Course Description

Economic Inequality: Theory, Data and Policy
Samuel Bowles, Santa Fe Institute (http://www.santafe.edu/~bowles)

The readings will be in the course drop box. The main background sources are:


1. Wealth inequality and allocational inefficiency
Both the Fundamental Theorem of Welfare Economics and the Coase theorem identify conditions under which a Pareto efficient allocation is attainable irrespective of the distribution of wealth. In contrast to both the Coasian and fundamental welfare theorems, policy related fields of economics tend to stress an efficiency-equality trade off. Contrary to both traditions, a credit market with incomplete contracts shows that those with lesser wealth may be excluded from the credit market, subject to credit limitations, and required to have superior projects in order to secure financing. The result is a Pareto inefficient equilibrium allocation of resources.

Readings: MBIE chapter 9 (pp 299-320)

2. Pareto-improving wealth redistribution
An egalitarian redistribution of wealth will be undone by private transactions unless the desired outcome constitutes a Nash equilibrium. The Chilean land reform in the 1970s provides an example. A model of wealth redistribution in a worker-owned production process identifies the impediments to incentive compatible wealth distribution, and shows how it may nonetheless be possible. The result may even be what most economists would consider to be an oxymoron: an egalitarian, Pareto-improving redistribution. The model also identifies a real tradeoff between equality and dynamic efficiency and suggests policies to attenuate it.

Readings: MBIE ch 9 (pp 320-333) & 10
3. The intergenerational transmission of wealth and the dynamics of inequality.

The extent of intergenerational transmission of wealth determines the degree to which wealth shocks in one generation accumulate across generations and therefore affects the stationary distribution of wealth. Data from a very heterogeneous sample of economies including hunter gatherers, farmers and herders show that the degree of wealth inheritance varies dramatically across types of wealth (human, material and relational) and is closely associated with (cross sectional) wealth inequalities.

Readings:

4. Equality's Fate: Technology, institutions and wealth inequality in the very long run

(Lectures 4 and 5 are alternative final topics, one or the other, but not both will be presented).

Data over many millennia on wealth inequality show that the degree of inequality in material wealth is greater than other kinds of wealth and varies little among differing institutional structures. And modern democratic capitalist nations (including the Nordic countries) exhibit wealth disparities as big as some slave economies and the economies of late feudal Europe. Does this suggest that technology rather than institutions that are the key determinant of wealth inequality? Counter examples from modern and ancient economies will be discussed. The possibility of greater equality in a knowledge-based economy will be considered, motivating the hypothesis that we may observe an ultra long run Kuznets curve.

Readings:

5. The moral philosophy and political economy of inequality and redistribution.

An impartial citizen behind a veil of ignorance or a decisive citizen-voter make policy choices concerning the structure of production and redistribution of the resulting wealth, allowing a model of endogenous redistribution and stationary inequality in a democratic society. The comparative statics of the model provide insights on the effects of globalization, constitutional changes, and leaky bucket (inefficient) redistribution. The lecture closes with a description of the asset based redistribution paradigm and contrasts this with policy alternatives.

Readings: Samuel Bowles, “The moral philosophy and political economy of inequality and redistribution: A primer for my students,” Santa Fe Institute, 2014