Policy Brief: A Critique of Branco Milanovic's *Elephant Curve*

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Milanovic addresses global inequality. He looks at trends in within-country inequality and across-nation comparisons over a period of more than 20 years. He finds that this period has been characterized by a rise of the middle class in Asia in countries like China and India, stagnation and decline of the middle and lower income class in rich western countries, and the emergence of the global plutocracy.

Milanovic uses a graph of real income growth against the percentile of global income distribution to show that the Asian middle class has gained the most income over the period in question while the Western middle and lower-middle classes have lost incomes. Within country inequality in rich nations has risen and led to the emergence of a plutocracy. A seeming puzzle that he seeks to explain through the data is the recent rise in inequality among rich western nations despite rising incomes. According to the Kuznet's hypothesis[1], at low levels of growth, inequality is low. Inequality then rises as a country industrializes and decreases when it reaches maturity. Milanovic introduces the idea of Kuznet waves or cycles as opposed to the curve to explain this observation. He posits that inequality has tended to flow in Kuznet waves. Inequality rises with major boosts to factor productivity, for example industrialization, technology, globalization, and policy shifts, and declines with a combination of malign forces (wars and epidemics) and benign forces (accessible education and progressive taxes).

Based on his prediction of future inequality trends, Milanovic seems to recommend that we let convergence and the Kuznet's waves to take care of inequality. For example, he thinks that if the plutocracy continued to dominate the political sphere, such a system would be unstable and eventually result in decline of the plutocracy and lead to reduction in inequality. He also thinks that if we could tackle market inequality, i.e. the fact that certain countries benefit more from the mobility of capital than others, then we could reduce inequality in rich welfare states without relying on taxation or redistribution.

Due to the cyclical nature of the Kuznet's curves, it is implied that over time, inequality would decline between the rich and poor of richer nations. Economic and political instability resulting from inequality would lead to decline in inequality eventually. While the argument for Kuznet's waves is compelling, I think that we should not rely on them fully to predict that inequality would decline over time. This is because of uncertainty of what might happen in the future to economic or political institutions. For example, rising plutocracy might not necessarily result in instability and decline of inequality. It might be in the interest of the plutocracy to institute laws that would keep the middle and lower-classes just satisfied enough to not politically organize themselves into a revolution. If that were to happen, Kuznet's wave would not solve global inequality. Kuznet's waves alone might not solve inequality. Governments have the power to intervene during the cycle to reduce inequality[2]. This would of course depend on the ability of governments to resist the political influence of the plutocracy.

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[1] Milanovic, B., 2016. Global inequality: A new approach for the age of globalization. Harvard University Press.
[2] (2016). Globalisation and inequality: The New Wave. The Economist [online] Available at: http://www.economist.com/node/21695853/print [Accessed 09. 03. 2018].