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- **Slides 1:** Growing Inequality: An Introduction

## Growing Inequality

- The financial crisis sparked a new interest in inequality.
- But inequality has been historically high
- Growing steadily through late 20th century

Wolff, Piketty, Saez, Atkinson, many others

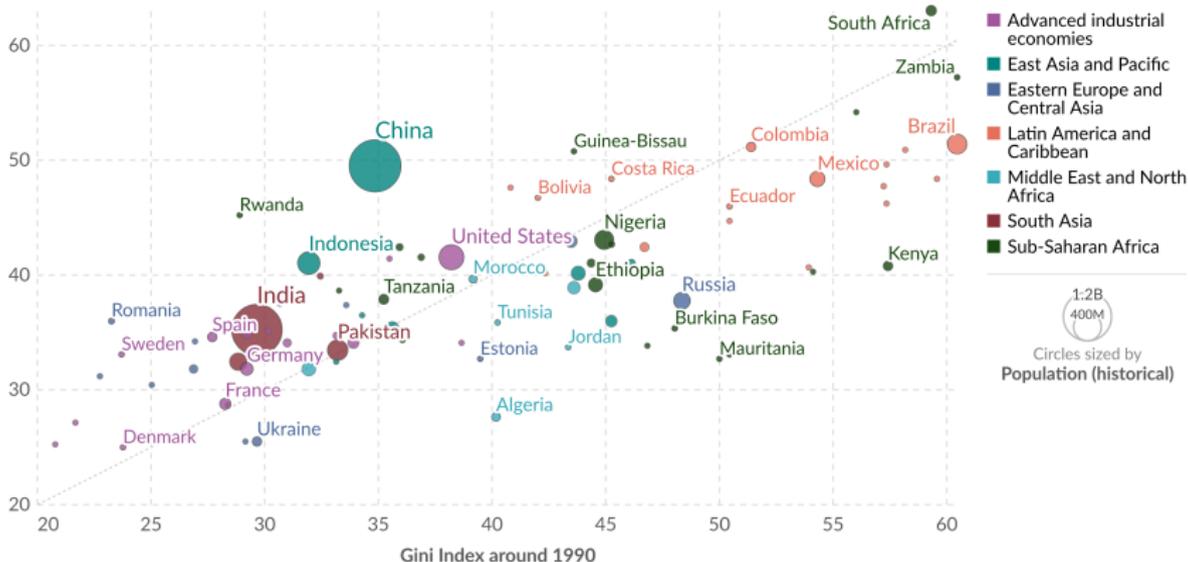
# Inequality: “The Defining Challenge of our Time,” Obama (2013)

Our World  
in Data

## Inequality in 1990 vs. 2015

A higher Gini index represents higher inequality.

Gini Index around 2015



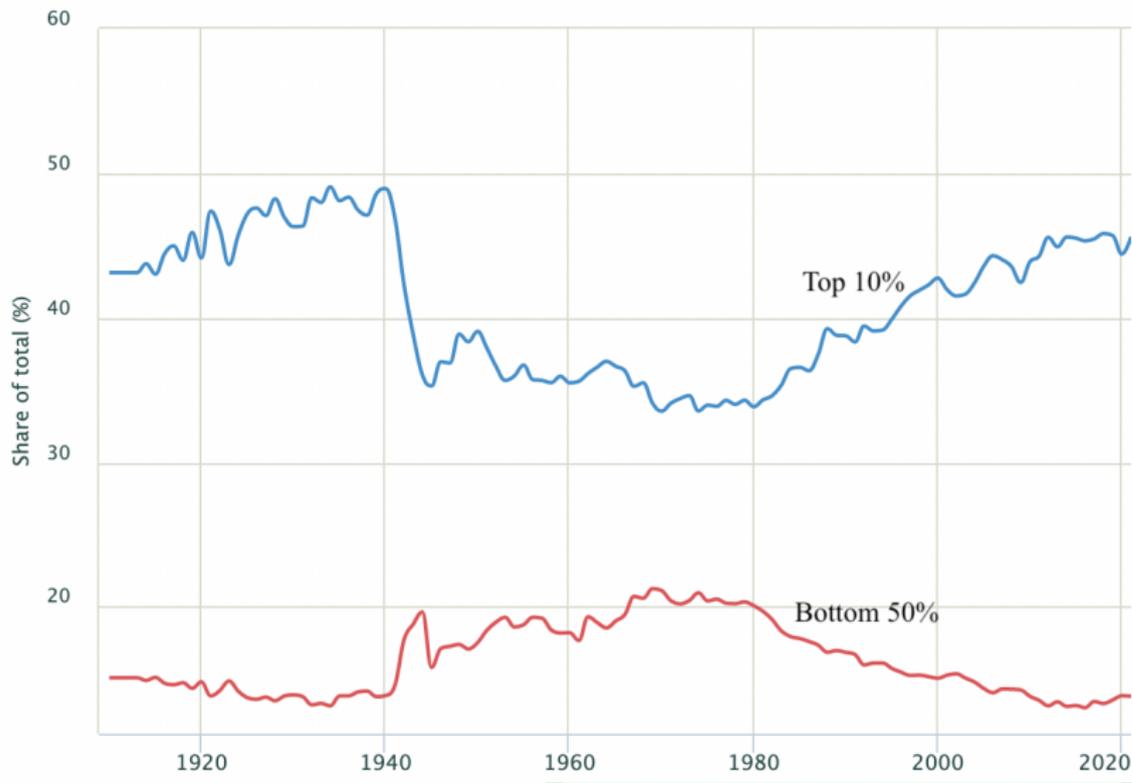
Data source: Povcal (2018), The Chartbook of Economic Inequality (2017), Kanbur et al (2017) Table 1.B

Note: Estimates are based on household survey data of either incomes or consumption. All countries for which comparable surveys within five years of each reference year were available are shown.

# Income inequality, USA, 1908-2021

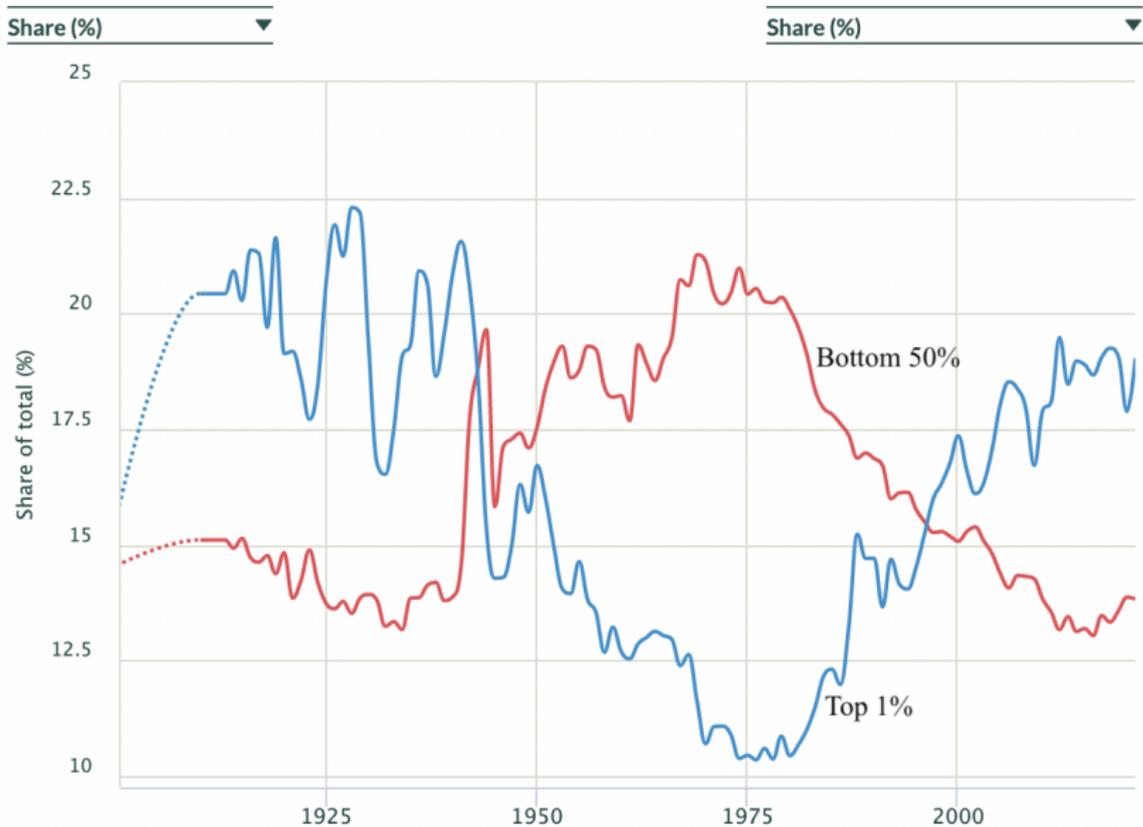
Share (%) ▼

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Source: World Inequality Database

# Income inequality, USA, 1901-2021

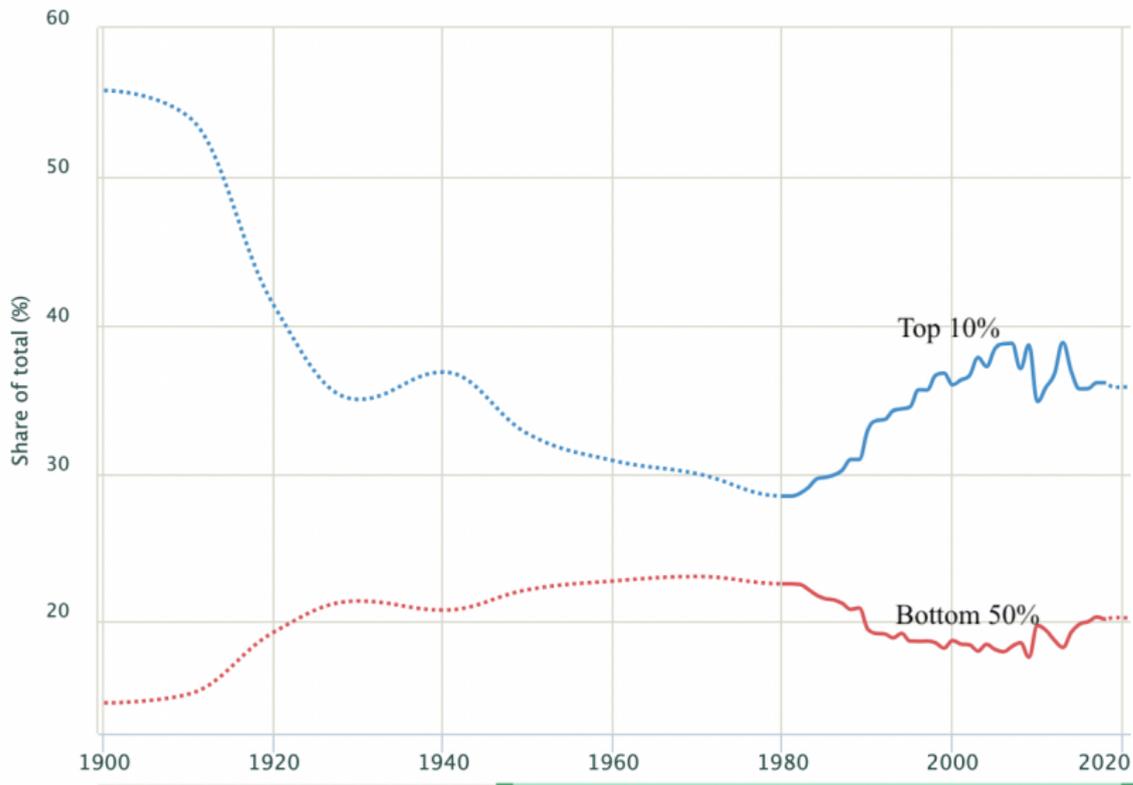


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# Income inequality, United Kingdom, 1900-2021

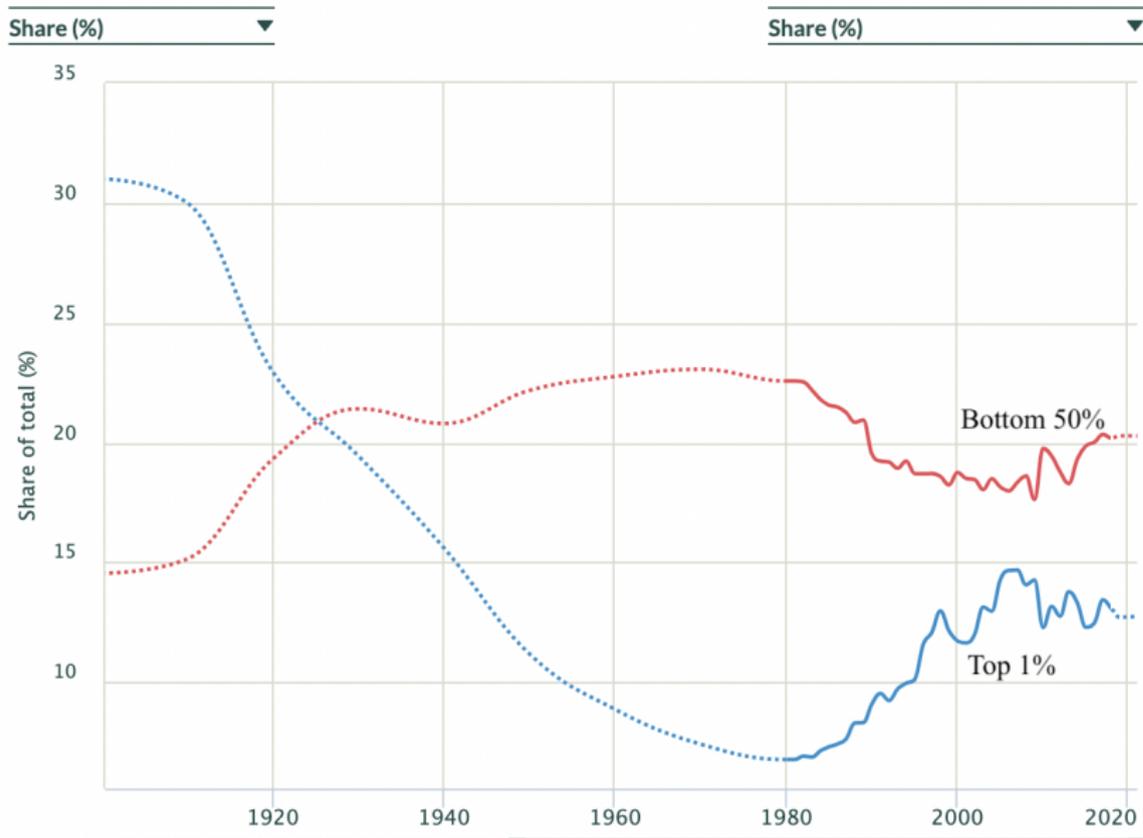
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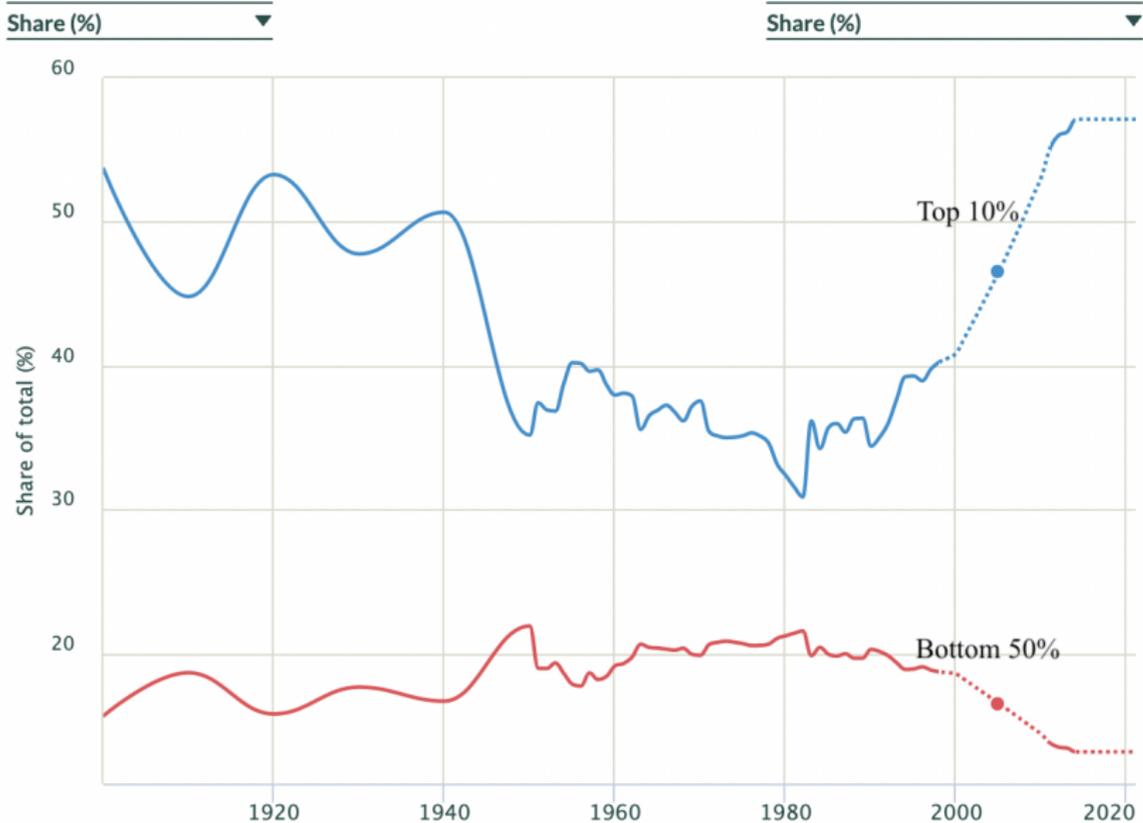
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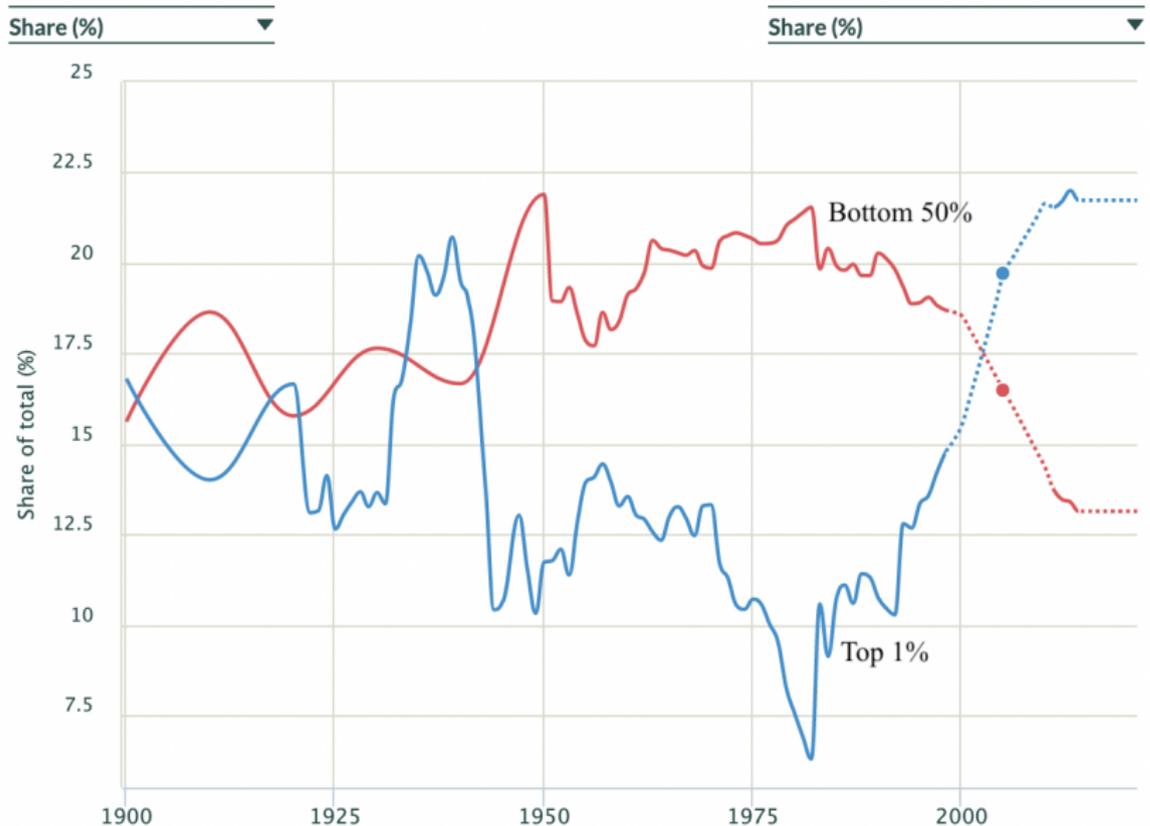
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# Income inequality, India, 1901-2021



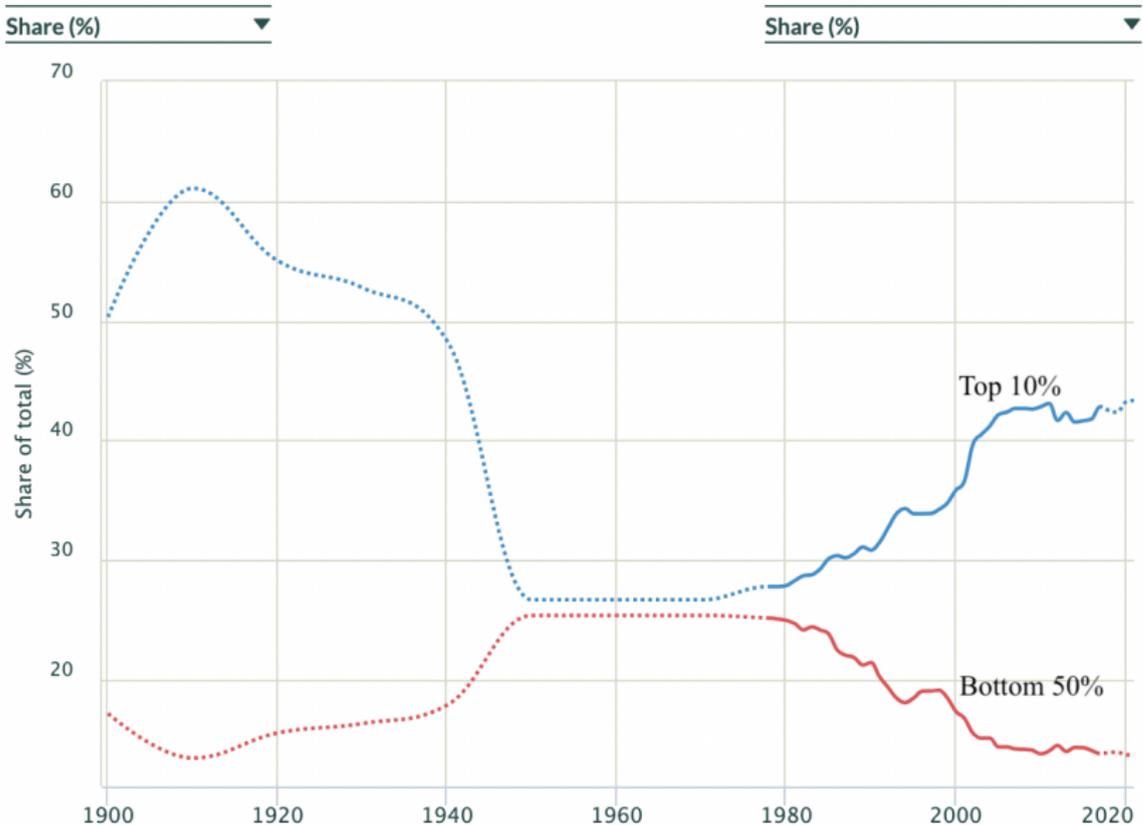
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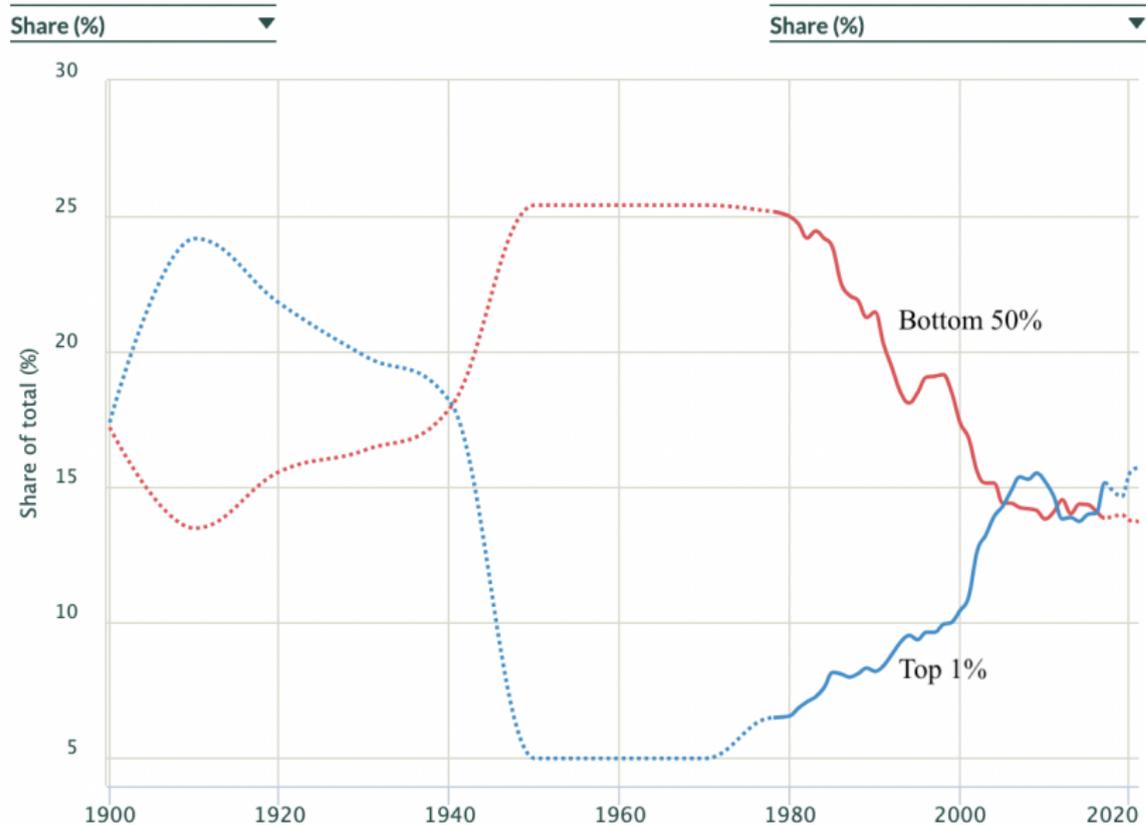
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# Income inequality, China, 1900-2021



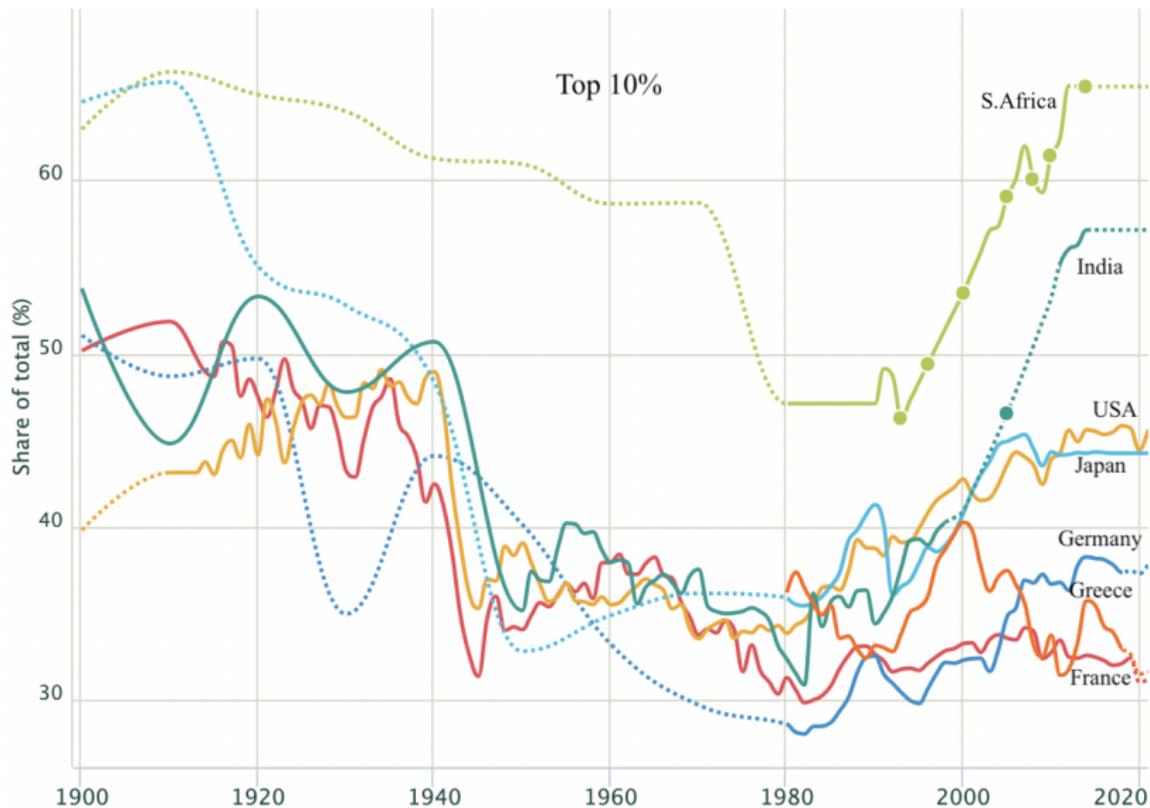
Source: World Inequality Database

# Income inequality, China, 1900-2021



Source: World Inequality Database

## Top 10% Income Share, Selected Countries, 1900-2021



Source: World Inequality Database

# The Great U-Turn

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  - Inequality rises and then falls with development
- Instead: The Great U-Turn
  - Uneven versus compensatory changes

- Piketty's *Capital in the 21st Century*:
  - summarizes the evidence (compelling and useful)
  - describes **three “fundamental laws”**

## Piketty's Laws

- **First Fundamental Law** (or accounting identity):

$$\frac{\text{Capital Income}}{\text{Total Income}} = \frac{\text{Capital Income}}{\text{Capital Stock}} \times \frac{\text{Capital Stock}}{\text{Total Income}}.$$

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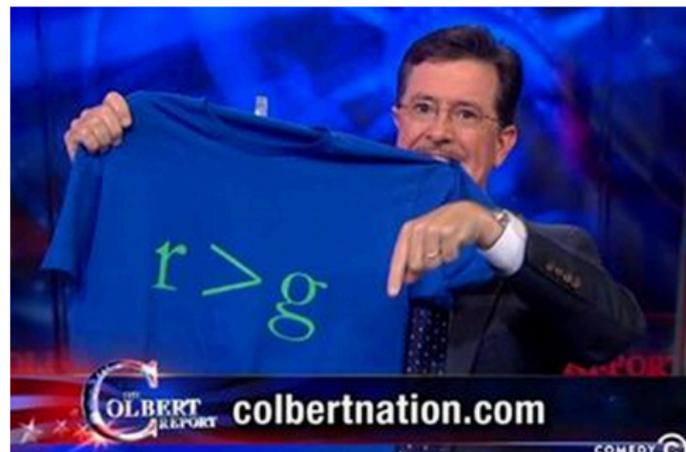
“One particularly clear case is that of Japan: with a savings rate close to 15 percent a year and a growth rate barely above 2 percent, it is hardly surprising that Japan has over the long run accumulated a capital stock worth six to seven years of national income. This is an automatic consequence of the [second] dynamic law of accumulation.” (p.175)

- Compare to [Harrod-Domar](#) or [Solow](#).

## Piketty's Laws

### ■ The Third Fundamental Law:

- $r > g$ : “Whenever the rate of return on capital is significantly and durably higher than the growth rate of the economy, ... wealth originating in the past automatically grows more rapidly than wealth stemming from work.”
- This assertion is wrong; see **Supplement 1**.



## Two Aspects of Development and Distribution

### ■ Personal:

Tracks changes in the **ownership** of endowments

- Time preference and risk attitudes, higher rate of savings (**Supplement 2**)
- endogenous information-gathering (**Supplement 3**)
- issues of access: imperfect capital markets + lack of scaling

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- **A theory of economic inequality** must address both components.