To determine the laws which regulate distribution is the principal problem in Political Economy.

David Ricardo (1817), *Principles of Political Economy* (Preface)

“...of the tendencies that are harmful to sound economics, the most seductive, and ...the most poisonous, is to focus on questions of distribution.”

Robert E. Lucas (2004), *The Industrial revolution: past and future*

**INCOME INEQUALITY: FROM NATIONAL TO GLOBAL**

**IDS 81650.**

**CITY UNIVERSITY OF NEW YORK**

**GRADUATE CENTER**

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January 29-May 14 (no classes: Feb 12, April 16)

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**Inequality: A topic that came in from the cold**

The central subject of the class is income inequality. Inequality has become a much more important topic in the press, social networks and academic publications over the last three or four years. This resurgence of interest is particularly striking in the United States where, because of the ideological dominance of the Chicago school of economics, the topic was considered irrelevant and “soft.” It was thought that only people mistrustful of markets or personally envious would care about inequality. Growth would ultimately improve everybody’s standard of living.

This position was a sharp departure from almost 200 years of economics’ concern with the questions of distribution, which Ricardo thought should be “the principal topic in political economy.” The Chicago model of economics has obviously been proven false as it bequeathed the West the sharpest economic crisis since the 1930s. To better understand inequality, it is necessary to review the historical evidence,
and empirical and theoretical work on the topic. It is also important to realize that—despite the fact that it was during several decades an “underground topic”—there exists an important and sizeable body of knowledge.

The course is divided into three parts. The first part (covering approximately one-half of the class), looks at inequality within nation-state, using both some theory and empirics. This was, and still remains, the dominant and the most important type of income inequality. We start with a brief review of several key theories of personal income distribution. Interest in personal income distribution goes back to about 100 years ago, and is thus relatively recent compared to the interest in the functional distribution of income (between labor=workers, capital=capitalists and land=landowners).

Since inequality is mostly about the empirics, theories of personal income distribution were heavily inductive. We start with Vilfredo Pareto who was the first economist to have seriously studied inter-personal income inequality. We continue with Simon Kuznets’s famous inverted U curve which is still the workhorse of inequality economics (although it was defined 60 years ago), and complete with the views of several contemporary authors, in particular Thomas Piketty as expressed most clearly in his new book *Capital in the 21st century*.

After a review of theories, we shall look at the past 30 years which have seen a steady and, at times apparently unstoppable, rise in inequality in about 2/3 of the countries worldwide. We shall review regional evidence, starting with the rich world, and then going over transition countries and the developing world. Particularly interesting, because it is bucking the trend, is the decrease of inequality in high-inequality countries like Brazil.

In the second part, we broaden the perspective: from studying within-national inequality, we move to a study of global inequality. This is an empirical area of a much more recent vintage, for two reasons: the data to study global inequality were not available until about 20 years ago, and it takes a certain “cosmopolitan” or “globalist” outlook to begin thinking about inequality among all human beings rather than within one country. In this part, we shall address three issues: (1) how is global inequality calculated and what are the methodological challenges faced in such a huge exercise, (2) what are the empirical results, and (3) what can political philosophy tell us about the relevance and importance of global inequality.

At the very end of the class, we shall try to address the thorny issue of “what next.” It seems clear today that (i) the rigid neoclassical approach has failed, and that (ii) there is broad dissatisfaction with the existing high inequality. But what can be done? What policies, at national and global level, can be used to effect change? Will tax on financial transactions help? Or global tax on capital? Can individual countries do it alone by, for example, raising top income tax rates? Why the public accepted marginal tax
rates of 90% only three decades ago and cannot imagine them today? Will inequality between countries make migration pressure greater and migration politically less sustainable? Why has the political reaction to the increased income inequality been so muted (compared with the 1930s)? Can a growing global “middle” class coexist with the dwindling (hollowed out) middle classes in rich countries? Finally, and perhaps most importantly, will greater income inequality “spill into” greater wealth inequality and inequality of opportunity?

Here, we enter into an area for which there are relatively few new contributions, and where we are unlikely to provide strong answers. Several recent books, blogs and articles try to move our thinking forward. We shall discuss some of them in class.

Every class will have a “dedicated” ½ hour during which we shall discuss current inequality issues as they happen. Students are encouraged to think of the issues they would propose for discussion (and if nobody does propose anything, I will draw on my “reserve issues”). Participation in discussion in that part (as in the rest of the class) will be the basis for the participation part of the grade.

There would be a shorter mid-term exam, and a longer (2-hour) final exam. Both will be administered in class. The grading weights will be as follow: class participation 30%, mid-term 30%, final exam 40%.

The amount of required readings (denoted by letter R) is not huge (approximately two readings per week). Other papers listed in the syllabus are important papers from the area, and may be useful for students who decide to pursue a given topic further (whether in this class or another one). Only things covered in class and in required readings may be included in the mid-term and final exam.


**Important recent books:**


1. Within-national inequalities

1.1 Some theory: From Pareto to Kuznets to Piketty (6 readings)

[R] Essay I (“Unequal people”) and vignette 1.10 (“Two students of inequality: Vilfredo Pareto and Simon Kuznets”) from The Have and the Have-nots.


A special issue of Current History, “Inequality on the Rise: A Current History Anthology”, September 2012-May 2013, vol. 111, No. 746-Vol. 112 No. 754. In particular papers on China (Martin King Whyte), Russia (Daniel Treisman), and Africa (Shantayanan Devarajan and Luc Christiaensen).

Background: Seminal works: Pareto, Kuznets, Tinbergen and Piketty

Vilfredo Pareto, Cours d’économie politique, Lausanne, 1896.


### 1.2 National inequalities in the current era of globalization

Main theme: How much and why within-national inequalities increased in the last thirty years

#### 1.2.1 Developed world (3 readings)


[top income shares literature]


### 1.2.2 Transition countries


1.2.3 Developing world (incl. China) (3 readings)


BOOKS


**Background: Introduction to the measurement of inequality**


**2. Global inequality**

Main theme: What is global inequality, how it suddenly acquired importance, and does it really matter

**2.1 Data, measurement, results (3 readings)**

[R] Essays II and III from *The haves and the have-nots*: “Unequal nations”, p. 95 and “Inequality among citizens in the world”, p. 149. Also vignettes 2.1-2.3, 3.2.


Background: Methodological issues


2.2 Introduction to global distributive justice (4 readings)
Main theme: Yes, there are large inequalities between people in the world, but should something be done about it, and if so, what and how?

[R] Vignettes 3.8 (“Why Rawls was indifferent to global inequality?”) from *The haves and the have-nots*.


Amartya Sen, “Uses and abuses of Adam Smith”, *History of Political Economy*, vol. 43, No. 2, 2011, pp. 257-271. Available at [http://hope.dukejournals.org/content/43/2/257.full.pdf](http://hope.dukejournals.org/content/43/2/257.full.pdf) (behind the wall),


**BOOKS**


### 3. What next? (3 readings)


http://www.businessweek.com/articles/2013-04-22/how-did-the-worlds-rich-get-that-way-luck#r=auth-s.

Background: Inequality of opportunity


BOOKS


