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Back to Normal? Convergence of Multidimensional Inequality in the Euro Area

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Over the last decades, variation in living standard across Europe decreased, but with the last recession, convergence came to halt. This paper estimates multidimensional inequality for the euro area to assess sigma-convergence and to test for convergence clubs of inequality. The contribution of the individual dimensions to between-country inequality is quantified by decomposing transnational inequality into factor shares and subgroups using counterfactual distributions. Multidimensional inequality has increased significantly since 2008, mainly driven by the income inequality, unemployment, a higher correlation between dimensions, and rising cross-country differences. In 2014 divergence reached a level, that was only known before the introduction of the Euro. Between-country is mostly driven by income, while only multidimensional inequality indicates relative club convergence among southern European countries and a surprisingly strong contribution of Germany to divergence. In contrast, the formal test rejects club convergence among central European countries, irrespective of the type of inequality. Despite the economic recovery and initial reliefs of inequality, the persistent between-country differences remain a critical challenge for European convergence policies.