

Bocconi

EU-WIDE INEQUALITY AND ITS CONTRAST DURING COVID-POLICY CONSIDERATIONS

STEFANO FILAURO, GEORG FISCHER

IEP@BU Policy Brief
n.58

April 2026



Università
Bocconi

IEP@BU
Institute for European
Policymaking

ISSN 3035-577X
IEP@BU Policy Briefs Series
[online]



Executive Summary

This Policy Brief updates the empirical picture of pan-EU income inequality — treating EU citizens as if they lived in a single state, with incomes corrected for purchasing power parities — using post-pandemic EU-SILC data covering 2013–2023.

The COVID-19 crisis constituted a major stress test for EU labour markets and redistribution systems. The evidence shows that the EU passed that test with notable resilience, while also revealing fault lines that will require sustained policy attention.

In the run-up to the COVID-19 crisis, growing EU attention to inequality — reflected in the European Pillar of Social Rights, the Porto Declaration, and subsequent legislative action — signalled a stronger policy orientation with the potential to curb income disparities. During the pandemic, instruments such as SURE reinforced this approach by supporting job-retention schemes and limiting income losses. While the effects of these policies are typically assessed in terms of within-country inequality, their potential contribution to reducing disparities between member states — and thereby shaping inequality at the EU level—has received comparatively less attention.

Key Findings

Finding 1 — The EU redistributive system held firm. Market income inequality rose sharply in 2020, but disposable-income inequality remained broadly stable throughout the pandemic and its aftermath.

By 2023, the EU tax-benefit system reduces market inequality by around 38% — a capacity that has been slightly strengthened over time.

Redistribution in the EU operates as a structural equalising mechanism, not merely a discretionary crisis response; automatic stabilisers and existing institutions absorbed most of the shock.

Finding 2 — Between-country convergence continued. The between-country component of inequality has continued its long-run decline, accounting for less than 15% of total EU inequality by 2023 — and this trend did not stall during the COVID years.

EU inequality today is increasingly shaped by within-country distributions rather than persistent gaps between member states. Importantly, there are EU-level instruments — such as the SURE — which can address both dimensions simultaneously: it was extensively used in fiscally constrained member states, and it supported lower-income and non-standard workers, with a large potential to compress within-country inequality too.

Finding 3 — The EU–US contrast is instructive. In the US, the tax-transfer system's reduction of market inequality surged to around 27% at the height of COVID — driven by extraordinary measures such as extended unemployment benefits and the Child Tax Credit — before fading back to roughly 22%.

This highlights a key distinction: temporary policy action can reduce inequality, but it does not substitute for durable redistributive architecture.

The EU's institutionalised redistribution proved more stable than ad hoc crisis interventions.

The evidence on SURE's distributional impact is relatively solid. The evidence on the Recovery and Resilience Facility (RRF) is more uncertain: its estimated GDP effects are higher in Central, Eastern and Southern European economies, suggesting upward convergence, but a definitive assessment of its impact on income inequality is still pending. Moreover, the use of the RRF for social objectives



varied widely across member states, with several higher-inequality countries not being among the most active (Hacker 2023).

The findings point to a two-pillar framework for sustaining convergence and reducing income inequality across the EU. Both pillars require active EU-level engagement, though through different mechanisms

Pillar 1: Market Convergence

Market convergence depends on economic integration, wage-setting institutions, labour market performance, and productivity catch-up.

Pillar 2: Redistributive Convergence

Redistribution remains primarily a national competence, but EU governance can drive upward convergence in redistributive capacity.

Cross-Cutting Recommendation: Maintain the Two-Pillar Balance

The two pillars are complementary, not substitutes. Under fiscal pressure, there is a risk that pre-distribution and market convergence are prioritised over redistribution — or vice versa.

The evidence in this Policy Brief shows that both matter: the EU's redistributive architecture was what held inequality stable during COVID, while market convergence has been the primary driver of between-country income equalisation over the longer run.

Sacrificing either pillar risks stalling convergence and re-amplifying income inequality, undermining social cohesion, public support for addressing new collective challenges, and ultimately the legitimacy of the European project itself.



Introduction

Inequality has moved from a social concern to a macroeconomic and political risk, with implications for growth, institutional trust and the legitimacy of European integration. Previous studies highlighted that, for a Union of States, increasing inequality among countries can act as a force against the Union and reinforce anti-Union sentiment (Milanovic 2010).

As EU attention to inequality grew in the years approaching the COVID crisis, the adoption of the European Pillar of Social Rights (EPSR) introduced the Income Quintile Share Ratio (S80/S20) as a headline indicator of the EPSR Scoreboard,¹ and the Porto Declaration committed EU leaders to reducing inequalities, fighting social exclusion and fostering upward convergence.

That commitment has generated concrete legislative action with an effective potential to curb income inequalities—the Minimum Wage Directive, the Pay Transparency Directive and the Platform Workers Directive.

Moreover, during the pandemic, the SURE instrument provided targeted financial assistance for national job, -retention schemes, primarily in Southern and Central/Eastern Europe, helping prevent the income losses seen in the Great Recession (Vandenbroucke et al. 2020).

Much of the debate on inequality remains focused on national trends, leaving the pan-EU dimension underexplored. With post-pandemic data now available (EU-SILC), this Policy Brief updates the empirical picture of pan-EU inequality—treating EU citizens as if they lived in a single state, whose incomes are corrected for purchasing power parities—to assess whether Europe's convergence and redistributive mechanisms held under extreme pressure. Following standard practice, inequality is measured using the Gini coefficient to assess the extent of redistribution, while convergence is analysed using the Theil index, an inequality index which is particularly useful due to its perfect decomposability into between- and within-country components.

COVID-19 as a stress test for pan-EU inequality

The pandemic posed a severe threat to income distribution. Lockdowns and sectoral shutdowns fell hardest on low-paid and precarious workers, fuelling fears of a sharp and lasting rise in inequality. Early assessments warned that asymmetric recoveries could reverse years of gradual within-EU convergence (Almeida et al. 2021).

Governments responded rapidly and at scale: short-time work schemes, emergency transfers, and discretionary fiscal support were deployed across Europe, in many cases backed by SURE. The central question is whether these measures merely cushioned a temporary shock—or revealed

¹This indicator is published for each member state and the population-weighted average of national indicators as EU-27. For the difference between inequality indicators at the national and the pan-EU level, see the Box at the end.



deeper structural properties of the EU redistributive system. Post-pandemic evidence now allows us to answer that question.

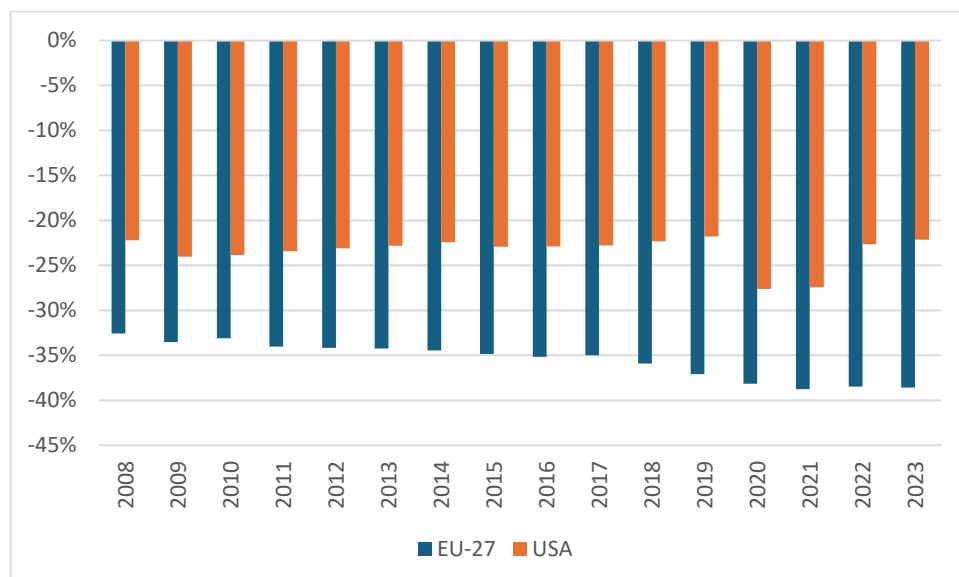
New evidence on inequality and redistribution in the EU

The updated evidence points to a remarkably stable and resilient redistributive architecture in the EU, consistent with findings for the pre-COVID period discussed in previous columns ([Fischer and Filauro 2021](#); [Vacas Soriano 2024](#); [Milanovic 2026](#)) and papers ([Brandolini & Rosolia 2019](#); [Dauderstadt 2022](#)). In a context of declining EU-level inequality, with the EU-wide Gini reaching its lowest level in 2023 (Gini = 0.32; see Figure A1 in the Box), three main findings stand out.

First, the EU redistributive system held firm even under extreme economic pressure. Market income inequality rose sharply in 2020, but disposable-income inequality remained broadly stable throughout the pandemic and its aftermath. Redistribution is measured as the reduction in the Gini coefficient—one of the most widely used inequality indices — when moving from market income (pre-tax and transfers) to disposable income (post-tax and transfers).

By 2023, the EU tax-benefit system reduces market inequality by around 38%—and this redistributive capacity has been slightly strengthened over time (Figure 1). This pattern suggests that redistribution in the EU operated as a structural equalising mechanism, not merely a discretionary crisis response.

Figure 1: Inequality reduction (%) through taxes and transfers, EU vs US. Gini index



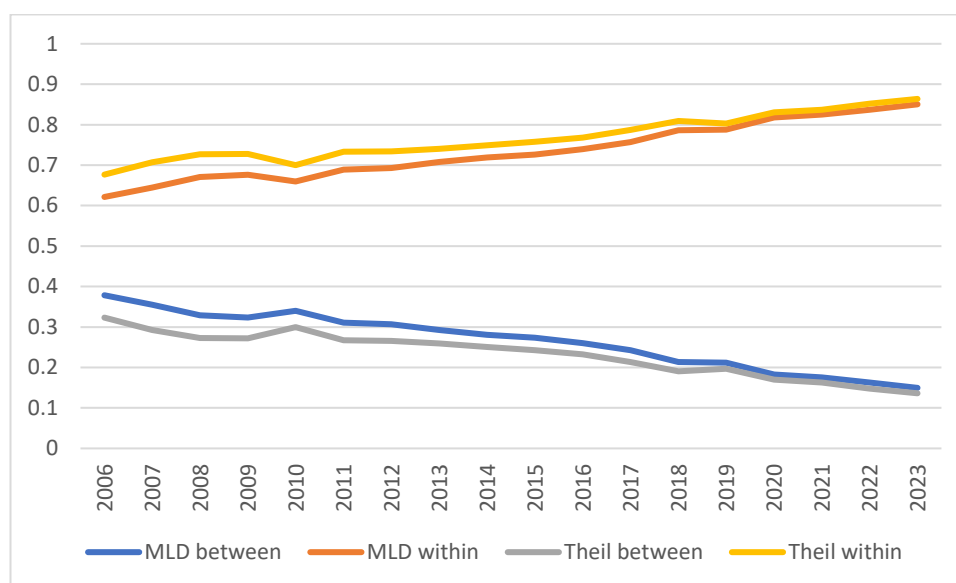
Note: own calculations from EU-SILC data for the EU-27 and OECD data for the US



Second, the between-country component of inequality within the EU has continued its long-run decline accounting for less than 15% of total EU inequality by 2023 (Figure 2, it accounted for more than 30% of total inequality back in 2006)—and this trend did not stall during the COVID years.

Using the Theil index as a decomposable measure of inequality (and the mean log deviation for sensitivity), total EU-level inequality can be split into two components: the average of within-country inequality and the inequality that would be observed if all individuals had their country's mean income, capturing between-country differences. The decomposition analysis confirms that EU inequality today is increasingly driven by within-country income distributions rather than persistent gaps between member states. The EU convergence machine continued to function even under severe stress.

Figure 2: Between- vs. within-country inequality in the EU (Theil and MLD)



Note: own calculations from EU-SILC data. The Theil index and the MLD are inequality measures from the family of generalised entropy indices. They can be perfectly decomposed into within-country and between-country components.

This structural shift has important implications. As between-country gaps narrow, further progress on pan-EU inequality will depend increasingly on within-country distributions, shaped by national labour markets and national redistribution. The within-country component in the decomposition reflects a weighted aggregate across all member states. A reduction in this component therefore requires inequality to fall across a broad range of countries — developments confined to a few, even large, member states will have a more limited effect on the EU-wide within-country measure.

SURE was an instructive example of an instrument that addressed both between- and within-country income inequality simultaneously. On the one hand, it was extensively used in fiscally constrained Member States; on the other, it supported generally lower-income workers, including those in non-standard employment and the solo self-employed (Fischer et al 2026).

While for the €100bn SURE programme there is broad agreement on its inequality-reducing effects, the effects of broader COVID-era EU policy instruments such as the Recovery and Resilience Facility



(RRF) are less clear-cut.

Evidence that GDP effects have been stronger in Central and Eastern and Southern European economies (European Commission 2024, Figures 2 and 3) suggests that the RRF may have supported upward convergence. However, its impact on income inequality remains more uncertain.

The RRF includes explicit social objectives, notably promoting inclusion and gender equality. Around 30% of spending is estimated to target such objectives (Bokhorst and Schreurs 2023). Yet implementation has varied widely across member states, with some higher-inequality countries not among the most active (Hacker 2023).

Hence, while the mid-term evaluation identifies areas of potential impact, more definitive conclusions will only be possible once the final evaluation is available.

Third, the contrast with the United States is instructive. In the US, the tax-transfer system's reduction of market inequality surged to around 27% at the height of COVID — driven by extraordinary income-support measures such as the extended UI-benefits and Child Tax Credit. That effect has since faded, with redistribution falling back to roughly 22%, close to pre-pandemic norms (Figure 1).

This contrast highlights a key distinction: temporary policy action can reduce inequality, but they do not substitute for durable redistributive architecture once they are discontinued. The EU experience demonstrates the stabilising value of institutionalised redistribution relative to ad hoc policy interventions.

Protecting two pillars for inequality reduction

These findings point to a clear policy framework. Sustaining convergence in the EU requires protecting two complementary pillars, each with a distinct role for EU-level action.

The first pillar refers to **market convergence**, which depends on economic integration, wage-setting institutions, labour-market performance, and productivity catch-up.

Adequate minimum wages — which can improve the EU-wide wage distribution ([Filauro et al. 2025](#)) — collective bargaining coverage, fair working conditions, and skills upgrading are central to this pillar. Recent EU directives directly advance this agenda. The Minimum Wage Directive has already influenced wage-setting across the EU and will gradually increase collective bargaining coverage (Müller 2025). The Platform Workers Directive requires member states to improve the employment status of platform workers, fostering more equal treatment in remuneration, working conditions and job security.

However, employment growth alone does not automatically reduce inequality: not all new jobs provide adequate earnings. The recently announced [Quality Jobs Roadmap](#) — including a proposed Quality Jobs Act — underlines the importance of collective bargaining on earnings and working conditions.

The second pillar refers to **redistributive convergence**, which relies on effective and upwardly convergent tax-benefit systems across member states.

While redistribution remains primarily a national competence, EU governance mechanisms —



notably the European Semester—can monitor and encourage convergence in effective redistributive capacity. Current EU-level monitoring focuses on poverty rather than inequality or redistribution as such, reflecting the Porto target of reducing the number of people at risk of poverty or social exclusion by at least 15 million. Reaching it would itself reduce disposable income inequality—making poverty reduction a point of convergence between the two pillars, despite currently insufficient progress toward this target.

Beyond poverty monitoring, stronger tax coordination or expanded EU own resources funded through taxation represent an important frontier. The EU Tax Observatory (Alstadsæter et al. 2024) and others have put forward concrete proposals in this space — for instance, a minimum effective tax rate on wealthy individuals—that merit serious consideration as part of a broader agenda for redistributive convergence.

In the meantime, new challenges are emerging for public action. Rising fiscal pressures — such as the currently discussed increases in military and security spending as well as ecological investment — make maintaining this balance more difficult. Given increasing public finance constraints there is a risk that pre-distribution and market convergence are prioritised over redistribution — or vice versa.

However, **the two pillars are complementary, not substitutes**. The evidence in this Policy Brief shows that both pillars matter: the EU's redistributive architecture was what held inequality stable during COVID, not least through EU-funded programmes.

The EU redistributive system held firm under COVID-19 stress, with the tax-benefit system reducing market inequality by around 38% by 2023 — slightly more than before the pandemic. Market convergence supported by relevant EU initiatives has been the primary driver of between-country income equalisation over the longer run. Between-country inequality continued its long-run decline, falling below 15% of total EU inequality.

Targeted EU-level initiatives — in particular a European unemployment re-insurance scheme — could be a cost-effective mechanism to promote social convergence both within and across European countries. And the contrast with the United States — where extraordinary redistribution during COVID has since unwound — underlines that durable architecture outperforms ad hoc crisis responses.

Protecting and strengthening both pillars is therefore not only a matter of social justice, but of structural resilience.

While emphasis might change with economic or fiscal pressure sacrificing either pillar risks stalling convergence and re-amplifying income inequality, undermining social cohesion, public support for addressing new collective challenges, and ultimately the legitimacy of the European project itself.



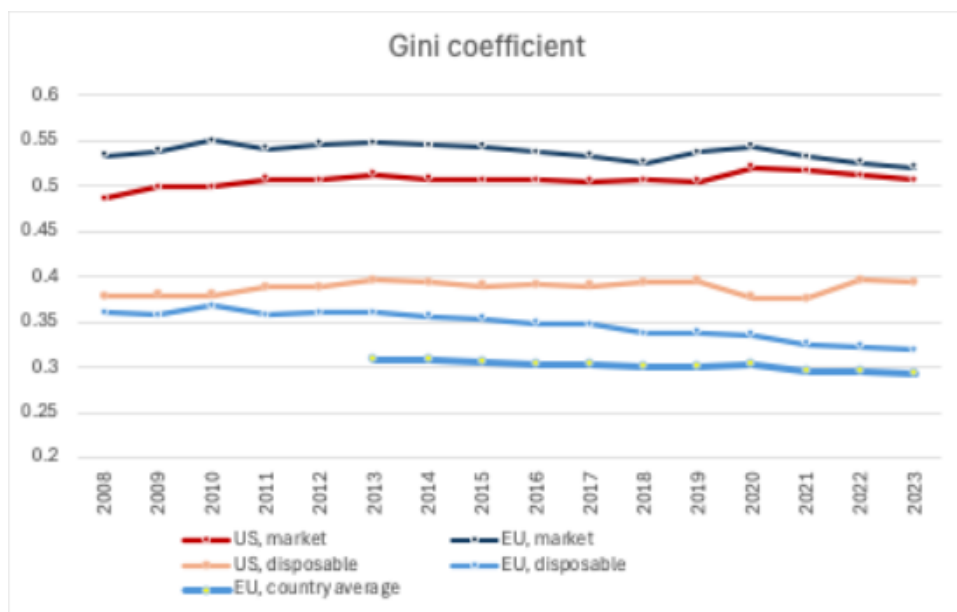
Box: EU-wide inequality versus the EUROSTAT member-state average

Measuring inequality *at EU level* — treating all EU citizens as if they lived in a single state — differs from EUROSTAT's published figure, which is a population-weighted average of national Gini coefficients. Figure A1 shows both series for 2013–2023. The EU-wide Gini is higher than the EUROSTAT figure, since it captures between-country gaps that averages of national Gini coefficients omit. Crucially, the difference has halved — from around 5 percentage points in 2013 to 2.6 percentage points in 2023 — directly reflecting the decline in between-country inequality documented in Figure 2.

The EU-level figure is also the appropriate basis for comparison with the US, as the two entities are treated equivalently in statistical terms. This comparison is striking: market income inequality, which used to be markedly higher in the EU, is now almost at the same level as in the US, while the gap in disposable income inequality has widened further in the EU's favour. This reflects the breadth of each Union-level distribution — encompassing countries as different as Luxembourg and Bulgaria on one side, and states as different as Maryland and Mississippi on the other.

Market incomes in the EU are distributed quite unequally before taxes and transfers, partly because very high market incomes in highly progressive countries stretch the upper end of the distribution considerably, making EU market income inequality higher than in the US. However, due to the progressivity applied by richer EU countries — whose high-income individuals make up the lion's share of EU market incomes — the EU distribution of post-tax/transfer income is considerably more equal than in the US.

Figure A1: Gini coefficients, EU and US (market and disposable income); EU-wide vs. EUROSTAT weighted average



References

- Almeida, V, S Barrios, M Christl, S De Poli, A Tumino and W van der Wielen (2021), "The impact of COVID-19 on households' income in the EU", *Journal of Economic Inequality* 19: 413–431.
- Alstadsæter, A, S Godar, P Nicolaidis and G Zucman (2024), *Global Tax Evasion Report 2024*, EU Tax Observatory, Paris School of Economics.
- Bokhorst, D J and S Schreurs (2023), *Europe's Social Revival: From Gothenburg to Next Generation EU*, European Policy Analysis No. 2023/14, Swedish Institute for European Policy Studies.
- Brandolini, A and A Rosolia (2019), "The distribution of well-being among Europeans", Bank of Italy Occasional Paper No. 496. Available at: <https://doi.org/10.2139/ssrn.3433102>.
- Dauderstädt, M. (2022). International inequality and the COVID-19 pandemic. *Intereconomics*, 57(1), 40-46.
- European Commission (2024), *Mid-Term Evaluation of the Recovery and Resilience Facility: Strengthening the EU through Ambitious Reforms and Investments*, SWD(2024) 82 final, Brussels.
- Filauro, S, K Grünberger and E Narazani (2025), "Coordinated minimum wage policies: Impacts on EU-level income inequality", *The B.E. Journal of Economic Analysis & Policy* 25(2): 209–246. <https://doi.org/10.1515/bejeap-2024-0103>.
- Fischer, G and S Filauro (2021), "Income inequality in the EU: General trends and policy implications", VoxEU.org, 17 April.
- Fischer, G, R Strauss and S Spasova (2026), *A European Unemployment Reinsurance Scheme Revisited*, OSE Research Paper No. 71, European Social Observatory.
- Hacker, B (2023), *The European Pillar of Social Rights: Impact and Advancement*, SWP Research Paper No. 2023/RP14, Stiftung Wissenschaft und Politik, Berlin.
- Milanovic, B (2010), *The Haves and the Have-Nots: A Brief and Idiosyncratic History of Global Inequality* Hardcover – December 28, 2010
- Milanovic, B (2026), "The facts of European (EU27) income convergence: How is Europe becoming more equal?", *Global Inequality and More 3.0* [blog], 02/04/2026.
- Müller, T (2025), "I'm still standing: Transposition and political impact of the Directive on Adequate Minimum Wages in the EU", *Italian Labour Law e-Journal* 18(2). <https://doi.org/10.6092/issn.1561-8048/23601>.
- Vacas Soriano, C (2024), "A picture of income inequality and middle classes across the EU", VoxEU.org, 8 October.
- Vandenbroucke, F, L Andor, R Beetsma, B Burgoon, G Fischer, T Kuhn, C Luigjes and F Nicoli (2020), "The European Commission's SURE initiative and euro area unemployment re-insurance", VoxEU.org, 6 April.

