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

- 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

How do people view inequality?

- In the last 10 years, have inequalities in your country increased/decreased/remained the same?

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, Brazil – yes
   - an argument for Puerto as a European pioneer?
3. 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?
La Courbe de la Répartition de la Richesse

Fig. 1.
Pareto: a life

• Fritz Wilfried Pareto
  • Vilfredo Federico Pareto
La Courbe de la Répartition de la Richesse

<table>
<thead>
<tr>
<th>Villes Italiennes</th>
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<th>Saxe</th>
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<th>Paris</th>
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La Courbe de la Répartition de la Richesse

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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*
The Pareto coefficient

<table>
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<tr>
<th>Country</th>
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<td>Prusse</td>
<td>1876</td>
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<td>Villes italiennes</td>
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<td>Paris (loyers)</td>
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Pareto today: wealth in GB 2012-14

Frank Cowell: Luxembourg, March 2018
Pareto’s $\alpha$ today

<table>
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<td>1.61</td>
<td>1.43</td>
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<tr>
<td>Italy</td>
<td>1.79</td>
<td>1.85</td>
<td>2</td>
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<tr>
<td>UK</td>
<td>1.5</td>
<td>2.04</td>
<td>2.14</td>
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Source: Vermeulen (2014)
## Share of the top 1 percent

**Threshold (million euro)**

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<td>UK</td>
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<tr>
<td>USA</td>
<td>91</td>
<td>45</td>
<td>39</td>
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Inequality: a Botanist’s view

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  • the botanist

• Lorenz curve
  • widely used representation
  • a graph of “shares”
  • important links to economic theory

• Gini coefficient
  • the most widely used inequality index
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Wealth, income and inequality

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

Wealth: top 1% over a century

France and UK: Transmitted wealth as % national income

Source: Atkinson (2018)
UK and France Transmitted wealth as % personal wealth

Source: Atkinson (2018)
How do people view inequality?

<table>
<thead>
<tr>
<th>Country</th>
<th>Perception</th>
<th>Increase</th>
<th>Decrease</th>
<th>Stayed Same</th>
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<tbody>
<tr>
<td>Germany</td>
<td>83%</td>
<td>7%</td>
<td>10%</td>
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<tr>
<td>France</td>
<td>80%</td>
<td>7%</td>
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<td>72%</td>
<td>13%</td>
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<tr>
<td>Italy</td>
<td>72%</td>
<td>13%</td>
<td>15%</td>
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<td>Poland</td>
<td>65%</td>
<td>20%</td>
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<td>Netherlands</td>
<td>63%</td>
<td>17%</td>
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<td>Spain</td>
<td>58%</td>
<td>26%</td>
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<td>Great-Britain</td>
<td>56%</td>
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<td>China</td>
<td>54%</td>
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<td>10%</td>
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<td>Brazil</td>
<td>50%</td>
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<tr>
<td>Australia</td>
<td>47%</td>
<td>24%</td>
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<tr>
<td>USA</td>
<td>42%</td>
<td>35%</td>
<td>23%</td>
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- In the last 10 years, have inequalities in your country increased/decreased/stayed same?
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' preferences
  • 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
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

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• Pareto, V. (1896-97) *Cours d'Economie Politique*, Lausanne, F. Rouge.