

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

- What are the forces that push toward equality and inequality?
- Do more efficient markets reduce / increase 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
- Affects a host of policies, tax and non-tax

Inequality is an important subject for:

- Everybody
- Economists in universities, academia, think tanks, banks...
- Policy-makers in governments & international organizations

2 Inequality & growth in the history of economic thought

Reference for this section: Piketty (2014), pages 2–15

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 → 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 (→ repeal of the corn laws, 1846)

2.3 Karl Marx

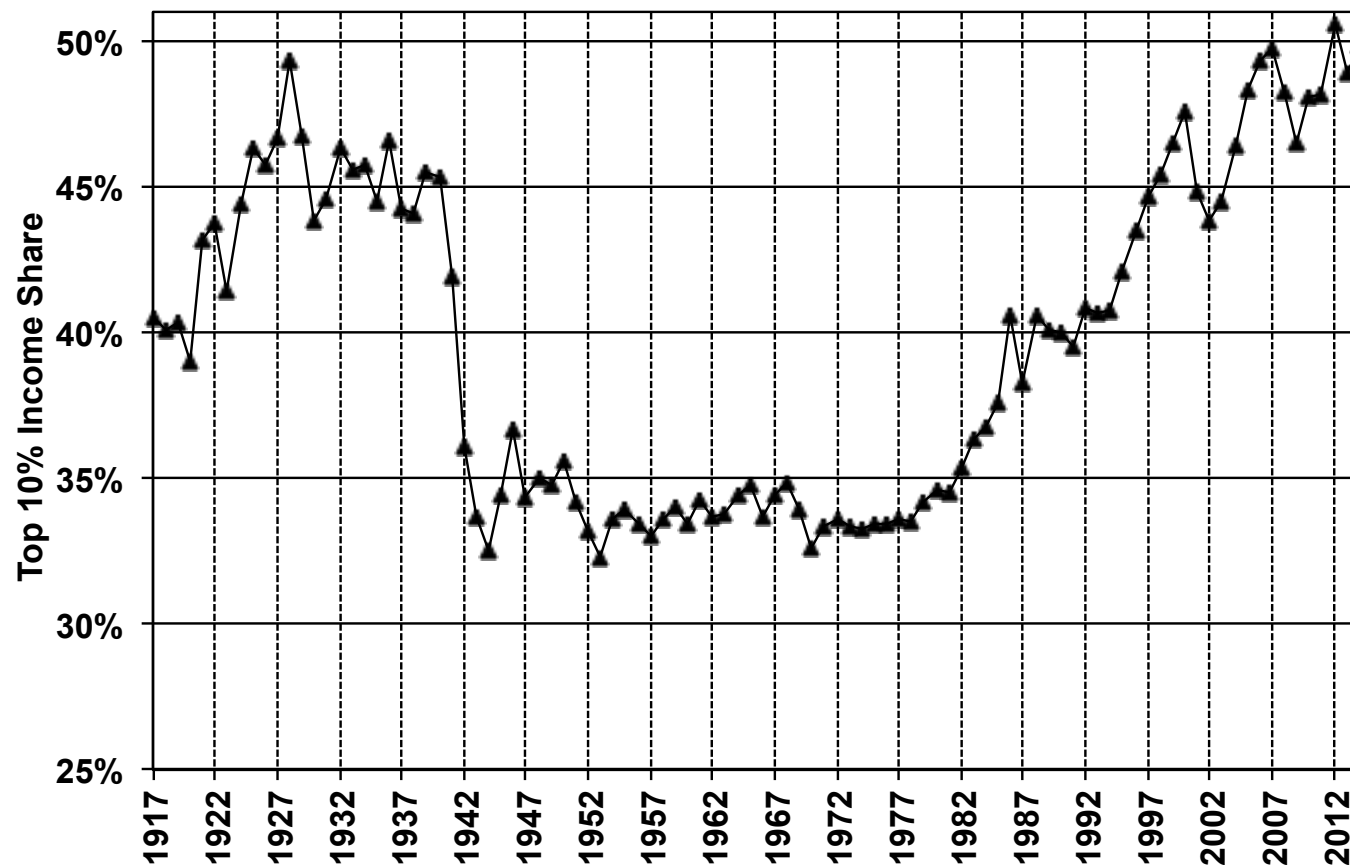
- *Das Kapital* vol. 1, 1867
- Main divergence force: capitalists always want to accumulate more
- Two possible end outcomes:
 - Fall in rate of return to capital → conflict among capitalists to find new ways to use their capital (Lenin, 1917 *Imperialism, the Highest Stage of Capitalism*)
 - Ever growing 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 \cap over path of development

Share of income earned by the top 10% income earners in the United States



Source: Piketty and Saez (2003), updated

- 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

- 26 lectures: 2 lectures a week, on Mon. and Wed. 4.00pm-5.30pm
- Lecture slides uploaded eve of lecture by 18.00 on <http://gabriel-zucman.eu/econ133>
- Slides cover main points: take notes & consult references if needed
- Midterm in class on March 7th
- Final on May 13, 8:00–11:00am. Don't enroll if you can't attend.

3.2 Readings

Five compulsory readings assigned over the semester

→ Introduction to current research on inequality

1. Thomas Piketty and Gabriel Zucman, “Capital is back: wealth-income ratios in rich countries 1700-2010”, *QJE* 2014
2. David Autor, “Skills, education, and the rise of earnings inequality among the ‘other 99 percent’”, *Science* 2014
3. Robert J. Gordon, “Is U.S. economic growth over? Faltering innovation confronts the six headwinds”, NBER 2012

4. Branko Milanovic, “Global income inequality in numbers: in History and now”, *Global Policy* 2013
5. Anthony B. Atkinson, “Can we reduce inequality in OECD countries?”, 2015

Suggested textbook: Thomas Piketty’s *Capital in the 21st Century* (2014, Harvard University Press).

→ Reference / fallback text for the lectures

3.3 Sections

- GSIs: Juliana Londoño-Vélez and Marcelo Milanello
- Sections: 1 hour a week. Three things:
 1. Review lecture material
 2. Discuss compulsory readings
 3. Discuss press articles that we (@juliana_londono, @marcelo_milane and @gabriel_zucman) will tweet on Th. every week (with #econ133)
- Section material available at <https://sites.google.com/site/julianalondonovelez/teaching>

3.4 Grading

- Final on May 13, 8:00–11:00am: 50%
- Midterm in class on March 7th: 20%
- Short essay questions on 5 compulsory readings: 15%
- One short essay on press article + section discussion: 10%
- Participation in sections: 5%

3.5 Office hours

- My office hours: Mondays 12pm-2pm in 645 Evans
- Juliana Londoño-Vélez: Wednesdays 9:00am-11:00am in 640 Evans
- Marcelo Milanello: Fridays 10:00am-12:00pm in 640 Evans
- Any question: please contact first Juliana and Marcelo

4 Structure of the lecture: 5 parts

1. Core concepts (Jan. 20 – Feb. 17th)
2. Labor income inequality (Feb. 22 – Mar. 7th)
3. Capital inequality (Mar. 9th – Mar. 30th)
4. Global inequality (Apr. 4th – Apr. 13th)
5. Regulating inequality (Apr. 18th – Apr. 27th)

References

Atkinson, Anthony B., “Can we reduce inequality in OECD countries?”, 2015 (web)

Autor, David “Skills, education, and the rise of earnings inequality among the ‘other 99 percent’”, *Science*, 2014 (web)

Milanovic, Branko, “Global income inequality in numbers: in History and now”, *Global Policy*, 2013 (web)

Gordon, Robert J., “Is U.S. economic growth over? Faltering innovation confronts the six headwinds”, NBER, 2012 (web)

Piketty, Thomas and Emmanuel Saez “Income Inequality in the United States, 1913-1998”, *Quarterly Journal of Economics*, 118(1), 2003, 1-39, series updated to 2014 in June 2015 (web)

Piketty, Thomas, *Capital in the 21st Century*, Cambridge: Harvard University Press, 2014, Chapter 1 (web)

Piketty, Thomas, and Gabriel Zucman, “Capital is back: wealth-income ratios in rich countries 1700-2010”, *Quarterly Journal of Economics*, 2014 (web)