Inequality and the European Identity

Luxembourg

Frank Cowell, LSE. March 2018

Overview

Agenda

History

- · what do we know about the subject?
- a key European

Economics

- · what do we know about the facts?
- · income, wealth

Attitudes

- what do we know about European opinion?



Inequality: a Botanist's view





Take-away thoughts

1. History

- analysis of inequality born in Europe
- · La Courbe de la Répartition de la Richesse a landmark
- 2. Economics
- is Europe's inequality profile special?
- compared with US, China, Russia yes
- an argument for Pareto as a *European* pioneer?
- Attitudes
- preferences for redistribution associated with European identity
- European identity flagged by €
- confirmed by other identity markers of nationalism

Agenda

• History

- what do we know about the subject?
- a key European

Economics

- what do we know about the facts?
- income, wealth

• Attitudes

• what do we know about European opinion?



• •

Pareto: a life



- Fritz Wilfried Pareto
 - Vilfredo Federico Pareto

La Courbe de la Répartition de la Richesse

VILLES ITALIENNES 4		PRUSSE?				
.7° Francs	N	J [*] Marks	N 1876	1	N 381	N 1886
1 000 2 000 4 000 7 000 10 000 15 000 25 000	59 486 26 968 9 766 4 264 2 397 1 310 645	420 1 650 4 800 16 800 84 000	5 155 32 450 56 66 31 8 03 53	4 5 22 7 47 9 7 3 2	4 654 2 910 5 720 8 785 543	5 557 107 522 321 88 639 10 860 737
SAXE N		BALE ³ I		P. ((LOYERS)	
L' Marks	1880	1886	<i>T</i> Francs	N	.). Franci	N
500 800 1 600 3 300 4 800 9 600 100 000	540 435 200 924 93 747 30 379 16 584 5 503 119	691 183 336 594 115 337 39 127 22 384 8 111 222	800 1 5 00 2 200 4 000 10 000 20 000 100 000	17 324 6 664 4 514 2 039 658 314 128 36	40 70 1 00 2 00 4 00 10 00 20 00	0 278 664 0 129 696 0 86 398 0 38 309 0 14 490 0 2 419 0 459

La Courbe de la Répartition de la Richesse

ANGLETERRE

x	N		Log N	
3	1843	1879-80	1843	1879-80
150 200 300 400 500 600 700 800 900 1 000 2 000 3 000 4 000 5 000	106 637 67 271 38 901 25 472 18 691 13 911 11 239 9 365 7 923 7 029 2 801 1 566 1 040 701	320 162 190 061 101 616 61 720 45 219 33 902 27 008 22 954 19 359 17 963 7 611 4 480 3 050 2 292	5,02791 4.82783 4,58996 4.40606 4,27163 4,14336 4.05073 3,97151 3,89889 3,84689 3,84689 3,44731 3,19479 3,01703 2,84572	5,50537 5,27889 5,00696 4,79043 4,65532 5,53023 4,43149 4,36086 4,28688 4,25438 3,88144 3,65128 3,48430 3,36021
10 000 50 000	2 08 8	853 68	2,31206 0.90309	2,93095 1.83251

A European pioneer

- Facts
 - more than a botanist
- Model
 - how to tackle the analysis of inequality
 - a polymath's approach
- Methods of analysis
 - Pareto's work: still prominent in economics
 - a pioneer in statistical method
- Attitudes
 - all of this *matters*



Pareto today: wealth in GB 2012-14



Pareto's α today

Threshold (million euro)

	1/2	1	2
France	1.75	1.84	1.65
Germany	1.61	1.43	1.43
Italy	1.79	1.85	2
UK	1.5	2.04	2.14

Source: Vermeulen (2014)

Share of the top 1 percent

	1/2	1	2		
France	14	12	16		
Germany	17	25	25		
Italy	13	12	10		
UK	22	10	9		
USA	91	45	39		

Threshold (million euro)

Inequality: a Botanist's view

- A wider view
 - the botanist
- Lorenz curve
 - widely used representation
 - a graph of "shares"
 - important links to economic theory
- Gini coefficient
 - the most widely used inequality index
 - close link to LC



13

Wealth, income and inequality





Gross income----- Assets ---- Net worth







Source: Cowell et al (2017)

Incomes: the top 10%, a 30-year view



Source: World Inequality Report 2018, Figure 2.1.1a, http://wir2018.wid.world

Wealth: top 10% over a century



Source: WIR 2018, 4.2.2, http://wir2018.wid.world

Wealth: top 1% over a century



Source: WIR 2018, 4.2.1, http://wir2018.wid.world

France and UK: Transmitted wealth as % national income



UK and France Transmitted wealth as % personal wealth



Source: Atkinson (2018)

How do people view inequality?



- In the last 10 years, have inequalities in your country increased/decreased/stayed same?
- *Perception of inequalities*, http://www.ifop.com/media/poll/1191-2-study_file.pdf

From perceptions to preferences

- Perceptions of facts influence attitudes
 - willingness to accept inequality
 - willingness to support redistribution
- Preferences for redistribution influenced by
 - multiculturalism and diversity
 - political ideology
- Preferences are not exogenous or immutable
 - cultural differences change
 - political differences change
- May be associated with the phenomenon of identity
 - the basis of recent research

Identity and social preferences

- What is the effect of social identity on preferences?
 - common reference points
 - social norms
- Development of a European identity
 - should have important impact
 - affects solidarity
 - affects individual experiences within a wider community
- How to capture the identity effect?
 - need a model of identity
 - (Costa-Font and Cowell 2015b)

The idea of identity

- Social identities shape individuals' p
 - define a "sense of belonging" to a club
 - the club has norms (a form of externality
 - deviation from the norm can be painful
- Social identity can act as a social tie
 - club loyalty and club benefits
 - can affect support for the welfare state and so for redistribution
- Social change and identity
 - a person may be associated with multiple groups
 - reveal multiple identities
 - outside changes affect role of different identities
 - Costa-Font and Cowell (2015a)



European identity?

- Identifying oneself as European
 - explains satisfaction with value of tolerance
 - with democratic principles
- Development of EU institutions and functions
 - change balance of national/European identities
 - effects on attitudes and their expression
- What about attitudes to inequality?
 - use data on attitudes to redistribution
 - cross-checked with indicators of identity
- To provide evidence of this
 - need observable identity markers
 - make clear distinction national/European

European Values Survey

A. Redistributive Preferences

Rate your agreement on this scale:

1. "Incomes should be made more equal"

. . .

10. "We need larger income differences as incentives for effort"

B. National Pride

How proud are you to be X?

[Very proud, Quite Proud, Not very Proud, Not at all Proud]

C. Confidence in the EU

I am going to name a number of EU organisations... ...how much confidence [do] you have in them? [Great deal of confidence, quite a lot of confidence, ...not very much confidence, none at all]



Identity: the Euro?

- Some European identity markers obvious?
 - introduction of common currency
 - made the European project salient
- €as an experiment
 - planned as a political, social experiment
 - but what about as a social-science experiment?
 - timing allows before/after views
- Introduction of €in countries that joined EU after 2003:
 - increased confidence in the EU
 - reduced the importance of national pride
- Change in European identity common currency:
 - increases preference for redistribution



Identity: other markers

- Is the identity marker good enough?
 - reverse causality?
 - timing?
 - other exogenous changes?
- What type of exogenous events?
 - changes in history curricula
 - citizenship education
 - performance in international contests (Eurovision, the Olympics)
- Put in these "control markers"
 - some of these are strong "instruments" for national/EU identity
 - EU identity is major factor in understanding preferences for redistribution

Take-away thoughts

- 1. History
 - analysis of inequality born in Europe
 - La Courbe de la Répartition de la Richesse a landmark
- 2. Economics
 - is Europe's inequality profile special?
 - compared with US, China, Russia yes
 - an argument for Pareto as a *European* pioneer?
- 3. Attitudes
 - preferences for redistribution associated with European identity
 - European identity flagged by \in
 - confirmed by other identity markers of nationalism

References

- Amoroso, L. (1938) "Vilfredo Pareto," *Econometrica*, **6**, 1-21.
- <u>Atkinson, A. B. (2018)</u> "Wealth and Inheritance in Britain from 1896 to the Present." *Journal of Economic Inequality*, **16**, forthcoming.
- Bowley, A. L. (1924) The Mathematical Groundwork of Economics, Oxford, Oxford University Press
- <u>Cowell, F. A., Nolan, B., Olivera, J. and Van Kerm, P. (2017)</u> "Wealth, Top Incomes and Inequality" in K. Hamilton and C. Hepburn (ed.) National Wealth, Oxford University Press.
- Costa-i-Font, J. and Cowell, F. A. (2015a) "Social identity and redistributive preferences: a survey" Journal of Economic Surveys, 29, 357-374.
- Costa-i-Font, J. and Cowell, F. A. (2015b) "European Identity and Redistributive Preferences" Working Paper, 5412, CESifo
- Cowell, F. A. and Van Kerm, P. (2015) "Wealth distribution: a survey," Journal of Economic Surveys, 29, 671-710.
- <u>Davies, J. B.; Fortin, N. M. and Lemieux, T. (2017)</u> Wealth inequality: Theory, measurement and decomposition Canadian Journal of Economics, 50, 1224-1261
- Pareto, V. (1896). La courbe de la répartition de la richesse. In C. Viret-Genton (Ed.), *Recueil publié par la Faculté de Droit à l'occasion de l'exposition nationale suisse*, Geneva 1896, pp. 371-387. Lausanne: Université de Lausanne.
- Pareto, V. (1896-97) Cours d'Economie Politique, Lausanne, F. Rouge.
- van der Wijk, J. (1939). Inkomens- En Vermogensverdeling. Number 26 in Nederlandsch Economisch Instituut. Haarlem: De Erven F. Bohn, N.V.
- Vermeulen, P. (2014) "How fat is the top tail of the wealth distribution?" Working Paper Series 1692, European Central Bank.