

Econ 133
Global Inequality and Growth

Spring 2016

Syllabus as of January 20th, 2016
([check online for updated versions](#))

Units: 4

Lectures: 3 hours per week

Sections: 1 hour per week

Professor: Prof. Gabriel Zucman

Email: zucman@berkeley.edu

Website: <http://www.gabriel-zucman.eu>

Office Hours: Mondays 12pm-2pm in 645 Evans

Graduate Student Instructors:

Juliana Londoño-Vélez (j.londonovelez@berkeley.edu):

Sections: Tuesdays 8am-9am (in 151 Barrows)

Tuesdays 9am-10am (in 155 Barrows)

Office hours: Wednesdays 9:00am-11:00am in 640 Evans

Marcelo Milanello (marcelo@berkeley.edu):

Sections: Thursdays 1.00pm-2.00pm (in B51 Hildebrand)

Thursdays 2.00pm-3.00pm (in 6 Evans)

Office hours: Fridays 10:00am-12:00pm in 640 Evans

Course description:

This course provides an introduction to the analysis of economic inequalities and the interplay between inequality and economic growth. It deals with three sets of core questions: 1) How does inequality evolve over the path of development? 2) What are the theories that can explain the level of economic inequalities and its dynamic? 3) How do policies affect inequalities, and what types of policies can foster equitable growth? The course addresses these issues from a global and historical perspective: it comprehensively deals with the United States today, but also with inequality in China, India, Latin America, and Europe, as far back as 1700.

Prerequisites:

Econ 1 or Econ 2.

Course Website:

All lecture notes, handouts, and announcements will be posted online at: <http://gabriel-zucman.eu>. This course does not use B-space. Material related to the course will be tweeted on the Twitter accounts of Gabriel Zucman (@gabriel_zucman), Juliana Londoño-Vélez (@juliana_londono), and Marcelo Milanello (@marcelo_milane), with hashtag #Econ133.

Lectures:

Mondays and Wednesdays 4.00pm-5.30pm (in 277 Cory).

Required readings:

There is no textbook that covers all the material that we will see in class, so to succeed in this course it is essential to attend all the lectures. Lecture notes will be posted on the course website, but these notes are not comprehensive, so it is critical to be attentive and to take notes during lectures. Lectures are key to doing well in this course. In addition to attending all lectures, the other requirement is to read the five texts below, which will be assigned over the semester:

- Thomas Piketty and Gabriel Zucman (2014), "[Capital is back: wealth-income ratios in rich countries 1700-2010](#)", *Quarterly Journal of Economics* 129(3): 1255-1310.
- David Autor (2014), "[Skills, education, and the rise of earnings inequality among the 'other 99 percent'](#)", *Science* 344(6186): 843-851.
- Robert J. Gordon (2012), "[Is U.S. economic growth over? Faltering innovation confronts the six headwinds](#)", NBER working paper.
- Branko Milanovic (2013), "[Global income inequality in numbers: in History and now](#)", *Global Policy*, 4(2): 198-208.
- Anthony B. Atkinson (2015), "[Can we reduce inequality in OECD countries?](#)", *Empirica*, 42: 211-223.

These five readings are compulsory. All the material seen in lectures and in these five compulsory readings is examinable.

Optional reading:

In addition to the required readings above, I recommend you to purchase Thomas Piketty's *Capital in the 21st Century* (2014, Harvard University Press). Piketty's book can be used to review a large part of the material seen in lectures and to deal with a number of issues in depth. However, Piketty's book does not cover all the material of this course, so it is, again, essential to attend all lectures.

Course structure:

There will be twenty-six 1.5-hour long lectures organized into five parts, including one review session just before the final, and one mid-term exam in class. See list of lectures below.

Sections will have three aspects. (i) First, you will review the material seen in lectures. (ii) Second, you will critically discuss current newspaper articles related to inequality and growth, using the concepts seen in lectures. More precisely, Juliana Londoño-Vélez (@juliana_londono), Marcelo Milanello (@marcelo_milane), and Gabriel Zucman (@gabriel_zucman) will tweet one recent newspaper article with hashtag #Econ133 each week on Thursday evening. You must read these three short newspaper articles every week before attending sections. Part of the section will be devoted to discussing these articles. Once during the semester you will be asked to write an essay on one article and to lead the ensuing class discussion. This work will be done in groups of three, and 10% of the final grade will be based on this essay and the ensuing class discussion. In addition, 5% of the final grade will be based on regular participation during sections. (iii) Last, part of the sections will be devoted to studying the five compulsory readings, which will provide you with an introduction to current research on inequality and growth. For each compulsory reading, you will be asked to hand in

answers to a few short essay questions. For these short essays questions, group work is not permitted: each student must turn in his/her own answers for each of the five compulsory readings. Each of these five short essay questions will count for 3% of the final grade (hence 15% overall). The first short essay questions will be due on Monday Feb. 1st, the second on Monday Feb. 22nd, the third on Monday March 14th, the fourth on Monday April 4th, and the fifth on Monday April 18th. Sections will start the week of January 25 (there will be no Sections in the week of January 19th).

Grading:

- Midterm (in class, March 7th, 4.10pm-5.30pm): 20%
- Final (May 13th, 8.00am-11.00am): 50%
- Work in sections: 30%, decomposed as follows:
 - Short essay questions relative to the five compulsory readings: 15% (five times 3%).
 - One essay on and class discussion of a newspaper article in groups of three students: 10%
 - Overall class participation: 5%.

Credit for the mid-term and final exams will be based on conceptual understanding of the ideas taught in the lectures. Both midterm and final will be closed-notes (class notes, books, and electronic devices are not allowed). Paper and pen only. Please bring your own paper and stapler if you don't use a blue book and need to staple separate sheets. The final will be cumulative and based on the full material covered in class, including material tested in the midterm.

Special Accommodations:

If you require special accommodations for exams or lecture due to learning or other disability, if you have emergency medical information that you wish to share, or if you need special arrangements in case the building must be evacuated, please speak with your GSI by January 31st. You will ultimately need to obtain the evaluation form from Disabled Students' Program (<http://dsp.berkeley.edu>, 260 César Chávez Center) which they will send electronically to Professor Zucman. Exams for those needing accommodations are proctored by DSP's Proctoring Service, which requires notice of participants generally at least two weeks in advance of an exam. Request for exam accommodation must be received and acknowledged by your GSI before DSP's own internal deadline for scheduling the proctoring of exams.

PART I – Core Concepts

- **Compulsory reading:** Thomas Piketty and Gabriel Zucman (2014), "[Capital is back: wealth-income ratios in rich countries 1700-2010](#)", *Quarterly Journal of Economics* 129(3): 1255-1310. Short essay questions on this reading to be handed in on **Feb. 1st**.
- **Optional reading:** Thomas Piketty (2014), *Capital in the 21st Century*, Introduction and Chapters 1 to 6.

1. Introduction (Jan. 20th)

- (i) Efficiency and equity
- (ii) Inequality in the history of economic thought
- (iii) Overview of the course

2. What is income? (Jan. 25th)

- (i) Income = labor income + capital income
- (ii) Functional vs. inter-personal income inequality
- (iii) Factor income vs. pre-tax income vs. disposable income

3. What is capital? (Jan. 27th)

- (i) Capital and wealth: definitions
- (ii) Public vs. private wealth
- (iii) The changing nature of wealth since 1700

4. Income growth in the long run (Feb. 1st)

- (i) Income growth = productivity growth + demographic growth
- (ii) Why is there demographic growth?
- (iii) Why is there productivity growth?

5. The capital/income ratio in the long run (Feb. 3rd)

- (i) The steady-state capital-income ratios with no asset price effects: s/g
- (ii) Capital's comeback in rich countries
- (iii) The role of land and other asset prices

6. Inequality between labor and capital (Feb. 8th)

- (i) Trends in factor shares
- (ii) Capital share = capital/income ratio x rate of return
- (iii) What determines the rate of return? The elasticity of substitution between capital and labor

7. Inequality between individuals (Feb. 10th)

- (i) Sources: surveys, tax data, distributional national accounts
- (ii) Metrics: Gini coefficient, Pareto-Lorenz coefficient, top shares
- (iii) Beyond income and wealth: age, gender, ethnicity

8. The interplay between inequality and growth (Feb. 17th)

- (i) How equality can harm growth: Okun and the equity-efficiency trade-off
- (ii) How inequality can harm growth
- (iii) What can the data say?

PART II - Labor Income Inequality

- **Compulsory reading:** David Autor (2014), "[Skills, education, and the rise of earnings inequality among the 'other 99 percent'](#)", *Science* 344(6186): 843-851. Short essay questions on this reading to be handed in on **Feb. 22nd**.
- **Optional reading:** Thomas Piketty (2014), *Capital in the 21st Century*, Chapters 7, 8 and 9.

9. Labor income inequality across time and space (Feb. 22nd)

- (i) Labor income inequality: basic orders of magnitudes
- (ii) Anglo-Saxon countries vs. Continental Europe
- (iii) Developing countries

10. The role of market forces (Feb. 24th)

- (i) Basic theoretical framework: the supply and demand for skills
- (ii) The rise in the demand for skilled labor
- (iii) Education and inequality
- (iv) Bringing the supply-demand framework to the data

11. The role of institutions (Feb. 29th)

- (i) Limits of the supply/demand framework
- (ii) The minimum wage
- (iii) Unions

12. Top labor incomes (Mar. 2nd)

- (i) The rise of the top 1%
- (ii) Has rising mobility offset the rise in US inequality?
- (iii) Why has CEO pay increased so much?

13. **MIDTERM: March 7th**

PART III – Capital Inequality

- **Compulsory reading:** Robert J. Gordon (2012), "[Is U.S. economic growth over? Faltering innovation confronts the six headwinds](#)", NBER working paper. Short essay questions on this reading to be handed in on **Mar. 14th**.
- **Optional reading:** Thomas Piketty (2014), *Capital in the 21st Century*, Chapters 10 and 11.

14. Wealth inequality across time and space (Mar. 9th)

- (i) Wealth inequality: basic orders of magnitude
- (ii) The fall of the rentiers over the 20th century
- (iii) The rise of wealth inequality in the 21st century

15. Models of the wealth distribution (Mar. 14th)

- (i) The precautionary saving model
- (ii) The life-cycle model
- (iii) Dynamic random shock models

16. $r > g$ (Mar. 16^h)

- (i) Why $r > g$ matters for wealth inequality
- (ii) Long run trends in r
- (iii) r and g in the 21st century: will there be growth?

SPRING BREAK

17. Inherited *versus* self-made wealth (Mar. 28th)

- (i) The Modigliani vs. Kotlikoff-Summers controversy
- (ii) The bequest flow
- (iii) The share of inherited wealth in total wealth

18. Offshore wealth (Mar. 30th)

- (i) Wealth concealment in offshore tax havens
- (ii) Offshore wealth and inequality

PART IV – Global Inequality

- **Compulsory reading:** Branko Milanovic (2013), "[Global income inequality in numbers: in History and now](#)", *Global Policy*, 4(2): 198-208. Short essay questions on this reading to be handed in on **Apr. 4th**.
- **Optional reading:** Thomas Piketty (2014), *Capital in the 21st Century*, Introduction and Chapter 12.

19. The world distribution of income (Apr. 4th)

- (i) Concepts of global inequality
- (ii) The cross-country distribution of production and income
- (iii) Divergence within countries vs. convergence across countries

20. Global inequality and migration (Apr. 6th)

- (i) How international migration affects source countries
- (ii) How international migration affects destination countries
- (iii) The global welfare effects of international labor flows

21. Global inequality and capital mobility (Apr. 11th)

- (i) The rise of financial globalization
- (ii) The gains of international financial integration
- (iii) The costs of international financial integration

22. Global inequality and trade (Apr. 13th)

- (i) How international trade affects inequality
- (ii) Labor regulations in trade agreements
- (iii) Patent regulations in trade agreements

PART V – Regulating Inequality

- **Compulsory reading:** Anthony B. Atkinson (2015), "[Can we reduce inequality in OECD countries?](#)", *Empirica*, 42: 211-223. Short essay questions on this reading to be handed in on **Apr. 18th**
- **Optional reading:** Thomas Piketty (2014), *Capital in the 21st Century*, Chapters 13, 14 and 15.

23. Optimal labor income taxation (Apr. 18th)

- (i) The optimal income tax rate for top earners and the Laffer curve
- (ii) The elasticity of taxable income: real vs. avoidance responses
- (iii) Evidence on taxable income elasticities

24. Optimal capital taxation (Apr. 20th)

- (i) Optimal capital and inheritance taxes
- (ii) The role of business taxation

25. Taxation in a globalized world (Apr. 25th)

- (i) Residence vs. source taxation
- (ii) International tax competition for capital and international cooperation
- (iii) International profit shifting and global tax reform

26. REVIEW AND CONCLUSION (April 27th)

FINAL EXAM: May 13th, 8.00am to 11.00am.