

Lecture 4 - Overlapping Generations Model

UCLA - Econ 102 - Fall 2018

François Geerolf

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US Household Wealth from Saez, Zucman (2016)

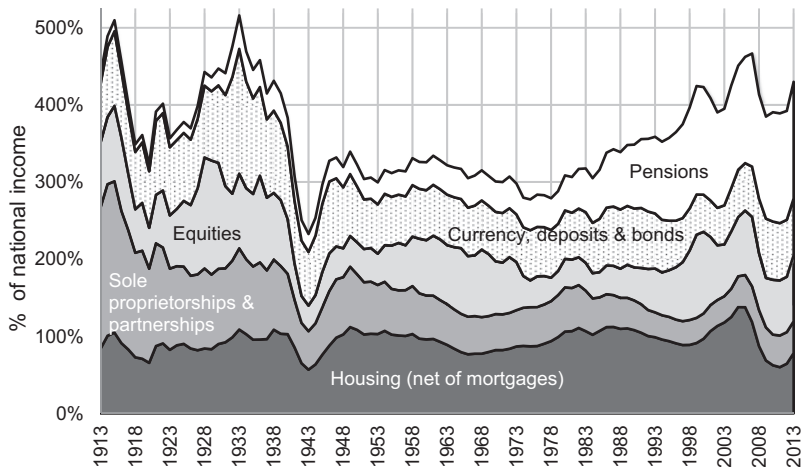


Figure 1: AGGREGATE US HOUSEHOLD WEALTH, 1913–2013

Saving Rate by Wealth Class

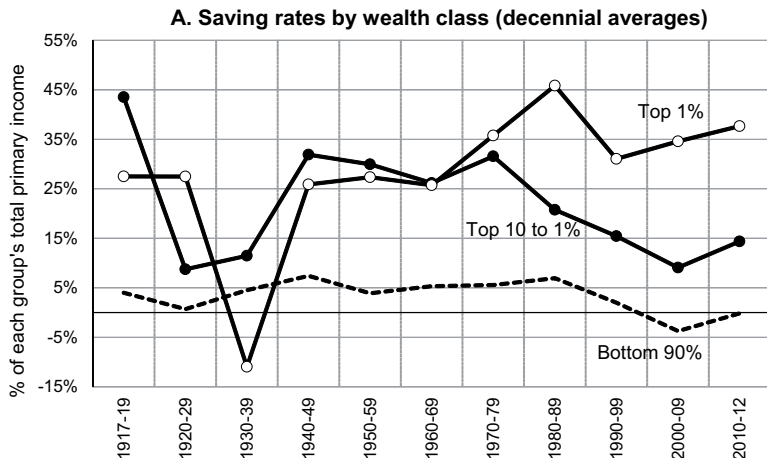


Figure 2: SAVING RATE BY WEALTH CLASS

Top 10% Wealth Share

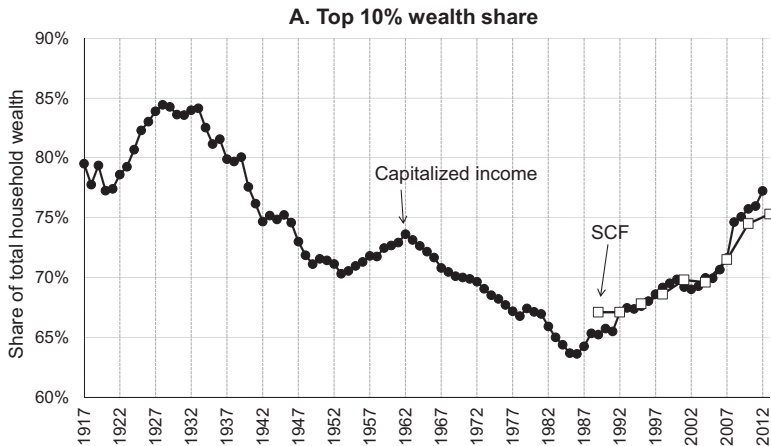


Figure 3: TOP 10 PER CENT WEALTH SHARE

Top 1-10% and Top 1% Wealth Shares

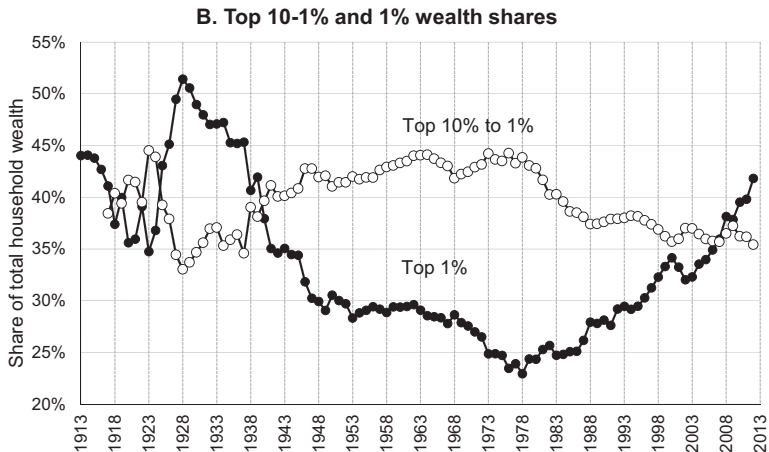


Figure 4: TOP 1-10 PER CENT AND TOP 1 PER CENT WEALTH SHARE

Some Quotes

Adam Smith, in the *The Theory of Moral Sentiments* (1759):

To what purpose is all the toil and bustle of the world? . . . It is our vanity which urges us on. . . It is not wealth that men desire, but the consideration and good opinion that wait upon riches.

Lee Iacocca, former CEO from Chrysler:

Once you reach a certain level in a material way, what more can you do? You can't eat more than three meals a day; you'll kill yourself. You can't wear two suits one over the other. You might now have three cars in your garage-but six! Oh, you can indulge yourself, but only to a point.

Some Quotes II

Keynes, in *The Economic Consequences of the Peace* (1919):

Europe was so organised socially and economically as to secure the maximum accumulation of capital. While there was some continuous improvement in the daily conditions of life of the mass of the population, society was so framed as to throw a great part of the increased income into the control of the class least likely to consume it. The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pleasures of immediate consumption. In fact, it was precisely the inequality of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distinguished that age from all others. Herein lay, in fact, the main justification of the capitalist system.

Some Quotes II (cont'd)

If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a régime intolerable. But like bees they saved and accumulated, not less to the advantage of the whole community because they themselves held narrower ends in prospect.

The immense accumulations of fixed capital which, to the great benefit of mankind, were built up during the half century before the war, could never have come about in a society where wealth was divided equitably. The railways of the world, which that age built as a monument to posterity, were, not less than the pyramids of Egypt, the work of labour which was not free to consume in immediate enjoyment the full equivalent of its efforts.

Some Quotes II (cont'd)

Thus this remarkable system depended for its growth on a double bluff or deception. On the one hand the labouring classes accepted from ignorance or powerlessness, or were compelled, persuaded, or cajoled by custom, convention, authority, and the well-established order of society into accepting, a situation in which they could call their own very little of the cake that they and nature and the capitalists were co-operating to produce. And on the other hand the capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it, on the tacit underlying condition that they consumed very little of it in practice.

Some Quotes II (cont'd)

The duty of 'saving' became nine-tenths of virtue and the growth of the cake the object of true religion. There grew round the non-consumption of the cake all those instincts of puritanism which in other ages has withdrawn itself from the world and has neglected the arts of production as well as those of enjoyment. And so the cake increased; but to what end was not clearly contemplated. Individuals would be exhorted not so much to abstain as to defer, and to cultivate the pleasures of security and anticipation. Saving was for old age or for your children; but this was only in theory – the virtue of the cake was that it was never to be consumed, neither by you nor by your children after you.