

Some Comments on Branko Milanovic's *Visions of Inequality*

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Visions of inequality

- Always a great pleasure reading Branko's writings: well-written, deep, and thought provoking
- But here I stress more
 - **missing points**
 - **disagreements** – for once somewhat substantial
- Focus on two crucial aspects → two “framing criteria” of his book's narrative and choices
 - Substantial work on inequality: **compelling narrative, well-developed theory, and empirical evidence**
 - Indifference to normative views about inequality
- Also focus on **personal income distribution**, hence Pareto, Kuznets and the Cold War research

Indifference to normative views

- **At face value**, it means focusing on authors' positive analysis ignoring their normative views. Useful to justify exclusion of Rawls, Sen and others
 - But what about Sen's *Poverty and Famines. An Essay on Entitlement and Deprivation*?
- However, this initial claim may be misleading, suggesting that **normative and positive** can be separated. But this is not the case as they are **intrinsically intertwined**
- I find initial claim a bit unfortunate, and contradicted by Branko himself throughout the volume, eg at p. 172

Inevitably in these authors we find a connection between what they believed were desirable economic and political changes and their own work. This ... suggests that a "neutral" social science or "pure" scientific inquiry is not within our reach

Indifference to normative views: Pareto

- Pareto is a perfect example of how normative and positive intertwine. See Branko at p. 180 on a fundamental point in interpreting Pareto

There is a constant tension in his writing between very clear statements that the distribution cannot be changed and quasi-legalistic wordings that water these downs with careful caveats. The qualifiers are never sufficiently numerous or strong, however, to overturn the prior suggestion of the immutability of distribution.

- Does this not imply that normative dominates positive?

Indifference to normative views: Kuznets

- Interaction between normative and positive does not stop to authors' writings
- Take Kuznets' work on the “share of upper income groups” – and Branko is fully correct here in stressing that Kuznets had in mind the US experience
- Political meaning of Kuznets downward section of his curve well captured by Arthur Burns (1951)

a transformation that has been carried out peacefully and gradually, but which may already be counted as one of the great social revolutions of history
- But even more remarkable Burns' conclusion ...

Indifference to normative views: Kuznets

*Much of today's thinking runs of necessity along military lines. But **the struggle between the western democracies and communism is basically ideological**, and we must not allow its military aspect to obscure this fact. It is a grave error to regard communism as a conspiracy of an unscrupulous clique to attain mastery of the world. Such a clique exists but its power derives from its ability to harness the idealistic impulses of man. **To strive for peace in the world, for justice in distributing incomes, for higher living standards, for security of job and home, for protection against the ravages of disease and old age—these are natural expressions of present-day culture.** Communism has made headway by promising the millennium to an anxious and partly hungry world, while exploiting our every shortcoming and diverting attention from our constructive achievements*

Narrative, theory, and evidence

- **Brilliant!** But what does theory mean?
- Here Branko has in mind a **grand theory of the major forces that shape inequality change**
- Three aspects matter
 - **Grand theory:** Pareto's elites and Kuznets's structural change are the example. But can they explain how total income is distributed across people? How does Pareto's theory of elites shape income distribution and why does immutable income distribution serve it well?
 - **Changes:** this is not said explicitly, perhaps, but interest is on forces that cause distribution to vary, not on factors that shape the distribution
 - **Inequality:** of what? Throughout the book concern with income, perhaps wealth. But which income?

Narrative, theory, and evidence

- One missing point is the importance of **measurement**, and how crucial it is to collect sound evidence
- Role of Pareto is crucial and Pareto deserves the attention that Branko pays to him
- Bresciani-Turroni on Pareto's law in *Econometrica* (1939)
 - It lacks theoretical foundation and empirical support
 - Pareto conceived for the first time the idea of measuring inequality, but other indices more appropriate than α ,
- Pareto is a turning point in inequality analysis
 - paved the way to **search of inequality indices**: would Gini index (and many others) exist without Pareto's α ?
 - made of income inequality an **active empirical research field**, as testified by *Econometrica*'s "Annual Survey of Statistical Data", the second ever published

Narrative, theory, and evidence

- Let me conclude on the **grand theory**
- Here is the crucial disagreement
- Incidentally, Branko is very dismissive of Tony Atkinson's contribution and stresses his "unrelenting empiricism". I think that Branko is wrong here. I take just an example:

Concluding Comments

One of the principal points of this chapter has been to bring out the inter-relation between different factors influencing the distribution of wealth. The influence of marriage patterns depends on how estates are divided; the impact of the division of estates depends on the process of accumulation; the conditions of aggregate equilibrium have implications for the behaviour of the distribution; the inheritance of wealth may facilitate the enhancement of earnings potential; the accumulation of capital may in turn depend on earnings and expected earnings in the next generation. In view of this it is clear that one should be cautious in drawing conclusions about the impact of policy instruments without a complete model of the distribution.

Some of the building blocks for such a model have been examined

Narrative, theory, and evidence

Some U-shaped pattern in many advanced countries, but timing, magnitude and persistence differ

- While common forces may have affected all advanced economies, countries' circumstances and policy choices led to distinct national patterns
- Tax-benefit systems are primary examples of these policy choices (but not the only one: e.g. regulation)

Reversal of post-war downward trends due to:

- more flexible labour markets
- taxation reforms favouring high taxpayers
- rolling back of welfare states

Here, is where a grand theory may not be of great help. And where focusing on episodes tells us more than structural forces alone

Thanks for your attention!