

# **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
- “Inequality is the defining challenge of our time” (Barack Obama)

Inequality is an important subject for:

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

## 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

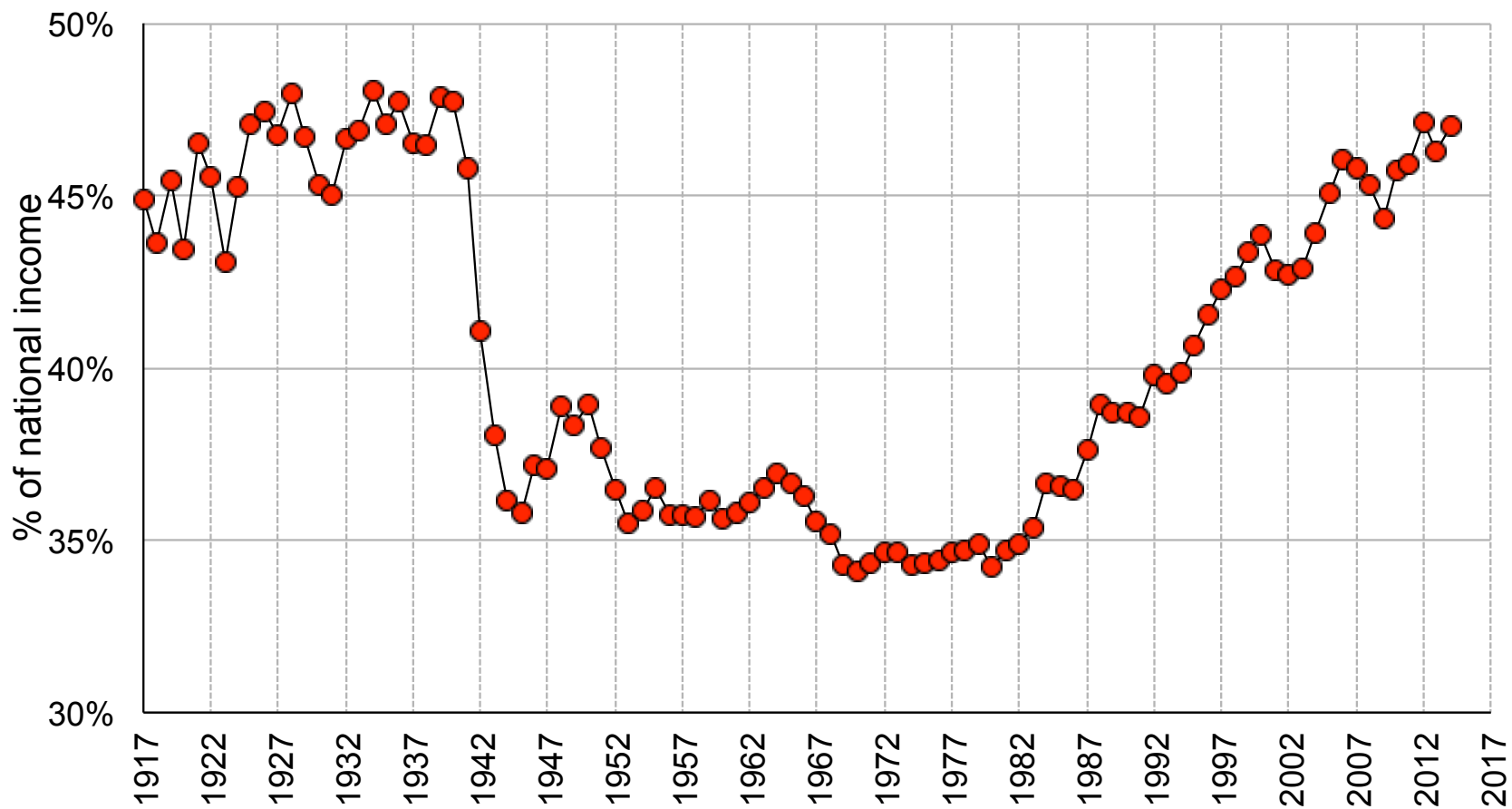


## 2.4 Simon Kuznets

- *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: WID.world, based on Piketty, Saez, Zucman (2018)

- 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

- 22 topics,  $\approx$  two topics per lecture each Tuesday 5pm-8pm
- Lecture slides: <http://gabriel-zucman.eu/econ133>
- Slides cover main points: take notes & consult references if needed
- Midterm March 2, 5pm to 6.30pm. Final May 14, 11:30–2:30pm.
- 1 alternate exam time for students on different time zone: let your GSI know by Jan. 31st

## 3.2 Readings

### Five compulsory readings assigned over the semester

→ Introduction to current research on inequality

1. E. Saez and G. Zucman, “The Rise of Income & Wealth Inequality in America: Evidence from Distributional Macroeconomic Accounts,” *JEP* 2020.
2. World Inequality Report 2018, Part II, “Trends in Global Income Inequality”
3. M. Bertrand, “The Glass Ceiling”, *Economica* 2018.

K. Lang and A. Kahn-Lang Spitzer, “Race Discrimination: An Economic Perspective,” *JEP* 2020.

4. Jason Hickel, *The Divide: A Brief Guide to Global Inequality and its Solutions*, 2018. Chapters 8-9.

### **Suggested readings:**

- Thomas Piketty’s *Capital and Ideology* (2020, HUP)
- World Inequality Report 2018: <http://wir2018.wid.world>
- Anthony Atkinson’s *Inequality: What Can be Done?* (2015, HUP)
- Jason Hickel, *The Divide* (Norton, 2018)

### 3.3 Zoom Polls

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: José Diaz Azcunaga, Margie Lauter, and Cristóbal Otero
- Sections: 1 hour a week.
  1. Discuss press articles that we will tweet on Friday every week (with #econ133), starting this Friday
  2. Review lecture material
- Section material available on bCourses



## 3.5 Grading

- Final: 25%
- Midterm: 15%
- Essay questions on compulsory readings: 30%
- Essay on press article (in group) + section discussion: 15%
- Final presentation in class at end of semester (in group): 15%
- Bonus for overall participation: 5%

## 3.6 Office hours

- My office hours: Mondays 11-am-12pm on Zoom (start Feb 1st)
- GSIs: See sections syllabus
- Any question: please contact first José, Margie, or Cristóbal.

## **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*, 2018 (web)

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

Saez, Emmanuel and Gabriel Zucman, “The Rise of Income and Wealth Inequality in America: Evidence from Distributional Macroeconomic Accounts,” *Journal of Economic Perspectives*, 2020 (web)

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