



EDITED BY JAN HANSEN, JOCHEN HUNG, JAROSLAV IRA,
JUDIT KLEMENT, SYLVAIN LESAGE, JUAN LUIS SIMAL, AND
ANDREW TOMPKINS

THE EUROPEAN EXPERIENCE

A Multi-Perspective History
of Modern Europe, 1500-2000



<https://www.openbookpublishers.com>

© 2023 Jan Hansen, Jochen Hung, Jaroslav Ira, Judit Klement, Sylvain Lesage, Juan Luis Simal and Andrew Tompkins. Copyright of individual chapters is maintained by the chapter's authors



This work is licensed under an Attribution-NonCommercial 4.0 International (CC BY-NC 4.0). This license allows you to share, copy, distribute and transmit the text; to adapt the text for non-commercial purposes of the text providing attribution is made to the authors (but not in any way that suggests that they endorse you or your use of the work). Attribution should include the following information:

Jan Hansen, Jochen Hung, Jaroslav Ira, Judit Klement, Sylvain Lesage, Juan Luis Simal and Andrew Tompkins (eds), *The European Experience: A Multi-Perspective History of Modern Europe*. Cambridge, UK: Open Book Publishers, 2023, <https://doi.org/10.11647/OBP.0323>

Copyright and permissions for the reuse of many of the images included in this publication differ from the above. This information is provided in the captions and in the list of illustrations. Every effort has been made to identify and contact copyright holders and any omission or error will be corrected if notification is made to the publisher.

Further details about CC BY-NC licenses are available at <http://creativecommons.org/licenses/by-nc/4.0/>

All external links were active at the time of publication unless otherwise stated and have been archived via the Internet Archive Wayback Machine at <https://archive.org/web>

Digital material and resources associated with this volume are available at <https://doi.org/10.11647/OBP.0323#resources>

This book is one of the outcomes of the Erasmus+ Strategic Partnership “Teaching European History in the 21st Century”, which ran from 2019-2022 and was funded by the European Commission under the Erasmus+ Key Action 2 (Cooperation for innovation and the exchange of good practices).



The European Commission's support for the production of this publication does not constitute an endorsement of the contents, which reflect the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

ISBN Paperback: 978-1-80064-870-8

ISBN Hardback: 978-1-80064-871-5

ISBN Digital (PDF): 978-1-80064-872-2

ISBN Digital ebook (epub): 978-1-80064-873-9

ISBN Digital ebook (azw3): 978-1-80064-874-6

ISBN XML: 978-1-80064-875-3

ISBN HTML: 978-1-80064-876-0

DOI: 10.11647/OBP.0323

Cover image: Wilhelm Gunkel, *Fly Angel Fly* (2019). Cover design by Katy Saunders

5.2.3 Distributing Wealth in Contemporary History (ca. 1900–2000)

Eszter Bartha and Jiří Janáč

Introduction

Twentieth-century Europe became a stage for social experimentation. The experience of nineteenth-century industrialisation and its often negative social consequences—perhaps best exemplified by the impoverished condition of the rapidly growing ‘urban proletariat’—translated into the political mobilisation of the working class which, within the structure of strong nation states with universal suffrage, paved the way for a large-scale implementation of redistributive policies. European models of wealth distribution did indeed succeed predominantly due to the support from the politically strong labour movement. Trends in income inequality over the twentieth century, measured by household income within individual countries, followed a U-shaped curve in most of Europe: declining from the end of the nineteenth century through to the 1970s and rising again in the last three decades of the century. The rise and fall of the labour movement across all European countries almost perfectly correlates with this development.

In their analysis of the twentieth century, some contemporary social theorists at least implicitly support the thesis that wealth distribution within a given society generally tends toward growing inequality in the long term, which is occasionally corrected by catastrophic events, such as pandemics and most importantly large-scale military conflicts. Other historians argue that instead of ‘shocks’, structural, cyclical ‘Kuznets waves’ explain the (generally undisputed) levelling of the income gap and its stabilisation at relatively modest levels before 1970. In their perspective, globalisation, technological change, and associated social consequences were primary drivers behind the

rapid rise in inequality not only in Europe but on the global stage in the last decades of the twentieth century. Economist and historian Thomas Piketty articulates a third interpretation—he emphasises the role of the two World Wars as “great levellers” which incited significant constriction of wealth disparities. However, he continues, wars and other shocks could hardly guarantee singlehandedly the narrowing of gaps in wealth. What is needed to level gaps, is a particular social and political configuration, in which the masses of ordinary people have strong leverage and a voice in the articulation of the response to a shock. European industrial societies could indeed serve as a primary example of such configurations.

Trends in Inequality

Generally, twentieth-century Europe witnessed a process sometimes labelled the ‘great levelling in the rich world’. Almost without exception, European countries experienced massive reductions in income inequality as social democratic policies, characterised by higher taxes on the wealthy (progressive taxation) and redistributive programmes—policies associated with the ‘welfare state’—became almost universally accepted. Initially, this trend was attributed to the economic cycle of liberal capitalism associated with the processes of industrialisation, which first led to concentration of wealth in the hands of economic elites in the nineteenth century, followed by the growing participation of emergent middle classes in the distribution of wealth thereafter. Nonetheless, recent studies propose less deterministic perspectives, pointing out the crucial effect that the Great Depression and the two World Wars cast on wealth distribution trends. Furthermore, the narrowing of the income gap has not always been followed by a corresponding trend in wealth inequality: some countries, such as the Netherlands, showed relatively low-income inequality while preserving considerable wealth inequality (Gini coefficient of 0.29 vs 0.89 as of 2016—with zero meaning perfect equality and one absolute inequality). While there is a clear connection between the two—since income from property in the end contributes to income inequality—it would be short-sighted to focus simply on the former.

While the general trend holds over the entire European continent, the situations in particular countries show significant variation. For instance, Sweden departs from the model by recording a continual decline in the income gap between 1890 and 1980, while most European countries experienced a short-term reversal directly before the First World War and then again in the relatively prosperous 1920s, up until the arrival of the Great Depression. By comparison, in Francoist Spain, inequality remained relatively stable (with a Gini coefficient of 0.35 in 1910, 1950 and 1970). The regimes in communist

Eastern Europe played a dominant role in the preservation of extremely low levels of income inequality in those countries throughout the 1970s and 1980s.

While wealth and income inequalities were particularly high in Eastern Europe before the Second World War, the triumph of the Red Army and the consequences of the Yalta Conference opened a new chapter in the history of these countries. They became part of the Soviet/Eastern Bloc and adopted Soviet models of political and economic governance, including the dictatorship of the proletariat and the planned economy. Stalinist industrialisation after the Second World War was accompanied by a radical redistribution of wealth. The abolishment of private ownership of 'the means of production' rendered income almost dependent on earnings, where a radical levelling could also be observed. However, labour unrest showed that even workers were not satisfied with the regime: revolts broke out in the German Democratic Republic, in Poland, and in Hungary, where the Revolution of 1956 was led by young workers and intellectuals. To consolidate their political power, communist parties sought to win over the working classes through material concessions. The promise of a 'socialist welfare state' was an attractive slogan after the lean years of high Stalinism in the 1950s. There were concrete improvements as a result of this new policy towards labour: the increase of workers' wages, the construction of new blocks of flats providing better housing, the building of nurseries, kindergartens, and the provision of free education and healthcare. However, statistics showed that educational inequalities continued to exist as the intelligentsia invested more in its cultural reproduction.

The steep decrease in income inequality between 1930 and 1960 seems to be indeed a universal pattern for the vast majority of European economies, and from the 1970s the trend is again towards rising inequality. The eventual collapse of state socialism in 1989/1990 dismantled the 'Iron Curtain'. With the collapse of state socialism, wealth and income inequalities rose quickly in Eastern Europe, too. The collapse of traditional industries was accompanied by very high levels of unemployment and the impoverishment of masses of people. On the other hand, technocratic and financial elites accumulated such wealth that these elite groups could catch up as individuals with the middle classes of the advanced western countries. The numbers tell the story: the income share of the top one percent of the population in Poland dropped from fifteen percent in 1935 to ten percent during the Second World War and fell to almost three percent during the period of high Stalinism. Between 1990 and 1995 the income share of the top one percent rose back to twelve percent, and after a short period of stabilisation it rose again to fifteen percent by 2008. These trends triggered new challenges to the democratic order in Eastern Europe as many people were disappointed with the consequences of a neoliberal

economy, and this disappointment has been mobilised and harnessed by both populist forces and political elites.

Responses and Intellectual Answers to Inequality

Capitalism created stunning inequalities in the distribution of wealth, and the first comprehensive intellectual and practical answer to these stunning inequalities was put forward by German philosophers Karl Marx (1818–1883) and Friedrich Engels (1820–1895). In *The Communist Manifesto*, published in 1848, they argued that human history was the history of class struggle. In their account, capitalism had two main classes: the bourgeoisie and the proletariat, and the latter was exploited by the wealthy classes (landed aristocracy and capitalists). Following the death of their progenitor, Karl Marx, a schism split Marxist parties between two different perspectives on the path to power. One perspective, that of the communists, argued that parliamentary democracies served the interests of the bourgeoisie, and therefore the labour movement had to be revolutionary and conquer political power through the means of class struggle. Social democrats, on the other hand, thought that universal suffrage would help the working classes to power without revolution. While the communists were suspicious of the welfare measures of capitalist states, which ‘softened’ the revolutionary consciousness of the ‘oppressed’ classes, for social democrats, universal suffrage (which was expected to bring the socialist parties into political power) and the economic programme of a welfare state (creating a more proportionate wealth and income distribution through state measures) was a means to achieve the social, economic, and cultural emancipation of the working classes.

The English historian E. P. Thompson originated the concept of moral economy (1971)—the idea that peasant communities share a set of normative attitudes concerning social relations and social behaviours that surround the local economy (e.g., the availability of food, the prices of subsistence commodities, the proper administration of taxation, and the operation of charity). This is sometimes referred to as a ‘subsistence ethic’: the idea that local social arrangements should be structured in such a way as to respect the subsistence needs of the rural poor. The associated theory of political behaviour argues something like this: peasant communities are aroused to protest and rebellion when the terms of the local subsistence ethic are breached by local elites, state authorities, or market forces. The social reactions to the gross material inequalities that capitalism can trigger are varied: the formation of protective working-class associations such as trade unions or charities, taxation, social patronage, the welfare state or—as the most radical form of social change—the building of a communist society.



Fig. 1: Vladimir Lenin Speaking to a Crowd. Wikimedia, Public Domain, https://commons.wikimedia.org/wiki/File:Vladimir_Lenin_Speaking_To_Crowd.jpg.

The Russian Revolution of October 1917 was the first historical event that sought to establish a truly equal society and the abolishment of social classes. After the abandonment of the idea of ‘world revolution’, the Soviet Union—an underdeveloped economy with huge, mostly illiterate peasant populations and geographically concentrated, small-scale industries (mainly driven by western capital)—remained the world’s single socialist country. It was a fundamentally impoverished society, exhausted by the First World War and the Russian Civil War between the Red and White Armies. Huge debates began among the Bolshevik leaders about how to build a socialist economy and a socialist society in circumstances that were objectively so unfavourable. Two opinions gradually formed. Following the lead of the economist Preobrazhensky, Leon Trotsky argued that the capital necessary to finance socialist industrialisation should be extracted out of the agricultural sphere. Nikolai Bukharin, however, recommended the opposite: the peaceful development of agriculture (this was expressed by the slogan directing the peasantry to “enrich yourself!”). These intellectual debates were accompanied by concrete struggles for political power and the contestation of Lenin’s legacy—which were resolved in the rise and dictatorship of Stalin. Following Preobrazhensky’s concept, Stalin adopted the economic programme of collectivisation (the nationalisation of all land), super-industrialisation, the nationalisation of all means of production and the eventual abolishment of private ownership. This programme laid the foundations for what has been called Stalinism. While wealth and income

inequalities drastically fell, other forms of inequality arose: the privileges of state bureaucracy, which included better state housing, the maintenance of a car, access to more exclusive shops, more lucrative canteens and restaurants, etc. These privileges were tied to the state offices, and, in principle, they were not inheritable.

Many western intellectuals refused to recognise the Soviet Union as a socialist country. They described the system as state capitalism, arguing that since the state occupied the property vacuum as a result of its extreme form of nationalisation, the state itself became the main accumulator of wealth, and—therefore, to them—state capitalism is the most suitable term for the Soviet system.

Since most western leftists did not follow the Soviet model, and historical circumstances also did not favour such a development, the western answer to social inequalities was the building of a welfare state. This was, for instance, expressed by the 'Bad Godesberg Programme' adopted by the German Social Democratic Party in 1959, where they renounced the idea of replacing capitalism, and declared their intention to reform it instead, improving workers' material conditions, and elevating them to the middle class.

Ironically, in the 1960s, alongside the development of the welfare state, one could observe a global Marxist renaissance. In the United States, the New Left adopted a strong Marxist language and a Marxist ideology. Alongside Karl Marx, they thought that alienation was the result of the private means of production and increased levels of consumption (and consumption for consumption's sake). The most radical wing of this movement was led by countercultural icon Jerry Rubin, who also founded the Youth International Party—a party which called for a drastic change of private ownership generating a more equal society. The hippie movement, however, in general lacked a feasible economic programme; this was partly the reason for its defeat. In Europe, the left-wing youth of the 1960s achieved their greatest success in France, where the youth movement was actively assisted by the labour movement.

While the hippies of the 1960s advocated for less consumption—or rather, they rebelled against the consumer society—in Eastern Europe the intellectual trend was in the opposite direction. Left-wing intellectuals strongly criticised Stalinist-type societies for creating new inequalities in the form of special privileges reserved for the state bureaucracy, and they called for more, rather than less, socialism. Examples of these perspectives include the Budapest School with Ágnes Heller and Iván Széleny, the Praxis Circle in Yugoslavia, Polish intellectuals such as Adam Michnik or Zygmunt Bauman, and the intellectual advocates of the Prague Spring. At the same time, the economic 'planners' envisaged a more 'capitalist' society in the sense that there ought

to be higher levels of consumption and a more mixed economy (with more market-incentives).

The 1970s and 1980s saw the final defeat of the global Marxist renaissance in western countries. According to left-wing authors such as the Slovenian philosopher Slavoj Žižek, the capitalist state appropriated the slogans of the New Left but formed them in its own image. Since the programme of the welfare state was a state-driven project, the idea that the state should 'withdraw' from education, health care, and the economy (through privatisation), placed the welfare state under serious pressure. Following the lead of the Austrian School of economics, neoliberals saw capitalism as the most important means for unleashing human creative potential and creating the highest amount of possible wealth. They thought that if the neoliberal project were implemented, and more wealth was accumulated around the world, even the lower classes would gain more than in socialist societies. Margaret Thatcher and Ronald Reagan were the first 'pioneers' of this new form of capitalism, which contradicted the Western German model of a social market economy.

From the 1970s the outsourcing of traditional industries to developing countries—mainly to the Asian continent—created high levels of unemployment and posed a huge challenge to the labour movements throughout the western region. Labour was consequently willing to make concessions to capital in order to preserve workplaces. The arrival of the neoliberal order triggered new levels of inequality in income and wealth distribution not only within the capitalist countries but also between the countries of the Global North and the Global South.

Rosa Luxemburg, Trotsky, and Lenin had previously argued that differences in the economic development of countries translate into gross inequalities in income and wealth distribution between the advanced capitalist countries and underdeveloped peripheries. This theory was further refined by Immanuel Wallerstein and the World-systems School (from the 1970s). Proponents of this theory argued that the core countries (the capitalist centre) provide the peripheries with industrial goods, while the periphery serves as a market, a supplier of raw materials, and a source of cheap labour. Thus, the hierarchical relationship between the centre and the periphery is established through unequal exchange.

Alongside the decline of the western left, the state-socialist countries experienced a decline in their economic performance and efficiency. Many countries such as Poland, East Germany, and Hungary became heavily indebted to the West. The tacit compromise with their working classes was no longer feasible: it became increasingly difficult for the communist parties to finance the increasing consumer needs of the population. The workers were envious of the Western levels of consumption. With the opening up of the

world and increasing globalisation, it was no longer possible to lock the West out of the state-socialist countries.

Some critical western authors such as Peter Gowan have argued that after the collapse of state socialism, Eastern Europe became a new laboratory of neoliberalism. Followers of the World-systems School warned of the negative social and economic impacts of the adoption of neoliberalism in Eastern Europe: new forms of unequal exchange, economic dependency on the West, declining standards of living for unemployed people, an increasing income gap, etc. While western leftists hoped that this would lead to the strengthening of the political left in Eastern Europe, in reality, the radical right was more successful in exploiting people's dissatisfaction with the neoliberal order and—in some cases—with liberal democracy itself. Massive migration from East to West also led to political tensions in western societies (such as Brexit in the United Kingdom). Anti-globalist and anti-EU forces pose further challenges to the unity of the European Union, since many people believe that they have lost employment because of globalisation and turn to the radical right for protection from global forces. However, when considering these unfortunate trends, we should also keep in mind the fact that the radical right still constitutes a minority in Europe and liberal democracies have shown considerable resilience.

Conclusion

Income and wealth distribution throughout Europe presents a highly varied picture both historically and geographically. While pre-war Europe was characterised by high levels of inequality and different social problems (e.g., the maintenance of the large estates in Eastern and Southern Europe), after the Second World War, communist parties in Eastern Europe radically reduced wealth and income differences through the imposition of a Soviet-type political and economic order. While this model was unacceptable for many western leftists, the expansion of the welfare state everywhere reduced income gaps and wealth inequality to such an extent that German sociologist Ulrich Beck argued that class had altogether lost its meaning. While we should not exaggerate the similarities between the socialist East and the capitalist West, it can still be argued that both socialist societies and welfare states were driven by the state, whose interference in the capitalist economy the neoliberals intended either to abolish or to drastically decrease.

The neoliberal world order, which has become more entrenched after the collapse of state socialism, reversed the drive for (more) social and material equality. The last decades of the twentieth century—in Eastern Europe the very last decade, after the fall of the Berlin Wall—indeed marked a decisive

departure from the levelling trend throughout the continent and globally. After a decrease in income and wealth inequalities in the post-war era, from the 1970s onwards, but increasingly after the collapse of state socialism, we can again observe rising inequalities in income and wealth distribution. The combined effects of economic globalisation and technological progress produced a rise in inequality which was famously described by Christoph Lakner and Branko Milanovic as an 'Elephant Curve'. Lakner and Milanovic argue that between 1988 and 2008, the global elite enjoyed massive income growth, while traditional middle classes and the poor saw their income stagnate. However, new middle classes outside the Global North experienced a rapid growth in income. While the accuracy of the chart and the methodology behind it has been disputed, it nonetheless serves as a powerful symbol of rising global inequality, a process which seemingly leads to even greater concentration of wealth—if it is not regulated by political action. European models providing free education and healthcare proved relatively successful in limiting income inequality and, according to recent scholarly investigations, in relative terms Europe remains the most equal region of the world.

Discussion questions

1. In which ways did inequality change in Europe over the course of the twentieth century? What were the most important reasons for these changes?
2. How was inequality in income and wealth distribution decreased in capitalist and socialist countries?
3. What was the impact of the Cold War on inequality in twentieth-century Europe?
4. How is the situation regarding inequality different today, and how is it still similar to the twentieth century?

Suggested reading

Alvaredo, Facundo, Lucas Chancel, Thomas Piketty, Emmanuel Saez and Gabriel Zucman, eds, *World Inequality Report 2018* (Cambridge, MA: Harvard University Press, 2018).

Bauman, Zygmunt, *Globalization* (New York: Columbia University Press, 2000).

Beck, Ulrich, *Risk Society: Towards a New Modernity* (London: SAGE, 1992).

Milanovic, Branko, *Global Inequality: A New Approach for the Age of*

Globalization (Cambridge, MA: Harvard University Press, 2016).

Piketty, Thomas, *Capital in the Twenty-First Century* (Cambridge, MA: Harvard University Press, 2014).

Scheidel, Walter, *The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-First Century* (Princeton, NJ: Princeton University Press, 2017).