

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 tanks, 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 → 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

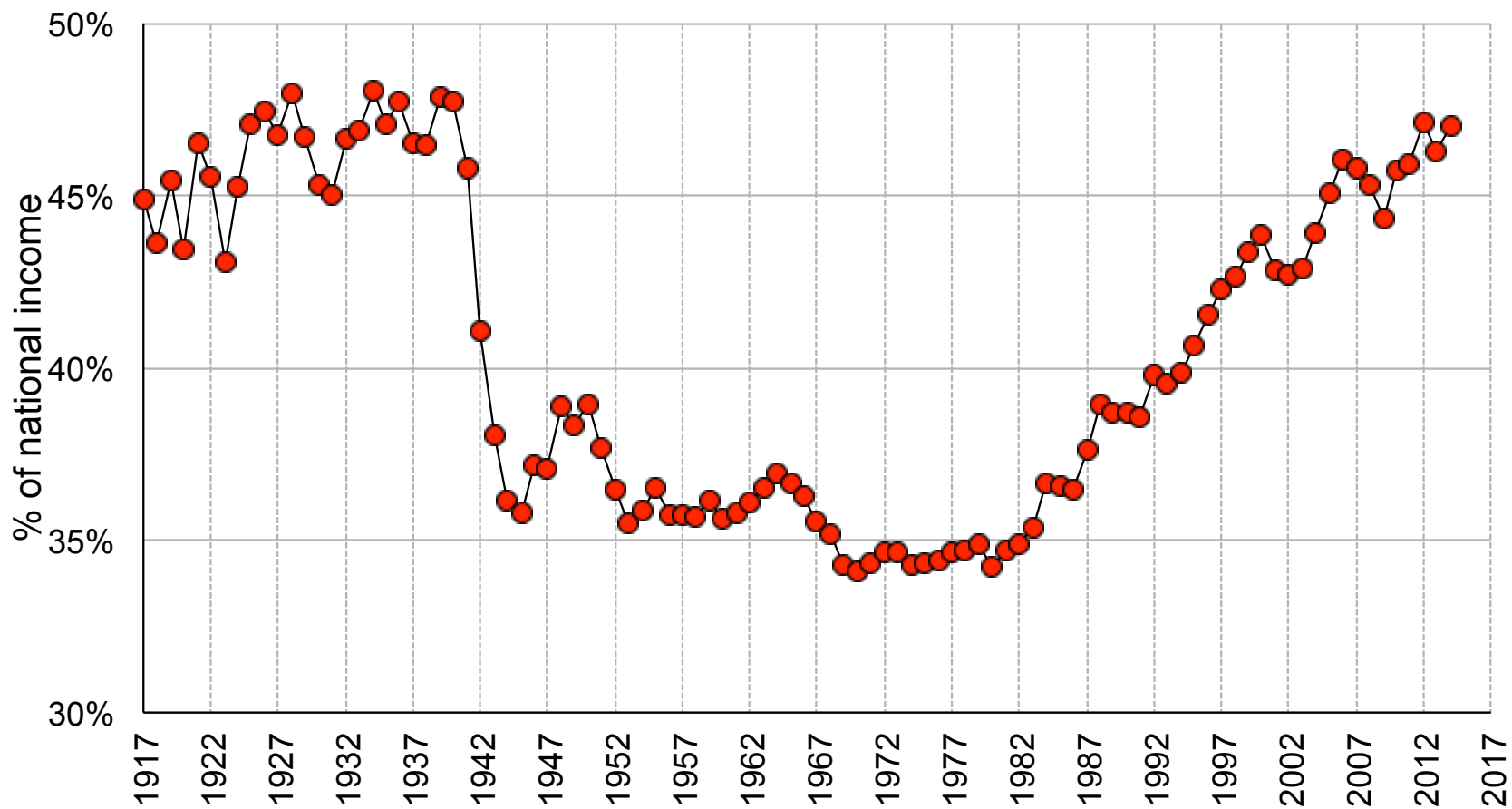
- *Das Kapital* vol. 1, 1867
- Main divergence force: capitalists always want to accumulate more
- Two possible end outcomes:
 - Fall in rate of return to capital → conflict among capitalists to find new ways to use their capital (Lenin, 1917 *Imperialism, the Highest Stage of Capitalism*)
 - Ever growing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

1. T. Piketty, E. Saez and G. Zucman, “Distributional National Accounts: Methods and Estimates for the US”, *NBER* 2016
2. World Inequality Report 2018, Part II, “Trends in Global Income Inequality”
3. M. Bertrand, “The Glass Ceiling”, *Economica* forthcoming

4. G. Zucman, “Taxing Across Borders: Tracking Personal Wealth and Corporate Profits”, *JEP* 2014
5. Lucy Page and Rohini Pande, “Ending Global Poverty: Why Money Isn’t Enough,” *JEP* 2015

Suggested readings:

- Thomas Piketty’s *Capital in the 21st Century* (2014, HUP)
- World Inequality Report 2018: <http://wir2018.wid.world>
- 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, @ninaroussille, 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

Bertrand, Marianne, “The Glass Ceiling,” *Economica*, forthcoming (web)

Atkinson, Anthony B., *Inequality: What Can be Done?*, 2015, Harvard University Press (web)

Page, Lucy and Rohini Pande, “Ending Global Poverty: Why Money Isn't Enough,” *Journal of Economic Perspectives*, 2015. (web)

Piketty, Thomas, Emmanuel Saez, and Gabriel Zucman, “Distributional National Accounts: Methods and Estimates for the United States,” *Quarterly Journal of Economics*, 2018 (web)

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

World Inequality Report 2018, available online at <http://wir2018.wid.world>

Zucman, Gabriel, “Taxing Across Borders: Tracking Personal Wealth and Corporate Profits,” *Journal of Economic Perspectives*, 2014 (web)