

# Inequalities, Employment and Income Convergence:

## Evidence from Regional Data

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### **Abstract:**

This paper explores the relationship between pay inequality and unemployment rates for 187 European Regions from 1984-2003. We measure inequality within the regions -- between 16 industrial sectors in each region -- and also between the regions: thus the inequality measures are nested. Our model of unemployment employs a panel structure that permits us to separate regional, national and continental influences on European unemployment. This allows us to test whether a tradeoff exists between cohesion and competitiveness. We find no evidence of this tradeoff; instead lower pay inequality is generally associated with a lower regional unemployment rate. We find strong country effects lowering unemployment (relative to the model) in relatively smaller countries such as Ireland, Austria, Portugal and the Netherlands; on the other hand unemployment is high, relative to the model, in Spain and Poland. Time effects reveal the effects of European macro-environment on regional unemployment. We find an employment penalty associated with the Maastricht Treaty (1992) and its implementation of around four percentage points, lasting until 1998, when a general reduction in unemployment appears to coincide with the arrival of the Euro. Unfortunately, the pattern is again reversed in 2000, coinciding with the implementation of the Lisbon Treaty.