WITHIN NATIONAL INEQUALITIES: FROM PARETO TO THE KUZNETS WAVES

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Inequality: A topic that came in from the cold

The central subject of the class is income inequality. Inequality has become a much more important topic in the press, social networks and academic publications over the last three or four years. This resurgence of interest is particularly striking in the United States where, because of the ideological dominance of the Chicago school of economics, the topic was considered irrelevant and “soft.” It was thought that only people mistrustful of markets or personally envious would care about inequality. Growth would ultimately improve everybody’s standard of living.

This position was a sharp departure from almost 200 years of economics’ concern with the questions of distribution, which Ricardo thought should be “the principal topic in political economy.” The Chicago model of economics has obviously been proven false as it bequeathed the West the sharpest economic crisis since the 1930s. To better understand inequality, it is necessary to review the historical evidence, and empirical and theoretical work on the topic. It is also important to realize that—despite the fact that it was during several decades an “underground topic”—there exists an important and sizeable body of knowledge.

The course is divided into three parts. The first part is introductory. It discusses the methodology used in the work on inequality and the data sources. What are our key metrics of welfare and thus of inequality? How do we define income or consumption? Should differences in income between individuals be measured in absolute or relative terms? Should we look at income before transfers and taxes or after? Do we look at households or individuals or both? How are top incomes treated in household surveys and fiscal data? Do we include the poorest people? Where do we find the data from which to calculate income or consumption inequality? Is wealth different from income and consumption, and how?
The second part reviews the most important theories of personal income distribution. Interest in personal income distribution goes back to about 100 years ago, and is thus relatively recent compared to the interest in the functional distribution of income (between labor=workers, capital=capitalists and land=landowners).

Since inequality is mostly about the empirics, theories of personal income distribution were heavily inductive. We start with Vilfredo Pareto who was the first economist to have seriously studied inter-personal income inequality. We continue with Simon Kuznets’s famous inverted U curve which is still the workhorse of inequality economics (although it was defined 60 years ago), and complete with the views of several contemporary authors, in particular Thomas Piketty as expressed most clearly in his new book *Capital in the 21st century*. In my new book (*Global Inequality*), I argue that there are Kuznets waves or cycles and that advanced countries are currently going through the second such wave since the Industrial Revolution.

After a review of theories, we shall look at the past 30 years which have seen a steady and, at times apparently unstoppable, rise in inequality in about 2/3 of the countries worldwide. We shall review regional evidence, starting with the rich world, then the emerging market economies (China), and completing with post-Communist transition countries. Particularly interesting because it is bucking the trend, is the decrease of inequality in high-inequality countries like Brazil.

Each student will make one half-an-hour (including Q & A) presentation in class. The topic will have to be on inequality, but the choices may include relationship between inequality and some other phenomena, analysis or description of changes of inequality in a given country or region, critical review of several inequality papers or books etc. (I do not expect original, data-driven work, although that would be welcome. A review of literature from a given area is fine.)

The final exam will be take-home and will consist of two or three essay questions. The grading weights will be as follow: class participation 30%, presentation 30%, final exam 40%.

The amount of required readings (denoted by letter R) is not huge (approximately two readings per week). Other papers listed in the syllabus are important papers from the area, and may be useful for students who decide to pursue a given topic further (whether in this class or another). Only things covered in class and in required readings may be included in the final exams.

**Important recent books:**

There has been a recent wave of new and important books on inequality. Some are listed here. They may be useful to read or to consult for this or another class.


1. What is economic (income/consumption) inequality and how do we measure it?

Main theme: How do we define and measure inequality and where do we find the data?

1.1 Absolute or relative inequality? Income or consumption? Per capita or per equivalent adult? (2 RRs)


Three important books on methodology of inequality studies


1.2 Gini coefficient, Lorenz curve, Lorenz dominance, first-order stochastic dominance (1 RR)


1.3 Sources of inequality data; problems with surveys (compliance, imputation of income, reference period) (1 RR)


**Where to find the data:**

An important recent review of all key databases for the study of income inequality (LIS, SEDLAC for Latin America, OECD, PovcalNet, World Income Distribution, All the Ginis, WIID and SWIID) was published in a special issue of *Journal of Economic Inequality*, vol. 13, Number 4, December 2015 (editors: Francisco Ferreira and Nora Lustig)


See Martin Ravallion, “The Luxembourg Income Study”, *JEI*, vol. 13, pp. 527-548

Response

Janet Gornick, Markus Jantti, Teresa Manzi and Thierry Kruten, ibid, p. 549.

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See François Bourguignon, “Appraising income inequality databases in Latin America”, *JEI*, vol. 13, pp. 557-578.

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World Bank POVCAL: [http://iresearch.worldbank.org/PovcalNet/index.htm](http://iresearch.worldbank.org/PovcalNet/index.htm) (all developing countries; more than 600 surveys; no access to micro data)


See Tom Smeeding and J. P. Latner, “PovcalNet, WDI and ‘All the Ginis”: a critical review”, *JEI*, vol. 13, pp. 603-628.

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UN WIDER WIIS database: [http://www.wider.unu.edu/research/WIID3-0B/en_GB/database/](http://www.wider.unu.edu/research/WIID3-0B/en_GB/database/)
(compilation of Ginis, deciles etc., for a variety of inequality statistics, income, earnings etc. last update September 2014)


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(fiscal data from some 40 countries; base of the top 1% statistics)

LIS Upshot database:
(detailed distributitional data from the rich countries)

Nora Lustig, Appraising world income inequality databases,
[http://www1.wider.unu.edu/inequalityconf/sites/default/files/IGA/Lustig.pdf](http://www1.wider.unu.edu/inequalityconf/sites/default/files/IGA/Lustig.pdf)
(slides)
2. Theories of income distribution (at national level)

Main theme: Are there any regularities in the movement of national income distributions?

2.1 Pareto: Iron law of income distribution (3 RRs)

[R] Essay I (“Unequal people”) and vignette 1.10 (“Two students of inequality: Vilfredo Pareto and Simon Kuznets”) from The Have and the Have-nots.


Vilfredo Pareto, Cours d’économie politique, Lausanne, 1896.


Extra: Going from functional to personal income distribution


[R] Branko Milanovic (2016), “Increasing capital income share and its effect on

### 2.2 Kuznets and Tinbergen: benign forces of economic improvement (2 RRs)


**Kuznets curve literature**


2.3 Piketty: A political theory of income concentration (4 RRs)

A nice non-technical summary of current research:


Piketty’s book has led to literally hundreds of reviews. Some of the most interesting are:


[R] See also the exchange between Debraj Ray and Milanovic http://glineq.blogspot.com/2014_06_01_archive.html and http://debrajray.blogspot.co.uk/2014/06/ray-on-milanovic-on-ray-on-piketty.html

2.4. Milanovic: The Kuznets cycles: benign and malign forces of inequality change (no RR)

Chapter 2 of B. Milanovic, Global inequality: A new approach for the age of globalization

Branko Milanovic, “income inequality: will it rise forever or does it run in waves?”, Nature, October 2016.

Effects of inequality


3. National inequalities in the current era of globalization

Main theme: How much and why within-national inequalities increased in the last thirty years

3.1 New (and promising) literature on inequality and growth (2 RRs)


[Inequality of opportunity]


3.2 Advanced economies (3 RRs)


[top income shares literature]


3.3 Developing world (4 RRs)

China


A special issue of Current History, “Inequality on the Rise: A Current History Anthology”, September 2012-May 2013, vol. 111, No. 746-Vol. 112 No. 754. In particular papers on China (Martin King Whyte), Russia (Daniel Treisman), and Africa (Shantayanan Devarajan and Luc Christiaensen).


[Contrarian views on Brazil’s or Latin American experience]


[R] Vignette 1.9 “Will China survive 2048?” from *The haves and the have-nots*.


### 3.3 Transition countries


[inequality in pre-industrial societies]

Vignette 3.7 “Did colonizers exploit as much as they could?” from *The haves and the have nots.*