

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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Office hours: Tuesdays 3 to 5
January 29-May 14 (no classes: Feb 12, April 16)
Final: week of May 19

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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 view of several contemporary authors, in particular Thomas Piketty as expressed most clearly in his new book *Capital in 21st century*.

After a review of theories, we shall look at the last 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 in 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 between individuals. 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 countries go it alone by, for example, raising top income tax rates? Why the public accepted marginal tax rates of

90% only three decades earlier and cannot imagine them today? Will inequality between countries make migration pressure greater and actual 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 key papers from the area, and may be useful for students who to 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.

Required book: Branko Milanovic, *The haves and the have-nots: a brief and idiosyncratic history of global inequality*, Basic Press, 2011.

Useful recent books:

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.

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*.

[R] Branko Milanovic, “Globalization and inequality”, Introduction to the volume of selected readings, B. Milanovic (ed.), *Globalization and inequality*, Edward Elgar, 2012. Available at <http://econ.worldbank.org/projects/inequality> (pp. xii-xviii only).

Brian Snowdon, "Towards a unified theory of economic growth: Oded Galor on the Transition from Malthusian Stagnation to Modern Economic Growth", *World Economics*, vol. 9, No. 2, pp. April-June 2008, pp. 97-151.

[R] Branko Milanovic, “Globalization and inequality”, Introduction to the volume of selected readings, B. Milanovic (ed.), *Globalization and inequality*, Edward Elgar, 2012. Available at <http://econ.worldbank.org/projects/inequality> (section 2 only).

Branko Milanovic (2014), “Return of patrimonial capitalism: Review of Thomas Piketty’s *Capital in the 21st century*”, *Journal of Economic Literature*, forthcoming.

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.

Vilfredo Pareto, *Manual of Political Economy*, translated by Ann S. Schwirr, New York: Augustus M. Kelley, 1971. Originally published in French in 1906.

[R] Review and retrospective, Joseph Persky, “Retrospective: Pareto’s Law”, *Journal of Economic Perspectives*, vol. 6, No. 2 (Spring), 1992, pp. 181-192.

John Creedy (1997), “Pareto and the distribution of income”, *Review of Income and Wealth*, pp. 405-411.

Jan Tinbergen, *Income Distribution: Analyses and Policies*, Amsterdam: North Holland, 1975. Review in

[R] Robert H. Haveman, “Tinbergen’s ‘Income Distribution: Analyses and Policies’—A Review Article”, *The Journal of Human Resources*, vol. 12, No. 1, pp. 103-114.

[R] Simon Kuznets (1955), “Economic Growth and Income Inequality”, *American Economic Review*, vol. 45, No. 1, March 1955, pp. 1-28. Available at <http://www.aeaweb.org/aer/top20/45.1.1-28.pdf>

Thomas Piketty, (2003), “Income Inequality in France, 1901-1998”, *Journal of Political Economy*, vol. 111, no 5, 2003, pp. 1004-1042.

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

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 (4 readings)

[R] Organization for Economic Cooperation and Development (OECD), *Divided we stand*, Paris: OECD, 2011. Only the summary:
<http://www.oecd.org/els/socialpoliciesanddata/49499779.pdf>.

Organization for Economic Cooperation and Development (OECD), *Growing Unequal? Income Distribution and Poverty in OECD countries*, Paris: OECD, October 2008.
Available at
<http://www.oecd.org/els/socialpoliciesanddata/growingunequalincomedistributionandpovertyinoecdcountries.htm>.

James K. Galbraith, *Inequality and Instability: A Study of the World Economy Just Before the Great Crisis*, Oxford University Press, 2012 (chapter 6).

Giovanni Andrea Cornia, Tony Addison and Sampsa Kiiski (2004), “Income Distribution Changes and Their Impact in the Post-Second World War Period”, in *Inequality, Growth, and Poverty in an Era of Liberalization and Globalization*, Chapter 2, UNU-WIDER and Oxford, UK and New York, NY: Oxford University Press, 26–54.

Andrea Brandolini and Timothy M. Smeeding (2006), ‘Patterns of Economic Inequality in Western Democracies: Some Facts on Levels and Trends’, *Political Science and Politics*, 39 (1), January, 21–26.

Andrea Brandolini, “A bird’s eye view of long-term changes in income inequality”, Banca d’Italia, mimeo, 1998.

[top income shares literature]

[R] Alvaredo, Facundo, Anthony B. Atkinson, Thomas, Piketty, and Emmanuel Saez (2013), “The Top 1 Percent in International and Historical Perspective”, *Journal of Economic Perspectives*, vol. 27, no 3, pp. 3-20.

Thomas Piketty and Emmanuel Saez (2006), “The Evolution of Top Incomes: A Historical and International Perspective”, *American Economic Review*, 96 (2), May, 200–205.

Thomas Piketty, “Top Income Shares in the Long Run: An Overview,” *Journal of European Economic Association*, vol. 2-3: 1-11, 2005.

[R] Thomas Piketty and Emmanuel Saez, “Income inequality in the United States, 1913-1998,” *Quarterly Journal of Economics* 118, 1: 1-39, 2003.

Burkhauser, Richard V., Shuaizhang Feng, Stephen P. Jenkins and Jeff Larrimore (2012), “Recent Trends in Top Income Shares in the USA: Reconciling Estimates from March CPS and IRS Tax Return Data”, *Review of Economics and Statistics*, May, vol. 94, no. 2, pp. 371-388.

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

1.2.2 Transition countries

Sebastian Leitner and Mario Holzner (2008), ‘Economic Inequality in Central, East and Southeast Europe’, *Intervention: European Journal of Economics and Economic Policies*, 5 (1), 155–88

Branko Milanovic and Lire Ersado, “Reform and inequality during the transition: An analysis using panel household survey data, 1990-2005”, World Bank Working Paper No. 4780, November 2008. Revised version published in *Economies in Transition: The Long-Run View*, edited by Gerard Roland, Palgrave, 2012, pp. 84-108.

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

[R] Leonardo Gasparini, Guillermo Cruces and Leopoldo Tornarolli (2011), “Recent Trends in Income Inequality in Latin America”, including comments by Daniel Mejía and

Daniel E. Ortega, *Economia: Journal of the Latin American and Caribbean Economic Association*, 11 (2), Spring, 147–201

[R] Ravi Kanbur and Xiaobo Zhang (2005), “Fifty Years of Regional Inequality in China: A Journey Through Central Planning, Reform, and Openness”, *Review of Development Economics*, 9 (1), February, 87–106.

Wei Chi, "Capital income and income inequality, *Journal of Comparative Economics*, vol. 40, pp. 228-239. Available at <http://mpra.ub.uni-muenchen.de/42131/>

Ximing Wu and Jeffrey Perloff, "China's income distribution", *Review of Economics and Statistics*, vol. 87, 2005, pp. 763-775. Version February 2005 available at http://agecon2.tamu.edu/people/faculty/wu-ximing/agecon2/public/china_wu&perloff.pdf.

Nadia Belhaj Hassine (2013), “Income inequality in the Arab Region”, mimeo.

Marcelo Medeiros and Pedro Sousa (2013), “State and inequality: Institutional determinants of inequality in Brazil”, *Journal of Economic Inequality*, forthcoming

[R] Reeve Vanneman and Amaresh Dubey (2013), “Horizontal and Vertical Inequalities in India” in Janet Gornick and Markus Jänniti (eds.), *Income Inequality: Economic Disparities and the Middle Class in Affluent Countries*, Stanford University Press, 2013.

BOOKS

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

Background: Introduction to the measurement of inequality

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.

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.

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

Christoph Lakner and Branko Milanovic, "Global income distribution: From the fall of the Berlin Wall to the Great Recession", forthcoming.

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

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

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 income inequality: what it is and why it matters", *World Economics*, vol. 7, No. 1, January-March 2006.

Branko Milanovic, "True world income distribution, 1988 and 1993: First calculations based on household surveys alone", *Economic Journal*, vol. 112, No. 476, January, pp. 51-92, 2002.

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.

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.

Xavier Sala-i-Martin, "The World Distribution of Income: Falling Poverty and ... Convergence, Period", *Quarterly Journal of Economics*, vol. CXXI (2), May, 351–97 480, 2006.

Bob Sutcliffe, 'World Inequality and Globalization', *Oxford Review of Economic Policy*, **20** (1), March, 15–37 527, 2004.

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

Background: Methodological issues

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.

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 (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*.

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

[R] 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.

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.

Sebastiano Maffettone, "Universal Duty and Global Justice", available at <http://pgj.stanford.edu/publications/21497>.

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* (forthcoming, 2014). 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.

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

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.

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

3. What next? (4 readings)

[R] Vignette 3.6 (“Income inequality and the global financial crisis”) from *The haves and the have-nots*.

Stanley Fischer, “Globalization and its Challenges”, Ely Lecture delivered at the American Economic Association meetings in Washington, D.C., January 3, 2003, *American Economic Review Papers and Proceedings*, vol. 93, No. 2, pp. 1-29. Available at <http://www.iie.com/fischer/pdf/fischer011903.pdf>.

[R] Bradford DeLong, “Why was the political response to the crisis so muted”. <http://delong.typepad.com/sdj/2012/11/cleaned-up-initial-part-of-transcript-from-october-15-2012-center-for-latin-american-studies-a-dialogue-inequality-in-the.html>

[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).

[R] Adam Bonica, Nolan McCarty, Keith T. Poole and Howard Rosenthal (2013), “Why Hasn't Democracy Slowed Rising Inequality?”, *Journal of Economic Perspectives*, vol. 27, no 3, pp. 103-24.

Branko Milanovic, “More or Less”, *Finance and Development*, September 2011. Available at <http://www.imf.org/external/pubs/ft/fandd/2011/09/pdf/milanovi.pdf>

Ricardo Fuentes Nieva, “Merit, privilege or slumdog millionaires: income inequality and social mobility”. <http://www.oxfamblogs.org/fp2p/?p=14375>.

Charles Kenny, “How Did the World Rich Get that Way”, April 22, 2013. <http://www.businessweek.com/articles/2013-04-22/how-did-the-worlds-rich-get-that-way-luck#r=auth-s>.

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.

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.

BOOKS

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.

Joseph Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future*, W. W. Norton & Company, 2013.

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