

Inequality in Europe – and what the EU could do about it

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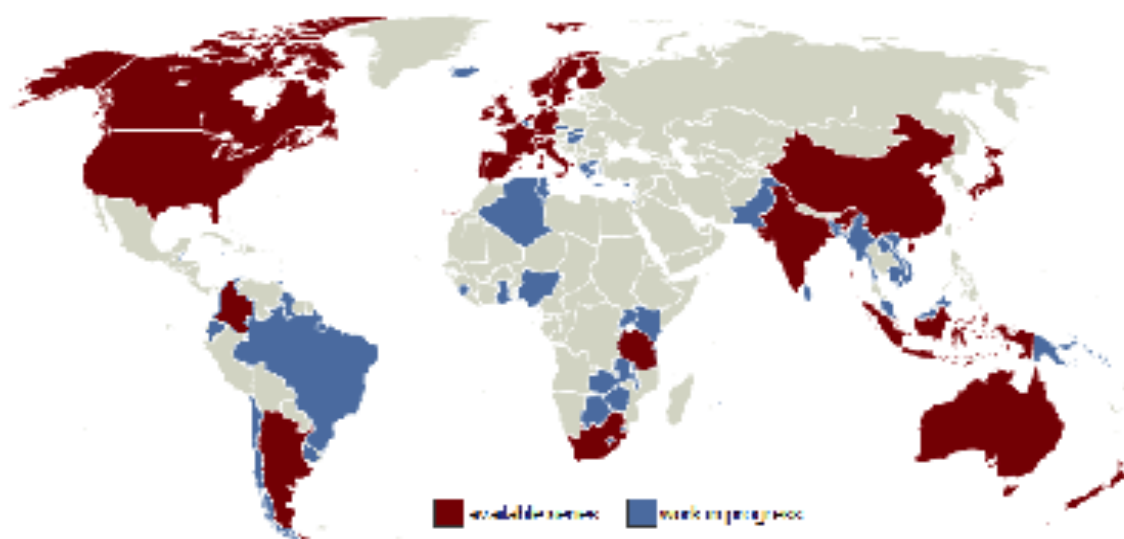
This lecture: three points

- **1. Inequality in the long-run:** over the course of the 20th century, Europe has become more egalitarian than the US → institutions and policies matter
- **2. But the European social state is fragile:** lack of fiscal union, tax competition, public debt crisis, rise of nationalism
- **3. EU institutions need to be fundamentally transformed** in order to address this: Euro-chamber
(see « [Manifesto for a Euro political union](#) »)

1. Inequality in the long run

- Here I will present some results based upon ***Capital in the 21st century*** (Harvard University Press, March 2014)
- This book studies the global dynamics of income and wealth distribution since 18^c in 20+ countries; I use historical data collected over the past 15 years with Atkinson, Saez, Postel-Vinay, Rosenthal, Alvaredo, Zucman, and 30+ others; I try to shift attention from rising income inequality to rising wealth inequality
- All data series are available in a technical appendix available on line: see <http://piketty.pse.ens.fr/capital21c>

THE WORLD TOP INCOMES DATABASE



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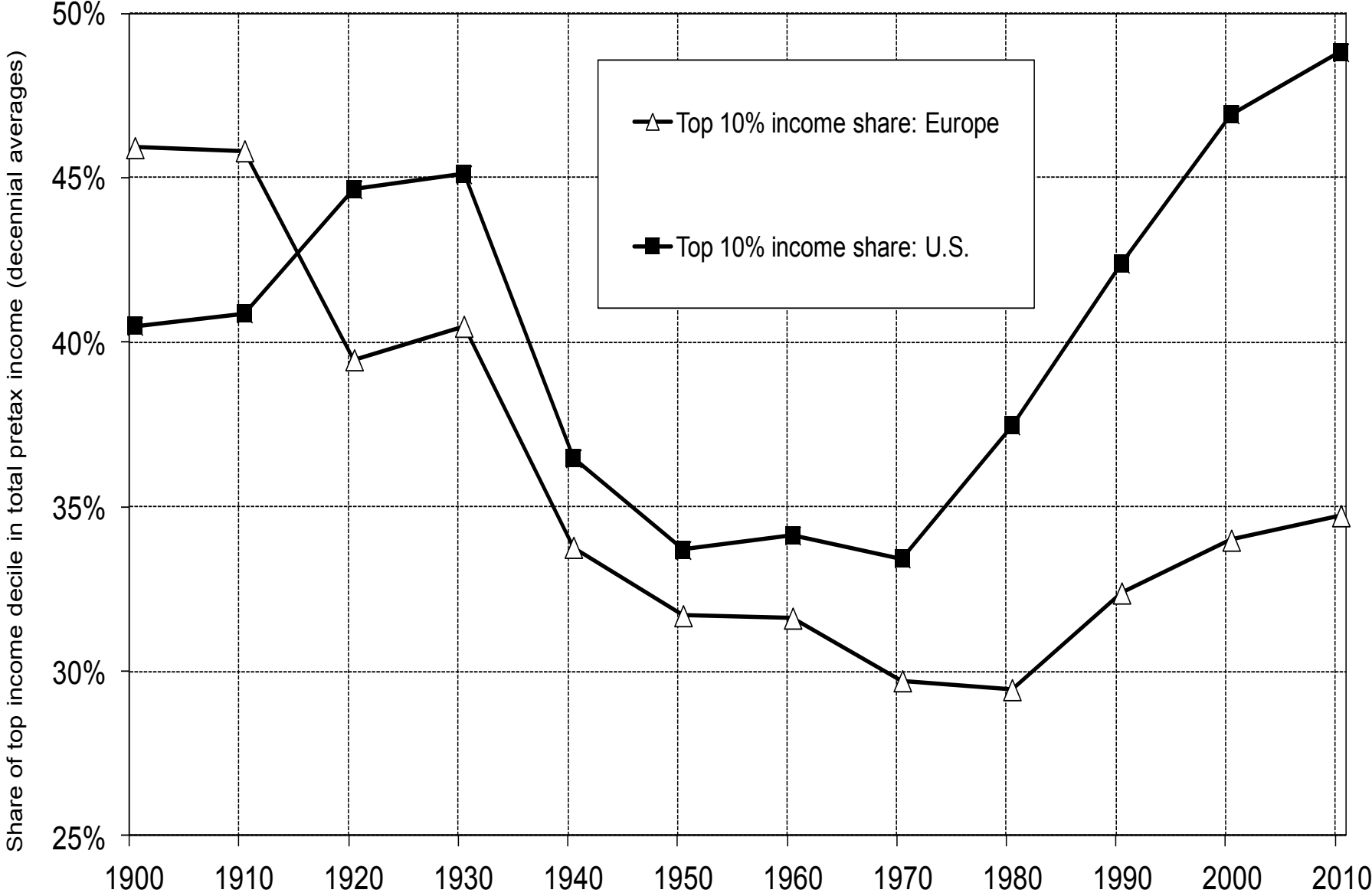


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- Three facts about inequality in the long-run: income inequality, wealth-inequality, wealth-income ratios (Piketty-Saez, « Inequality in the long run », Science 2014)
- Fact n°1: in 1900-1910, income inequality was higher in Europe than in the United States; in 2000-2010, it is a lot higher in the United States

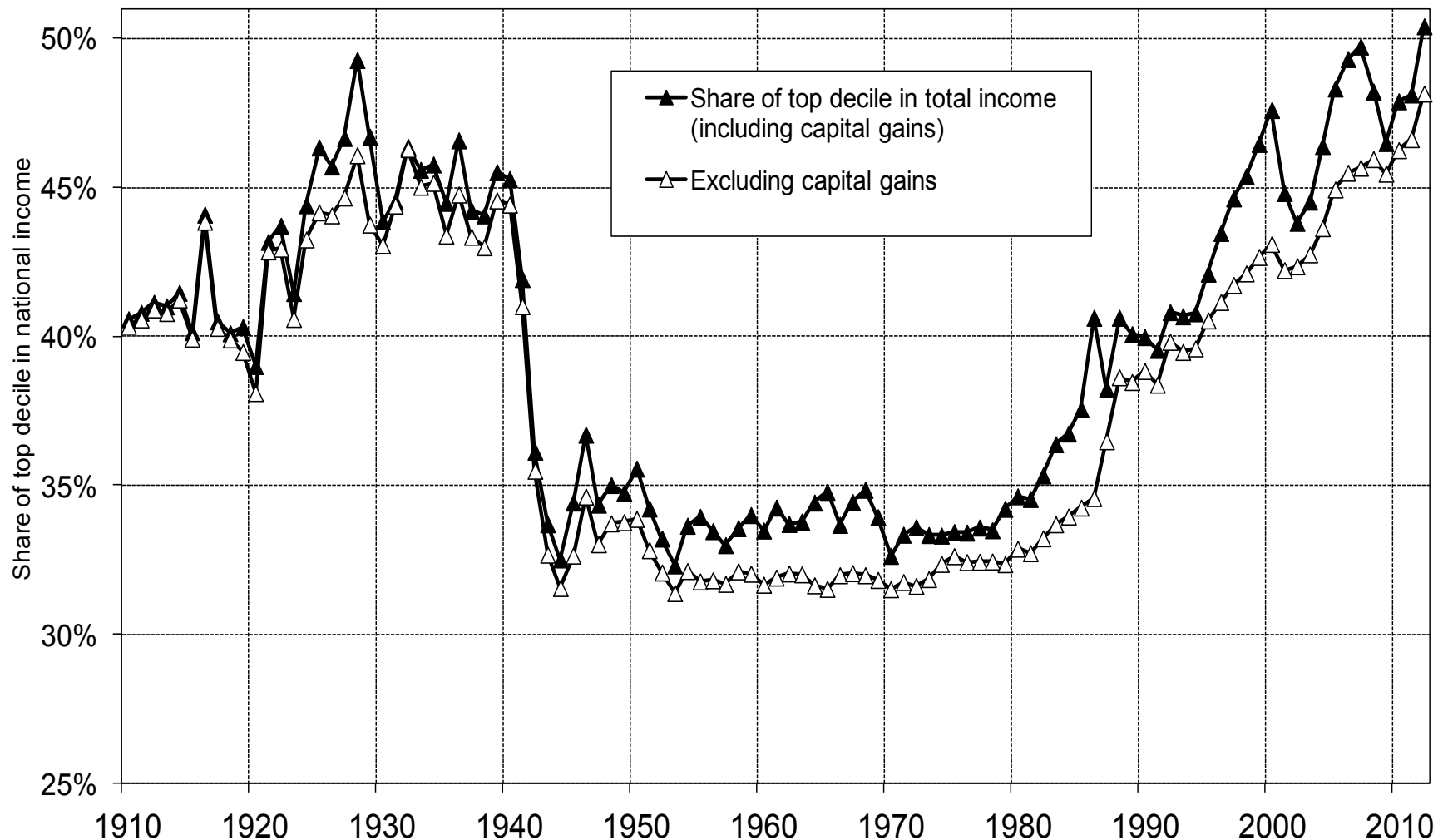
Figure 1. Income inequality: Europe and the U.S., 1900-2010



The share of total income accruing to top decile income holders was higher in Europe than in the U.S. around 1900-1910; it is a lot higher in the U.S. than in Europe around 2000-2010.

Sources and series: see piketty.pse.ens.fr/capital21c (fig.9,8)

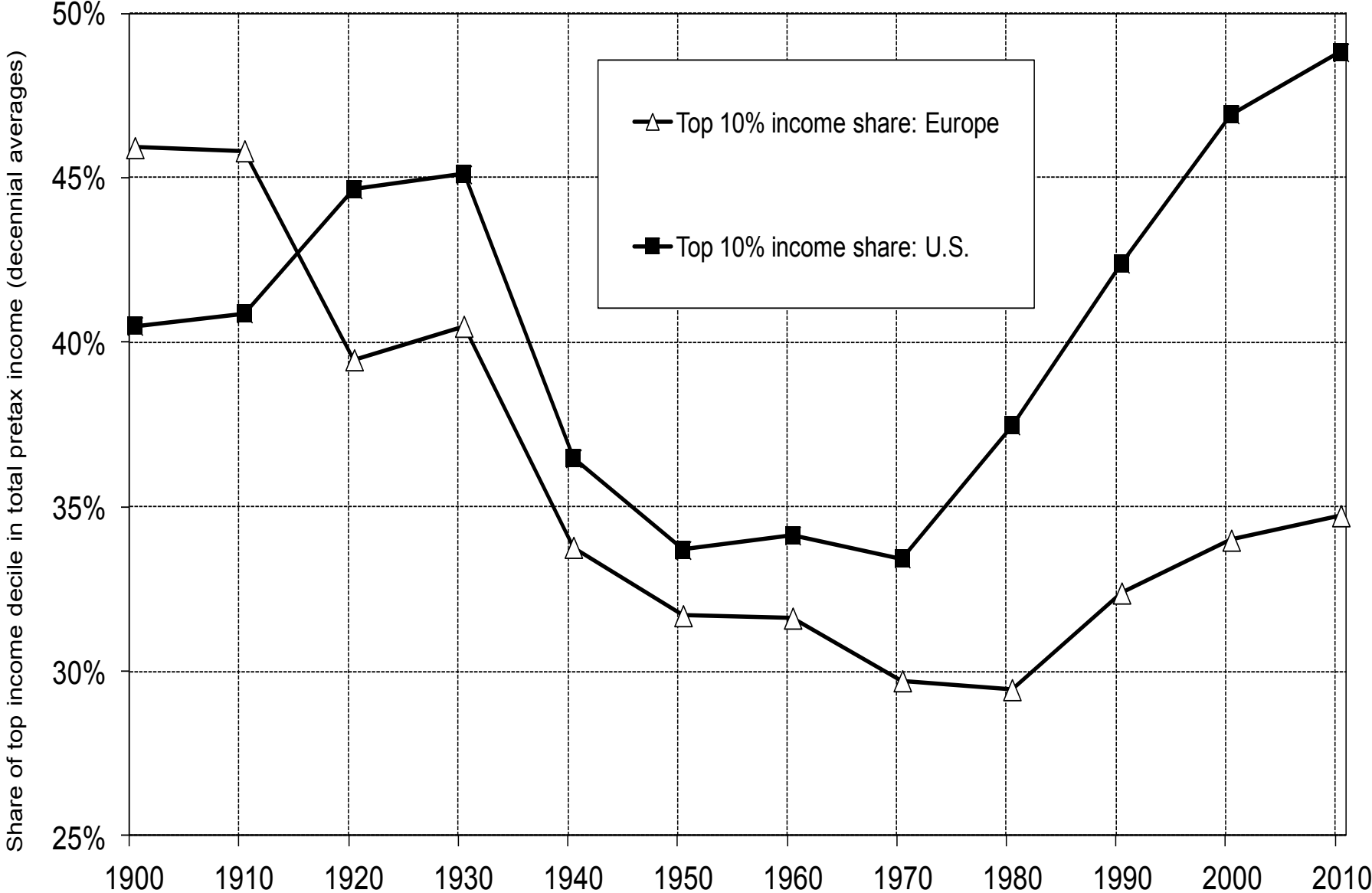
Figure I.1. Income inequality in the United States, 1910-2012



The top decile share in U.S. national income dropped from 45-50% in the 1910s-1920s to less than 35% in the 1950s (this is the fall documented by Kuznets); it then rose from less than 35% in the 1970s to 45-50% in the 2000s-2010s.

Sources and series: see

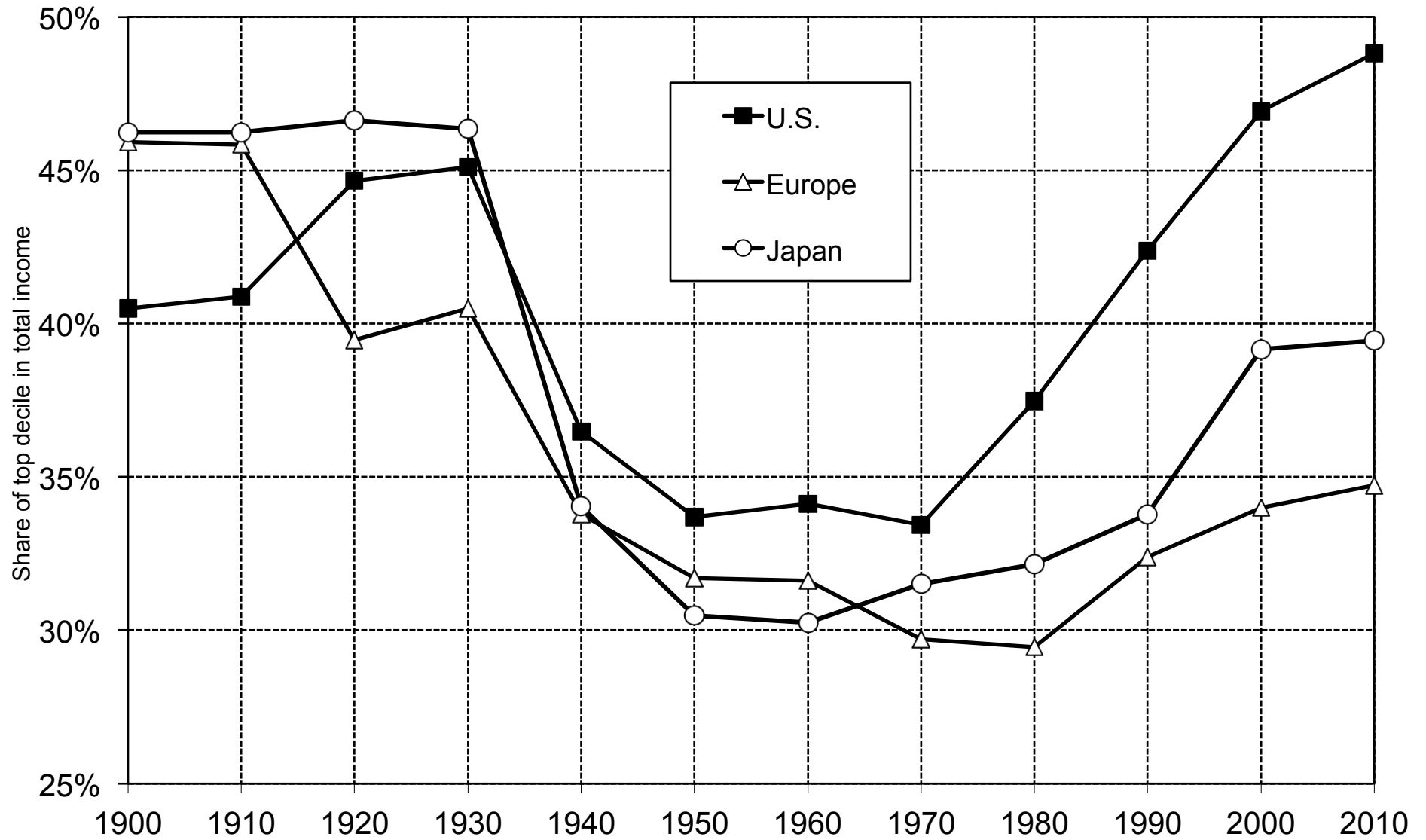
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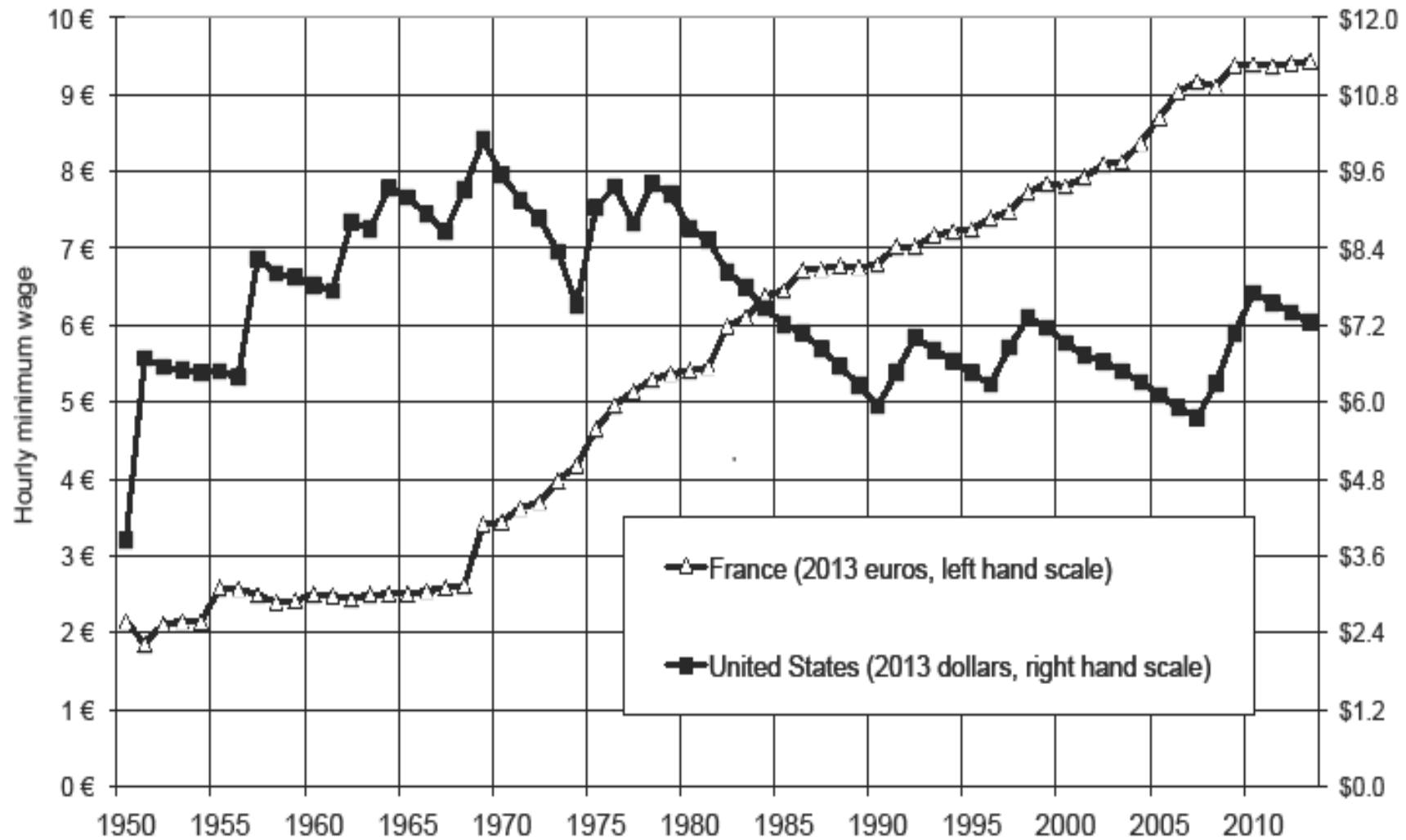
Top 10% Income Share: Europe, U.S. and Japan, 1900-2010



The top decile income share was higher in Europe than in the U.S. in 1900-1910; it is a lot higher in the U.S. in 2000-2010. Sources and series: see piketty.pse.ens.fr/capital21c.

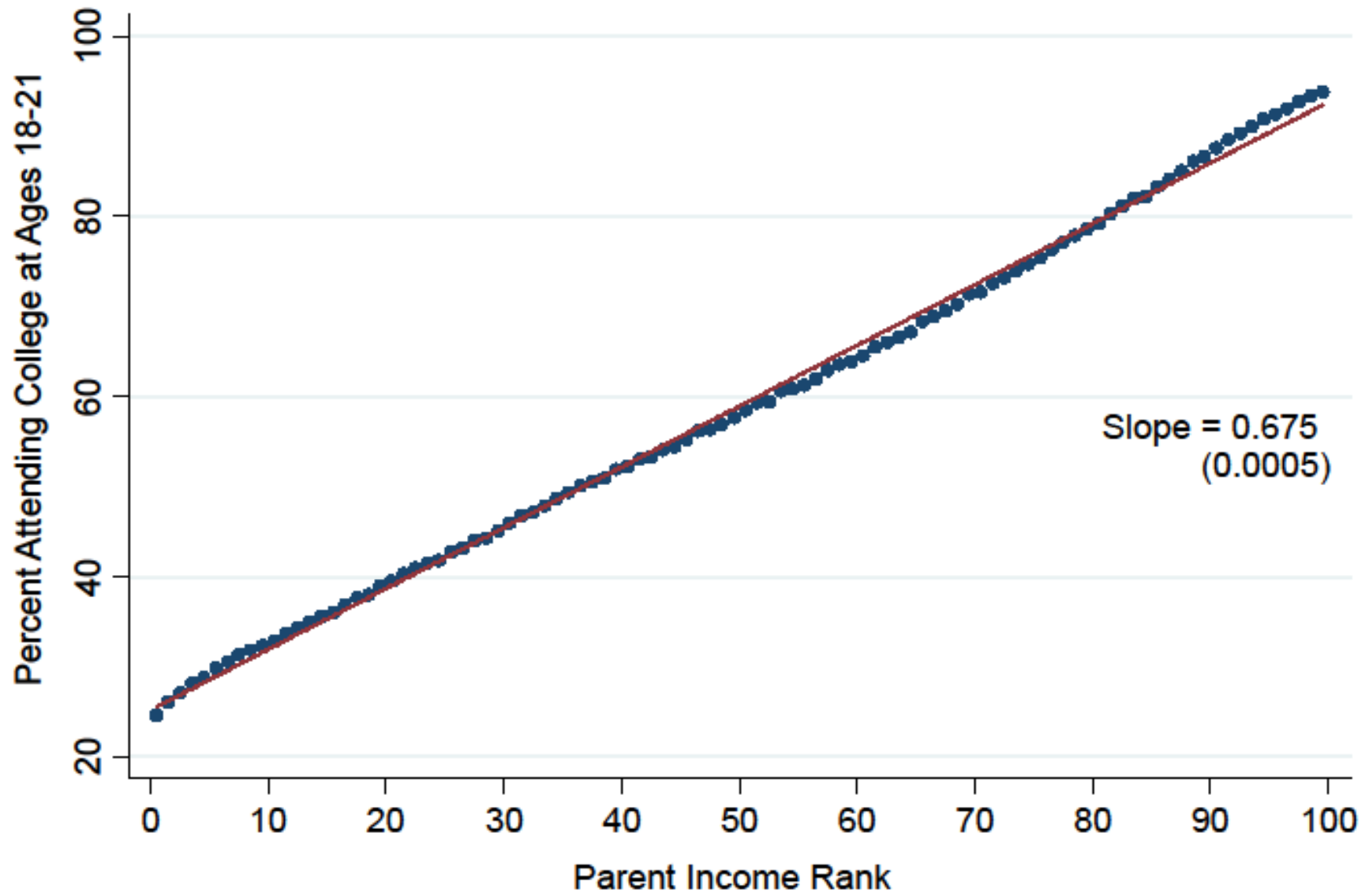
- The rise in US inequality in recent decades is mostly due to rising inequality of labor income
- It is due to a mixture of reasons: changing supply and demand for skills; race between education and technology; globalization; more unequal to access to skills in the US (rising tuitions, insufficient public investment); unprecedented rise of top managerial compensation in the US (changing incentives, cuts in top income tax rates); falling minimum wage in the US
→ institutions and policies matter

Figure 9.1. Minimum wage in France and the U.S., 1950-2013



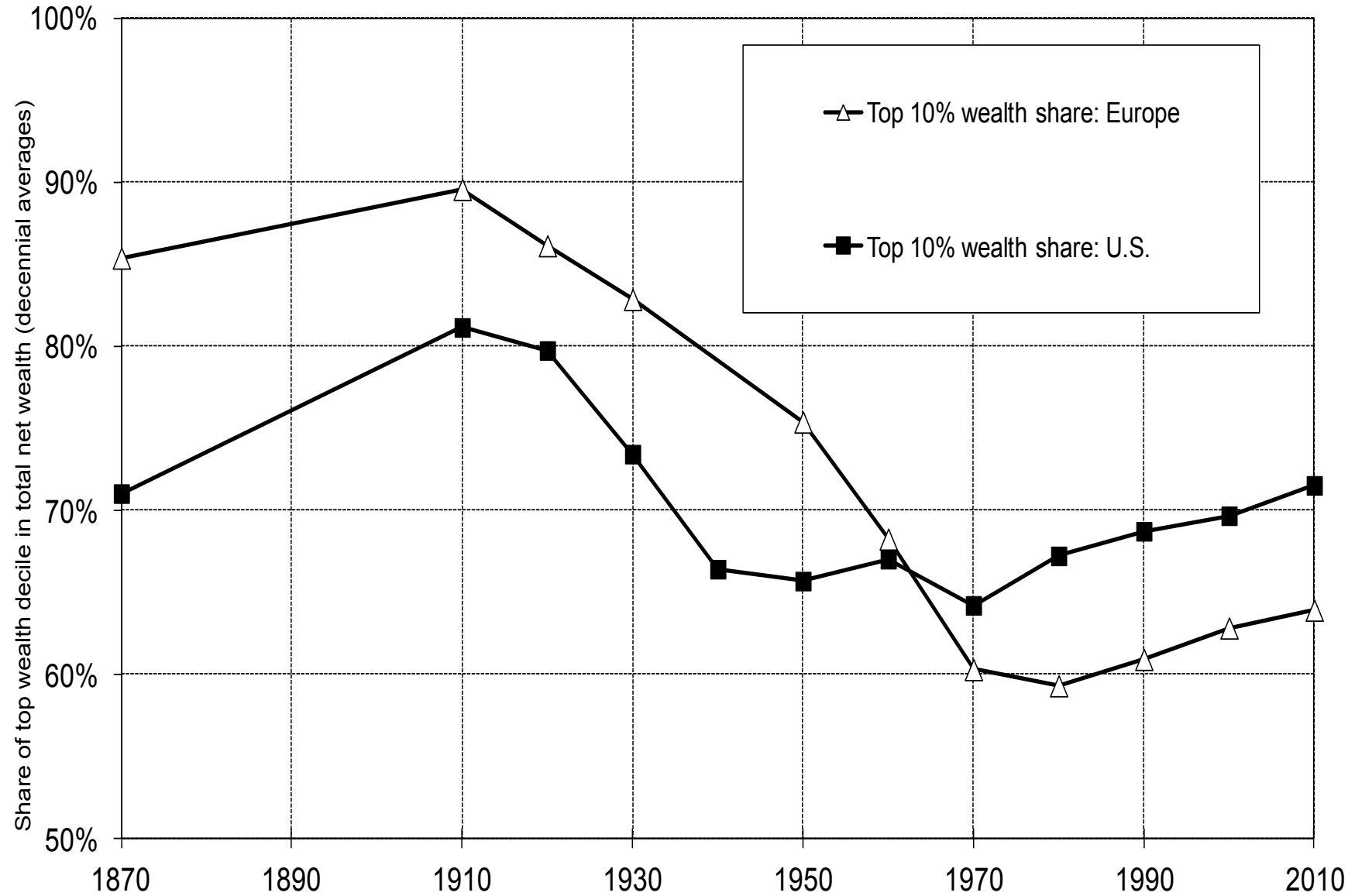
Expressed in 2013 purchasing power, the hourly minimum wage rose from \$3.8 to \$7.3 between 1950 and 2013 in the U.S., and from €2.1 to €9.4 in France. Sources and series: see piketty.pse.ens.fr/capital21c.

College Attendance Rates vs. Parent Income Rank in the U.S.



- Fact n°2: wealth inequality is always a lot higher than income inequality; it is now higher in the US than in Europe
- Fact n°3: wealth inequality is less extreme today than a century ago in Europe, although the total capitalization of private wealth relative to national income has now recovered from the 1914-1945 shocks
- There's nothing bad with high wealth-income ratio (as long as there's a strong middle class share in total wealth), but this creates new policy challenges, particularly for Europe

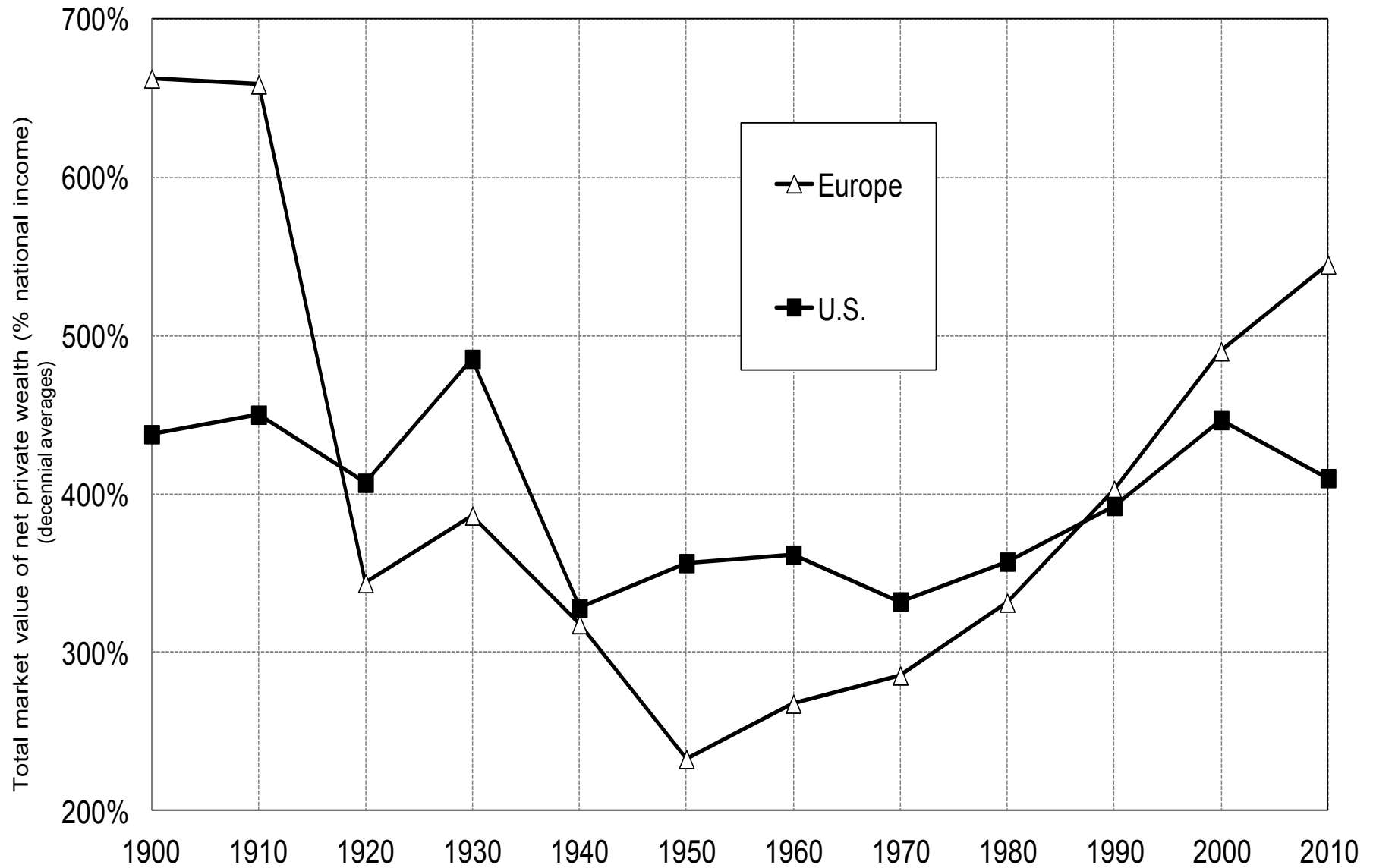
Figure 2. Wealth inequality: Europe and the U.S., 1870-2010



The share of total net wealth belonging to top decile wealth holders has become higher in the US than in Europe over the course of the 20th century. But it is still smaller than what it was in Europe before World War 1.

Sources and series: see piketty.pse.ens.fr/capital21c (fig.10,6)

Figure 3. Wealth-income ratios: Europe and the U.S., 1900-2010



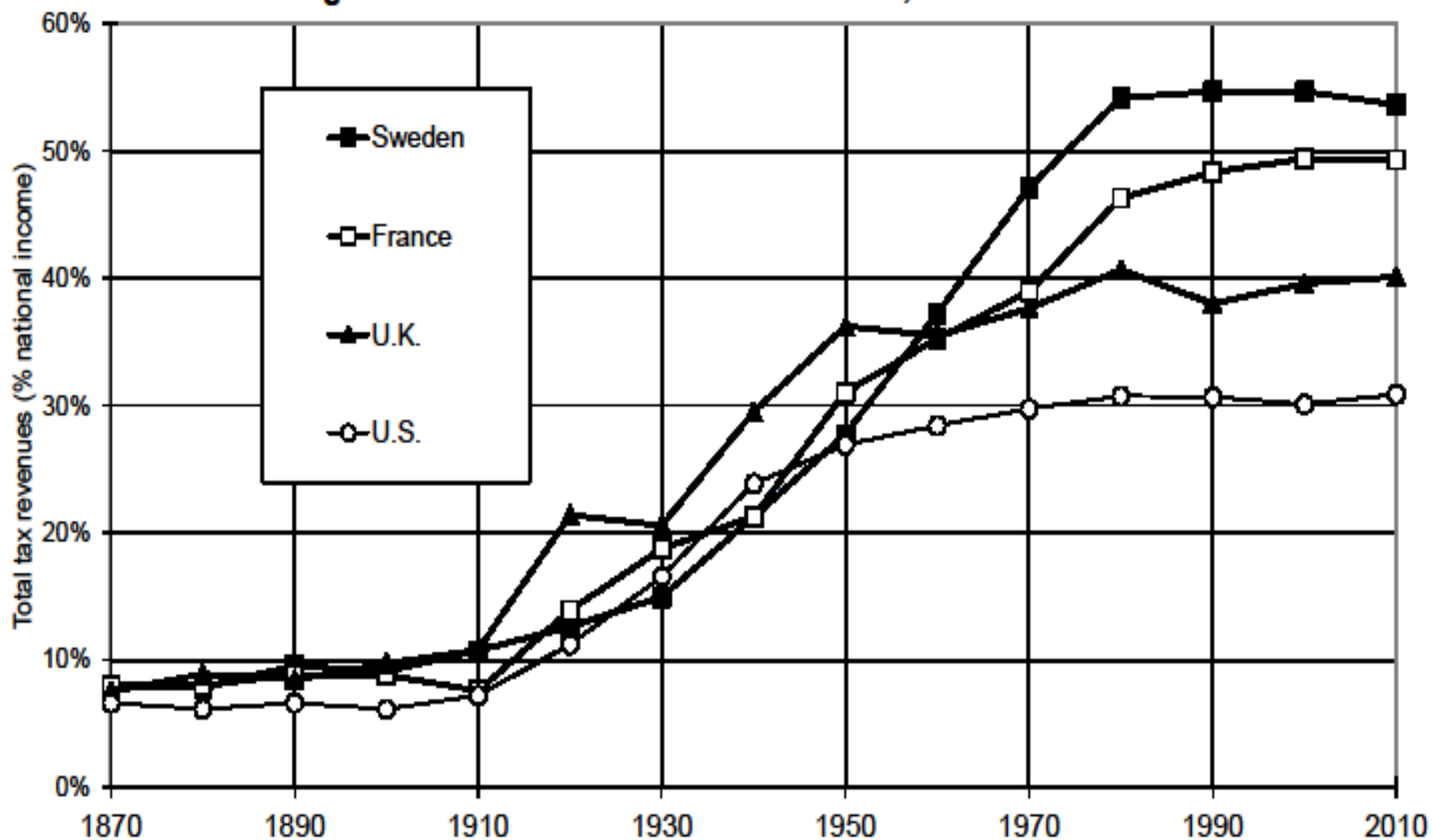
Total net private wealth was worth about 6-7 years of national income in Europe prior to World War 1, down to 2-3 years in 1950-1960, back up to 5-6 years in 2000-2010. In the US, the U-shaped pattern was much less marked.

Sources and series: see piketty.pse.ens.fr/capital21c (fig.5,1)

2. European social state is fragile

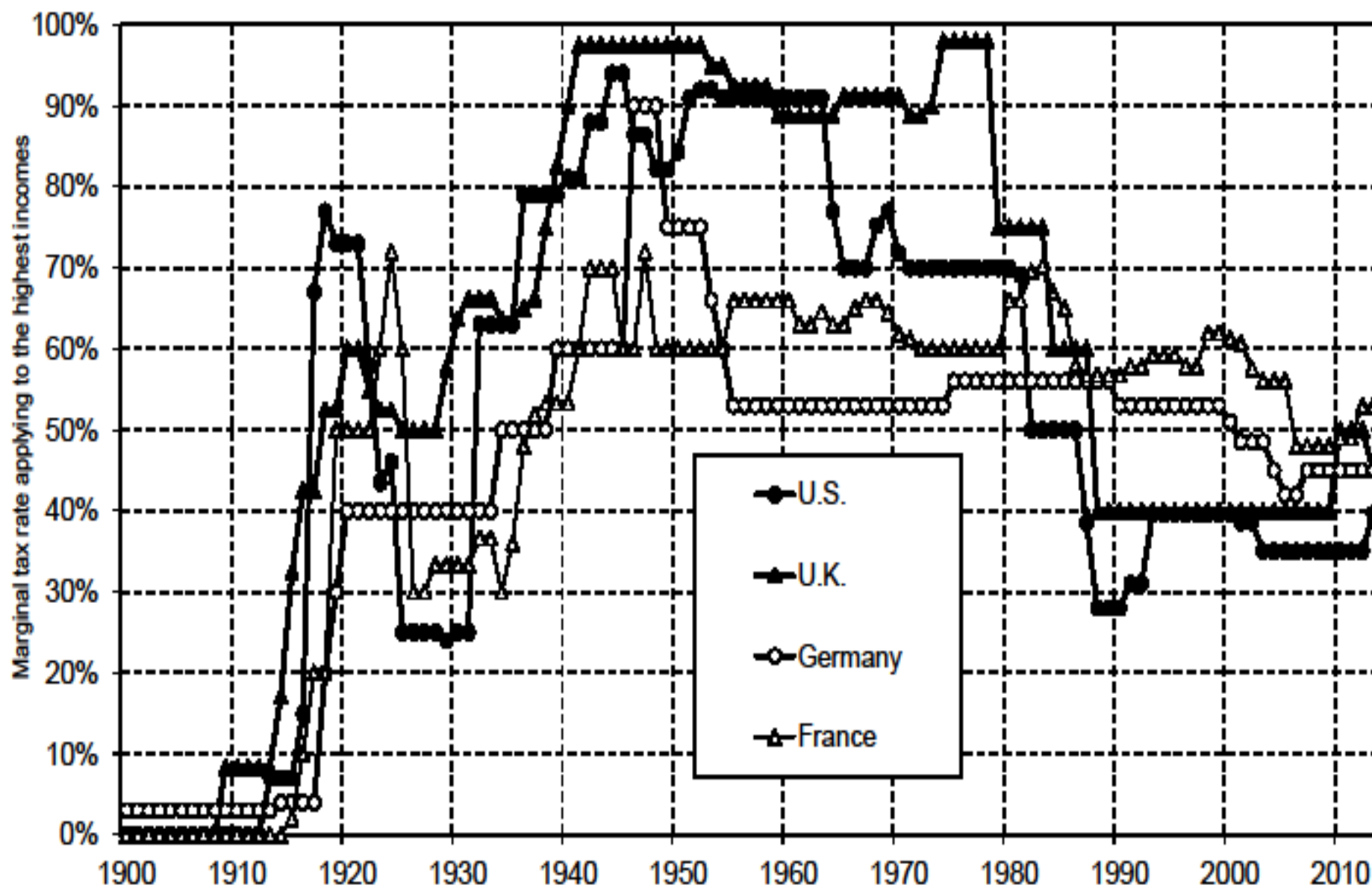
- European social state relies on high tax/GDP ratio
- Rising tax competition and lack of fiscal union make it difficult to sustain high tax levels and to maintain fiscal consent: consensus about tax fairness is fragile
- Top personal income tax rates have fallen more in the US than in Europe, but corporate tax rates have fallen a lot more in Europe
- Without a common euro-corporate tax, effective tax rates on large corporations are likely to → 0%

Figure 13.1. Tax revenues in rich countries, 1870-2010



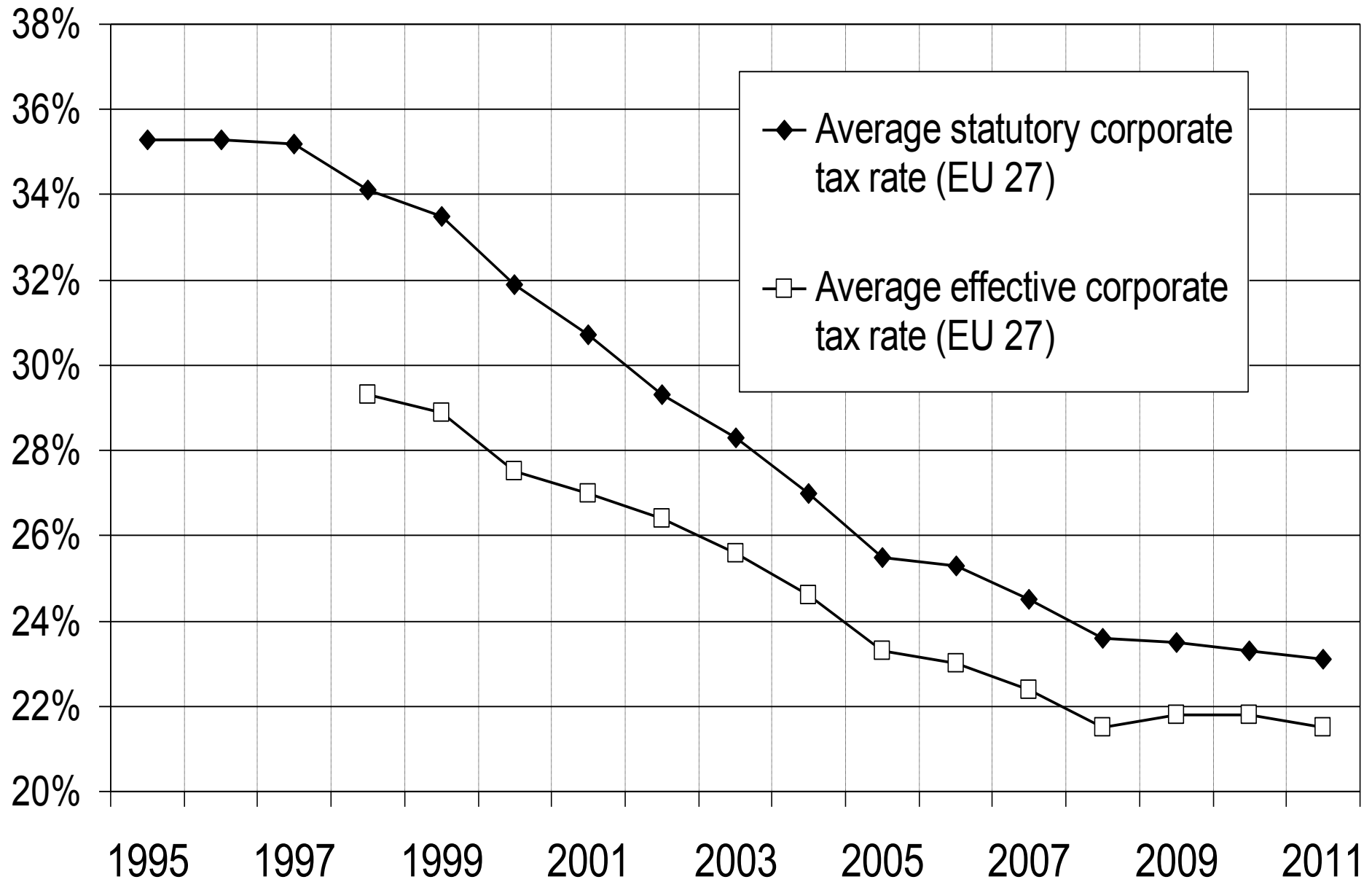
Total tax revenues were less than 10% of national income in rich countries until 1900-1910; they represent between 30% and 55% of national income in 2000-2010. Sources and series: see piketty.pse.ens.fr/capital21c.

Figure 14.1. Top income tax rates, 1900-2013



The top marginal tax rate of the income tax (applying to the highest incomes) in the U.S. dropped from 70% in 1980 to 28% in 1988. Sources and series: see piketty.pse.ens.fr/capital21c.

Corporate tax competition in the EU

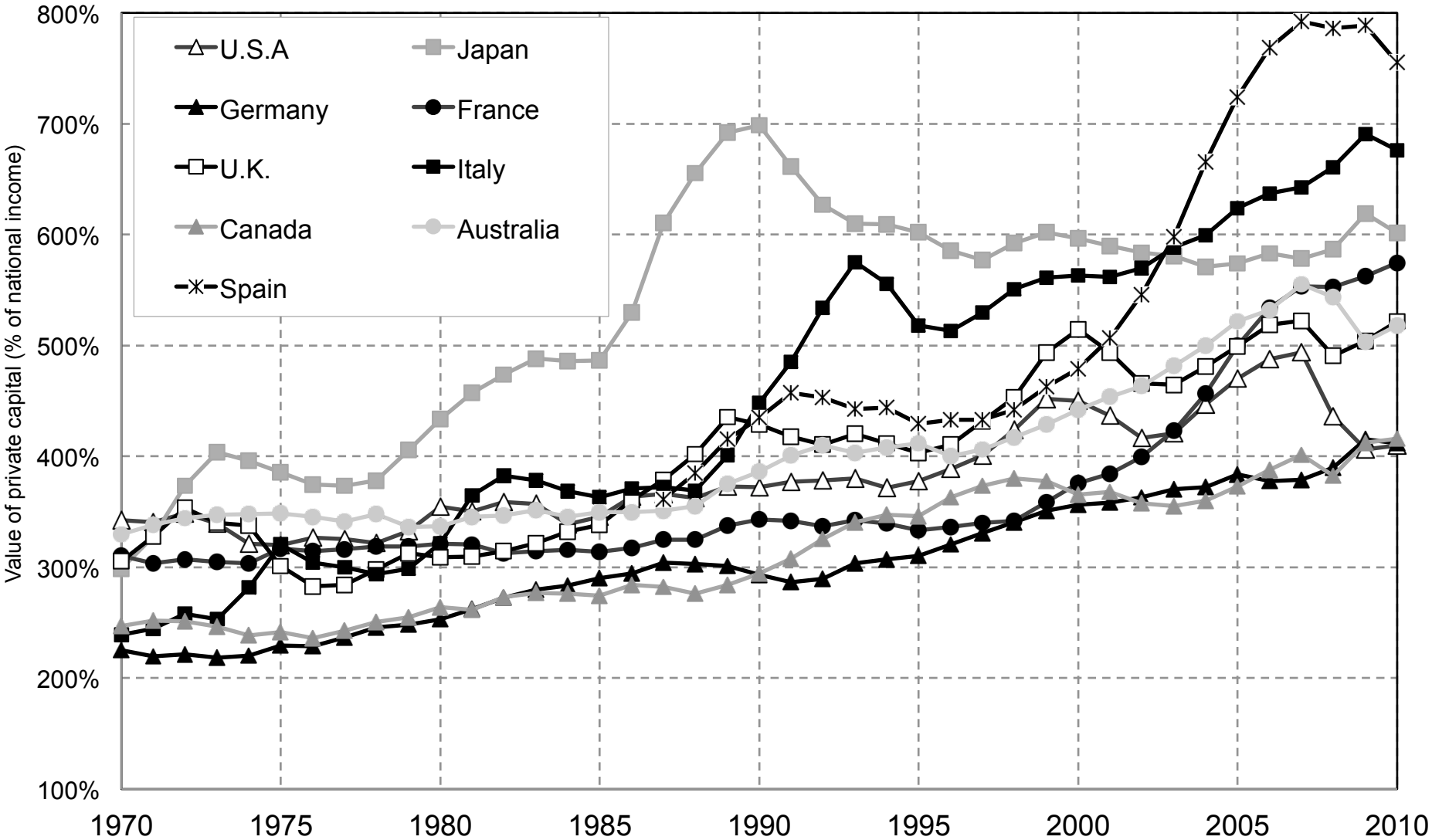


Source: Taxation trends in the EU, Eurostat 2011

- Rise of European private wealth-income ratios is not bad in itself... except that financial and real-estate bubbles need to be properly regulated

➔ new policy challenges (prudential regulation, access to property for young generations, return of inheritance)

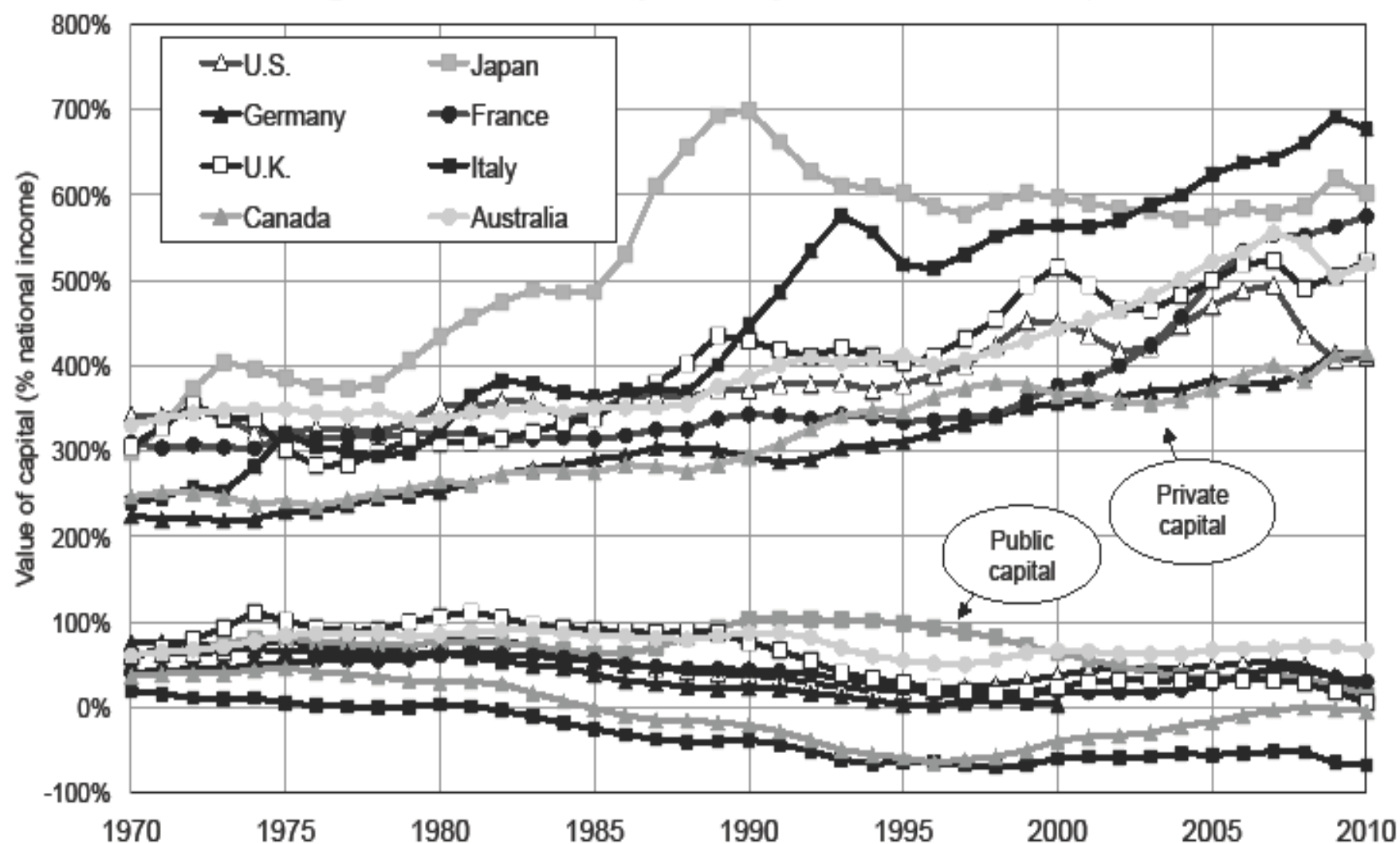
**Figure S5.2. Private capital in rich countries:
from the Japanese to the Spanish bubble**



Private capital almost reached 8 years of national income in Spain at the end of the 2000s (ie. one more year than Japan in 1990). Sources and series: see piketty.pse.ens.fr/capital21c.

- Rise of European private wealth-income ratios is not bad in itself... except that it is partly due to transfers from public to private wealth: privatization of public assets at low prices, rise of public debt
 - ➔ public debt crisis, lack of confidence in Eurozone institutions, recession, unemployment
(GDP 2015 < GDP 2007 ; lost decade)
 - ➔ structural pb: a single currency with 18 diff. public debt, 18 diff. interest rates, 18 diff. tax systems = a very bad and unstable system

Figure 5.5. Private and public capital in rich countries, 1970-2010



In Italy, private capital rose from 240% to 680% of national income between 1970 and 2010, while public capital dropped from 20% to -70%. Sources and series: see piketty.pse.ens.fr/capital21c.

3. What can the EU do about this?

- See « [Manifesto for a Euro political union](#) »
- Common corporate tax, fight against tax havens, etc.: EU is perceived by lower social groups as being pro-capital; this needs to be reversed
- Common redemption fund for all euro-zone public debts >60% GDP: separate country accounts, but common interest rate
- Public-private investment plan in universities, innovation, green technologies

- **In order to adopt these policies, one needs to fundamentally transform the existing EU institutional architecture:** with unanimity rule for fiscal issues, it is impossible to do anything; the system of automatic rules and sanctions for choice of deficit level is not working
- In order to adopt these policies (corporate tax base and rate, level of the deficit, euro-zone budget, etc.) under majority rule, one needs a euro-zone parliament
- Best option: **Euro-chamber** based upon members of national parliaments (in proportion to each country's population: say, 40 NMPs from Germany, 30 NMPs from France, etc.)

- **Is the Euro-chamber the same as pre-1979 EP?**
- No : Euro-chamber would have substantial legislative powers (pre-1979 EP was a deliberative assembly)
- Europe has yet to invent its own original form of bicameralism: even if one day all countries adopt the euro (this will take time...), it makes sense to have two separate chambers: (1) a European Parliament elected directly by the citizens of all member countries, and (2) a Euro Chamber representing the member countries through their national parliaments
- This is a way to force NMPs to become European law makers and to stop complaining about Europe
- Councils of heads of states or finance ministers will never work like a parliamentary chamber: you cannot represent a 80million or 60million country with 1 individual

- **Is this realistic?**

- Yes. E.g. if France and Italy were putting this proposal on the table, then ultimately a compromise would be worked out with Germany

- Pb: national governments have spent a lot of energy since 2012 trying to pretend that the new 2012 treaty (fiscal compact) is working; in order to change their discourse, maybe we need a big shock

- Greek electoral shock not enough? Do we need to wait until Spanish elections in late 2015? Or French regional elections? Or new financial panic?