Have macroeconomists ignored inequality
until the 1990s and if so, why?

Béatrice Cherrier @Undercoverhist, *twitter*, 1er février 2018

I spent part of the week reflecting on a question that wasn't on my agenda: have macroeconomists ignored inequality until the 1990s (and if so, why)? A few quick thoughts, but ideas are welcome that macroeconomists have ignored inequality in general is simply not true. "Macro" is a word coined by Frisch in the late 30s, in circulation in the postwar but only made a JEL codes subcategory in 1967 and a full category in 1990 in postwar, macro-in-the-making was thus mix of national accounting, business cycle theory & measurement, growth theory & measurement. Inequality was key to measurement (think Kuznets) as well as theory of growth, b/c of importance of development issues during Cold War but there was more. As is well-known, main fault line between two Cambridge was whether income distribution derived from marginal productivity of factors (Samuelson/Solow) or from capital accurate and capitalists' propensity to save (Robinson/Kaldor).

This wasn't, back then, an "orthodox vs heterodox" debate. Was core of "mainstream" econ. Big inequality debate was thus on factor share (functional inequality). I'm not aware of many attempts to bring personal income/wealth/consumption inequality into macro/growth models.

Exceptions are Stiglitz's MIT PhD (1969) & Solow/Stiglitz (1968) & Blinder , but both quickly gave up, turn to other topics (some models shelved as dusty disequilibrium macro). I'm not sure why these ideas didn't catch on.

I was told "they had no data, no computer." The no data might be true in Britain, but not in the US. True, the 1970s was prehistory of PSID/ Penn table, but as shown by BLS maintained tax series, were defunded b/c no one was using them : Hirschman (2014)

I would rather emphasize demand factor, aka public lack of interest in income/wealth inequality. Hot topics were poverty & inequality b/w countries. This paper does a great job in explaining Western societies' disinterest in individual income inequality: Pedro Ramos Pinto, "The Inequality Debate: Why Now, Why like This?"

Ideas I toy w/ are: (1) collective features mattered more than causes/consequences of individual choices and feat. Even in econ. Shift occurred at turn of 80s (see Rodgers's *Age of fracture*; the rise of Rawls/Sen's conception of justice & appeal in econ as elsewhere)

(2) econ history. Was postwar a period where rise of top income/wealth had been halted, even reversed by World war? What did the data economic historians then had say? And most important, what was public perception of these econ history data?

Galbraith's 1958 *Affluent Society* had a chapter on inequality, notes "decline of interest in inequality," explains it by (1) lack of civil reaction (2) "drastically altered political & social position of the rich in recent times" (more wealthy, less power, less display) and (3) notion that "increased production is an alternative to redistribution" this idea that the focus should be growth rather than inequality became very much entrenched in economics (see for instance this 2004 paper by Lucas:

"Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution. In this very minute, a child is being born to an American family and another child, equally valued by God, is being born to a family in India. The resources of all kinds that will be at the disposal of this new American will be on the order of 15 times the resources available to his Indian brother. This seems to us a terrible wrong, justifying direct corrective action, and perhaps some actions of this kind can and should be taken. But of the vast increase in the well-being of hundreds of millions of people that has occurred in the 200-year course of the industrial revolution to date, virtually none of it can be attributed to the direct redistribution of resources from rich to poor. The potential for improving the lives of poor people by finding different ways of distributing current production is nothing compared to the apparently limitless potential of increasing production."

What happened b/w 75 & 95 is more consensual. Supply side is development (still much focused on ineq) becoming separate field, & Lucas piecing together Bellman's optimal control, GE, Muth's ratex & what proved fatal to inequality agenda, balanced growth & representative agent what mattered most, then, is not computer shortage; it's macro methodological choices, microfound + rational expectations+ dynamics, yet no numerical solutions allowed is what made computing difficult. Representative agent simplified computation (& had policy implications) but although advertised as "microfounded macro," those modeling choice de facto cut macro from inequality measurement & burgeoning applied micro research (on wage/skill gaps, etc). Demand side was all aggregate questions: stagflation, broken Phillips curve, new Fed mandate?

In 90s, heterogeneity made timid comeback in macro (b/c computer+linearization, Bayesian econometrics, rise of numerical approx.), sometimes to answer distribution questions (Aiyagari, Krusell-Smith), but more often getting more realistic variable behavior (irates, TFP etc) 17/ whatever the research questions were, it made macros better at solving heterogeneity models. In 2010s, convergence w/ micro, lots of new micro data, better numerical methods. HANK models now more mature, inequality macro on the launch pad: http://princeton.edu/~moll/WIMM.pdf