

# EU disposable income inequality has been falling since 1994

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# Outline

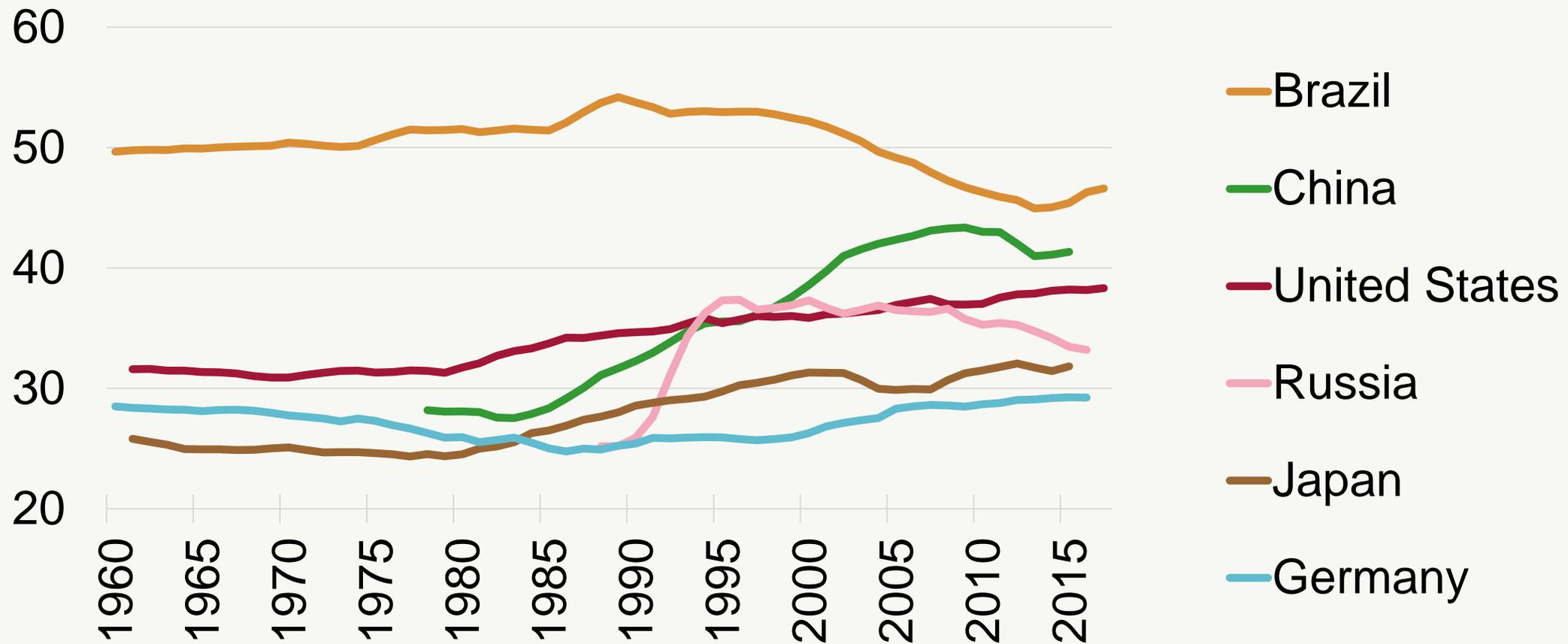
- Major issues in inequality measurement
- The rationale for measuring inequality at the European level
- Estimation results
- Trade-off between national and European inequality?
- How to foster European inequality decline?

# Major issues in inequality measurement

- Inequality of **what**?
  - Income, wealth, health, environment, ...
  - Outcomes vs opportunities
- What should be the **reference group**?
  - Close neighbourhood
  - City/village
  - County/province
  - Country
  - Main regions, such the EU as whole or Africa as a whole
  - The whole world
- What **indicator**? Most popular indicators:
  - Income shares (e.g. the share of top 1% earners and bottom 50% earners in total earnings)
  - Gini coefficient

# Most research focus on within-country income inequality

**Gini coefficient of disposable income inequality in selected countries**



Source: Standardized World Income Inequality Database (SWIID) version 8.0, March 2019

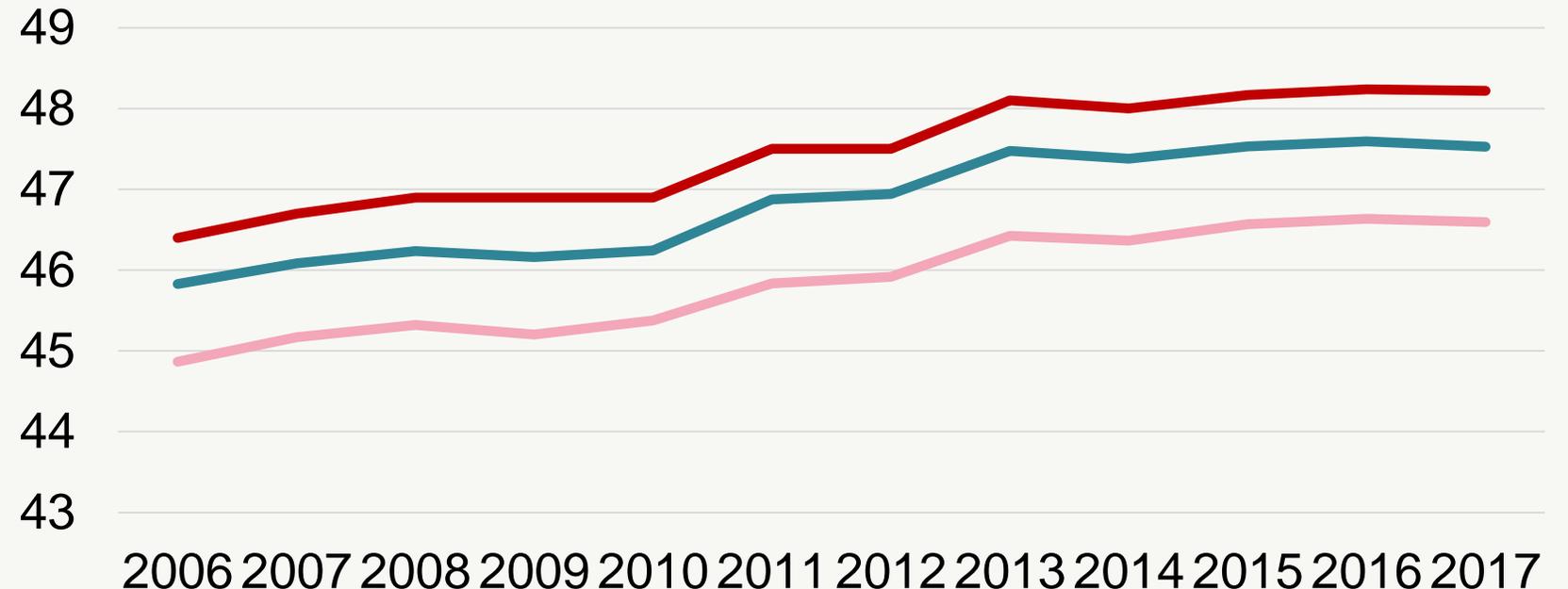
# Rationale for studying European income inequality

- Large countries like the US and China: we do not look at US states or Chinese provinces, but look at the US as a whole and China as a whole → the right comparison is the EU as a whole
- Treaty-based EU goal is the reduction of territorial disparities
- Divergences (e.g. Italy's decade-long decline) could challenge the political sustainability of the EU
- More generally:
  - Concern from the moral perspective: large disparities in individuals' incomes might be considered unjust
  - Determinant of other phenomenon of interest: e.g. migration from poorer to richer countries

# Why not just use an average of country inequality indicators?

- Because inequality indicators are not additively subgroup-decomposable

**E.g. US Gini as published by the Census Bureau and the average of US states' Gini**



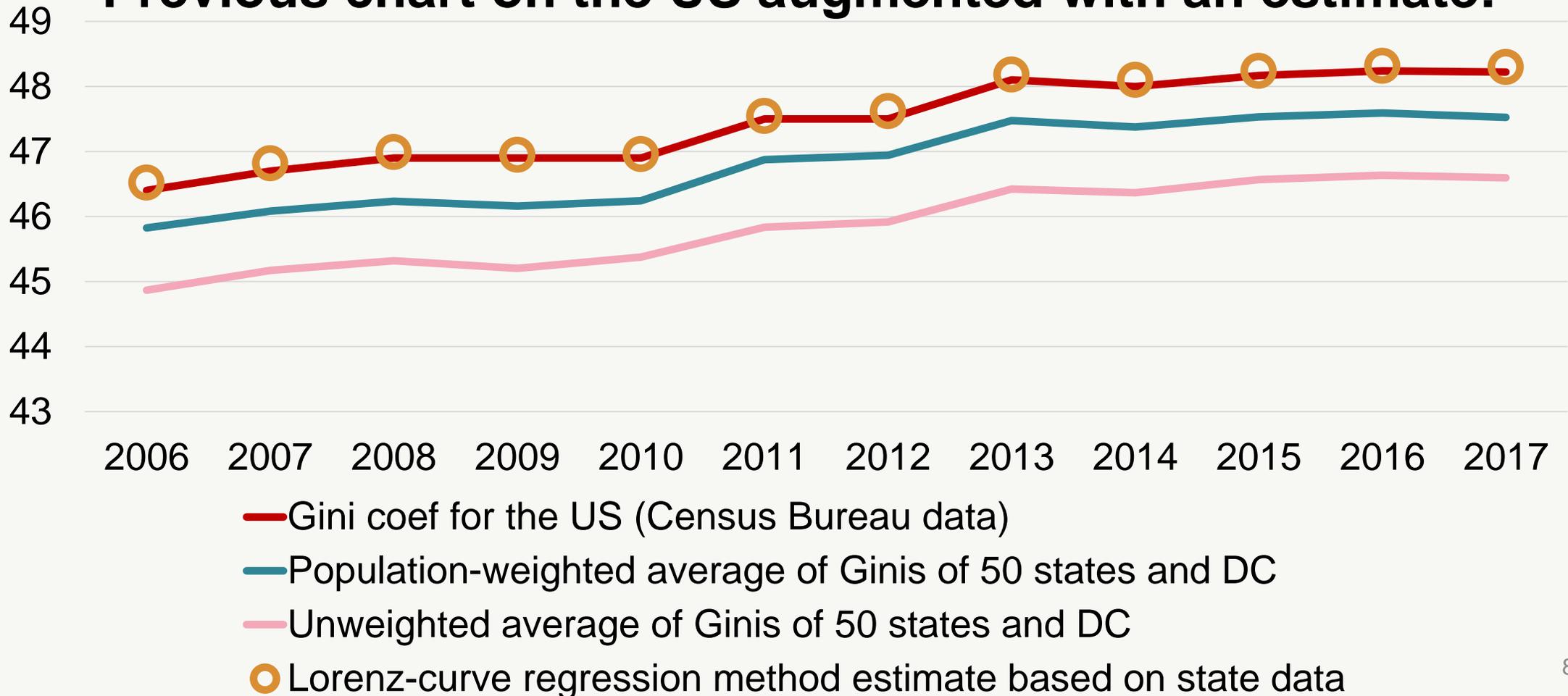
- Gini coef for the US (Census Bureau data)
- Population-weighted average of Ginis of 50 states and DC
- Unweighted average of Ginis of 50 states and DC

# Methods for estimating global income inequality

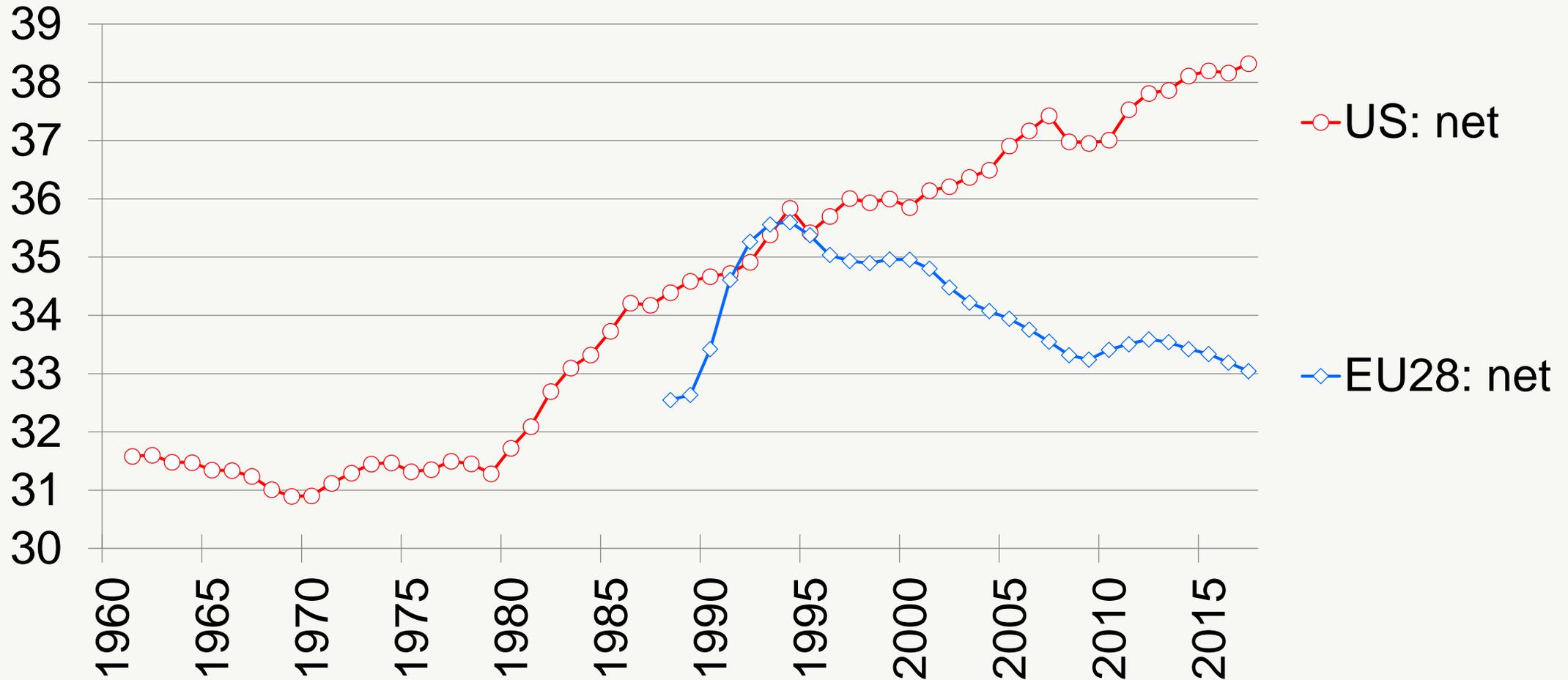
- Identical quantile income method (e.g. Bourguignon and Morrisson 2002, Milanovic 2002)
  - Lorenz-curve regression method (e.g. Kakwani 1980, Bhalla 2002)
  - Kernel density method (Sala-i-Martin 2006)
  - Two-parameter distribution method (e.g. Chotikapanich, Valenzuela and Rao 1997)
- See Darvas (2019, 'Global interpersonal income inequality decline: the role of China and India', World Development) for testing these methodologies

# Some methods are very precise

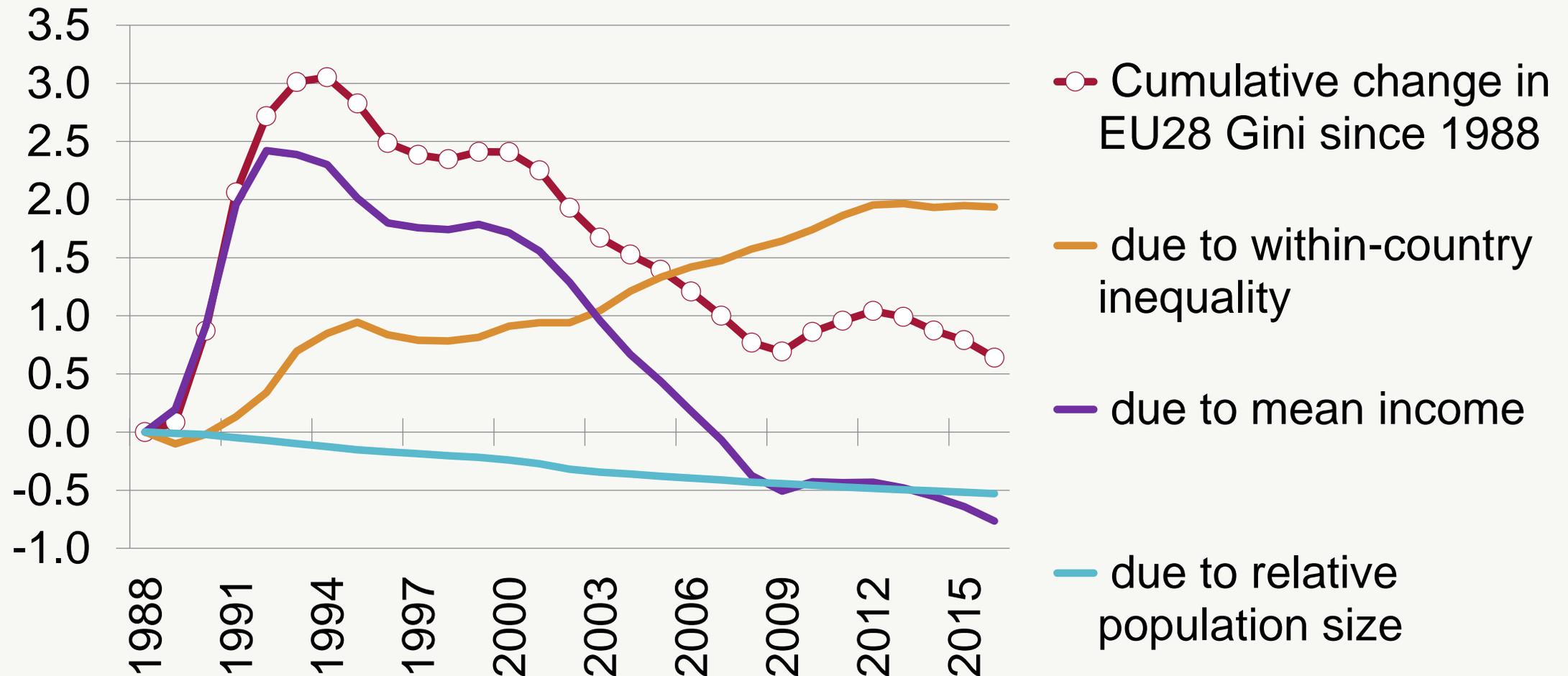
**Previous chart on the US augmented with an estimate:**



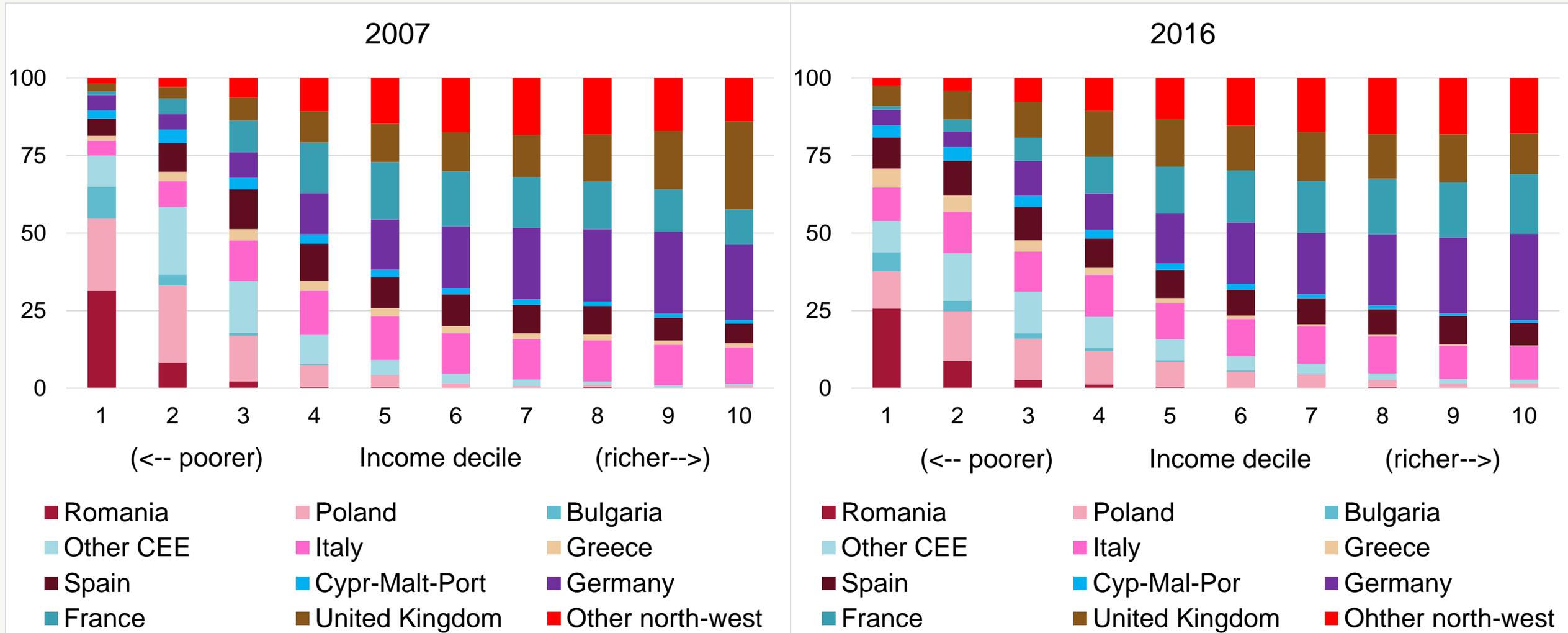
# Gini coef of disposable income inequality: the EU as a whole vs the US as a whole



# Deconstruction of the change in EU disposable income inequality

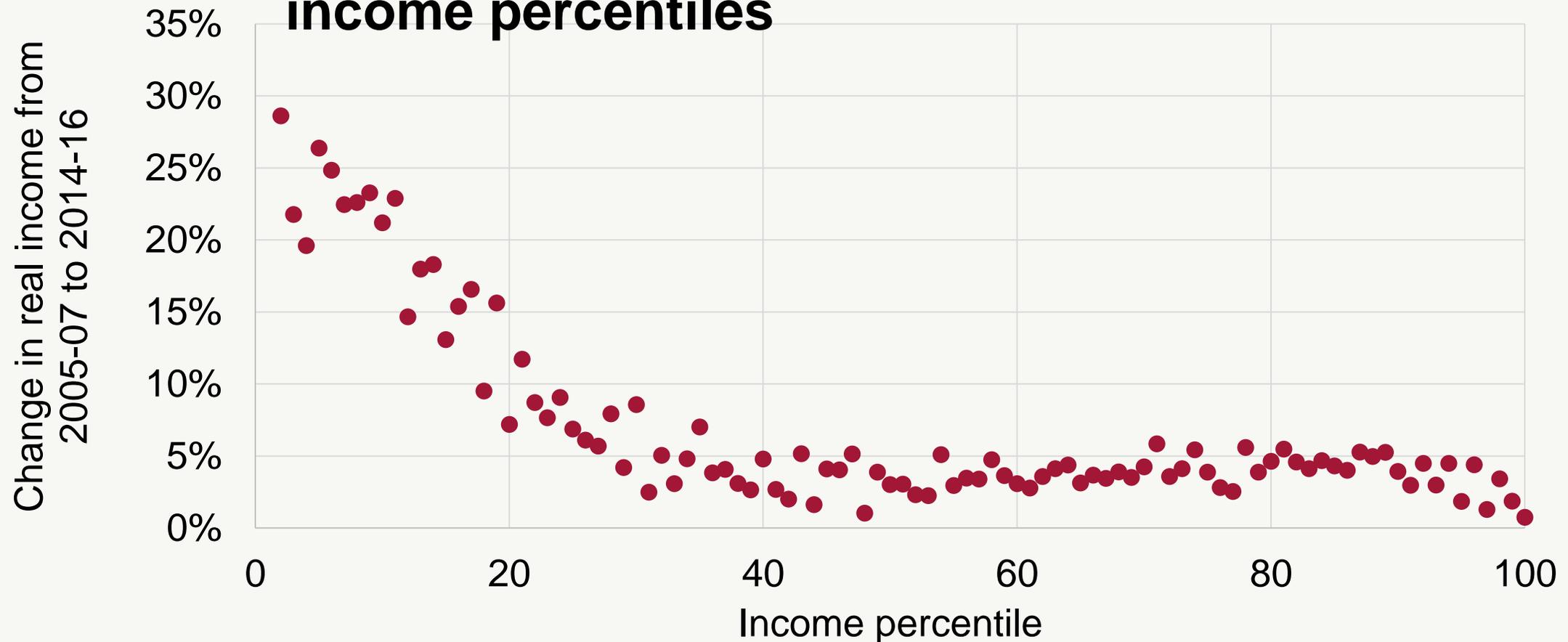


# The country-composition of the EU-wide income distribution by income deciles, 2007 and 2016



# The European elephant has no trunk, and has lifted its tail

## EU: Income growth from 2005-07 to 2014-16 by income percentiles



# Trade-off between within-country and EU (or global) income inequality?

- Some of the factors increase within-country income inequality & boost growth in poorer countries → they contribute to the decline in EU income inequality
  - Trade Europeanisation could boost growth in lower-income countries, but reduce wages for unskilled labour in advanced countries
  - East-West migration reduces labour supply in the East and increases labour supply in the West
- Is there a trade-off between within-country and European global income inequality?

# How to foster European inequality decline?

- Aim for lower within-country inequality
- Promote convergence of mean incomes
  - Stop falling behind: the case of Italy
  - National growth promotion policies
  - Better use of EU cohesion funds in the East and the South
    - address the underlying problems,
    - involve more strategic planning,
    - simplification but with stricter controls when the corruption risk is high,
    - increase the interregional focus,
    - explore synergies with other EU and national programmes,
    - national co-financing rate be set on the basis of fiscal constraints, the additionality principle and corruption risk
    - the importance of a locally-led perspective should be reconciled with our finding that centralised management works better