Does economic inequality sets the limits to EU expansion?

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The standard view of EU and the United States: US is much more unequal

From final08.dta
US states and EU members in two pictures: what area is more homogeneous and/or more equal?

For US: twoway scatter gini_state mean_state_income if nvals==1, msize(vlarge) mlabel(gestcen) ylabel(0.2(0.1)0.6) label(10000(10000)70000) yline(0.4); cpsmar08.dta
For EU: twoway scatter gdp_ppp if group==1 & EU==1, msize(vlarge) mlabel(contcod) ylabel(0.2(0.1)0.6) xlabel(10000(10000)70000) yline(0.4); final08.dta
Two types of inequalities

• The American: all constituent units are unequal internally, but the differences in their mean incomes are small

• The European: constituent units are equal internally, but mean income differences between them are large

• In the American type, poverty is an individual attribute; in the European type, poverty is a collective attribute

• Policies must be different too: pro-poor in one case, “regional cohesion” in the other
The unconventional view of EU and US inequality: Gini decomposition

Comparison in perseus/sources

Branko Milanovic
Inequality in the United States and European Union constituent units (Gini points, around 2005)

<table>
<thead>
<tr>
<th></th>
<th>Most equal</th>
<th>Average</th>
<th>Most unequal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United States</strong></td>
<td>34 (South Dakota; Wisconsin)</td>
<td>39 (Delaware; Idaho)</td>
<td>45 (Texas; Tennessee)</td>
</tr>
<tr>
<td><strong>European Union</strong></td>
<td>24 (Hungary; Denmark)</td>
<td>31 (Netherlands)</td>
<td>38 (UK; Portugal)</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>10 points</td>
<td>8 points</td>
<td>7 points</td>
</tr>
</tbody>
</table>
### GDP per capita differences in the United States and European Union, around 2005

<table>
<thead>
<tr>
<th></th>
<th>Poorest</th>
<th>Average</th>
<th>Richest</th>
<th>Ratio top to bottom</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United States</strong></td>
<td>66 (Mississippi; West Virginia)</td>
<td>100 (Rhode Island)</td>
<td>137 (Connecticut; Delaware)</td>
<td>2 to 1</td>
</tr>
<tr>
<td><strong>European Union</strong></td>
<td>36 (Bulgaria; Romania)</td>
<td>100 (Spain)</td>
<td>140 (Netherlands)</td>
<td>4 to 1</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>-30 points</td>
<td>0 points (by definition)</td>
<td>+3 points</td>
<td></td>
</tr>
</tbody>
</table>

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GDP per capita in countries of the European Union and states of the USA (unweighted)

```
twoway (kdensity gdpppp if Deurope_inc==1) (kdensity gdpppp if Deurope_inc==0, legend(off) xtitle(GDP per capita in PPP terms))
Using sources\US EU\US_vs_EU.dta
```

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Ginis in countries of the European Union and states of the USA

Overall inter-personal Gini for both

Europe

USA

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. twoway (kdensity gini if Deurope==1) (kdensity gini if Deurope==0, legend(off) xtitle(Gini) xline(31 38) xline(41, lwidth(thick)))
Using US_vs_EU.dta in c:\perseus\sources
Heterogeneity of the European Union

From opatija.do
Between-unit and total inequality in selected countries, around year 2005

<table>
<thead>
<tr>
<th></th>
<th>Between-states or countries</th>
<th>Total (between individuals)</th>
<th>Share of inter-state inequality in total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA (50 states)</td>
<td>6</td>
<td>40+</td>
<td>~15</td>
</tr>
<tr>
<td>EU-15 countries (pre-enlargement)</td>
<td>10.2</td>
<td>33.4</td>
<td>30</td>
</tr>
<tr>
<td>EU-27 (post enlargement)</td>
<td>23.1</td>
<td>40.3</td>
<td>57</td>
</tr>
<tr>
<td>China (29 provinces)</td>
<td>24</td>
<td>40+</td>
<td>~60</td>
</tr>
<tr>
<td>EU-34 (all of Europe, incl. Turkey)</td>
<td>30.1</td>
<td>44.8</td>
<td>67</td>
</tr>
</tbody>
</table>

EU data calculated from world2002.dta US from the same source:

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The inequality “costs” of EU expansion

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Gini coefficient

Within countries

Between countries

EU-15  EU-27  EU-33  EU-37

From perseus_book/sources/EUvUS/comparison
Pan-European convergence was driven by three factors:

• Economic integration: poorer countries grow faster because they benefit more from the transfer of K and technological integration (so-called β convergence).

• Political integration: safer and more advanced institutional environment.

• Redistribution.
Integration and redistribution

- Political integration (measured by the number of Article 177 cases and number of EU directives) at least as important as economic integration for both EU-6 and EU-15 (Jason Backfield, 2012).

- EU direct redistribution was always minimal: EU cohesion and CAP funds less than 1% of Union GDP (compare with 20-25% of GDP of social transfers in federations like Germany)
The European conundrum

- If EU expands further, it would bring in countries more dissimilar in terms of income, and inter-country as well as inter-personal inequality will increase.
- For such a Union to be politically sustainable and cohesive, both types of inequalities need to be reduced.
- But if political integration does not advance and redistribution remains minimal, the key factors that have historically enabled convergence will be missing.
• Then, convergence will have to depend on economic factors alone which, as the example of NAFTA shows, may not be enough
• If the EU expands then it must, for its viability, move forward in terms of political integration
• If there is no political will for integration, then there is no sense in including poorer countries because membership would not bring income convergence and would tear apart the Union.
Extras
Implications and questions

• How far can EU’s expansion continue?
• With the last 2 expansions, EU has moved away from an American type of inequality
• With Turkey, EU’s Gini would come close to 45, so Europe would come to resemble Latin America: does this set a limit to EU expansion?
• China has a similar structure of inequality like Europe
• Such huge inter-national differences in mean incomes set also a limit to a possible political unity of Asia (leaving even aside the two giants): Asia is by far the most income heterogeneous continent
European Union (EU-27), SILC 2008

\[\text{gini} \quad 0, 20000, 40000, 60000, 80000\]

\[\text{gdpppp 2005 icp; for years} < 1980, \text{old growth rates}\]

twoway scatter gini gdppp if group==1 & EU==1, msize(vlarge) mlabel(contcod) yline(0.4). From final08.dta
EU-33 (EU-27 + Croatia + 5 candidate countries)

Notice how strongly Gini decreases with GDP per capita
United States, CPS 2008

twoway scatter gini_state mean_state_income if nvals==1, msize(vlarge) mlabel(gestcen) yline(0.4), from cpsmar08.dta