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The Book that Predicted Trump's Victory*

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Branko Milanovic: Global Inequality: A New Approach for the Age of Globalization
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In the past decades, the world economy has become increasingly integrated. Globalisation is fundamentally reshaping the world economy, and the economic and political consequences of this are more and more evident both globally and within the nation states. Branko Milanovic's book, "Global Inequality – A New Approach for the Age of Globalization" helps us get our bearing as to the winners and losers of globalisation, how globalisation has reshaped income inequalities, and the consequences it has had so far and those that are to be expected in the next decades.

According to the author's judgement, the attitude of developed societies towards social inequalities is rather contradictory. In many ways, they are extremely sensitive to observed income inequalities, for instance, income inequalities related exclusively to gender or skin colour are unacceptable. Governments place great emphasis on reducing these and have made progress in a number of areas. In principle, income inequalities stemming from inherited financial position or family background should also be pressed back, but the inequalities related to these factors are extremely large even in the developed countries, and starting off life with equal chances is rather a myth also in developed countries. Finally, the citizens of more developed countries form a community with the citizens of other countries only to a small degree, and therefore, reducing income inequalities between the individual countries does not represent a priority. This is particularly important in light of the fact that global income inequality can currently be attributed primarily to the differences between countries. In the case of a person selected randomly from among the world's population, his place in the global income distribution is two-thirds determined by the county he lives in.

Emphasising income inequalities within nation states is partially understandable, as nations typically form a natural community, and the economic policies influencing

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the inequalities relate primarily also to the nation states. The author does not declare a definite attitude regarding the moral issues arising in the context of global income inequalities. However, he argues very clearly in favour of the fact that when analysing income inequalities it is absolute necessary to look beyond the limits of national states, as with the world economy becoming more integrated and the strengthening of globalisation, even the changes in inequality within national states can only be interpreted in the knowledge of global changes.

The first part of the book describes how global inequality and inequality within individual countries have changed over the centuries, paying special attention to the last few decades, which at the same time represent the period of strengthening globalisation. The analysis is broadly supported by the fact that – largely due to the author's previous work – by linking national surveys conducted among the population, a detailed database is available on the changes of the global income inequalities observed in the past few decades.

Globalisation exerts a dual effect on income inequalities. On the one hand, inequalities between countries have declined – primarily due to the rapid growth of China, India and other Asian countries. This certainly represents important progress, as rising inequalities between countries was practically uninterrupted from the beginning of the 19th century on. This trend turned around in the past few decades. While globalisation has mitigated income inequalities between countries, inequalities within the countries typically increased. In the developed countries, for instance, as a consequence of growing markets and investment possibilities, the wealthiest were the clear beneficiaries of globalisation, while the lower middle class can be deemed as the losers of globalisation due to the increased supply of cheap labour and the reorganisation of production chains.

The author presents in detail the factors that led to the changes of inequality. For this, he reverts to the hypothesis that can be originally linked to Kuznets. The original hypothesis attempted to explain the development of income inequality during the industrial revolution and after that. Based on the arguments, in the case of major technological changes new technologies increase the return on capital, and since capital is distributed in a very unequal way, income inequality also tends to grow. With the spread of technological innovations and the strengthening of competition, the return on capital lessens, which may also cause the reduction of inequality. Parallel to this, technological development increases the demand for a more educated workforce, and, thus, a larger scope of community services become available. The increase in the level of education of the workforce allows for an increase in the income of wider social strata, which in turn reduces income inequality.

In the 1970s and 1980s, supporters of Kuznets' hypothesis expected a gradual reduction of inequalities, which however was not supported by the data for past decades. Inequality within national states typically increased further. According to the author's argument, this can be explained by the fact that newer technological changes initiate newer inequality cycles. Accordingly, the increase in inequalities observed in the USA is also primarily the consequence of the information technological revolution. However, even the author highlights that, in addition to those attributable to technological changes, a number of other factors also influence the development of income inequality. In the past decades, the extent of the increase of inequality was for example expressly large in the Anglo-Saxon countries, while in certain European countries inequality increased to a smaller extent or not at all, primarily as the consequence of the increasing state re-distribution.

The second part of the book deals with the economic, social and political consequences of increasing income inequality, as well as the resulting economic policy dilemmas.

One of the potential consequences of the income inequalities between countries is migration from the economically less developed regions toward the developed ones. In the author's view, due to the administrative constraints, migration currently contributes far less to the mitigation of global inequalities than it could. Gradual easing of administrative constraints and quotas can however cause both the sender and recipient countries to face major challenges. For the management of these, the author recommends multiple solutions. One would be to give priority to temporary work permits valid for a certain period, the condition of which would be for the employee to return to the sender country for a pre-defined minimum period of time. This could significantly reduce the risk of brain drain for sender countries, and could support the transfer of technology. In the developed countries, the waiver of uniform citizen rights and obligations should also be considered. By restraining the rights of immigrants, the acceptance of boosting migration could increase. Parallel to the boosting of migration, more intensive international coordination seems necessary as well. In the lack of such, for example, those from among the recipient countries that strive after greater income equality may face adverse phenomena, as poorer and less educated migrants would be more likely to choose these countries as their destination, while more educated and wealthier immigrants may rather prefer other countries.

Another important social consequence of increasing income inequality is the weakening of middle class in the developed countries. As a result of the decrease in the political importance of the middle class, democratic institutions may weaken, programmes supporting the poorer strata may be repressed and populism may gain ground. As the consequence of the above processes, the stability and global dominance of developed Western democracies may decline continuously, and the world can become increasingly multi-centred.

At the end of the book, the author attempts to give a longer-term prediction for the development of income inequalities. His vision of the future is ambiguous. So far, globalisation has been characterised by the "winner takes all" principle, which may further strengthen as a result of technological development. This may further increase income inequalities, for example on account of the expected growth of the rate of products and services that can be sold multiple times. The effectiveness of economic policy instruments targeting the mitigation of income inequalities may lessen. Currently, one of the most effective instrument is to increase the level of education of the society. However, in the developed countries this already seems to be reaching its limits. A high level of education becomes more general, and thus the wealthiest would excel in terms of their education to a lesser degree. In terms of enrichment, social relations and luck will play an increasing role. While in the developed countries an increase in income inequality is more likely to materialise, global inequality may decline further – primarily due to the rapid growth of Asian economies. However, as the development of Asian countries approximates to the global average, their growth will reduce global income inequality only to a lesser degree. In the future, primarily the rapid growth of African countries could contribute to the reduction of global inequality, but for the time being there are no signs that would suggest this.

Although the future is uncertain and difficult to predict, there is one thing the author is certain about: analysing inequalities will remain a constant focus of economics, and as the world economy is becoming increasingly integrated, it is unavoidable for the study of the inequality to step beyond the limits of national states.