

# Inequality's Bright Future

Branko Milanovic, *Inégalités mondiales. Le destin des classes moyennes, les ultra-riches et l'égalité des chances*, La Découverte

*By Nicolas Delalande*

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**How much are promises of democratic equality worth when the material situation of the middle and working classes is stagnating or regressing? Through an implacable analysis of global inequalities, Branko Milanovic brings to light the challenges faced by the struggle for social justice in the early twenty-first century.**

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In January 2019, the NGO Oxfam, to raise consciousness, announced an instructive figure: the 26 richest people of the planet own as much as humanity's poorest half.<sup>1</sup> On the one hand, 26 multibillionaires, on the other, 3.8 billion people. How did we arrive at this situation? Herein lies the merit of economist Branko Milanovic's book—published in English in 2016 and recently translated into French—which seeks to explain this dynamic and its political consequences.

## **Globalization's two faces**

While more nuanced than Oxfam's, the picture painted by the book is just as alarming. When measured at the global level, inequality tend to be declining, as a result of China's exceptional growth over the past thirty years. To deny this would be to overlook one

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<sup>1</sup> <https://www.oxfam.org/fr/egalite/cinq-chiffres-chocs-sur-les-inegalites-extremes-aidez-nous-redistribuer-les-cartes>

of the key facts of recent history, marked by the relative economic decline of Europe and the United States in relation to Asia and emerging countries. Given its demographic scale, the mechanical effect of the emergence of a Chinese middle class is to reduce global inequality. Contemporary globalization has resulted in hundreds of millions of people leaving great poverty. And yet, at the same time, the wealthiest have never concentrated as much wealth and power in their hands. In developed countries, income and wealth inequality once again rose in the early 1980s.<sup>2</sup> On the one hand, we thus see a trend towards reduced inequality *between* countries, and, on the other, a sharp increase of inequality *within* each country: such is the paradox of globalization (which has already been well documented elsewhere<sup>3</sup>) that Milanovic seeks to explore and analyze.

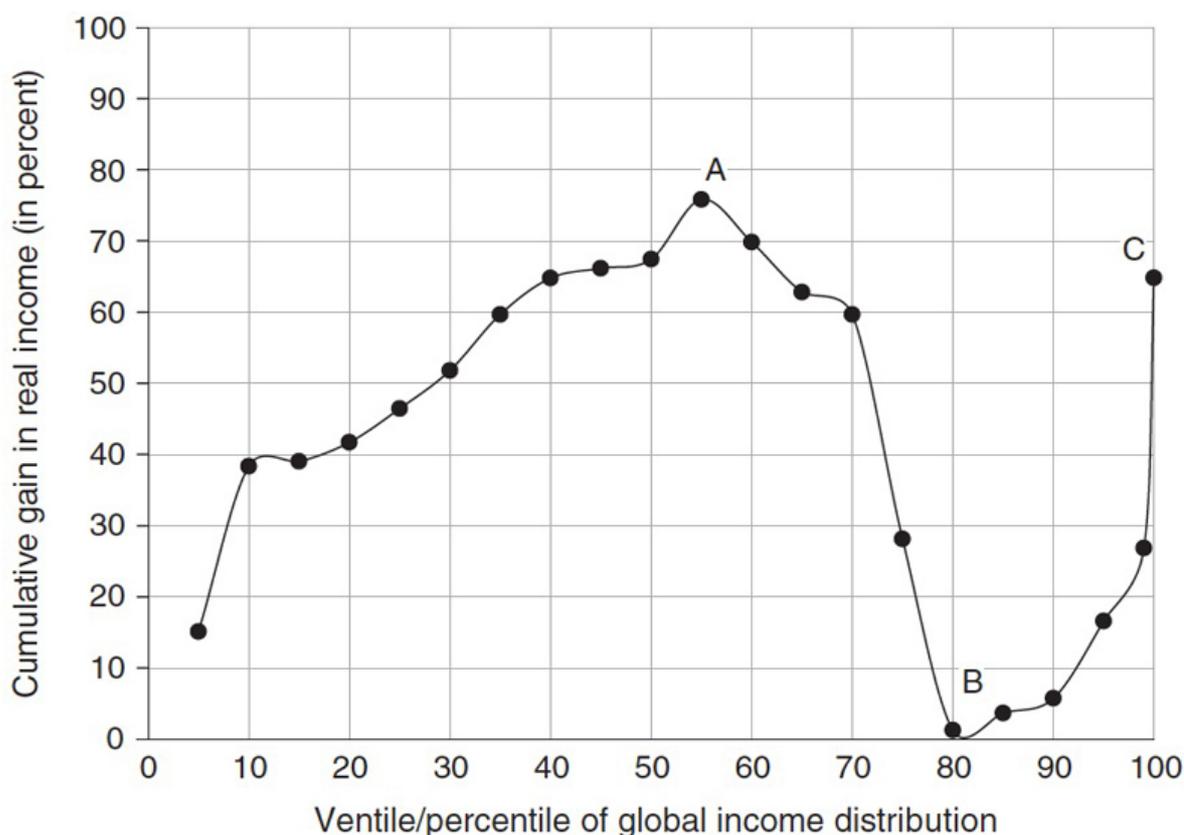
His argument's novelty and his political clairvoyance owe their fame to Milanovic's so-called "elephant" curve, which describes the distribution of real income gains among the world's population, during the period of what he calls "intense globalization" (1988-2008). He draws on hundreds of national studies of household income, compiled and harmonized in several databases (the Luxembourg Income Study, the World Bank, etc.), in whose creation he participated. This data and this methodology differ from those used by the World Inequality Database (founded by a team of researchers led by Thomas Piketty)<sup>4</sup>, which draws primarily on sources from tax administrations. Though their lessons converge, these two types of data do not offer the same picture of inequality: the latter are necessarily divided up by country, whereas Milanovic's approach involves creating a new statistical artifact, that of the world's population considered as a whole, in which it is possible to compare simultaneously the standard of living of an American billionaire, a Chinese worker, and an African peasant over a twenty year period. This makes it possible to try to identify the winners and (relative) losers of contemporary globalization, without remaining confined within national borders:

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<sup>2</sup> Thomas Piketty, *Capital in the Twenty-First Century*, trans. Arthur Goldhammer, Cambridge, Harvard University Press, 2014 [2013].

<sup>3</sup> François Bourguignon, *La Mondialisation de l'inégalité*, Paris, Seuil / La République des idées, 2012.

<sup>4</sup> <https://wid.world/fr/accueil/>



RELATIVE GAIN IN REAL PER CAPITA INCOME  
BY GLOBAL INCOME LEVEL, 1988–2008

Source : <https://harvardpress.typepad.com/.a/6a00d8341d17e553ef01b7c8758a1a970b-pi>

The lessons provided by the curve are easy enough to describe. Two groups saw their real income rise significantly (with gains greater than 50%) during the period studied. They consist of those situated between the 30th and 70th percentiles of the global population (essentially the middle classes of China, India, and southeast Asian countries such as Thailand and Indonesia) and the tiny minority made up of the 1% (and even the .1%) of the richest (at the far end of the trunk), consisting, for the most part, of people living in western countries, especially the United States (the global “plutocracy,” as Milanovic calls it). One of the most interesting aspects of the curve from a political perspective lies in the trunk’s downward slope: between the 70<sup>th</sup> and 90<sup>th</sup> percentile, gains were indeed smaller, and even non-existent at the 80<sup>th</sup> percentile. This part of the curve refers to the “lower middle classes” of developed countries, whose purchasing power has stagnated since the 1980s. In relative terms, the situation of the middle classes in emerging countries has improved, while that of western countries has deteriorated. However, Milanovic insists on the fact that, from an absolute rather than a relative standpoint, the fate of the latter is more enviable than that of

the former. One still lives better in Europe's peri-urban zones than in Chinese cities, even if the discrepancies are narrowing.

How should we interpret the curve and its lessons? The book does not content itself with describing data, nor does it hastily conclude that there exists a zero-sum game between the enrichment of some (the ultra-rich and workers in emerging countries) and the impoverishment of others (middle and working-class populations in Europe and the United States, afflicted by de-industrialization, the bifurcation of the labor market, and the withering away of social protection). At this point, the study takes an historical turn, seeking the factors explaining the cycles of widening and narrowing inequality over the past two centuries that help to explain our present situation.

## **Cycles of inequality**

The shape of the evolution of income and wealth inequality in the richest countries since the first industrial revolution (which began in England in the late eighteenth century) is now well known. Almost all countries for which data is available underwent a broadly similar development, temporal discrepancies and varying intensities notwithstanding. A first phase of mounting inequality, driven by rising average incomes (as European societies became both richer and more unequal in the nineteenth century, a trend seen very clearly by contemporaries like Alexis de Tocqueville, who used the term “pauperism” to refer to this apparent paradox)<sup>5</sup> was followed by a period when inequality declined, which, in Europe and the United States, corresponds to the period from the end of the First World War to the economic crisis of the 1970s. Due to the combined effect of war, the 1929 crisis, and redistributive policies (assisted by the extension of the right to vote and the conquest of social rights), inequality subsided in rich countries, even as global inequality (between countries) reached its apogee on the eve of decolonization. In the 1960s, never had developed societies been so equal—and never had wealth been as unequally distributed at the global level. The America of Lyndon Johnson's “Great Society” was also that of the Vietnam War.

It was the economist Simon Kuznets who, in the 1950s, first called attention to the existence of these two historical phases of rising then declining inequality tied to the effects of industrial growth. What is now certain is that that the trend towards decreasing inequality in wealthy countries is not eternal. Since the 1980s, first in the United States, then elsewhere in the western world, income and wealth inequality have greatly increased, even exploded: the “great compression” is over, with the decline of workers' unions, the reduction of taxes on

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<sup>5</sup> Alexis de Tocqueville, *Mémoire sur le paupérisme*, 1835 (disponible sur Gallica dans une version postérieure : <https://gallica.bnf.fr/ark:/12148/bpt6k86390p.image>).

capital and high incomes, and the dramatic increase in tax evasion.<sup>6</sup> Yet at the same time, global inequality has declined. Does this invalidate Kuznets' model, formulated at a time when the welfare state was alive and well? Rather than discard it, Milanovic seeks to bring it up to date: we have entered, in his view, a second Kuznets wave, characterized not by the transformation of peasant into industrial societies, but by the emergence of a new kind of capitalism—service-based, digitalized, financialized, and, most of all, globalized. Yet several uncertainties remain: when will the new peak of inequality be attained? Will the factors that contributed to reducing inequality during the twentieth century once again correct the capitalist system's imbalances? Can one simultaneously reduce inequality at the global level and contain social inequality within each country, or must one of these goals be chosen at the other's expense?

Though prudent when it comes to predicting future trends, Milanovic nonetheless tries to understand what, during the twentieth century, made it possible to launch a phase of decreasing inequality. The key factors (war, economic crises, and redistribution) have been carefully inventoried thanks to the work of Thomas Piketty and many other scholars.<sup>7</sup> Milanovic adds particular consideration to the role of migration, education, and technological change's impact on evolving relations between labor and capital. He seeks to distinguish between factors he calls "beneficial" (education, redistribution, and social rights) and those he describes as "nefarious" (war, crisis, and epidemics) in the process of reducing inequality in order to sort out what we can hope for the future and what it would be best to avoid going through again.<sup>8</sup> It is his concern with "endogenizing" these factors (that is, integrating them into a coherent chain of causality) that distinguishes Milanovic's analysis from Thomas Piketty's *Capital in the Twenty-First Century*, which emphasizes the accidental character of "exogenous" blows between 1914-1945—even as Milanovic tries to complete Piketty's analysis. This effort is laudable, but not always convincing, notably when Milanovic tries to show, consistent with several well-known authors (John A. Hobson, Rosa Luxemburg and Lenin), that the First World War was the logical consequence of industrial capitalism's internal contradictions. At this level of generality, the value of the thesis lies less in its historical accuracy (one only has to read historian Christopher Clark's *The Sleepwalkers* to grasp the role played by contingency and unanticipated consequences in the 1914 crisis<sup>9</sup>) than in its audacious and slightly outdated attempt at systemic totalization. More faithful to Marxist analysis than his French colleague, Milanovic's thought is far more "economistic," notably when he asserts that "policy may to a large extent be regarded as endogenous, that is, responsive to the forces of economic change" (p. 76, original English edition). Where Piketty

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<sup>6</sup> Joseph Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future*, New York, W. W. Norton, 2012.

<sup>7</sup> Besides *Capital in the Twenty-First Century*, see for example Kenneth Scheve and David Stasavage, *Taxing the Rich: A History of Fiscal Fairness in the United States and Europe*, Princeton, Princeton University Press, 2016.

<sup>8</sup> His analysis is far more nuanced than Walter Scheidel's (*The Great Leveler. Violence and the History of Inequality from the Stone Age to the Twenty-First Century*, Princeton University Press, 2017), which focuses almost exclusively on the role of violence. See Lionel Kesztenbaum's review for *La Vie des Idées* (<https://laviedesidees.fr/Origine-et-fondements-de-l-egalite.html>).

<sup>9</sup> Christopher Clark, *The Sleepwalkers: How Europe Went to War in 1914*, New York, HarperCollins, 2012.

largely sees the forces capable of reducing inequality as lying outside the economic field (such as wartime destruction or democratic mobilization),<sup>10</sup> Milanovic conceives of them as occurring within the economic field and being limited by it.

This systematic approach does not undermine its lucidity. Milanovic presents in a surgical manner the many factors that, at least for now, prevent a reversal of the trend towards inequality in democratic societies. The breathtaking rise of the richest .1% is transforming democracies into plutocracies, in which the wealthiest simultaneously have large fortunes, high salaries, and political power. Globalization facilitates the movement of capital and erodes the tax powers of nation-states due to the lack of sufficient international coordination in fighting tax havens. Even the prospect of a massive effort to provide higher education for all will perhaps not be enough to contain spiraling inequality in countries in which educational competition heightens inequality rather than mitigating it.

## **What policies promote equality?**

Reasons for hope are few and far between, but Milanovic does not surrender. He proposes a few leads for reversing the inequality dynamic within countries, without abandoning the goal of reducing inequality at the global level. As he shows by breaking down the aspects of global inequality relating to inequality *between* countries (the gap in lifestyle between developed countries and emerging countries) and those relating to inequality *within* countries (the gap between rich and poor in a same political community), it is the second term that seems likely to prevail in the near future, now that the growth of emergent countries is trending higher than that of developed countries (the case of Africa, however, being different than that of Asia).

Though global inequality is decreasing, it nonetheless remains massive. Hence the intensity of migration, to which Milanovic pays particular attention. Consistent with his systemic approach, he emphasizes that labor mobility is a powerful factor in reducing inequality between rich and poor countries. The problem with contemporary globalization, compared to that of 1880-1914, is that it is hemiplegic: capital circulates without obstacles, while labor runs up against borders and migratory controls. This is confirmed by demographic studies: only 3.4% of the planet's inhabitants live in a country different from the one in which they were born—a rate that, at the end of the day, is limited, despite the claims of proponents of the “great replacement.”<sup>11</sup> Yet Milanovic knows perfectly well that proposing more

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<sup>10</sup> See, for example, all of the contributions to the special issue of *Annales*, “Lire *Le Capital* de Thomas Piketty” published in 2015 (<https://www.cairn.info/revue-Annales-2015-1.htm>), and, on this specific point, see Nicolas Delalande, “Pour une histoire politique du capital,” *Annales. Histoire, Sciences Sociales*, 70-1, 2015, p. 47-59 (<https://www.cairn.info/revue-Annales-2015-1-page-47.htm>).

<sup>11</sup> François Héran, *Migrations et sociétés*, Paris, Collège de France / Fayard, collection “Leçons inaugurales du Collège de France,” 2018 (online video: <https://www.college-de-france.fr/site/francois-heran/inaugural-lecture->

migration as a means for reducing poverty at the international level is unlikely to be heard in the current political context. He puts his finger on a major contradiction in the fight for social justice in our globalized age: tensions in European society over the migration question call attention to the difficulty of reconciling the reduction of inequality on a global scale with the defense of the purchasing power of western middle classes. This is the problem that feeds that identitarian and protectionist projects of Trump, Orban, and Salvini, which hold that these goals are incompatible. Sidestepping this obstacle, Milanovic offers a proposal that is iconoclastic, even dangerous. In his view, since the residents of developed countries are afraid of migrants having the same rights as they do, all that is required is a different status for foreign workers, including lower salaries and fewer rights than citizen-workers. To overcome populist reticence, he proposes giving discrimination a legal foundation, in the name of a utilitarian maxim (conceiving an increase in migratory flows as a way of improving the condition of the poorest and as a response to the demographic challenge of aging western societies). Yet this view too hastily overlooks the fact that the fate of workers, even the best protected of them, is always affected, in turn, by that of migrants and those in conditions of precarity. During the twentieth century, the conquest of social rights and the protection of migrants went hand in hand.<sup>12</sup> Building a multitiered workforce and citizenry in the name of reducing inequality would have legal, moral, and political implications that could not be settled simply by determining the appropriate tradeoff between open borders and civil rights.

The book's proposals concerning redistribution are more interesting, though they too are not without their ambiguities. First, Milanovic reaffirms the central role played by the states, through their fiscal and social policy, in reducing inequality. This was an essential component of the "great compression" during the twentieth century, and the spectacular growth in inequality seen in the United States since the 1980s can, by contrast, be explained by massive tax cuts for the richest citizens and by cuts in social spending. This democratic lever is eminently more desirable than the "nefarious forces" that contributed to the erosion of private fortunes over the past century. The book's last chapter, which considers the forms that reducing inequality may take in the future, is, however, more pessimistic concerning states' capacity to tax capital effectively, now that it has become hyper mobile (short of a return to capital controls in some form). For Milanovic, the concentration of wealth has reached a point in today's world that acting on income flows alone is no longer enough to reshuffle the deck. This is why he pleads for a reorientation of fiscal policy, from the redistribution of income (*ex post* state intervention) to a more equal distribution (*ex ante* distribution) of initial allocations (in economic and human capital). He expresses a preference for heavily taxing inheritances and for massive investment in education for all. Ultimately, the philosophy that emerges from his book is very compatible with the principles of liberalism, given that the state's goal should, according to Milanovic, be "to work more on allocations, and less on taxes

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2018-04-05-18h00.htm), and on *La Vie des Idées*, "Comment se fabrique un oracle," September 18, 2018 ([https://laviedesidees.fr/migrations-afrique-prejuge-stephen\\_smith-oracle.html](https://laviedesidees.fr/migrations-afrique-prejuge-stephen_smith-oracle.html)).

<sup>12</sup> Paul-André Rosental, "Géopolitique et État-Providence. Le BIT et la politique mondiale des migrations dans l'entre-deux-guerres," *Annales. Histoire, Sciences sociales*, 61-1, 2006, p. 99-134 (<https://www.cairn.info/revue-annales-2006-1-page-99.htm>).

and transfers” (p. 237). Fighting inequalities at their root: this is the same refrain that accompanied the return of economic inequality in the last thirty years. Do we really need to bring back the old song of the now defunct “Third Way” to fight the world it has bequeathed us?

The power of the book lies elsewhere. It provides a clinical assessment of inequality in the twenty-first century and exposes the economic bases of the enormous political challenges that result from it. Does the egalitarian promise of western democracies still have a meaning when the material situation of middle and popular classes has ceased to improve, and is even regressing? How can we imagine a world in which greater wellbeing for some occurs at the expense of others? Can the exuberant enrichment of a small minority still be restrained? Milanovic’s diagnosis is salutary and categorical. The answer to the problems he raises is, however, far too important to be left to economists alone.

*Branko Milanovic, Inégalités mondiales. Le destin des classes moyennes, les ultra-riches et l'égalité des chances* (Original English title : *Global Inequality: A New Approach for the Age of Globalization*), Paris, La Découverte, 2019 [2016], French translation by Baptiste Mylondo (preface by Thomas Piketty, postface by Pascal Combemale and Maxime Gueuder).

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