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When is there a Kuznets curve? Some evidence from the ex-socialist countries

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Highlights

- We investigate under which conditions income inequality eventually declines with economic growth
- We find that this occurs when control of companies' market power is effective and taxes are high

Abstract

This paper investigates when there is a Kuznets curve, that is, under which conditions income inequality eventually declines with economic growth. The analysis was performed on a sample of 26 ex-socialist countries from the former Eastern Bloc, during the post-socialist years. These countries had very similar characteristics when socialism collapsed, but very different experiences with transition afterwards, which makes them a suitable group for analysing the relationship between GDP and inequality. We focus on four factors that may shape this relationship – labour market institutions, the market power of companies, social benefits and taxes. Our findings suggest that the Kuznets curve is present only when control of companies' market power is effective and taxes are high.

Keywords: Growth, Income, Inequality, Kuznets, Transition

JEL classification: D31, D63, H23, 015

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