Kuznets Waves of Rising and Falling Inequality?

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Date : July 18, 2016

Branko Milanovic, Global Inequality: A New Approach for the Age of Globalization (2016).

The age of inequality has prompted an age of writing about inequality. Now writing about inequality has started to come of age. An important example is Branko Milanovic's new book, **Global Inequality: A New Approach for the Age of Globalization**.

Milanovic, an economist and Senior Scholar at CUNY's Luxembourg Income Study Center who has been studying global data regarding economic inequality for more than twenty years, discusses three main topics in this book: inequality within a given country, that between or among countries, and what might be the path of global inequality in the future. While the book's contributions on all three topics contain numerous points of interest, the first has especial theoretical relevance. Milanovic suggests that inequality may decrease in the coming decades in some rich countries, but probably not in the United States.

In the 1950s, economist Simon Kuznets famously posited that, as an economy develops, market forces lead first to increasing and then to declining economic inequality. However, while this was the story seemingly told by the data available to him at the time, it has subsequently been contradicted by evidence of generally rising inequality in developed countries since the 1970s. Thomas Piketty, in his noted 2013 book, **Capital in the Twenty-First Century**, argued that rising inequality is the norm, and that the mid-twentieth century's "Great Easing" from which Kuznets generalized was merely a blip, created mainly by the early-to-mid-century disasters of war, revolution, the Great Depression, and then more war. Piketty attributed the dominant trend that he discerned to "$r > g$" – a general tendency for returns to capital to exceed overall economic growth rates, causing wealth-holders' share of the pie to keep on growing. This view did not, however, permit him to explain why, in U.S. data, rising wage inequality, rather than returns to capital, has played the largest role.

While Kuznets' problem, in retrospect, was his projecting from just two main types of data points – Western countries during the Industrial Revolution and then during the mid-twentieth century – Piketty, for the most part, adds just one more: the same societies over the last several decades. Milanovic, by contrast, draws on data and studies from many more countries and over a far longer period. (He even has inequality estimates for the Roman Empire and its successor states, over the period from 14 to 700 A.D.) All this information permits him to develop a broader understanding of the multiple forces that historically have pushed towards either rising or falling inequality.

Against this background, Milanovic posits what he calls Kuznets cycles or waves – successive periods of rising, and then falling, inequality in a given country. He argues that these may tend (all else equal) to track periods in which the annual growth rate of the economy first rises and then falls, as new technological revolutions emerge and are then assimilated. However, he recognizes that one cannot overgeneralize, given that "[t]he future often likes to throw curve balls" (P. 117). In particular, various factors that are at least partly exogenous to technical change as such – pertaining, for example, to trends in a country's politics, infrastructure, and educational system – may also affect inequality trends.

This could suggest a somewhat different view of Kuznets waves as being, in effect, an ex post observation that merely reflects how things happened to play out. By analogy, if you keep on tossing coins, you will periodically get several heads in a row at some points in the sequence, and tails at other points, leading to an observation of successive heads-dominated and tails-dominated cycles or waves.

Looking forward, Milanovic sees several ways in which “benign forces [i.e., not just disasters like those of the mid-twentieth century] could hypothetically push rich countries onto the downward portion of the second Kutznets wave” (P. 113). These include rising education, dissipation of the economic rents that have recently created so many high-tech mega-fortunes, income convergence between countries (especially if Asia’s recent rise extends to other continents), and a shift from high-skill-biased to low-skill-biased technological change (although it is not clear why this should be expected to happen).

For the United States, however, Milanovic sees the possibility for a “perfect storm” of rising inequality (P. 180), partly for internal political reasons. “Concentration of income will reinforce the political power of the rich and make pro-poor policy changes in taxation, funding for public education, and infrastructure spending even less likely than before.” (P. 181.) If he is right about this, as well as in his more optimistic forecast for other rich countries, then American exceptionalism may continually increase over the next few decades, but not in a good way.

Cite as: Daniel Shaviro, *Kuznets Waves of Rising and Falling Inequality?*, JOTWELL (July 18, 2016) (reviewing Branko Milanovic, **Global Inequality: A New Approach for the Age of Globalization** (2016)), http://tax.jotwell.com/kuznets-waves-of-rising-and-falling-inequality/.