PUBLISHED BY
VOPROSY
EKONOMIKI
N.P.

Available online at www.sciencedirect.com

ScienceDirect

Russian Journal of Economics 3 (2017) 42–53

Russian
Journal of
Economics

www.rujec.org

Income inequality revisited 60 years later: Piketty vs Kuznets ☆

Ivan Lyubimov

Russian Presidential Academy of National Economy and Public Administration, Moscow, Russia

Abstract

This paper compares two popular views on the evolution of income inequality. The article by Simon Kuznets, which was published in American Economic Review in 1955, considers inequality as a byproduct of economic growth and suggests that a relatively rich economy should also be less unequal. In contrast, Thomas Piketty indicates that inequality is progressing, and an internationally coordinated policy is required to bring inequality under control. My paper applies the arguments of Kuznets and Piketty to the problem of income inequality in modern Russia.

JEL classification: D63, I24, O47.
Keywords: income inequality, economic growth, labor income, economic rents, CEOs.

1. Introduction

The study of the evolution of income and capital inequality is important not only because of the need to control poverty but also due to the potential influence inequality has on economic growth rates.

Economists have long believed that economic growth alone would suffice to resolve the problems of inequality and poverty. For example, Simon Kuznets (1955) assumed that sustainable economic growth would ultimately lead to a lower level of inequality. Similar concepts regarding the correlation between inequality and economic growth have dominated international financial institutions for a long time, including the World Bank and the International Monetary Fund.

☆ The updated English version of the article published in Russian in *Ekonomicheskaya Politika*, 2016, No. 1, pp. 27–42.

E-mail address: lubimov@ranepa.ru

Peer review under responsibility of Voprosy Ekonomiki.

http://dx.doi.org/10.1016/j.ruje.2017.02.003

The World Bank considered the acceleration of economic growth to be a sufficient measure for improving the conditions of all strata within the population.

However, more recent works (e.g., Rodrik, 2007) argue that economic growth alone may be insufficient to solve the problem of reducing inequality and poverty. Economic growth policy should be enhanced with redistributive measures so that the results of economic growth are more evenly distributed between different strata within the population. Several studies assert that growing inequality may result in lower rates of economic growth (Rajan and Zingales, 2004). Such a result may be the consequence of limited opportunities among relatively poor population groups to accumulate human capital, leading to relatively low rates of economic growth.

This paper, however, will not review the aforementioned mechanism or other traditional ways that inequality impacts economic growth, such as the effect of income inequality on political stability and thus on the size of investments or the influence of inequality on birthrates and therefore on growth rates. These mechanisms have been reviewed in the literature in sufficient detail. A significant part of this paper addresses the book by Thomas Piketty, in which, contrary to the forecasts of Simon Kuznets, the author points to the increasing income inequality in recent decades, as well as to the danger of decelerating economic development, which may result from the growing inequality, connected first with the stronger economic and political influence of more affluent individuals.

The paper consists of three sections. The first section addresses the work published by Simon Kuznets in the American Economic Review in 1955 and describes how the reaction to his article within the scientific community has changed over time. The second section presents the 2014 work by Thomas Piketty which criticizes Kuznets' article in particular. The third section attempts to use the results of those papers to conduct a brief analysis of income inequality in Russia.

2. The theory of Simon Kuznets, its testing and criticism

2.1. Main ideas

In his article, Simon Kuznets (1955) considered the influence of economic growth on income inequality. Kuznets collected data on income inequality and economic growth in three developed countries: the United States of America, United Kingdom, and Germany. The data arrays obtained by the author covered only a few decades, mostly during the first half of the 20th century.

Based on the data collected, Kuznets described the evolution of inequality and economic growth in these three economies. The author came to the conclusion that, over the period starting from the beginning of World War I, income inequality decreased in all three countries, although at different rates. As a result, the share of poor individuals in the national income increased, whereas the share of the rich declined.

Moreover, Kuznets noted the growth of per capita GDP in the three economies during the decades he reviewed, except for several years of military action.

In addition to the statistical summary, which accounted for a relatively small portion of the paper, the author described the mechanism purportedly explaining the impact of income on inequality.