Discussion Group 2

Thomas Piketty on Wealth Inequality:
A Wrong-Headed Rehash of Old Ideas or a Much-Needed Call to Arms?

Assigned Discussion Group 2 Moderators: Daniel Alexander (daniela@iastate.edu);
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Discussion Date: Tuesday, November 18, 11:00-12:20pm (first 80 minutes of class)

Specific Responsibilities of Discussion Group Moderators:
The moderators should work together to prepare a clear concise hand-out for distribution
to the class on the discussion date. The hand-out should provide suggested answers to each
of the discussion questions given below (to the extent that the moderators believe that
definite answers can be provided) as well as pointing out any aspects of these discussion
questions that the moderators conclude are controversial, hence difficult to answer in a
definite way. The hand-out should also be distributed to the class using the class email list
macro502@iastate.edu at least one day prior to the discussion date.

The moderators should come to class on the discussion date prepared to lead a class
discussion on their hand-out (hence on the discussion questions below). The moderators
should attempt to ensure the participation of all students in the discussion by (if necessary)
directly calling on students to express their ideas.

Some Suggestions: Consider questions one by one rather than all at once. Ensure
participation by all students (directly calling on students if necessary). Prepare a few slides
to guide the discussion. Watch the time so each question can be addressed.

Evaluation of Discussion Group Moderators:
The moderators’ performance (as a group) will be evaluated on the basis of their hand-
out and in-class discussion moderation. Each moderator should actively participate in both
aspects. The judgments of all class participants will be taken into account in this evaluation
through an anonymous ballot. The points earned by the moderators (up to a maximum of
20) will be included in the determination of each moderator’s overall course point score.

Evaluation of Other Class Participants:
The performance of each class participant other than the moderators will be evaluated
on the basis of the quality of their contribution to the in-class discussion. Assigned points
for discussion participation (DP) will be either 0 (absent from class), 2 (no DP), 4 (minimal
DP), 6 (satisfactory DP), 8 (good DP), or 10 (excellent DP). These assigned points will be
included in each class participant’s overall course point score.
Discussion Focus: Piketty Pro and Con

As discussed in assignment DG1, Thomas Piketty’s 2014 book *Capital in the Twenty-First Century* [1] studies the global dynamics of income and wealth distribution from the 1800s through the early 21st century, making use of historical data collected over the past fifteen years. Piketty’s analysis rests on the following three building blocks:

\[ \alpha = r \times \beta ; \]  
\[ \beta = s/g ; \]  
\[ r > g , \]

where \( \alpha \) denotes the share of capital in national income, \( r \) denotes the return rate on capital; \( \beta \) denotes the capital/income ratio, \( s \) denotes the savings rate (net of capital depreciation), and \( g \) denotes the growth rate of national income. DG1 focused on relationships (1) and (2). DG2 focus on relationship (3).

DG2 Specific Discussion Questions:

Q1: Carefully explain the meaning assigned by Piketty [1a,b] to \( r \) and \( g \) appearing in relationship (3). [DG1 Redux]

Q2: According to Piketty [1c,d], is relationship (3): true by definition of \( r \) and \( g \); or an empirical regularity derived from empirical data; or a hypothesis regarding the long-run outcome for capitalist economies in the absence of counteractive government policies?

Q3: What policy options for reducing wealth inequality are recommended by Piketty [1e,f]?

Q4: Explain briefly but carefully the main arguments provided by Refs. [2-5] both for and against the policy options for reducing wealth inequality recommended by Piketty [1e,f].

Q5: Explain carefully the extent to which you agree or disagree with the policy options for reducing wealth inequality recommended by Piketty [1e,f].

Q6: The six participants in the New York Times panel debate [6] each provide a concise (max one page) response to the following question: To what extent should the U.S. Federal Reserve Board of Governors (a U.S. federal agency) consider “reduction of social inequality” to be one of its goals in the setting of Fed policy instruments?

Which (if any) of these six responses provide support for Piketty’s viewpoint that wealth inequality represents a serious threat for modern capitalist economies requiring a major policy response, and which (if any) of these six responses provide support for the critics of this viewpoint?

Q7: Which (if any) of the six responses in the New York Times panel debate [6] come closest to representing your own viewpoint regarding the proper policy response to social inequality?
DG2 References:


- * [1a] Slide Presentation by Piketty, **ON-LINE**
  

- * [1b] Income and Output (Chpt. 1, 39-71), **HAND-OUT**

- * [1c] Inequality and Concentration (Chpt. 7, 237-270), **HAND-OUT**

- ** [1d] Inequality of Capital Ownership (Chpt. 10, 336-376), **HAND-OUT**

- ** [1e] Global Tax on Capital (Chpt. 15, 515-539), **HAND-OUT**

- ** [1f] Conclusion (571-577), **HAND-OUT**


  http://equitablegrowth.org/work/video-piketty-income-inequality/


** [4] Larry Summers, “The Inequality Puzzle,” 2014 (9pp.) **ON-LINE**


** [5] Ken Rogoff, “Where is the Inequality Problem?,” *NYT*, 8 May 2014, **ON-LINE**

