GLOBAL INEQUALITY:
A new approach for the age of globalization
Branko Milanovic
A short synopsis of the proposed book

Chapter I. The rise of the global middle class and global plutocrats

The chapter looks at the changes in global income distribution between 1988 and 2008, with an extension up to 2011. It focuses specifically on the "winners" and "losers" of the current globalization. It shows the astonishing upward "long march" of the Chinese population, and to somewhat lesser extent of other Asian countries, through the ranks of global income distribution. This has led to the formation of a group that may be termed the "global middle class" (point A in figure below), composed mostly of Asian middle classes. At the same time, the data show stagnation of incomes among the rich countries' middle classes (point B), and a remarkable real growth among the global top 1% (point C). Obviously, people at points A and C are "winners", and those at point B "losers" of globalization.

Real cumulative per capita growth along different parts of global income distribution, 1988-2008
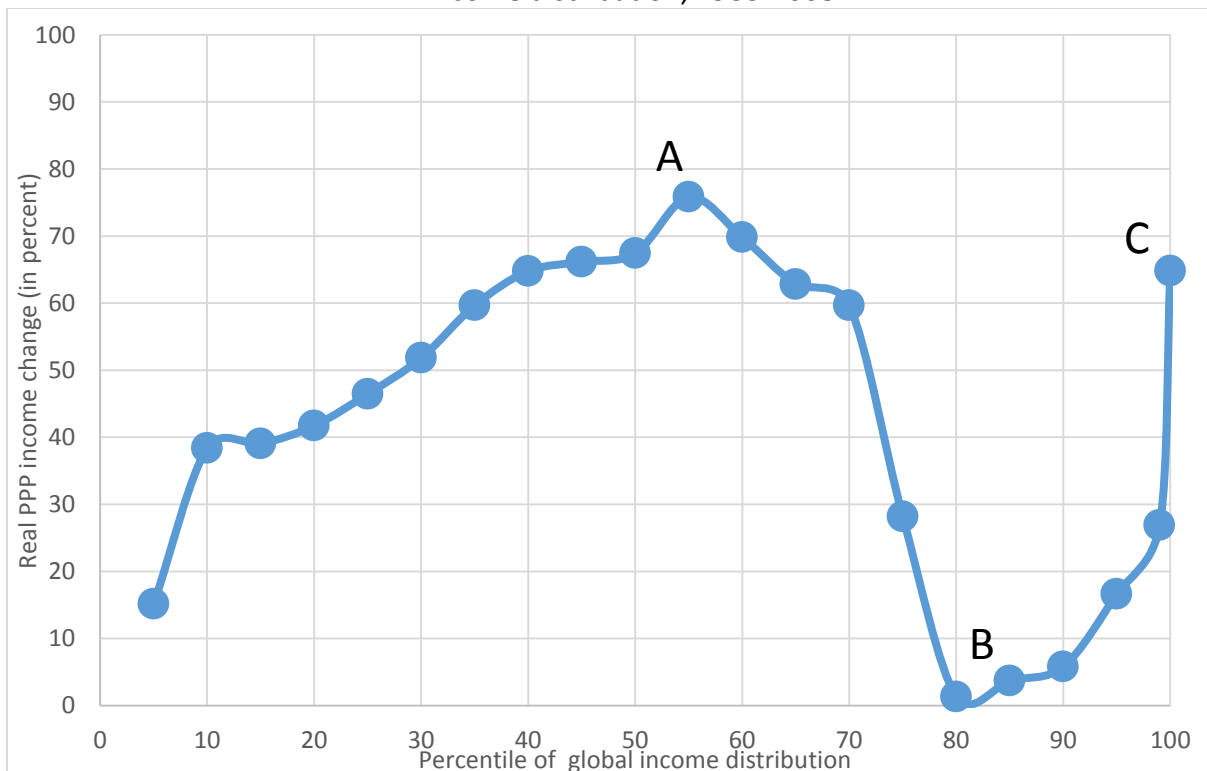
The chapter also looks at who are (from what countries and income groups) people in the global top 1% (for example, ½ of people there are from the United States) and analyzes a very select group, composed of 1% of 1% of the global top 1%: 1,500 global billionaires.

Chapter II. Inequality within countries. The Kuznets waves: explaining the evolution of within-country inequality over the very long term

After discussing the sources of the current dissatisfaction with the Kuznets hypothesis (that inequality would go up, and then as development proceeds, be reduced), the chapter presents an alternative approach, termed Kuznets waves or Kuznets cycles. This new approach preserves Kuznets' original insights, but argues that Kuznets was limited by the knowledge that existed at the time regarding both the evolution of inequality in the past (there is a major recent increase in our knowledge of inequality changes since the Middle Age until the 20th century), and obviously in the future. The Kuznets waves operate differently in stagnating economies, prior to the Industrial revolution, and in the ones with sustained increases in real mean income. I use historical data from a number of countries (cities) before the Industrial revolution, and the long-term series of approximately two centuries for eight countries (UK, US, Spain, Italy, Prussia/Germany, Brazil, Chile and Japan) to argue for the presence of upward and downward inequality cycles. The central graph in this Chapter is the one that shows the long-run evolution of income inequality in the US and UK (see below). Notice the first Kuznets cycle that for the US goes from 1774 to 1980 with a peak around 1910, and then the second, with the upward portion from 1980 up to a new (yet unknown) peak.

Gini income inequality in England/UK and the United State over the very long-run
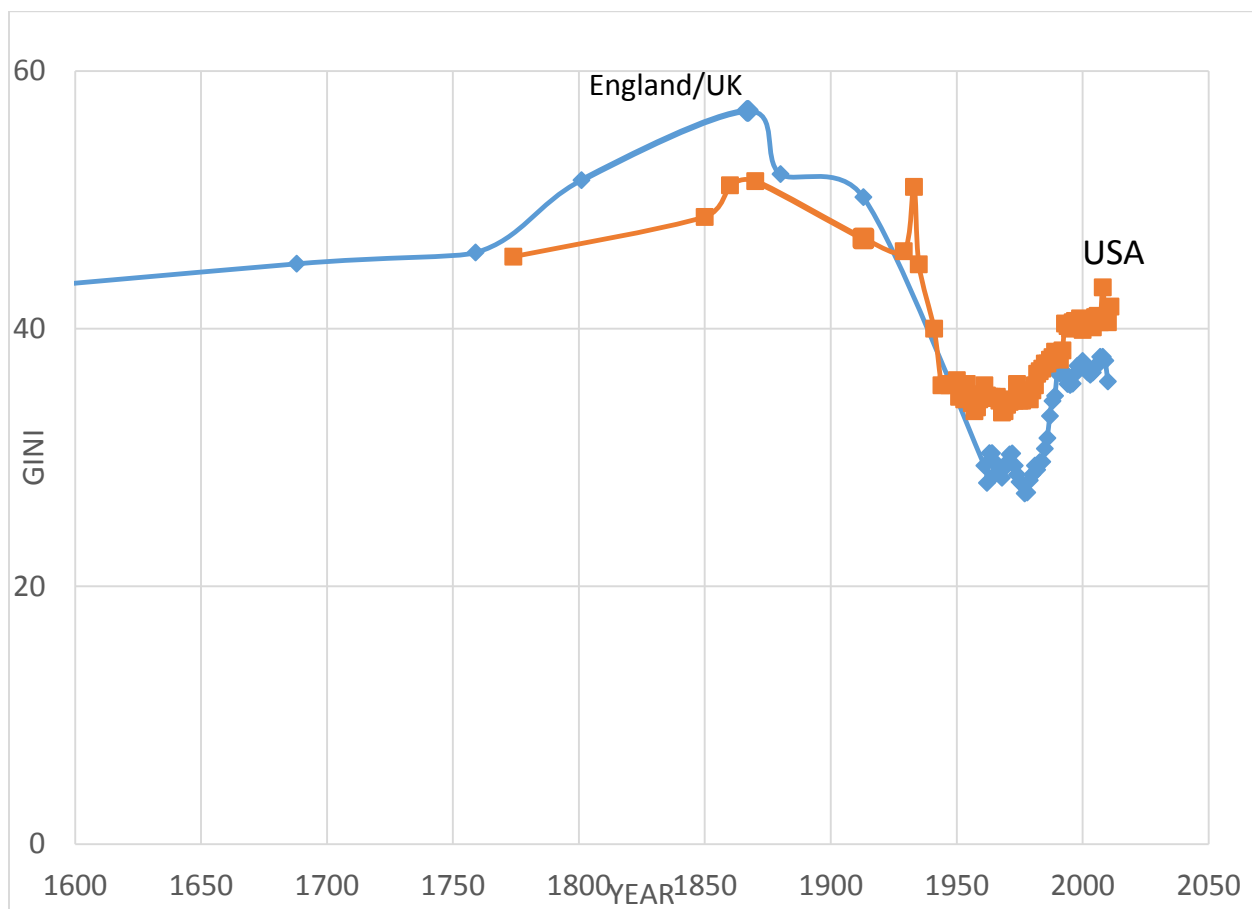
The chapter discusses what forces drive the cycles; argues that the current upswing in rich countries is the product of the second technological revolution, globalization, and movement of labor from manufacturing into very heterogeneous group of services. I also provide some arguments (developed further in Chapter IV) on how income inequality may evolve in the next decades in the US and China.

The chapter introduces the concepts of "malign" and "benign" forces that reduce inequality. The former are epidemics, wars and political instability: they are normally accompanied by decreases in mean incomes (even if real wages, as in epidemics might go up). The latter are widespread education, greater social transfers, and progressive taxation. They are accompanied by rising mean incomes. The chapter documents the increase in mean

incomes and reduction in inequality that occurred in all rich countries between the peak inequality of the first Kuznets wave (roughly speaking, and depending on the county, the end of the 19th-early 20th century), and its trough, around 1980. In the countries considered here, inequality was halved while real incomes were quadrupled. These facts suggest that there is no efficiency-equity trade-off in the long-term. In other words, over the long-term, lower inequality and higher incomes go together.

Chapter III. Inequality among countries. from Karl Marx to Frantz Fanon, and then back to Marx?

Here I focus on the historical change between the two parts into which global inequality can be decomposed: inequality between individuals living in the same country, and inequality between mean incomes of different countries (income gap). In the past hundred years, the increase in global inequality was driven by the increase in income gaps between rich and poor countries. "Class" or within-national inequalities, which was a dominant factor before (as reflected in socialist and Marxist writings) was gradually replaced by between-national inequalities as the crucial income cleavage. This is how the Third World was born. The main cleavage became the one between rich countries, where even the poor had relatively high incomes, and poor countries. Frantz Fanon is an emblematic figure for that type of cleavage and for the contrast between the colonizers and the colonized. But with fast growth rates of China, India and other populous Asian countries, the between-national cleavage is diminishing in imortance. In fifty years, we could conceivably go back to the pre-1850 situation where global inequality is much lower but inequality between co-citizens raises in both relative and absolute terms (as illustrated in the figure below). "Class" may again matter.

Level and composition of global inequality, 1850-2050
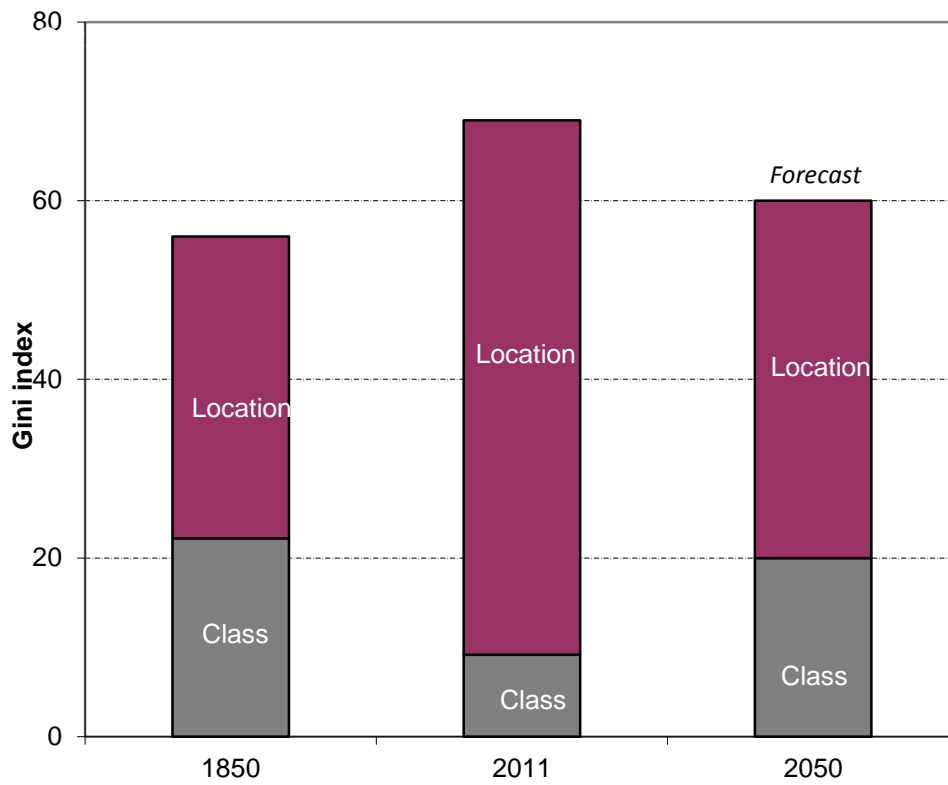
But we are not there yet. Country gaps are still dominant (again, see the figure). This fact implies that a significant part of our lifetime income (depending on the measure: up to two-thirds) is determined by where we live which in turn means basically where we are born since migration is, globally, minimal. The chapter addresses the political philosophy question of whether this difference in lifetime chances and incomes (termed "the citizenship rent") can be justified or not. Does our quest for equality of opportunity end at the border of a nation-state?

This issue is linked with that of migration. Labor is by far the most immobile factor during this globalization. While capital, goods and technology move, labor does not. Les than 1 per thousand people move annually from one country to another in order to settle there; more than 20% of all goods are sold internationally. The proportions were different during the first globalization (1870-1914). I end the chapter with a discussion of the ways that the rich world is fencing itself out from the poor, and of the policies of "sensible migration" such that would allow increased migration from poor to rich countries to fulfill its potential role of a tool for

reduction of global inequality and poverty, but yet would not conflict with interest of domestic labor forces and cultural sensibilities of the recipient countries.

Chapter IV. Global inequality in this century and the next

In this chapter I look at the likely evolution of inequality in this century and the next. I open the chapter with a cautionary tale about the hazards of predictions: almost all literature from the 1970s and 1980s failed to foresee the three crucial developments: retrenchment of the welfare state in the West, emergence of China, and end of communism. We do not have a guarantee that we would do better, but we can try. I avoid numerical simulations because they are, I think, subject to an even greater margin of error and give a misleading impression of exactness.

But I focus on the key forces that will influence global inequality in the decades to come. The first is the economics of convergence: catch-up of poor counties, best exemplified by the catch-up of west European countries and Japan with the US after World War II, and the current catch-up of most of Asia with the rich world. To the extent that it continues, these would be strong forces for convergence in individuals' incomes worldwide. However, convergence in Asia, while crucially important because of large size of the countries, should not make us forget that there is no convergence in Africa and that Africa is the continent whose share in global population is expanding rapidly. So, the forces offsetting global convergence must not be ignored.

The second part of the "equation" re. what happens to global inequality in the future has to do with income distributions in individual countries. Here I zero in on the likely changes in the United States and China. I explain in detail the reasons (called "the perfect storm") why I am pessimistic about the likelihood of significant decreases in income inequality in the United States. They have mostly to do with (i) increased concentration of high labor and property incomes in the hands of the same people. This is a "new capitalism", where the richest capitalists are also working (not merely clipping coupons like rentiers did one hundred years

ago). Then, (ii) assortative mating (homogamy) between partners of similar educational backgrounds and incomes, and (iii) rising importance of money in politics which ensures that the rules of the game will remain favorable to the rich. On the other hand, I see relatively strong likelihood for a reduction of inequality in China: the emergence of typical middle class demands for greater social security combined with the aging of the population and reduction of the skill premium due to the rising average level of education. In terms of the methodology developed in Chapter II, China may be on the descending portion of the first Kuznets curve, while the US is at the peak of the second Kuznets curve.

The chapter ends with the discussion of two types of political problems ("hazards") created by high inequality. Domestically in the rich countries, high inequality and absence of growth among the middle classes, make politics oscillate between populism (in an effort to assuage the "losers" among the middle class; more common in Europe) and plutocracy (to make sure globalization, beneficent to the rich, continues; more common in the US). Internationally, high inequality may lead to imperialist conflicts similar to the ones that were responsible for World War I.

Chapter V. What next? Ten short reflections on the futuire of income inequality and globalization

The book ends with a chapter that is, in some ways, the continuation of the political discussion in Chapter IV. Here however I address selected topics raised by globalization and inequality. My objective is to select key problems with obvious and strong trade-offs: the two (generally agreed) good things are hard to achieve simultaneously.

The first is the relationship between improvements in horizontal equity (lower income differences between genders or races) combined with the worsening of overall income distribution. Could our focus on politics of identity which seeks to reduce gaps between the ascriptive categories lessen our interest and effort in reducing income inequality between individuals as such? Would the world where much greater income inequality exists among both

men and women even if their mean incomes are the same, be better? The second is whether global plutocracy that we often decry may not be a way toward more global governance and a more cosmopolitan world.

Several other topics remain to be written (this is the only part of the book that is not in full draft form). They include possible conflict between Asian values and democratization, the link between globalization and greater corruption, political ambiguity of the rise of the global middle class (what does it really mean if political life is organized within nation-states?), and the future of multilateralism.

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Chapter III. Inequality among countries. From Karl Marx to Frantz Fanon, and then back to Marx? (13k words)

1. Changing level and composition of global inequality

2. The citizenship premium

3. Migration and walls

4. How to reconcile greater migration with unwillingness of rich country governments to open borders?

Chapter IV. Global inequality in this century and the next (19k words)

1. A cautionary introduction

2. Outline of the main forces: economic convergence and Kuznets waves

3. Income convergence: will poor countries grow faster than the rich?

4. Is convergence an Asian phenomenon?

5. The other side of the equation: inequalities in China and the United States

6. Perils of inequality: plutocracy and populism

Chapter V. What next? Ten short reflections on the future of income inequality and globalization (9k words)