PANOECONOMICUS, 2016, Vol. 63, Issue 4, pp. 493-501
Received: 31 August 2016. Book review

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The article is written under the auspices of the project 179052 supported by the Ministry of Education, Science and Technological Development, Government of the Republic of Serbia.

Global Inequality: A New Approach for the Age of Globalization

by **Branko Milanovic**

Harvard University Press, 2016.

The book introduces a "new approach to the age of globalization". Undoubtedly, it is not easy to present anything new in relation to the subject, given the inequality is widely treated in economic reflection. In other words, influential economists deal with the problem of inequality. However, the author of the book has become a world renowned authority in the analysis of inequality, and this is more than enough to expect that it is indeed a book worth reading.

In the subsequent remarks I will indicate what appears to me to be the most important points in the book, and in the end I will express two objections. I anticipate my evaluation here when I say that the book has not let down our expectations, as it has truly shed a new light on the analysis of inequality. In addition, the author combines political and economic considerations. One might even say that it approaches the political economy of inequality. This is essential, as I think that little can be said about inequality without taking into consideration political and economic points. As it is stated at the beginning of the book, here we will read relatively little about technical considerations. Rather, the emphasis is on claims related to content which are supported by graphs. Of course, the author does in some instances find it necessary to emphasize certain technical problems as well, for example when he talks about how household surveys underestimate the number of poor people, but this does not impact my assessment.

Hence, Branko Milanovic has opted for an analysis of global inequality. He commences from a simple insight that globalization has advanced, and it is precisely that context which must be the framework of analysis. Furthermore, globalization is ambivalent: this is the very conviction which determines the analysis in the book. In addition, although this is seemingly a technical question, there are now relevant data which enable us to select data on a global scale and to draw conclusions with global aspects. The year 1988 is taken as a symbolic point, sufficiently enabling a retrospective and a prospective perspective, while one year prior to the outbreak of the financial crisis is interpreted as the most globalized one in history. More specifically, it is about capitalism from a global perspective, as the book writes about the triumph of capitalism and how it is tangentially complete. Even those entities which are universally considered to be a standard challenger compared to Western Capitalism (such as various orientations which are associated with Islam) “travel” along capitalism’s orbit. The benefits of globalization are not evenly distributed. If one wishes to identify the beneficiaries of globalization, all the data indicate that these are emerging Asian economies. More specifically, Milanovic pleads for “emerging middle classes” in the countries aforementioned as beneficiaries. This point can be a surprising conclusion to the reader. Namely, it is evident that the Western countries were the initiators of globalization, but the impacts which have arisen were not foreseen.

This is where the question with political intonation appears: are we the witnesses of a zero-sum game, or are the gains of the emerging middle classes appearing as losses on the side of the middle classes of developed countries? There is a lack of growth in developed countries, which affects the lower middle classes in Western European countries. The financial crisis which emerged in 2008 must also be taken into consideration. The data shows that the period from 1988-2008 was great for the top 1%, but that the next period (e.g., the period from the beginning of the crisis), worsens their position (based on global disposable income). Of course, this will not bring into question the fact that wealth inequality is higher than inequality based on the consumption or income throughout the world. Milanovic takes into account the fact that there is a divergence between the evolution of income and wealth, and based on that he thematizes the dynamic of global plutocracy.

The author’s theoretical innovation is related to the concept of Kuznets cycles or waves. His belief is that Kuznets’ work still offers a variety of possibilities, in fact, various projections may be offered based on that. In other words, the author rejects the skepticism towards Kuznets: it is usually believed that the theory in question (which is based on the hypothesis that inequality is small at a low level of income, while inequality grows with the dynamics of economy, and in the end it declines again at a high level of income) no longer deserves the attention as an approach with which analysis can be performed nowadays. However, the dynamics of inequality in Western countries have brought the aforementioned theory back into discussion. There is not an alternative in relation to the Kuznets’ theory which could offer an explanation for the expansion on inequality. Theoretical competitors (race in education and in technology) cannot adequately cover many aspects of the same dynamic. It is more advisable to talk about the Piketty-Kuznets duo, as much can be explained in the context of inequality with the help of Piketty. The only shortfall is in terms of the pre-industrial period. Accordingly, Kuznets’ deficiency is in terms of the present, while Piketty has historical deficits.

Prior to the industrial revolution, there is no relationship between mean income and the level of inequality, which the author addresses by stating: “In a nutshell, for the period before the Industrial Revolution, I argue that inequality moved in Kuznets waves undulating around a basically fixed average income level” (p. 51). A difference should be made between the Kuznets-cycles and economic dynamics presented by Malthus, where the latter can only be a sub-instance of Kuznets. The situation changes with the industrial revolution, as higher incomes enable a wider margin for the development of inequality. It is called the “inequality possibility frontier”. In addition, we enter the relationship realm between mean income and inequality. Afterwards we can count on the realization of the tendencies which Kuznets projects: inequality decreases due to the dynamics of education, demand for redistribution and the reduction of the return of capital. Here, as well as in other parts of the book, Milanovic distinguishes malign and benign forces of inequality. Malign forces are disasters and wars, and benign forces are various economic and technological tendencies (for example, low-skill biased technology). The fact that economic dynamics can be explained based on the interaction between malign and benign forces should be noted, in the same way that light can be shed on Kuznets-waves based on the same interaction. It is interesting that, for example, wars during pre-industrial times have the effect of inequality increase, while in the 20th century they have the reverse effect of reducing inequality. After all, David Ricardo has already found it necessary to devote a few notable reflections in relation to the impact of war on the economy. Milanovic has devoted much attention to historical instances, as the book demonstrates the relevancy of observing the inequalities long term.

Kuznets' argument can be summarized as follows: a shift from the low-income agricultural sector to the higher-income industrial sector accelerates the dynamics of inequality. Based on selected examples (USA, United Kingdom, Spain, Chile, Japan, Brazil, Netherland, Italy), Milanovic shows the relevance of the Kuznets theory. As I have just mentioned, the interactions between benign and malign forces should be taken into account: that is the political-economy of Kuznets-waves which Milanovic is propagating. This is the very moment when the book applies the announced innovation. The first Kuznets-wave lasts until the 1980s, spanning about 150 years. However, the period starting from the aforementioned decade is characterized by a shift from industry to the service sector and is difficult to reconcile with Kuznets' logic. Thus, the author of the book finds it appropriate to talk about "*waves*" or "*cycles*".

Inequalities in the context of the First World War are regarded separately. However, it is more than a field trip into economic history. It is theoretically relevant how Milanovic's explanations differ from Piketty's regarding the inequality for the respective period. Namely, Piketty also registers that, due to the First World War tendencies which decrease inequality are set into motion (mass mobilization, war loans, etc.) However, for Milanovic, opposed to Piketty, it is essential that internal inequalities played a crucial role to the outbreak of war. In other words, while the outbreak of war is connected to exogenous facts for Piketty, according to Milanovic, causality can be found in exogenous aspects. There are also economic causes of the war, and there are reasons which are related to domestic factors, and thus Milanovic returns to some classic theories of imperialism. What once more represents a novelty is that the imperialistic war is interpreted based on Kuznets' logic. By pointing out that great inequality (mal-distribution of consuming power is highly emphasized) has played a huge role in the outbreak of war, the author of the book applies Kuznets in a context which is evidently of non-standard character.

The consequences of the First World War are endogenized in the first part of the 20th century. This opens a new chapter in terms of the interaction between malign and benign forces. Observing the dynamics of the 20th century, Milanovic consequently insists on this interaction. This orientation allows him to engage the same dynamics in a much more complex way than Kuznets. In fact, the economic factors which are noted by the American economist appear here in a broader social framework.

The second Kuznets wave is driven by technological innovation, where various technological rents are created. There are numerous similarities with the first wave, such as the transfer from manufacturing into the service sector, which is analogous to the transfer of the agricultural sector to the industrial sector. Of course, the analogy is incomplete, as differences between the two waves exist. For example, the service sector shows a greater dispersion than the industrial sector while it requires fewer units of production. In addition, geographic dispersion, which is by default associated with globalization, reduces the importance of trade unions, which cause the terms of interaction between political and economic factors to change. The altered status of labour is supported by different analytical theories, such as the game-theory. In addition, the redistributive power of the state which was linked to the welfare-state is weakened. Therefore, there are many reasons that encouraged the expansion of inequality. Of course, the most difficult question is how to offer a causal explanation for the dynamics of inequality, which is complex and conditioned by numerous interactions. One possible, necessarily simplified, way of grouping factors is the following: technology, openness in the sense of globalization, policy.

Complexity involves taking into account those tendencies which act against strengthening inequality. Furthermore, it is almost impossible to demonstrate the interaction between benign and malign forces which influence the dynamics of inequality. Malign forces such as wars, which have undoubtedly influenced developments in the field of inequality, cannot be ruled out. If applicable, some benign tendencies, which can affect the reduction of inequality, may be fixed:

(i) political changes, which cause progressive taxation. The well-known median voter hypothesis which is inconclusive in many points, can be a moment for reflection, however, we can immediately implement counter arguments because the increased role of money is a pro-rich moment. Recently, Thomas Ferguson (Director of Research at the Institute for New Economic Thinking (INET)[1]), who has spent a great time dealing with the problem of money in politics, supported claims with alarming new evidence (could be cited independently of Milanovic);

(ii) race between education and skills., However, unlike some utopian projections, we should warn that the possibilities are not infinite in this field;

(iii) dispersion of the rents accumulated during the first wave of technological revolution. Various economic subjects mimetically appropriate technological competencies and are catching up to the great winners- pioneers;

(iv) convergence at a global level, which could be perpetuated by the continuance of the economic dynamic of China and India;

(v) technological dynamics will increasingly accelerate the productivity of the unskilled rather than skilled workers. This is the most speculative factor because it is based on many uncertainties.

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[1] How Money Drives US Congressional Elections, Thomas Ferguson, Paul Jorgensen, and Jie Chen (2016).

The next step of the book deals with the problem of inequality between nations. The author of the book is in a better position compared to those researchers who attempt, based on household surveys, to thematize the dynamics of inequality in the period between 1820-1988, because from 1988 forward the same data exists. During the period from 1988 to the beginning of the third millennium, inequality patterns are stable. The level of inequality was about 70 Gini points. But China has become a great equalizer. However, it should be noted that the tendencies towards reducing inequality between nations are not all that stable. Therefore, it is not certain whether the current trends will continue. In addition, the calculation of global inequality is a newer process and is infused with uncertainties. The author emphasizes that attention should be given to further the development of the categorization of global inequality, because it is a frame based on which we see the world at present. Two types of inequality can be distinguished: class-based inequality and location-based inequality. Analyses that attempt to articulate global inequality should take into consideration the differences between these types of inequality.

The main instigator of global inequality in the past two centuries is the divergence of mean country incomes. In more simple terms, the transatlantic part of the world had the chance to become a much richer, while the Asian part of the world became poorer. Milanovic offers the possibility of articulating the importance of location in the dynamics of global inequality. The inequality gap between nations culminates around the seventies of the 20th century. Here we can apply the terms "citizenship premium" and "citizenship penalty". In this case, the global Gini value in the seventies is much higher than the national Gini value. When income differences between countries are great, then the individual position, that is, the dynamics of personal income, depend on which country the person lives in. Finally, the point of birth is also an important factor, especially considering that 97% of people live in the country where they were born. But, what is the role of citizenship rent? It is a premium which is calculated as an average premium across all citizens. Therefore, "the gap between rich and poor countries would be especially great for the nationally poor people, who are the individuals in the lower parts of their countries' income distributions" (p. 134).

The citizenship premium has an effect on the process of migration because it should be taken into account that the situations depend on what type of position a certain individual holds in the process of distribution. Migrations are determined by the expectations of migrants in relation to future facts, where they can position themselves in the field of income distribution in the recipient country. Therefore, migration can depend on the dynamics of inequality in the recipient country. In the case that there is a country which is to a greater degree unequal compared to another country, and where there is mobility, then the arrival of more-skilled migrants who will be found in the upper stream of income distributions can be expected. This is a problem for certain countries which attract migrants with law-based skills. In that case it is difficult to avoid discrimination.

In the book the attitude towards Coase-theorem and the rule of the law show theoretical aspirations. There are reasons in globalization supporting justification of this theorem. Namely, situations where there is a separation between questions of economic efficiency and distributions issue do exist. However, Milanovic is not content with this approach. He presents an assessment that it is inadequate to separate distribution issues from economic issues, claiming that there is an insufficiency of understanding globalization processes by economists and politicians. Even references made to the law are insufficient if the context of globalization is not taken into account. Robber barons seek legal confirmation of their new property, but that is more than inadequate in the processes of globalization. Milanovic is critical, arguing economic considerations do not follow economic reality. There are deficits in terms of reflections about global equality of opportunity. However, the same deficits can be discovered in the field of political philosophy as well. It seems that fragmentation between disciplines weakens the chances to reflect upon inequality. I believe that this is because it reduces the relationship between economics and politics.

The contradictions of globalization are expressed by the fact that it implies unrestricted movement of factors of production, but not workers. This is proven by the intense construction of various fences and walls in the past decades. Here the problem of migration appears. It can be expressed as follows:

(a) on the one hand there is the right to leave any country, but on the other hand the right to settle where desired does not exist;

(b) there is a tendency of relatively free movement of factors of production, but the same tendency is much lower in terms of labor movement;

(c) there is tension between the principles of maximization of income, and application of this principle within national borders;

(d) there is tension between the concept of development which can be developed anywhere on the planet and the concept of development which should be developed within national borders.

As it can be seen, this classification also demonstrates the interaction between political and economic moments. Some tendencies are very rarely thematized by economists, so the last tendency is rare in the deliberations of economists. This casts a shadow on the will to discuss certain migration issues, for example, there is no will to bridge the gap between actual and potential migrants. Still, by accepting a large number of migrants, Gulf countries have contributed to the reduction of world poverty. There are various proposals in regards to improving the situation:

(1) higher taxes to be paid by migrants;

(2) migrants should work for a certain number of years in the countries of origin;

(3) allowing more temporary workers.

Still, all those proposals echo the problem of domestic and foreign workers being treated differently. There are three political options:

(i) "allow unrestricted movement of labor and enforce nondiscrimination between domestic and foreign labor in all countries (the countries themselves may, however, differ in labor regulations);

(ii) allow for a limited, but higher level, of migration than the one that currently exists, with legally defined relatively mild differences in treatment of local and foreign labor;

(iii) keep the flow of migrants at the current level, or an even lower level, and maintain the fiction of equal treatment of all residents while allowing for de facto differential treatment of the 'illegals'" (p. 154).

The most justification can be made for option (ii), but it is necessary to reformulate the concept of citizenship.

In the coming periods our economic thinking will revolve around two theories:

(a) income convergence based on globalization;

(b) the expansion of inequalities within a nation, especially in China and in the USA. It is possible that the immediate future of China can be articulated in the sense of creating a second Kuznets-wave, but there are also certain countertendencies. The balance between malign and benign forces of those tendencies, which are connected to the dynamics of inequality, are uncertain. There are uncertainties which cannot be calculated by economic discourse. With regard to convergence of income the data is conflicting. A large part of the world does not fall under convergence.

Is democratic capitalism possible with these tendencies? The decline of the middle classes in the developed countries is a sign of negative tendencies. Namely, the weakening of the middle classes causes many negative political and economic effects. Milanovic dedicates special attention to the American political system and the plutocratic dimensions. The situation in Europe is different, and therefore there is a problem in terms of migration, especially regarding the assimilation of migrants. The problems are in fact similar to the racial issues of the 1960s in the USA. It is certain that the weakening of the welfare state contributes to the deficit processing of cultural shocks in Europe as well as the rise of populist parties.

The book closes with valuable prognostic considerations and suggestions. The author argues that it is wrong to solely focus on horizontal inequality, wherethe intriguing question of trade-off between horizontal and existential inequality arises. In this case, the binary relationship towards national citizenship ought to be changed. The redefinition of citizenship and development of multilateralism represent possible paths. High rates of economic growth will continue to be important, especially in certain countries. Methodological nationalism as a dominant approach in economics will fade as national-state is not a natural unit of analysis. The book finishes with a short message that: "The gains from globalization will not be evenly distributed" (p. 239).

Much can be learned from this book. It elegantly summarizes many dilemmas concerning inequality. The proposals are valid and thought provoking. As I have said, I have two brief observations. The *first* refers to the attitude towards economic history. There is a strong tendency in economic discourse that the categories which we use (capital, prices, marginal efforts, etc.) are projected onto pre-capitalist periods despite the fact that economic anthropology and other disciplines show that motivational horizons are considerably different from current systems of motivation. Therefore, pre-industrial periods in terms of their inclusion in the mainstream argumentation ought to be carefully managed[2]. The *second* observation refers to the concept of populism. It is standard in various discourse, but analytically quite imprecise due to

[2] Instead of the second argumentation I will only cite one book, Francesco Boldizzoni (2011), *The Poverty of Clio: Resurrecting Economic History*.

the burden of ideological moments. There is actually “diabolical” using of the term[3]. If we were to engage in the genealogy of the term we would immediately discover the weakness of the term. In particular, I think that it is of no use to Milanovic’s intentions.

However, all of this insignificantly affects the consistency of the book. It should primarily be read by those who are interested in the dynamics of inequality, but the relevance of the book is far more reaching.

[3] Once again instead of going into detail, Etienne Balibar et al. (2013).

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