Spring 2014

CE Spring 2014

Coyote Economist

Coyote Economist

News from the Department of Economics, CSUSB

Volume 20, Issue 3 Spring 2014

Inside this Issue:

Department of Economics
CSUSB
909-537-5511
http://economics.csusb.edu
Facebook: CSUSB Department of Economics

Inequality: Past and Future?

by Daniel MacDonald

As the Occupy Wall Street movement gained steam in late September of 2011, many questioned the broader purpose of the whole affair: what did they stand for? What were their proposals for change?

But after the occupiers were removed from Zuccotti Park, their legacy became clear: in addition to connecting activists from a wide assortment of different circles and interests, Occupy Wall Street altered political discourse in two important ways. First, Occupy brought attention to rising student debt, which has just recently eclipsed the $1 trillion mark (http://www.npr.org/2012/04/24/151305380/student-loan-debt-exceeds-one-trillion-dollars). Second, through the language of the "99%", Occupy shed light on the pernicious effects of rising inequality.

These two issues—rising student debt on the one hand and rising inequality on the other—are, of course, linked. When workers' wages are so low that a family cannot afford a decent standard of living—let alone a secondary education for its children—the costs of inequality are immediately crystallized.

This was the next achievement of Occupy: to demonstrate that many of society's ailments are strongly related to the booming wealth of investment bankers, hedge

continued on page 2

Graduation, Senior/Awards Reception, and End-of-the-Year Party!

Graduating Economics majors will participate in the College of Social and Behavioral Science Commencement on Saturday, June 14, at 8:00 a.m.. This includes those majoring in Economics , Political Economy, Mathematical Economics, or Applied Economics.

Students majoring in Business Administration with a concentration in Business Economics will participate in the College of Business and Public Administration Commencement on the same day, Saturday, June 14, at 4:00 p.m.

All students are encouraged to attend our annual Seniors Reception to be held on Friday, June 6, 2014, at 4:30 p.m. in SB 302B. At this reception we honor all of our graduating seniors as well as students graduating with honors, students that have won Economic Scholarships for the next academic year, and students who were inducted into the Alpha Delta chapter of Omicron Delta Epsilon. Students are encouraged to bring their family and friends.

After the Seniors Reception, the Department of Economics will be hosting its world-famous End-of-the-Year Party on Friday, June 6, at 6 p.m. at Jerseys Pizza. All economics students, as well as friends and family of economics students, are encouraged to attend. If you haven't attended one of our parties, you should; not only do you get free pizza and beverages, you get to meet the economics faculty up close along with many other economics students. These events are always fun.

Inequality

Continued from page 1

funds, junk bond traders, and other "arms" of the financial "beast" which, since the 1980s, have helped create an increasingly unstable capitalist society. These individuals compose a significant part of the "1%", which is at any rate precisely why the activists

...the 1% is fundamentally different from the rest of us...

in Zuccotti Park chose to Occupy Wall Street. But who are these individuals and how have they managed to pull so far away from the rest of society?

The 1% is fundamentally different from the rest of us–and not just, as Ernest Hemingway once quipped, because they have more money. No, as we have seen since the onset of the Great Recession, the rich and very-rich also play a very important role in shaping public policy and discourse. Over 6 years after the financial crisis of 2007, the job market is still extremely weak with high unemployment and low job growth, while corporate profits have already returned to pre-crisis levels (and beyond).

It was Occupy's main achievement to bring attention to these facts, mark the connection to inequality, and

attempt, in some small way, to change all of it.

Putting the 1% under the microscope

Enter Thomas Piketty and his coauthors [stage left]. Piketty's new book, *Capital in the 21st Century*, published in French late last year with the English edition now available for purchase, goes a bit further in the quest to understand where the 1% is headed: Piketty takes the 1% and puts them under the microscope to understand the evolution of the rich, very-rich, and super-rich.

...Piketty takes the 1% and puts them under the microscope to understand the evolution of the rich, very-right, and super-rich...

He hopes that by analyzing the dynamics of inequality we might be able to achieve two things. First, we can better understand the risks of rising income shares of the top 1% by comparing their income shares today to other periods in economic history when they were at a similar level. Second, we can suggest some modest policy prescriptions to reverse the trend. Together, his findings support Occupy Wall Street's claim that not only is the 1% on the rise, but that we must do something about it if we are to reclaim our democracy from the teeth of the capitalist "beast."

For his project, Piketty compiled a new data set on wealth inequality based on income tax records extending back into the 19th century in order to argue that we are in a period where the disparity between the rich and the poor is so vast that it rivals earlier political economic landscapes in which society was ruled by oligarchs who derived their power from the ownership of massive amounts of wealth.

Indeed, the current consensus is that we are now entering a second "Gilded Age" where, similar to the late-19th century U.S., a handful of extremely wealthy elites dominate the commanding heights of the economy and the government and, more

continued on page 3

We're Still on Facebook!

Joining us on Facebook is an important way of keeping up with Departmental news and events, as well as getting information on political economy.

Simply search for The CSUSB Department of Economics on Facebook and you'll find us. We're easy to find. If you've not already done this, do it today!

Inequality

Continued from page 2

broadly, all of society.

How can Piketty make such an assertion so confidently?

First, consider his data on inequality which come from digitized tax records that extend far back into the 19th century—a project that was 15 years in the making: this data allows Piketty to study the evolution of inequality and to make important historical comparisons and connections. His work documents the resurgence of the income shares of the top 1% of the population from pre-Great Depression levels around the globe, including France, Great Britain, Japan, and the U.S., among others ("Capital is Back" is the telling title of a 2011 academic paper he published in the *Quarterly Journal of Economics* where he first outlined his findings from the new data).

Second, his confidence regarding the assertion that we are approaching (or possibly, are already in) a "second Gilded Age," now on a global scale, comes from his emphasis on the relationship between two standard economic variables: r and g.

The variable r measures the year-over-year returns to capital, which includes in its definition everything from land, to equipment, to financial assets such as stocks and bonds. The variable g measures the (yearly) growth rate of the global economy as a whole. Because of his data sources mentioned above, he is able to estimate both of these variables back into the 19th century, allowing him to draw some important conclusions about what their values tell us about political economic contexts.

Thomas Piketty, author of *Capital in the Twenty-First Century.*

> *...the current consensus is that we are now entering a second "Gilded Age"...*

For example, generally speaking, in years or periods when the returns to capital falls short of the growth rate of the global economy (that is, when r<g), Piketty asserts that owners of capital are subdued: returns to capital are outstripped by the general growth of the economy, implying that the returns to economic growth are more easily shared with labor, thereby producing greater equality and social stability—or at the very least, a diminished position for capital since their wealth is growing relatively slower.

When r>g, on the other hand, the owners of capital are able to dominate the political and economic world since the growth rate of the value of their assets exceeds the growth of the economy as a whole, allowing them to carve out an increasingly influential position in society.

Using data on capital ownership and the annual returns to capital ownership, Piketty finds that, for the global economy, the global rate of return on capital, r, was higher than g up until 1913. Between 1913 and 1950, the two switched places as g was higher than r. Between 1950 and 2012, g was still higher than r, but r was increasing after having taken a beating in the 1913-1950 period. After 2012, r is projected to regain its pre-1913 level while g is projected to fall because of slower population and technological growth.

The graph on the following page is taken from a PowerPoint presentation Piketty made which reviews the findings of his book.

This graph shows his estimates of the returns on capital and the growth rate of the economy, both taken for

continued on page 4

Inequality

Continued from page 3

the world as a whole. As can be seen, Piketty estimated these variable for a very long time. The graph also presents estimates for the future, when r is seen to exceed g by a large amount, and this would tend to increase the level of income inequality.

That is, unless we do *something* about it. What, exactly, is that "something"?

...by presuming the validity of the neoclassical model of growth, Piketty overlooks the effects of redistribution...

A Brighter Future

Piketty proposes a global 80% marginal tax rate for the highest of income earners along with a global wealth tax of 2% on the stock of assets held by the wealthiest.

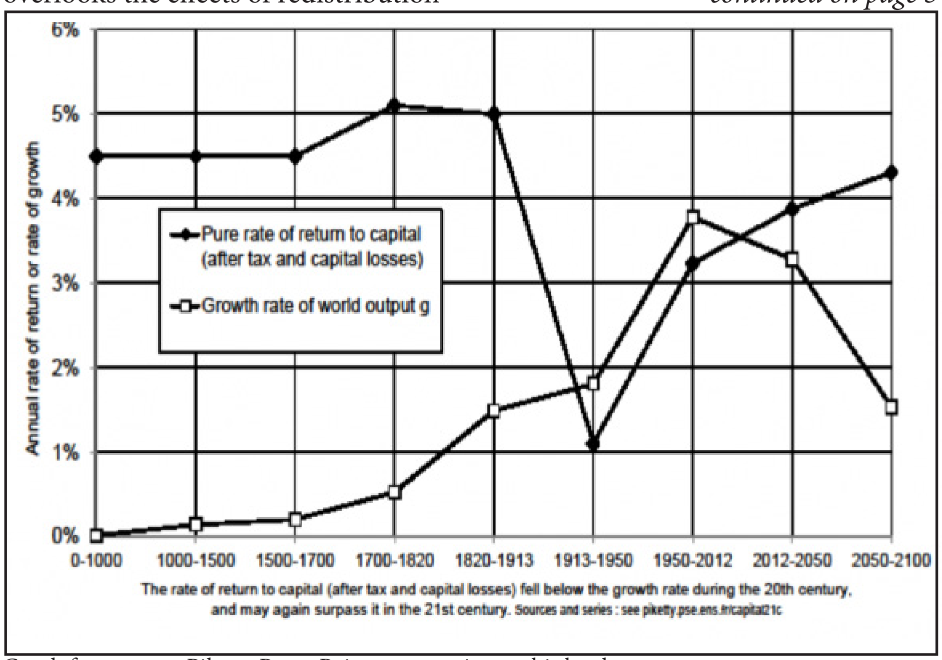
This would reduce the growth rate of r and thereby force r to be less than g, reining in capital growth. The capital tax is a particularly effective policy precisely because Piketty is not optimistic about future GDP growth, for the reasons mentioned above (low technological and population growth in the advanced economies). In other words, Piketty does not see much hope for raising g, so the only way to shrink the r-g gap is by reducing r.

Piketty's proposal is surprisingly modest, given what he sets out to do at the beginning of his book (namely, give a history of capital and a prediction about its growth in the 21st century). That is mainly because his overall framework for understanding inequality and capital dynamics is a neoclassical model of economic growth. And this is precisely where his analysis starts to lead to shaky conclusions.

The neoclassical model of growth attempts to explain many things, including how fast the economy will grow. In this model the growth rate of an economy is determined, at least in the long-run, by technological factors (along with population growth) which are themselves not explained.

By presuming the validity of the neoclassical model of growth, Piketty overlooks the effects of redistribution (such as his capital tax) on g, the growth rate of the economy. However, redistribution of income towards those spending it on consumption can drive aggregate demand upwards and thereby push GDP growth upward. Indeed, this is precisely what happened in the U.S. in the "Golden Age" of American capitalism–roughly the 30-year period following the end of World War II. Incidentally, this period of mildly stable capitalism and middle class growth in American economic history was also apparently a period where r>g–further suggesting that the book's framework is missing some crucial components. Not only does Piketty miss the possibility that r and g are linked, but he also seems to consistently underestimate the role of

continued on page 5



Graph from recent Piketty PowerPoint presentation on his book.

Staying Informed about Department Events and News

If you're receiving the *Coyote Economist*, then you're on our mailing list and everything is as it should be. But, if you know of an Economics Major, or an Econ Fellow Traveler, who is not receiving the *Coyote Economist* through email, then please have him/her inform our Administrative Support Coordinator, Ms. Jacqueline Carrillo, or the Chair of the Economics Department, Professor Mayo Toruño. Our phone number is 909-537-5511.

You can stay informed by consulting:

Our Website - http://economics.csusb.edu/

Our Facebook Page- http://www.facebook.com/pages/CSUSB-Department-of-Economics/109500729082841

Chair of the Economics Department – mtoruno@csusb.edu

Inequality

Continued from page 4

worker bargaining power in tempering the power of the ruling class.

By seeing the reduction of inequality as an end in itself, Piketty also fails to consider the myriad ways in which a strengthening of labor's bargaining position could in fact lead to a notable reduction in inequality. In the book, he is often outright dismissive of what Marx had to say about capitalism, which is strange given its topic and argument. But when we look, for example, at the data on union membership and inequality in the United States over the past 50 years, there is an almost perfect one-to-one relationship between the two, begging the question of whether all the focus on inequality ought really to be placed instead on promoting the position of the working class.

Of course, Piketty could still believe that redistribution and greater worker bargaining power can increase g for any number of reasons, it's just that the framework developed in his book does not allow for any systematic analysis of these kinds of ideas.

The use of a starkly conservative model of economic growth to explain the dynamics of inequality reminds us that oftentimes, one must pay a significant price to bring attention to an important idea or issue. But certainly those who spent months camped outside in Zuccotti Park would agree with that observation as well.

Omicron Delta Epsilon (Economics Honor Society)

ODE is one of the largest academic honor societies in the United States. The society encourages the advancement of the discipline and excellence in economic scholarship as well as a devotion to the scholarly effort to make freedom from want and privation a reality.

If you have taken a minimum of 20 units in economics, have a GPA of 3.0 in economics, and an overall GPA of 3.0, then you can join Omicron Delta Epsilon (ODE). The name of the CSUSB chapter of ODE is Alpha Delta.

If you meet the criteria and would like to join, go to the Economics Department Office (SB 451), complete a membership form, and pay the initiation fee of $35. The fee covers a membership scroll and a one-year subscription to the American Economist.

This year's deadline to join ODE is Friday, May 9, 2014.

Fall 2014 Schedule

#	TITLE	DAYS	HOURS	AM/PM	INSTRUCTOR
104	ECONOMICS OF SOCIAL ISSUES	MWF	1200-0110	PM	ROSE
200	PRIN MICROECON	MWF	0920-1030	AM	MACDONALD
200	PRIN MICROECON	MWF	0120-0230	PM	MACDONALD
200	PRIN MICROECON	TR	1000-1150	AM	STAFF
200	PRIN MICROECON		ONLINE		ALDANA
202	PRIN MACROECON	MW	0400-0550	PM	KONYAR
202	PRIN MACROECON	TR	1000-1150	AM	ASHEGHIAN
202	PRIN MACROECON	MW	1200-0150	PM	NILSSON
202	PRIN MACROECON		ONLINE		ALDANA
302	INTER MICROECONOMICS	TR	0400-0550	PM	TORUNO
311	ECON K-8	TR	1000-1150	AM	CHARKINS
333	POLITICAL ECONOMY OF WOMEN	MWF	1040-1150	AM	ROSE
335	TOOLS OF ECON ANALYSIS	MW	0400-0550	PM	DULGEROFF
357	POLITICAL ECONOMY OF LGBT	MWF	0120-0230	PM	ROSE
410	MONEY & BANKING	TR	1200-0150	PM	PIERCE
421	ECON HISTORY OF THE US	MWF	1200-0110	PM	MACDONALD
435	MULTINATIONAL CORPORATIONS	TR	0200-0350	PM	ASHEGHIAN
443	ORIGINS OF POLITICAL ECONOMY	MW	0800-0950	AM	NILSSON
480	QUANTITATIVE METHODS	MW	0600-0750	PM	KONYAR
SSCI320	UNDERSTANDING CAPITALISM	TR	0800-0950	AM	PIERCE

Tentative Winter 2015 Schedule

#	TITLE	DAYS	HOURS	AM/PM	INSTRUCTOR
200	PRINCIPLES MICROECON	MW	1200-0150	PM	ASHEGHIAN
200	PRINCIPLES MICROECON	TR	0200-0350	PM	KONYAR
200	PRINCIPLES MICROECON	TR	0600-0750	PM	KONYAR
200	PRINCIPLES MICROECON		ONLINE		ALDANA
202	PRINCIPLES MACROECON	MW	0200-0350	PM	PIERCE
202	PRINCIPLES MACROECON	TR	1000-1150	AM	PIERCE
202	PRINCIPLES MACROECON	TR	0200-0350	PM	MACDONALD
202	PRINCIPLES MACROECON		ONLINE		ALDANA
300	INTERMEDIATE MACROECON	MW	0600-0750	PM	PIERCE
302	INTERMEDIATE MICROECON	MW	1200-0150	PM	STAFF
311	ECON K-8		ONLINE		CHARKINS
322	MANAGERIAL ECON	TR	1200-0150	PM	KONYAR
360	ENVIRONMENTAL ECON	TR	1000-1150	AM	DULGEROFF
430	INTERNATIONAL ECON	MW	0400-0650	PM	ASHEGHIAN
445	POLITICAL ECONOMY	MW	1200-0150	PM	NILSSON
460	LABOR ECONOMICS	TR	0400-0550	PM	MACDONALD
475	PUBLIC FINANCE	MW	0800-0950	AM	NILSSON
540	POLITICAL ECONOMY OF LA	TR	0600-0750	PM	TORUNO

Tentative Spring 2015 Schedule

#	TITLE	DAYS	HOURS	AM/PM	INSTRUCTOR
200	PRIN MICROECON	MW	1200-0150	PM	ASHEGHIAN
200	PRIN MICROECON	MW	0600-0750	PM	ASHEGHIAN
200	PRIN MICROECON	TR	0200-0350	PM	MACDONALD
200	PRIN MICROECON		ONLINE		ALDANA
202	PRIN MACROECON	MWF	0800-0910	AM	NILSSON
202	PRIN MACROECON	MWF	1200-0150	PM	NILSSON
202	PRIN MACROECON	TR	0400-0550	PM	KONYAR
202	PRIN MACROECON		ONLINE		ALDANA
300	INTER MACROECON	MW	1200-0150	PM	PIERCE
335	TOOLS OF ECON ANALYSIS	TR	1000-1150	AM	MACDONALD
372	BUSINESS CYCLES	TR	0200-0350	PM	DULGEROFF
410	MONEY & BANKING	MW	0600-0750	PM	PIERCE
450	GLOBAL ECONOMY	MW	0400-0550	PM	ASHEGHIAN
490	ECONOMETRICS	TR	0600-0750	PM	KONYAR
500	HIST ECON IDEAS	TR	0400-0550	PM	TORUNO
530	THE GOOD ECONOMY	MWF	1040-1150	AM	NILSSON