456	26.1	Northern Europe
Estonia	12,011	32.4	Baltic States + Poland
EU (27 countries)	38,178	30.5	European average
Euro area (18 countries)	20,200	30.1	European average
Finland	23,422	25.9	Northern Europe
France	31,011	29.2	Western Europe
Germany	10,633	28.8	Western Europe
Greece	27,233	33.7	Southern Europe
Hungary	22,867	26.9	Central Europe
Ireland	9,322	30.5	UK and Ireland
Italy	9,467	31.9	Southern Europe

Latvia	77,622	36.4	Baltic States + Poland
Lithuania	10,000	34.7	Baltic States + Poland
Luxembourg	15,800	28.0	Benelux
Malta	37,811	27.4	Southern Europe
Netherlands	35,356	26.4	Benelux
Poland	9,022	32.0	Baltic States + Poland
Portugal	16,700	35.6	Southern Europe
Romania	6,178	34.0	Eastern Europe
Slovakia	17,700	25.4	Central Europe
Slovenia	12,022	23.6	Central Europe
Spain	35,322	32.9	Southern Europe
Sweden	39,311	24.2	Northern Europe
United Kingdom	29,478	32.6	UK and Ireland

Among western and northern democracies, **only Ireland and the UK featured above average Gini values.** However, both have experienced a significant decline in the Gini value, and Ireland is now consistently above average, while the UK is around average. As a result of their drops in the last few years, which we noted above, **French and German values have deteriorated significantly and are now around average, and the same happened in Luxembourg.**

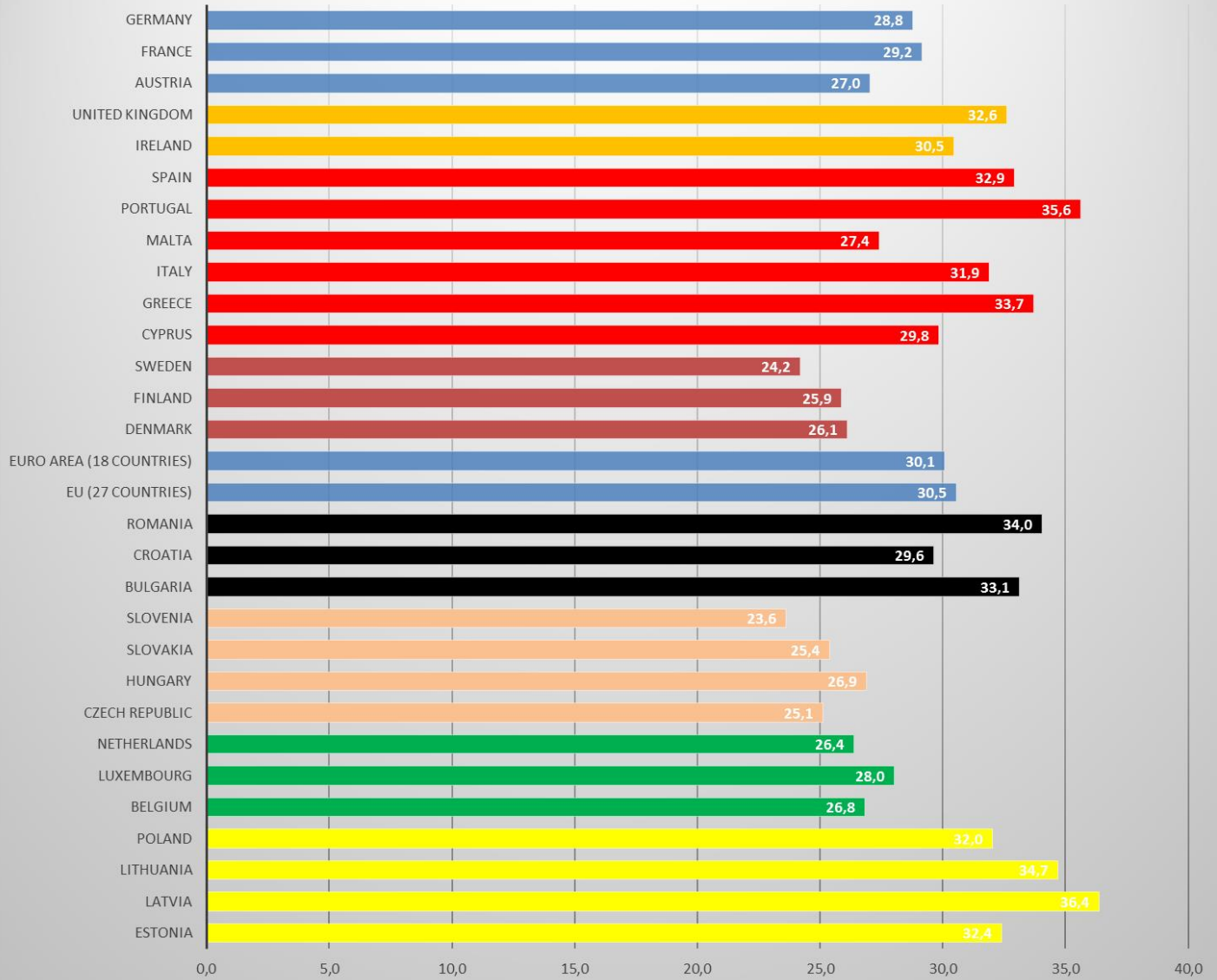
Radically different from the Baltic states, **the former communist states in Central Europe (the V4 minus Poland but plus Slovenia) make up the region with the highest levels of income equality in Europe** along with the northern countries. Slovenia consistently had the lowest level of income inequality in the entire European region throughout the entire period under investigation, and the Czech Republic and Slovakia were among the countries with the lowest levels of income inequality. Though Hungary was slightly less unequal, and as we noted it underwent some wild swings, overall its position was still roughly consistent with the rest of the region. The odd one out was Poland, whose Gini values were far above the EU average and much more aligned – with the geographically also proximate – Baltic states, so ultimately, though it is theoretically not a Baltic state, for the purposes of this analysis

this is where it fits. At the same time, Poland's figures, just as Estonia's, have improved significantly over the past decade, setting these two countries apart from Latvia and Lithuania.

Since the numbers showing the coherent groups are obvious, we will not go into detail about the rest of the regions, but we will add a few summary observations. **All four of the states in the Southern European cluster have very high inequality values**, in fact apart from the UK and Ireland, which have their own distinct, more laissez-faire approaches to economic policy, these countries are the only ones in the western segment of the EU with below average inequality values – and in fact Portugal's have consistently been either the highest or almost the highest in the EU, with Greece also placed among the most unequal countries. The trends in these countries has differed over the last decade, with Portugal and Italy marginally improving their positions, while Greece and Spain are both more unequal now than they were in 2005; and have been through even higher peaks than their 2013 numbers.

On the whole, **the overwhelming majority of EU states can be assigned to clearly identifiable clusters in which the relevant values are similar and which tend to develop similarly. This meshes with our data from the previous chapter, which showed that in many regions – particularly the North and South – the success of populist parties tended to move together.** Yet the devil may well be in the details: For example, **why is Portugal's political development, at least for now, so different from the rest of the South?** Especially in light of the fact that there is such massive inequality in Portugal (though it is also true that Portugal did experience the greatest decline in inequality over the period investigated, while Greece and Spain have seen their respective numbers deteriorate). Despite these exceptions, the parallels prevail, as one observes similar trends in inequality and the rise of populism. Our analysis in Chapter IV. will explore this relationship in more detail.

### GINI coefficient in different EU countries (grouped by regions)



## IV. Economic growth and recession in Europe

As we noted in the introduction, for a **variety of reasons fluctuations in the economy may have a greater impact on the political preferences of the public than similar levels of shifts in inequality.** Though depending on the circumstances this may not apply, there is good reason to suspect that it may. For starters, GDP figures have better publicity. While most everyone knows what GDP growth or recession means, and negative news in this context often affect the public mood even when its impact may not be directly felt yet (and in fact the impact of such figures will often be felt even if it is not manifest yet in one's personal life), very few people know what the Gini means, and arguably fewer still care intensely about it. Inequality overall, rather than the Gini specifically, can arouse intense political reactions, of course, but when the economy on the whole is doing well, it is unlikely to do so. A "let's not rock the boat" mentality can easily prevail when the economy appears to be going in the right direction, which may well be one part of the explanation why we live in societies that produce unprecedented wealth and yet distribute it increasingly unequally. In essence, therefore, **it makes little sense to look at Gini data while completely disregarding what is going in the economy overall, which is why we dedicate a chapter to this issue.**

What is both evident and striking about the economic data is how much more orderly it seems than the income inequality statistics. The Gini was all over the place, with years of rising inequality and growing equality following one another seemingly haphazardly. Few countries had uninterrupted trends of inequality over the period investigated, though a level of regional coherence did prevail, as we noted in the foregoing chapter. Especially the selection of peak and low data highlighted in the previous chapter's corresponding data showed the immense irregularity of this indicator, at least in the time we reviewed.

**The economic growth data, by contrast, are striking in their orderliness.** First, **all countries but Germany and Romania had their highest economic growth in the period between 2005 and 2007,** the peak years before the pre-2007/2008 crisis. **Germany was the only country that peaked after the crisis** (Romania's best growth figure in 2008 was followed by a typical crisis slump). Twelve EU member states peaked in 2006, as did the entire EU on average, while 12 countries peaked a year later. Only three had their best year before 2006, in 2005. In sum, except for Germany there was not a single country in the EU that has attained its pre-2008 growth levels since the crisis.



Table 6 – GDP growth in EU countries per year

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average (2005-2014)
Austria	2,1	3,4	3,6	1,5	-3,8	1,9	3,1	0,9	0,2	0,3	1,3
Belgium	1,9	2,6	3	1	-2,6	2,5	1,6	0,1	0,3	1,1	1,1
Bulgaria	6	6,5	6,9	5,8	-5	0,7	2	0,5	1,1	1,7	2,6
Croatia	4,2	4,8	5,2	2,1	-7,4	-1,7	-0,3	-2,2	-0,9	-0,4	0,3
Cyprus	3,9	4,5	4,9	3,6	-2	1,4	0,3	-2,4	-5,4	-2,3	0,6
Czech Republic	6,4	6,9	5,5	2,7	-4,8	2,3	2	-0,8	-0,7	2	2,1
Denmark	2,4	3,8	0,8	-0,7	-5,1	1,6	1,2	-0,7	-0,5	1,1	0,4
Estonia	9,5	10,4	7,9	-5,3	-14,7	2,5	8,3	4,7	1,6	2,1	2,7
EU (28 countries)	2	3,4	3,1	0,5	-4,4	2,1	1,7	-0,5	0	1,3	0,9
Finland	2,8	4,1	5,2	0,7	-8,3	3	2,6	-1,4	-1,3	-0,1	0,7
France	1,6	2,4	2,4	0,2	-2,9	2	2,1	0,2	0,7	0,2	0,9
Germany	0,7	3,7	3,3	1,1	-5,6	4,1	3,6	0,4	0,1	1,6	1,3
Greece	0,9	5,8	3,5	-0,4	-4,4	-5,4	-8,9	-6,6	-3,9	0,8	-1,9
Hungary	4,3	4	0,5	0,9	-6,6	0,8	1,8	-1,5	1,5	3,6	0,9
Ireland	5,7	5,5	4,9	-2,6	-6,4	-0,3	2,8	-0,3	0,2	4,8	1,4
Italy	0,9	2	1,5	-1	-5,5	1,7	0,6	-2,8	-1,7	-0,4	-0,5
Latvia	10,2	11,6	9,8	-3,2	-14,2	-2,9	5	4,8	4,2	2,4	2,8
Lithuania	NA	7,4	11,1	2,6	-14,8	1,6	6,1	3,8	3,3	2,9	2,7
Luxembourg	4,1	4,9	6,5	0,5	-5,3	5,1	2,6	-0,2	2	NA	2,2
Malta	3,8	1,8	4	3,3	-2,5	3,5	2,3	2,5	2,7	3,5	2,5
Netherlands	2,3	3,8	4,2	2,1	-3,3	1,1	1,7	-1,6	-0,7	0,9	1
Poland	3,5	6,2	7,2	3,9	2,6	3,7	4,8	1,8	1,7	3,4	3,9
Portugal	0,8	1,6	2,5	0,2	-3	1,9	-1,8	-4	-1,6	0,9	-0,2
Romania	4,2	8,1	6,9	8,5	-7,1	-0,8	1,1	0,6	3,4	2,8	2,8
Slovakia	6,5	8,3	10,7	5,4	-5,3	4,8	2,7	1,6	1,4	2,4	3,8
Slovenia	4	5,7	6,9	3,3	-7,8	1,2	0,6	-2,6	-1	2,6	1,3
Spain	3,7	4,2	3,8	1,1	-3,6	0	-0,6	-2,1	-1,2	1,4	0,7
Sweden	2,8	4,7	3,4	-0,6	-5,2	6	2,7	-0,3	1,3	2,1	1,7
United Kingdom	2,8	3	2,6	-0,3	-4,3	1,9	1,6	0,7	1,7	2,8	1,2

The figures, specifically the ordered distribution of extreme values – which were all over the place when we looked at Gini values – suggest that while inequality distributions are substantially influenced by domestic developments, especially public policy, **the trends in growth rates (rather than the growth rate itself) are to a large extent also determined by the international economic climate. There was not a single year of recession in any of the EU member states or future member state before 2008, while in the six years from 2008 to 2013 a whopping 64 annual growth figures – almost 40% of all data points in this period – in the 28 countries constituted a recession.** If one adds years with extremely low annual growth rates of 1% or less, then a total of 52% (88 of all growth figures between 2008 and 2013) of all annual observations have produced either negative or

imperceptible growth. While crisis-stricken 2009, when only Poland produced positive growth figures, stands out, many countries exhibited signs of a double-dip recession, with another bout of negative growth following on the heels of an ever so slight recovery. By contrast, only a little over 20% of all annual growth data between 2008 and 2013 exceeded 2% – which would not have been considered a particularly high growth rate in the pre-crisis period. Before the crisis, between 2005 and 2007, over 80% of annual growth figures were in excess of 2%, and for the most part they were significantly higher.

Overall, **the strong correlation between the regional location of a country and its statistical indicators, already observed in the case of the trends in the Gini coefficient, were unsurprisingly strong in the case of GDP growth rates as well**, though there are some interesting qualifiers which suggest that economic policies or other circumstances may have played a greater role in shaping economic growth than in shaping inequality. At least with regard to economic policies, this is somewhat surprising – it appears much easier for the state to intervene in the distribution of incomes than to change economic circumstances, especially in light of the vast impact that the international environment has on economic growth.

On average, **EU member states' highest growth years were 2.8% lower since the crisis than in the pre-crisis years**. If anything, this understates the difference in the economic dynamic of the two periods, since several countries have had impressive rebound years with standout values, but their overall post-crisis figures were nevertheless dismal. **No country has recaptured the dynamic growth of the pre-crisis period**, and many are mired in ongoing and persistent malaise. Nevertheless, 2014 seemed to mark a decisive turnaround throughout much of the EU, with almost half the member states (13, to be exact<sup>4</sup>) growing at over 2%. At the same time, while before and during the crisis much of the EU was trending in the same direction, now **a gap seems to be emerging between regions and countries whose economies are picking up steam and the rest, which cannot seem to fully leave the crisis behind**.

Germany is one of the countries that stands out in terms of its performance since the crisis, but despite the widespread recognition of the second German "economic miracle", the "engine of the European economy" had two years, 2012 and 2013, with virtually no growth, and two more with modest years. Other countries that have rebounded with fairly impressive growth figures are Poland, the Baltics, Slovakia and more recently Romania, but in the case of all but Poland these spurts of growth followed extraordinary crashes, setting a lower baseline for growth, and the figures attained in the recovery, though impressive, still remain far below pre-crisis numbers.

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<sup>4</sup> Also including Luxemburg, for which Eurostat had no data available yet, but a variety of sources indicated that a 2%+ growth rate did apply. See for example <http://www.statista.com/statistics/381053/gross-domestic-product-gdp-growth-rate-in-luxembourg/>

The crisis seemed to have least effect on the tiny economy of Malta, which quickly came close to pre-crisis levels after a brief dip in 2009.

Table 7 – The difference between the highest and lowest GDP-growth data between 2005 and 2014

Country	High-low difference	Average 2005-2014	Number of negative years	Difference pre-crisis and post-crisis peak
Lithuania	25.9	2.7	1	5.0
Latvia	25.8	2.8	3	6.8
Estonia	25.1	2.7	2	2.1
Greece	14.7	-1.9	6	5.0
Slovenia	14.7	1.3	3	4.3
Bulgaria	11.9	2.6	1	5.2
Luxemburg	11.8	2.2	2	1.4
Hungary	10.9	0.9	2	0.7
Czech Republic	11.7	2.1	3	4.6
Croatia	12.6	0.3	6	5.5
Finland	13.5	0.7	4	2.6
Sweden	9.9	1.7	3	2.0
Denmark	8.9	0.4	4	2.2
Romania	15.2	2.8	2	5.1
Slovakia	16.0	3.8	1	5.9
EU (28 countries)	7.8	0.9	2	1.3
Spain	7.8	0.7	4	2.8
Ireland	12.1	1.4	4	0.9
Cyprus	10.3	0.6	4	3.5
Germany	9.3	1.3	1	-0.4
Italy	7.5	-0.5	4	0.3
Netherlands	7.5	1	3	2.5
Austria	7.4	1.3	1	0.5
Portugal	5.5	-0.2	4	1.6
United Kingdom	7.3	1.2	2	0.2
Malta	6.3	2.5	1	0.3
Poland	4.5	3.9	0	5.5
France	5.3	0.9	1	1.7
Belgium	5.2	1.1	1	0.1

With the exception of Luxemburg, **none of the western countries managed to maintain an average of 2% growth over the entire period investigated.** Among the new member states in Central and Eastern Europe, however, only Croatia, Hungary and Slovenia missed the mark. There is a strong regional concentration in the

negative values as well: Greece, Italy and Portugal were the only three countries whose economies shrank over the entire period, while Spain and Cyprus were also among the EU members with the lowest growth rates. Unsurprisingly, these countries also tended to spend a long time in a slump, with **Greece experiencing a recession almost every year since 2008** (last year's miniscule growth was the exception) in a recession, while **Italy, Portugal, Spain and Cyprus each experienced 4 years of negative growth**.

The vast majority of the Western and Northern European countries' average growth in this time moved within a relatively narrow range of 0.7% (Finland) and 1.4% (Ireland). Interestingly, apart from previously mentioned Luxemburg (2.2%), the two Scandinavian EU members were the two opposite outliers: As the western economy that grew the least in this period, Denmark average GDP growth figure was a mere 0.4%, while Sweden achieved 1.7%.

The **high economic growth in the Central and Eastern European new member states came at a steep cost during the downturn**. The countries with the highest growth rates before the crisis also tended to experience the greatest falls, in other words those with the highest positive growth rates tended to have the most negative growth figures later. Given that typically there were only 2-3 years between the two situations, the social turmoil caused by swings of up to 26% in GDP must have been enormous. **The situation was worst in the Baltics, which all reached double digit growth before the crisis and then fell from heights of 10.7%-11.6% annual growth to lows of over -14%**. But most other Central and Eastern European, to wit the Czech Republic, Slovakia, Romania and Bulgaria, also fell from heady heights to scary lows.

Among the countries with runaway growth before the crisis, **only Poland managed to land reasonably softly, dropping "only" 4.5% from to its lowest level – the smallest decline in the entire EU –, and more gradually, too, than other countries**. In fact, if there was a truly sustained economic miracle over the last decade, then it was Poland's dynamic growth coupled with its relatively buffered position during the crisis; it was the only country that did not have a single recession year in the period investigated, and in 2009 it was the only one that did not dip into negative territory. It is particularly interesting to see how the fate of Poland and the Baltic states, which had at least at the statistical level been very similar before the crisis, diverged in this case. In fact, the contrast could not have been starker, with the Baltics topping the ranking of the greatest economic declines during the crisis, while Poland occupied the most fortunate (i.e. last) position in this table.

**Though the connection between regional location and GDP trends is obvious, the link between the surge in populism and extremism on the hand, and GDP developments on the other is less obvious**. The most obvious

gap, as it were, between expectations and reality is that the **despite the incredible turmoil in the Baltics, the respective party systems were not overrun by populists and extremists.** Fringe parties did experience a surge in Latvia and Lithuania, in European comparison their numbers were nothing out of the ordinary, and Estonia was not even riled up as much as the two other Baltic countries. As we previously noted, our figures do not necessarily capture the impact that populism and extremism had on the party systems, nor how much domestic politics were upset in the time period investigated, for these could have manifested themselves in a variety of ways not discussed. Yet it is clear that despite the massive economic up and down experienced by these countries, the political repercussions were less extreme than in, say, Greece. Of course, it is also true that the despite the enormous fluctuations, the time span of decline was much briefer in the Baltics, and the overall growth rate over the past 9 years was considerable despite the massive GDP drop in 2009. Neither of these conditions applied to Greece.

**There is also no clear indication as to why the UK, Sweden and Germany experienced a rise in the strength of populist parties when their economies did fairly well in European comparison,** but of course the explanation is more likely rooted in concerns about keeping this wealth, as we noted above. These concerns, **immigration in particular, were economy related, of course, but less direct than GDP.** These considerations make it difficult to assess at first sight how strong the relationship between GDP and populism and/or extremism is, which is why a more detailed statistical analysis is necessary.

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