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 thanks, 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 $\rightarrow$ labor supply increases $\rightarrow$ 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 $\rightarrow$ 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 $\rightarrow$ 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

$\rightarrow$ Kuznets curve hypothesis: inequality follows an $\bigcap$ over path of development

Top 10% pre-tax national income share in the United States
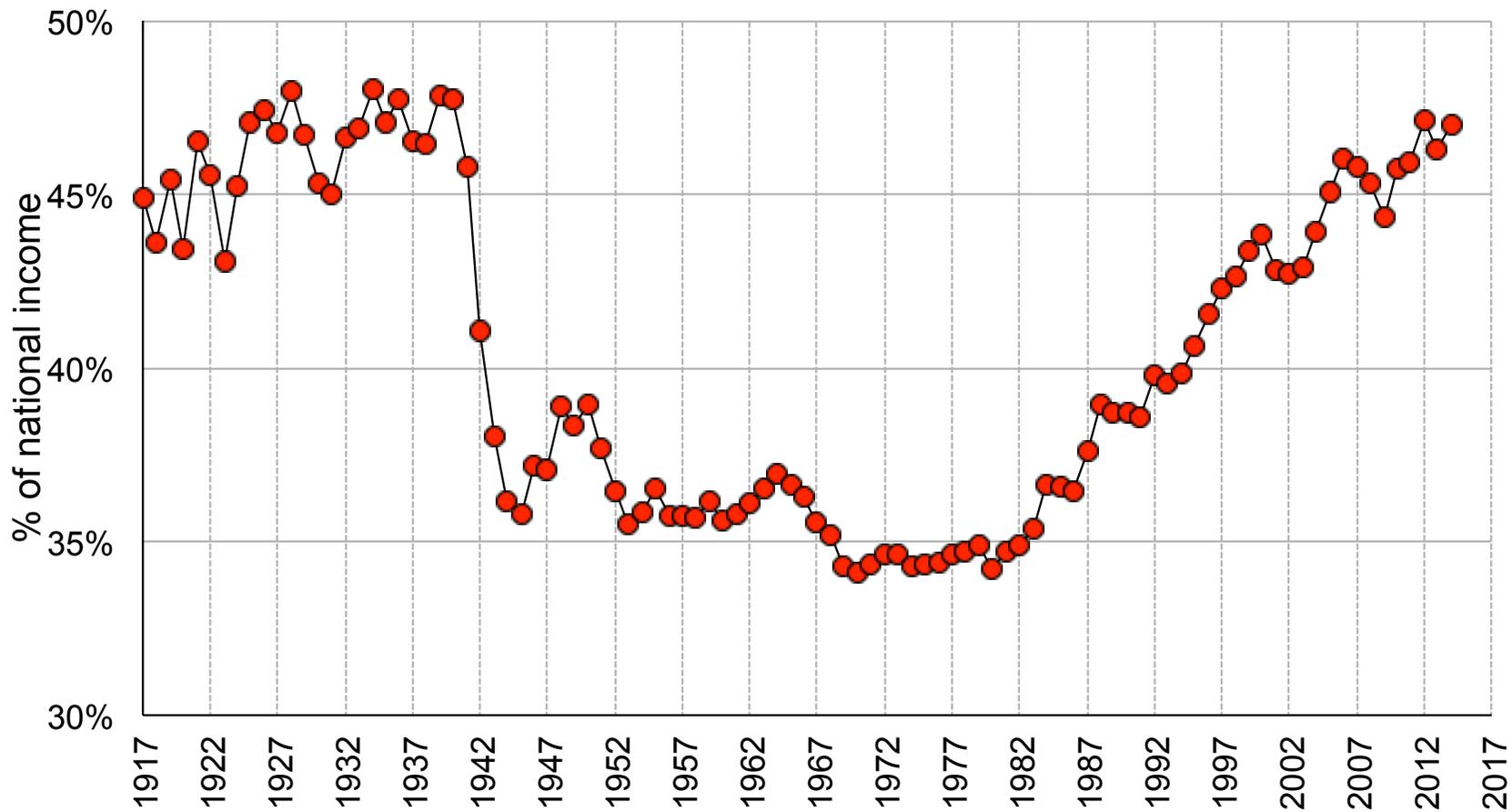
Source: WID.world, based on Piketty, Saez, Zucman (2018)

- 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

- 24 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 8, 5pm to 6.30pm. Final May 13, 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

$\rightarrow$ 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 2022, chapter 2, "Global inequality from 1820 to now: the persistence and mutation of extreme inequality"

3. M. Bertrand, "The Glass Ceiling", *Economica* 2018.

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

4. Thomas Piketty (2020), *Capital and Ideology.* Chapter 17: "Elements for a Participatory Socialism for the Twenty-First Century."

Suggested readings:

- Claudia Goldin and Lawrence Katz: *The Race Between Education and Technology*

- Franços Bourguignon: *The Globalization of Inequality*

- Joseph Stiglitz: *Globalization and its discontents*

3.3   Sections

- GSIs: Jakob Brounstein and Diego Villegas

- Sections: 1 hour a week.

  1. Discuss articles that GSIs will tweet every week (with #econ133), starting this Friday
  2. Review lecture material

3.4   Grading

- Final: 30%

- Midterm: 20%

- Essay questions on compulsory readings: 30%

- Essay on article (in group) + section discussion: 20%

- Bonus for overall participation: 5%

3.5   Office hours

- My office hours: Friday 4-5pm, Evans Hall 621 (start Jan. 28)

- GSIs: See syllabus

- Any question: please contact first Jakob or Diego.

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`