Econ 133 - Global Inequality and Growth

Introduction

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Roadmap

1. What is this course about?

2. Inequality and growth in the history of economic thought

3. Course organization: grading, readings, etc.

4. Overview of the five main parts of the course
1 What is this course about?

1.1 What you’ve learned in Econ 1 or 2

Market economies are efficient:

• Any competitive equilibrium is Pareto-efficient

• Limit 1: assumes no market failures

• Limit 2: says nothing about how resources will be distributed at the equilibrium
1.2 Econ 133: an introduction to economics, but putting distribution at the center stage

• How unequal is the world?

• What are the forces that push toward equality and inequality?

• How does inequality change as countries grow?

• What policies can foster equitable growth?
1.3 Inequality is at the center of research, policy, and the public debate

- Rising inequality in many countries
- Barack Obama: “Inequality is the defining challenge of our time”

Inequality is an important subject for:

- Everybody
- Economists in universities, academia, think thanks, banks...
- Policy-makers in governments & international organizations
2 Inequality & growth in the history of economic thought

2.1 Thomas Malthus

• *Essay on the Principle of Population*, 1798

• Iron law of wages: population grows → labor supply increases → wages fall to subsistence levels

• End outcome: misery for the masses, revolution

• To prevent this: limit population growth
2.2 David Ricardo

• *Principles of Political Economy and Taxation*, 1817

• Scarcity principle: if pop. rises and fixed land supply, land becomes more and more scarce $\rightarrow$ land rents and prices bound to rise

• End outcome: land-owners will capture an ever growing fraction of national income

• To prevent this: tax land, open up to foreign agricultural products ($\rightarrow$ repeal of the corn laws, 1846)
2.3 Karl Marx

• *Das Kapital* vol. 1, 1867

• Main divergence force: capitalists always want to accumulate more

• Two possible end outcomes:
  
  – Fall in rate of return to capital → conflict among capitalists to find new ways to use their capital (Lenin, 1917 *Imperialism, the Highest Stage of Capitalism*)

  – Ever growing share of income captured by capitalists → workers’ revolution
2.4 Simon Kuznets

- *Shares of Upper Income Groups in Income & Saving* 1953

- First large-scale scientific use of data to study inequality and growth, using national accounts and tax returns

- Inequality high in early 20th century, declined from 1913 to 1948

→ Kuznets curve hypothesis: inequality follows an $\bigcap$ over path of development
Top 10% pre-tax national income share in the United States

Source: Piketty, Saez, Zucman (2016)
• Malthus, Ricardo, Marx: under-estimated equalizing power of growth

• Kuznets: over-estimated it?

• Today we can ask the same questions they did, but with more & better data and theories:
  – Cross-country, historical data on income and wealth
  – Rigorous models of inequality
  – Modern evaluation tools to assess effect of policies
3 Organization of the course

3.1 Lectures

• 25 topics, \( \approx \) two topics per lecture each Tuesday 5pm-8pm

• Lecture slides uploaded on Sunday evening at http://gabriel-zucman.eu/econ133

• Slides cover main points: take notes & consult references if needed

• Midterm in class on March 12, 5pm to 6.30pm

• Final on May 17, 11:30–2:30pm. Don’t enroll if you can’t attend.
3.2 Readings

Five compulsory readings assigned over the semester

→ Introduction to current research on inequality


**Suggested readings:**

- Anthony Atkinson’s *Inequality: What Can be Done?* (2015, HUP)

→ Reference / fallback texts for the lectures
3.3  i-Clikers

Who argued that as countries develop, a growing fraction of national income goes to land owners?

A — Malthus

B — Ricardo

C — Marx

D — Kuznets
3.4 Sections

- GSIs: Cristóbal Otero and Nina Roussille

- Sections: 1 hour a week.
  1. Review lecture material
  2. Discuss press articles that we (@cristobalotero, @ninaraoussille, and @gabriel_zucman) will tweet on Friday every week (with #econ133), starting this Friday

- Section material available on bCourses
3.5 Grading

• Final: 45%

• Midterm: 20%

• Participation in lectures (i-clickers): 5%

• Short essay questions on compulsory readings: 15%

• One short essay on press article + section discussion: 10%

• Participation in sections: 5%
3.6 Office hours

- My office hours: Mondays 10-am-12pm in 645 Evans

- Cristóbal Otero: TBA

- Nina Roussille: Wednesdays 9am-11am in 536 Evans

- Any question: please contact first Cristóbal and Nina.
4 Structure of the lecture: 5 parts

1. Core concepts

2. Global growth and its distribution

3. Labor income inequality

4. Capital inequality

5. Regulating inequality
References


