

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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(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.

Required book: Branko Milanovic, *Global inequality: A new approach for the age of globalization*, Harvard University Press, 2016.

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>

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.

Angus Deaton, *The great escape: health, wealth and the origins of inequality*, Princeton University Press, 2013.

Thomas Piketty, *Capital in the 21st century*, Harvard University Press, 2014.

Göran Therborn, *The killing fields of inequality*, Polity Press, 2013. See <http://www.polity.co.uk/book.asp?ref=9780745662589>

Claudia Goldin and Lawrence F. Katz, *The race between education and technology*, Belknap Press for Harvard UP, 2010.

Timothy Noah, *The great divergence: America's growing inequality crisis and what we can do about it*, Bloomsbury Press, 2012.

Chrystia Freeland, *Plutocrats: The rise of the new super global-rich and the fall of everybody else*, Penguin Press, 2012.

Janet Gornick and Markus Jännti (eds.), *Income Inequality: Economic Disparities and the Middle Class in Affluent Countries*, Stanford University Press, 2013.

Anthony Atkinson, *Inequality: What can be done?* Harvard University Press, 2015.

Peter Lindert and Jeffrey Williamson: *Unequal Gains*, Princeton University Press, 2016.

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] Angus Deaton (1998), *Analysis of Household Surveys*, World Bank and Oxford University Press, pages 138-140 and 265-268 (part of section 4.3). Available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/1997/07/01/000009265_3980420172958/Rendered/PDF/multi_page.pdf.

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

Martin Ravallion (2003), "Competing concepts of inequality in globalization debate", World Bank Working paper series No. 3243. Also, Ravallion, Martin (2004), "Competing concepts in inequality debate", *Brookings Trade Forum 2004*, Brookings Institution: Washington, pp. 1-23.

Peter Lanjouw, Jenny Lanjouw, Branko Milanovic and Stefano Paternostro (1998), "Economies of scale and poverty: the impact of relative price shifts during economic transition", *Economics of Transition*, vol. 12, September 2004, pp. 509-536.

Yaron Amiel and Frank Cowell (1996), *Thinking about inequality : personal judgment and income distribution*, Cambridge: Cambridge University Press.

Gary Fields (2001), *Distribution and development*, New York, Russell Sage, Chapter 2.

Three important books on methodology of inequality studies

Frank Cowell, *Measuring inequality*, Oxford University Press, 2011 (Chapter 2, "Charting inequality", pp. 24-37).

Angus Deaton, *Analysis of Household Surveys*, World Bank and Oxford University Press, 1998, pages 134-140.

Nanak Kakwani, *Income inequality and poverty: Methods of estimation and policy applications*, World Bank, 1980, pp. 11-120.

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

Shorrocks, Anthony (1983), "Ranking Income Distributions", *Economica*, vol. 50, pp. 3-17.

Yitzhaki, Shlomo (1998), "More Than a Dozen Alternative Ways of Spelling Gini" in Slottje, Daniel J. (ed), *Research on economic inequality*. Volume 8 (1998): 13-30

Yitzhaki, Shlomo (1994). "Economic Distance and Overlapping of Distributions, *Journal of Econometrics*, 61, 147-159.

Lambert, Peter and Richard Aronson, 1993 "Inequality Decomposition Analysis and the Gini Coefficient Revisited", *Economic Journal* vol. 103, np. 420 (September 1993), pp. 1221-27

Branko Milanovic (1994), "The Gini-type Functions: An Alternative Derivation", *Bulletin of Economic Research*, 1:1994, pp. 81-90.

Branko Milanovic (1997), "A Simple Way to Calculate the Gini Coefficient, and Some Implications", *Economics Letters* 56, 1997, pp. 45-49.

Frank Cowell (2009), "Measuring inequality", December 2009, available at <http://econdse.org/wp-content/uploads/2012/02/Cowell-measuring-inequality.pdf>

Peter Lambert and André Decoster, "The Gini coefficient reveals more", available at <http://feb.kuleuven.be/eng/ew/discussionpapers/Dps05/Dps0508.pdf>.

[R] Hugh Dalton (1920), "The measurement of the inequality of incomes", *Economic Journal*, vol. 30, no. 119, pp. 348-361. Reprinted in 2015.

[R] Branko Milanovic, (blog) "In defense of equality (without welfare economics)" <http://glineq.blogspot.rs/2016/07/in-defense-of-equality-without-welfare.html> (follow up on Dalton), July 2016

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

[R] Angus Deaton (1998), *Analysis of Household Surveys*, World Bank and Oxford University Press, sections 1.1 and 1.2

Davies, Jim M. and Shorrocks Anthony F. (1989), "Optimal grouping of income and wealth data", *Journal of econometrics*, vol. 42, 1989, pp. 97-108.

Anton Korinek, Johan Mistiaen and Martin Ravallion (2006), "Survey nonresponse and the distribution of income", *Journal of Economic Inequality*, vol. 4, pp. 33-55.

2. Global inequality

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

Review articles:

Branko Milanovic, "Global Income Inequality: A Review", *World Economics*, vol. 7, No.1, 2006.

[R] Christian Olaf Christiansen and Steven L. B. Jensen, "Histories of Global Inequality: Introduction" in O. Christiansen, S. L. B. Jensen (eds.), *Histories of Global Inequality*, Springer, 2019.

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

How inequality studies got sidelined:

Eli Cook, "Historicizing Piketty: The Fall and Rise of Inequality Economics" in O. Christiansen, S. L. B. Jensen (eds.), *Histories of Global Inequality*, Springer, 2019.

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".

"Part 2: Money" from Angus Deaton, *The great escape: health, wealth and the origins of inequality*, Princeton University Press, 2013.

[R] Christoph Lakner and Branko Milanovic, "Global income distribution: From the fall of the Berlin Wall to the Great Recession", World Bank Working Paper No. 6719, December 2013. <http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2013/12/11/00015834920131211100152/Rendered/PDF/WPS6719.pdf>.

[R] Branko Milanovic, "Global income inequality in the numbers: in history and now—an overview", World Bank Working Paper No. 6259, November 2012. Revised version in "Global income inequality in numbers: in history and now", *Global Policy*, vol. 4, No. 2, May

2013, pp. 198-208. Available at <http://onlinelibrary.wiley.com/doi/10.1111/j.1758-5899.2012.00170.x/full> (behind the wall).

[R] Branko Milanovic, "Evolution of global inequality: from class to location, from proletarians to migrants", World Bank Working Paper No. 5820, September 2011. Revised version in *Global Policy*, vol. 3, No. 2, May 2012, pp. 124-133.

[R] François Bourguignon and Christian Morrisson, "Inequality among World Citizens: 1820–1992", *American Economic Review*, vol. 92 (4), September 2002, pp. 727–44.

Branko Milanovic, "Global inequality recalculated and updated: the effect of new PPP estimates on global inequality and 2005 estimates", *Journal of Economic Inequality*, volume 10, issue 1, 2012, pp. 1-18. Also as World Bank Working Paper No. 5061, September 2009.

[R] Branko Milanovic, "The tale of two middle classes", Yale Global Online, July 31, 2014. <http://yaleglobal.yale.edu/content/tale-two-middle-classes>

Sudhir Anand and Paul Segal, "What do we know about global income inequality?" *Journal of Economic Literature*, vol. 46, No. 1, pp. 57-94, 2008.

Sudhir Anand and Paul Segal (2016), "Who are the global top 1%", Kings' College, International Development Institute Working Paper No. 2016-02.

Christoph Lakner, "The implications of Thomas Piketty's *Capital in the 21st century*" World Bank Policy Research Working Paper No. 7776, August 2016. Available at <http://documents.worldbank.org/curated/en/323831470153290439/The-implications-of-Thomas-Pikettyps-capital-in-the-21st-century;jsessionid=xRKx2brVq2W-Us918seWBLiZ>

Anthony B. Atkinson and Andrea Brandolini, "On Analyzing the World Distribution of Income", *World Bank Economic Review*, vol. 24 (1), 1–37, 2010.

Zsolt Darvas, "Global interpersonal income inequality decline: The role of China and India", *World Development*, Volume 121, September 2019, Pages 16-32.

Arthur S. Anderson and Roshan K. Pandian, "What is really happening with global inequality?", *Sociology of Development*, vol. 4, Number 3, pp. 262-181.

Background: Methodological issues (1 reading)

[R] Angus Deaton, "Measuring Poverty in a Growing World (or Measuring Growth in a Poor World)", NBER Working Paper 9822, June. Available at <http://www.wws.princeton.edu/~deaton/working.htm>. Also in *Review of Economics and Statistics*, vol. 87: 353-378, 2005.

Angus Deaton, "Price indexes, inequality, and the measurement of world poverty", AEA Presidential address, January 2010. Available at <https://www.princeton.edu/~deaton/downloads/presidential%20address%2019january%202010%20all.pdf>.

Mistiaen, Johan and Martin Ravallion, "Survey nonresponse and the distribution of income", *Journal of Economic Inequality*, vol. 4, pp. 33-55, 2006.

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] Samuel Moyn, *Not Enough*, Princeton UP, 2018. Chapter 5.

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

[R] John Rawls (1999), *The law of peoples*, Cambridge, Mass.: Harvard University Press, pages 105-120.

Amartya Sen, "Adam Smith and the contemporary world", *Erasmus Journal of Philosophy and Economics*, vol. 3, No. 1, Spring 2010, pp. 50-67.

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> (behind the wall),

Charles Beitz, "Rawls' Law of peoples", *Ethics*, vol. 110, No. 4, July 2000, pp. 669-696, 2000.

Leif Wenar, "Why Rawls is not a cosmopolitan egalitarian", in R. Martin and D. Ready (eds.), *Rawls' Law of Peoples: A realistic utopia?*, Blackwell, 2006.

Kok Chor Tan "The boundary of justice and the justice of boundaries: defending global egalitarianism", *Journal of Law and Jurisprudence*, 2006, pp. 319-344. Available at <http://philpapers.org/archive/TANTBO-3.pdf>.

Amartya Sen, "Equality of What", The Tanner lectures on human values, vol. 1,. Edited by S. McMurrin, Salt Lake City and Cambridge: University of Utah Press and Cambridge UP, pp. 197-220. Reprinted in Thomas Pogge and Darrel Moellendorf (2008), *Global justice: seminal essays*, pp. 61-81, 1980.

[R] Branko Milanovic, "Global inequality of opportunity: how much of our income is determined by where we live", *Review of Economics and Statistics*, 2015. Earlier version "Where in the world are you? Assessing the importance of circumstance and effort in a world of different mean country incomes and (almost) no migration", World Bank Working Paper No. 4493, January 2008. Available at http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/01/28/000158349_20080128112203/Rendered/PDF/wps4493.pdf.

Göran Therborn, "Class in the 21st Century", *New Left Review*, Nov-Dec 2012, pp. 5-29.

[R] Branko Milanovic (blog), "Time to ditch Rawls?", August 2016.
<http://glineq.blogspot.rs/2016/07/time-to-ditch-rawls.html>

[R] Branko Milanovic and John Roemer, "Interaction of global and national income inequalities", *Journal of Globalization and Development*, August 2016.

Subsection on migration

Dani Rodrik, "Is global equality the enemy of national equality", mimeo, 2017.

George J. Borjas, "Immigration and globalization: A review essay", *Journal of Economic Literature*, vol. 53. No. 4, 2015, pp.. 961-974.

BOOKS

Branko Milanovic, *Worlds Apart: Measuring International and Global Inequality*, Princeton University Press, 2005 (in particular, Chapters 1-3).

David Rothkopf, *Superclass*, Farrar, Strauss and Giroux, New York, 2008

Darrel Moellendorf, *Global inequality matters*, Palgrave Macmillan, 2009.

Peter Singer, *One World: The Ethics of Globalization*. New Haven, USA: Yale University Press, 2002.

3. What next? (2 readings)

[R] Vignette 3.6 (“Income inequality and the global financial crisis”) from *The haves and the have-nots*. Shorter version available at <http://yaleglobal.yale.edu/content/two-views-global-crisis>. (May 2009).

[R] Branko Milanovic, “Why income inequality is here to stay”, Harvard Business Review blog, http://blogs.hbr.org/cs/2013/01/why_income_inequality_is_here.html (January 2012).

Christoph Lakner and Branko Milanovic, “Global income distribution: from the fall of the Berlin wall to the Great Recession”, EU Vox Oped, <http://www.voxeu.org/article/global-income-distribution-1988> (28 May 2014).

Political roots of inequality

Jon D. Wisman, “What drives inequality?“, Economics Department Research Paper September 2015, American University, Washington, D.C., available at <http://www.american.edu/cas/economics/research/upload/2015-09.pdf>.

Background: Inequality of opportunity

Paolo Brunori, Francisco Ferreira and Vito Peragine, “Inequality of Opportunity, Income Inequality and Economic Mobility Some International Comparisons”, World Bank Policy Research Working Paper 6304, January 2013. Available at http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2013/01/07/000158349_20130107095623/Rendered/PDF/wps6304.pdf.

Gustavo Marrero and Juan-Gabriel Rodriguez, “Inequality of opportunity in Europe”, *Review of Income and Wealth*, Series 58, No. 4, December 2012, pp. 597-621.

Miles Corak (2013), “Income Inequality, Equality of Opportunity, and Intergenerational Mobility”, *Journal of Economic Perspectives*, vol. 27, no 3, pp. 79-102.

Where to find the data:

LIS: <http://www.lisdatacenter.org/> (Rich and middle-income economies; micro data available)

Africa: <http://www4.worldbank.org/afr/poverty/databank/default.cfm>.

Latin America: SEDLAC <http://sedlac.econo.unlp.edu.ar/eng/> (Latin American household surveys; micro data possible)

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

World Bank LSMS:

<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTLSMS/0,,contentMDK:21610833~pagePK:64168427~piPK:64168435~theSitePK:3358997,00.html>

(household surveys mostly from very poor countries; micro data available)

World Income Distribution (WYD) database:

<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:22261771~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html>

(ventiles and percentiles of countries' income distributions, 1988-2005; last update July 2012)

All the Ginis (ATG) database:

<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:22301380~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html>

(Compilation of all per capita Ginis since 1950s; last update October 2013)

UN WIDER WIIS 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)

World Top Incomes Database (WTID): <http://www.parisschoolofeconomics.eu/en/expertise-dissemination/wtid-world-top-incomes-database/>

(fiscal data from some 40 countries; base of the top 1% statistics)

LIS Upshot database:

<http://www.lisdatacenter.org/news-and-events/new-york-times-launches-new-site-the-upshot-with-study-based-on-lis-data/>

(detailed distributional data from the rich countries)

Nora Lustig, Appraising world income inequality databases,

<http://www1.wider.unu.edu/inequalityconf/sites/default/files/IGA/Lustig.pdf>

(slides)