transition economies that rising inequality could hinder institutional and macroeconomic reforms and, consequently, economic growth by undermining the social and political consensus needed to implement market-oriented reforms.

Oded Galor, Brown University, and Omer Moav, Hebrew University, attempted to reconcile conflicting empirical evidence. In their model, inequality could promote growth, while the engine of growth is rapid physical capital accumulation. But as human capital accumulation becomes more important, inequality can have a negative effect on growth.

In a related paper, the same authors interpreted the gradual disappearance of class structure in Europe, arguing that capital and skill (human capital) are complements in production. Thus, capital accumulation intensifies the relative scarcity of skill. However, because skill is embodied in its owner, the only way to "accumulate" human capital is to spread it among more people . When credit market imperfections prevent private financing of schools, capitalists have the incentive to invest in public schools. As workers become more skilled, their incomes rise, they begin to save, and class differences eventually disappear. Galor and Moav suggested this mechanism was indeed at work during the late nineteenth and early twentieth centuries. ■

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