

International Kuznets Curve (?) in A Schumpeterian Model of the World Economy

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Abstract

The Industrial Revolution boosted growth in Britain, and as it diffuses to other countries, growth in the world economy accelerated. At the same time, inter-country inequality increased. On the other hand, the recent literature and the 2018 Maddison dataset, the Penn World Table 9.1 and the World Inequality Database suggest that inter-country inequality fell in recent decades. This suggests that inter-country inequality takes an inverted U shape, i.e. an International Kuznets Curve. The aim of this paper is to build a Schumpeterian growth model of the world economy to explain this hypothesis. In the model, there is a continuum of countries, and transitional dynamics involve a series of take-offs of countries which are initially backward. Simulations show that the International Kuznets Curve emerges in a transitional process of the world economy converging to the long-run equilibrium.

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