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*

GLOBAL INEQUALITY: MEASUREMENT, ANALYSIS AND POLITICAL IMPLICATIONS

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My blog: http://glineq.blogspot.com/
(some of the topics covered there may be discussed in class)

My website (which contains readings for which the link is not given here and data from my papers):
http://www.gc.cuny.edu/Page-Elements/Academics-Research-Centers-Initiatives/Centers-and-Institutes/Luxembourg-Income-Study-Center/Branko-Milanovic-Senior-Scholar

Inequality: A topic that came in from the cold

Why we study income inequality? 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.

**Methodological introduction.** (it sounds boring but without it nothing else is comprehensible) The first part is introductory. It discusses the methodology used in the work on inequality and the data sources. What are our key metrics of welfare and thus of inequality? How do we define income or consumption? Should differences in income between individuals be measured in absolute or relative terms? Should we look at income before transfers and taxes or after? Do we look at households or individuals or both? How are top incomes treated in household surveys and fiscal data? Do we include the poorest people? Where do we find the data from which to calculate income or consumption inequality? Is wealth different from income and consumption, and how?

**Inequality between all people in the world.** In the second part, we study global inequality. This is an empirical area of a relatively 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. We shall cover in part national inequalities (e.g. what happened in the US or China) to the extent that they influence global inequality.

This (core) part of the class moves from methodological issues (how do we find prices at which to compare incomes in India and the US?), to empirical (how high is global inequality and is it going up or down?) to philosophical (is it right for people born in rich countries to have higher lifetime incomes and not allow migration?).

**What next?** At the very end of the class, we shall try to address the difficult 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? Can a growing global “middle” class coexist with the dwindling (hollowed out) middle classes in rich countries? What does higher inequality imply for political
democracy? 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.

**About this class.** Most classes 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; otherwise, I will send, a couple of days before each class, blogs or articles to be discussed.

Each student will make one half-hour presentation in class (that includes about 20 minutes for presentation and 10 minutes for Q&A). The topic will have to be on inequality, but the choices may include relationship between inequality and some other phenomena, analysis or description of changes of inequality in a given country or region, critical review of several inequality papers or books etc. (I do not expect original, data-driven work, although that would be welcome. A review of literature from a given area is fine.)

The final exam will be in class and will consist of two or three essay questions. The grading weights will be as follow: class participation 30%, presentation 30%, final exam 40%.

The amount of required readings denoted by [R] is limited. It is to two to three readings per week, plus short topical readings assigned in class. I think it is better for students to read papers after we have covered them in class because many of the things that might seem difficult would later appear simpler. But one could do it the other way round too.

Other papers and books 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).

Only things covered in class and in required readings may be included in the final exams.


All my papers listed here are available at my Graduate Center website: [http://www.gc.cuny.edu/Page-Elements/Academics-Research-Centers-Initiatives/Centers-and-Institutes/Luxembourg-Income-Study-Center/Branko-Milanovic-Senior-Scholar](http://www.gc.cuny.edu/Page-Elements/Academics-Research-Centers-Initiatives/Centers-and-Institutes/Luxembourg-Income-Study-Center/Branko-Milanovic-Senior-Scholar)
Important recent books:
There has been a recent wave of new and important books on inequality. Some are listed here. They may be useful to read or to consult for this or another class.


1. What is economic (income/consumption) inequality and how do we measure it?

Main theme: How do we define and measure inequality and where do we find the data?

1.1 Absolute or relative inequality? Income or consumption? Per capita or per equivalent adult? (2 readings)


[R] Excursus on relative vs. absolute measures in Milanovic, “Global inequality”.


Three important books on methodology of inequality studies


1.2 Gini coefficient, Lorenz curve, Lorenz dominance, first-order stochastic dominance (2 readings)


1.3 Sources of inequality data; problems with surveys (compliance, imputation of income, reference period) (1 reading)


2. **Global inequality**

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

**Review articles:**


[https://link.springer.com/content/pdf/10.1007%2F978-3-030-19163-4_1.pdf](https://link.springer.com/content/pdf/10.1007%2F978-3-030-19163-4_1.pdf)

How inequality studies got sidelined:


2.1 **Data, measurement, results (5 readings)**

[R] Chapters I, III and IV from Milanovic, “Global inequality”.

Essay III from “The haves and the have-nots”.


Background: Methodological issues (1 reading)


2.2 Introduction to global distributive justice (5 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.


Subsection on migration


**BOOKS**


**3. What next? (2 readings)**


**Political roots of inequality**


**Background: Inequality of opportunity**


Where to find the data:


World Bank POVCAL: [http://iresearch.worldbank.org/PovcalNet/index.htm](http://iresearch.worldbank.org/PovcalNet/index.htm) (all developing countries; more than 600 surveys; no access to micro data)


UN WIDER WIIS database: [http://www.wider.unu.edu/research/WIID3-0b/en_GB/database/](http://www.wider.unu.edu/research/WIID3-0b/en_GB/database/) (compilation of Ginis, deciles etc., for a variety of inequality statistics, income, earnings etc. last update September 2014)


Nora Lustig, Appraising world income inequality databases, [http://www1.wider.unu.edu/inequalityconf/sites/default/files/IGA/Lustig.pdf](http://www1.wider.unu.edu/inequalityconf/sites/default/files/IGA/Lustig.pdf) (slides)