Review: *Global Inequality: A New Approach for the Age of Globalization.*

By Branco Milanovic. The Belknap Press of Harvard University Press, 2016. 2015. ISBN 13:9780674737136. 320 pp. €27,00.

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How has global inequality changed over the past twenty-five years? This is one of the key questions Branko Milanovic tries to answer in his book *Global Inequality, a new approach for the age of globalization.* Milanovic stresses that we live in an age of globalization where issues cannot be seen exclusively from national and horizontal perspectives. In his now famous "elephant graph", he illustrates how the economic gains of globalisation have been distributed unequally. This "growth incidence curve" displays the real gains in household per capita income in relative percentages between 1988 and 2008. Moreover, this curve reveals who can be considered the surprising winners and losers of globalisation. Milanovic argues that the lower middle class of wealthy countries can be considered a loser of globalisation because they have seen little to no growth in real income during the previous quarter of a century. On the other hand, China, India, Thailand, Vietnam and Indonesia have witnessed the rise of a middle class which has experienced significant growth in real income. Together, with global plutocrats – the richest people in the world – they can be seen as the winners of globalisation.

To understand the historical evolution of inequality, Milanovic adopts a double comparative perspective, global and national, analysing inequality, both within nations and among nations. One of the major contributions of Milanovic's book is the combination of approaches from economics, political science, and historical analysis. For example, Milanovic used an impressive number of historical household surveys from all over the world to create Purchasing Power Parities (PPP's). These PPP's allow Milanovic to adjust his real income figures according purchasing power of different currencies within nations. By doing so, Milanovic makes the percentage gains in both nominal and real income across countries more comparable. When discussing the evolution of inequality among nations, Milanovic explains that the gap between countries widened between 1820 and 2011. This divergence reached its peak between 1970 and 1990. However, from the 1980s until the beginning of the 21st century global inequality has

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remained relatively constant. Milanovic argues that this is due to the economic grown of China and India who appear to function as income equalisers. Milanovic describes the roles that geographical location and social class play in determining global inequality, underlining how class-based and location-based inequality have changed in importance over time. He uses the concept of 'citizenship rent' to explain his provocative idea that equality of opportunity does not exist. As a result, he encourages governments to treat all their citizens equally. Moreover, Milanovic states that open migration policy would help to reduce global inequality.

One of the main strengths of his book is the re-formulation of Kuznets's theory, the 'workhorse of inequality economics' (Milanovic 2016, 46-58).[1] This theory asserts that in industrialised countries, when the average income grows, inequality first increases, and then decreases. However, this does not explain why in some countries the inequality is still present. Others scholars, such as Piketty, have presented theories to debunk Kuznets' hypothesis (Piketty 2014).[2] For Milanovic however, the key is not undermining Kuznets's theory, but substituting the Kuznets curve with a cycle. Basically, this means that according to Milanovic, inequality increases, then decreases, and then increases again. Yet what happens after this final increase remains unknown. To prove his theory of Kuznets waves, Milanovic presents the analysis of the long-term evolution of within-nation inequality, over the past centuries. According to him, there are two waves; most of the developed countries are in the upper part of the second Kuznets cycle, while others are in the downswing of the first.

During the first wave, which lasted from the Industrial revolution to 1980's, a combination of benign and malign forces drove the inequality curve up and down. According to Kuznets, three main positive factors led to a decrease in inequality: the gradual decrease of workers migrating from rural into urban areas, the increase of schooling and taxes on the rich that improved social security and national health. For Piketty, who has a more pessimistic view of the world, malign forces are fundamental to reduce inequality. For him the future will be similar to the past: malign forces, like war and depressions, will occur once more, driving down inequality (Milanovic 2016, 94).[3] Milanovic considers both benign and malign forces. According to Milanovic, between 1914 and 1980, the decrease in inequality passed through a phase of malign forces, such as wars and economic policies, which were shaped by left-wing political parties' requests and the fear of right-wing advocates towards socialist movements. Thus, his explanation for inequality decrease stems from social and political struggles.

[1] For more information about Kuznets' theory, please read his main works (Kuznets 1955; Kuznets and Murphy 1966)
[2] Other scholars that addressed the issue of inequality are: See also: (Atkison 2015; Bourguignon 2015; Therborn 2013; Zanden et. Al. 2014).

During the second wave, which will last from the 1980s to the 2020s, Milanovic argues that the main causes for an increase in inequality are globalisation and the so called secondary technological revolution (results of informatics technologies). Throughout his book Milanovic shows that inequality is caused by a complex set of factors which are the outcome of social and political struggles. There are three indivisible forces shaping the evolution of inequality within nations: technology, openness/globalization, and policy/politics. Technological progress and movement of labour are strictly connected to globalization – to the development of a wider production network and to policies, which change in response to globalization.

Another important feature of this book is its reflection towards future. There are five forces that will drive down inequality in future. Besides the role played by malign forces, political changes and progressive taxation, education and skills, dissipation of rents accrued in the early stages of the technological revolution, and income convergence at the global level and low-skill biased technological progress, there are the five factors which will lead rich countries onto the downward trend of the second wave. There is also the possibility that inequality will threaten the sustainability of Western democratic capitalism. The solution lies in the hands of the middle class. If the middle class organizes itself and finds political champions who could answer to their needs, there is a possibility that political policies would reduce inequality. This class must limit the power of the rich classes, in order to both strengthen democracy and maintain stability. However, there is a risk that with the weakening of the middle class due to the increase of inequality, and their consequent loss of political importance, democracy could develop along two paths: the American form of plutocracy or the European form of populism and nativism. Milanovic emphasizes that the role of the government is crucial. A government should work for a long-term equalization of capital ownership and education. Economic growth will still matter a great deal in the coming century, because economic growth is the best tool to reduce global poverty and inequality. High rates of economic growth will remain crucial, especially for countries such as Asia and Central America. However, it is necessary to strike a balance between growth rates of poor countries, migration and environmental sustainability.

In conclusion, Milanovic argues that global inequality will be shaped by economic convergence and Kuznets waves. There are strong possibilities for an economic catch-up of Asia with the West. The high economic growth will continue for very populous countries, such as China, Vietnam, Thailand and Bangladesh. Therefore, in the future, world economic power will shift toward Asia. The catch-up of incomes in many Asian countries with the incomes in Western European and American countries will reduce global inequality. However, the gains of globalization will not be distributed evenly and inequality will not disappear. *Global Inequality, a new approach for the age of globalization* is an inspiring book, which raises relevant and fundamental questions for our future. The emphasis on the global perspective, however, should not overshadow the importance of national cultural traits in shaping inequality. Besides that, I would prefer a more specific analysis of every country that was historically considered. Moreover, as Wiemer Salverda has stated, Milanovic's attention on the household dimension tends to not consider the individual aspects of inequality (Salverda 2017). Nevertheless, in my opinion this book plays a crucial role inside and outside of academia. In particular, political and economic institutions should pay a greater attention on what Milanovic said.

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