

# **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
- 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

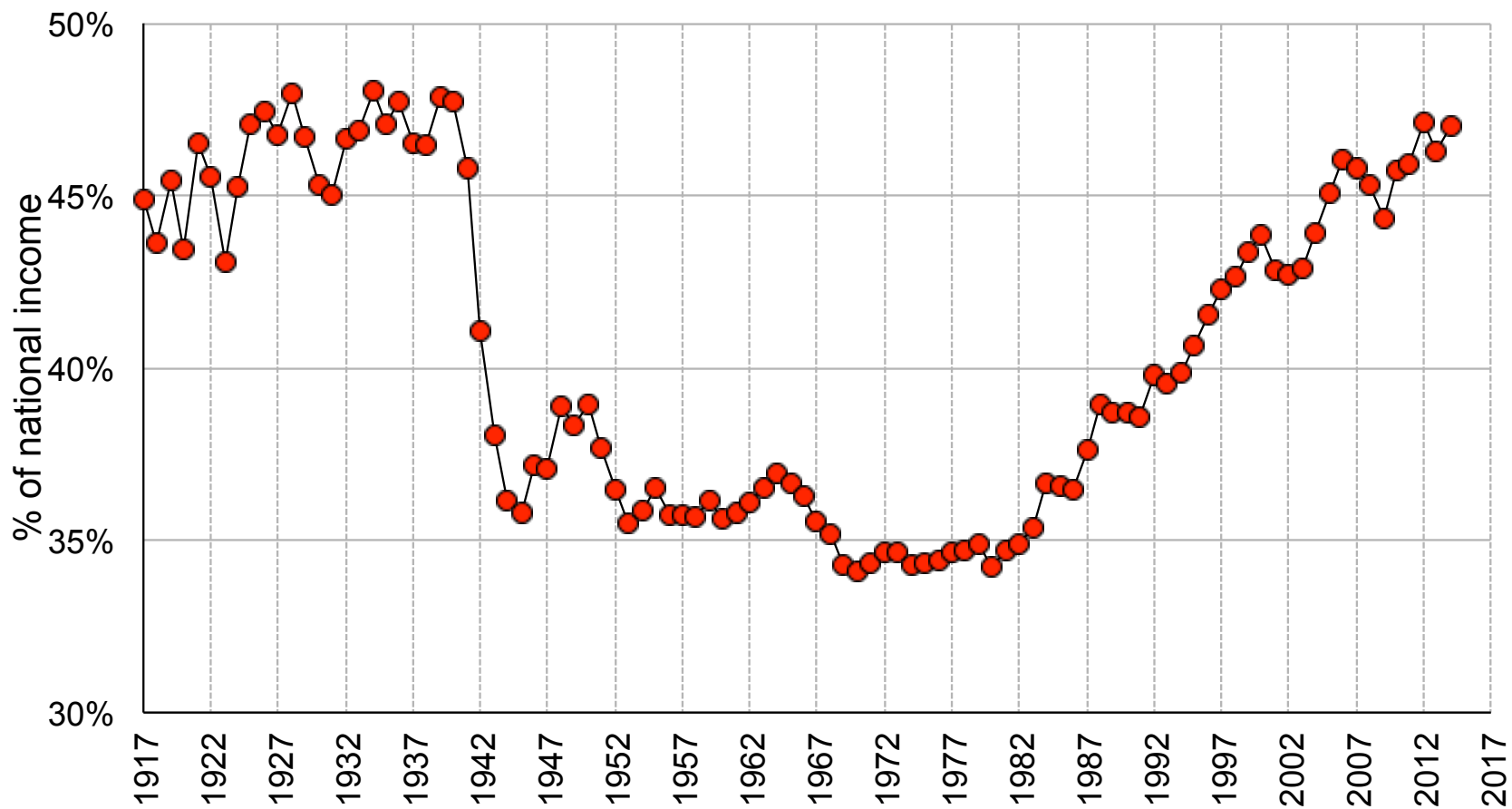


## 2.4 Simon Kuznets

- *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

### 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, 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 Feb. 28, 5pm to 6.30pm
- Final on May 12, 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

1. T. Piketty, E. Saez and G. Zucman, “Distributional National Accounts: Methods and Estimates for the US”, *NBER* 2016
2. D. Autor, “Skills, education, and the rise of earnings inequality among the ‘other 99 percent’”, *Science* 2014
3. G. Zucman, “Taxing Across Borders: Tracking Personal Wealth and Corporate Profits”, *JEP* 2014

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 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: Juliana Londoño-Vélez and Jon Schellenberg
- Sections: 1 hour a week.
  1. Review lecture material
  2. Discuss press articles that we (@juliana\_londono, @schellenberg133 and @gabriel\_zucman) will tweet on Th. every week (with #econ133)
- Section material available at <https://sites.google.com/site/julianalondonovelez/econ133>



## 3.5 Grading

- Final: 45%
- Midterm: 20%
- Participation in lectures (i-clickers): 5%
- Short essay questions on 5 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
- Juliana Londoño-Vélez: Wednesdays 9am-11am in 636 Evans
- Jon Schellenberg: Thursdays 12pm-2pm in 630 Evans
- Any question: please contact first Juliana and Jon.

## **4 Structure of the lecture: 5 parts**

1. Core concepts
2. Labor income inequality
3. Capital inequality
4. Global inequality
5. Regulating inequality

## 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)