Book reviews on global economy and geopolitical readings

ESADEgeo, under the supervision of Professor Javier Solana and Professor Javier Santiso.
The Haves and the Haves Nots: A Brief of Idiosyncratic History of Global Inequality


“Place of birth explains more than 60% of variability in global incomes.”

“Today’s global distribution of income is such that the richest 10% of income recipients receive 56% of the global income, while the poorest 10% receive only 0.7% of the global income.”

“More than 70% of the people of the top decile are from the rich Western nations.”

“The ratio between the top and the bottom of the global pyramid reaches almost two hundred to one: to make what the richest make in a year, the poorest would have to work over an improbable two centuries.”

“The real cause of the crisis lies in huge inequalities in income distribution that generated much larger investable funds than could be profitably employed.”

Summary

Who was the richest man in history? What level within local society did Elizabeth Bennet, the heroine of Pride and Prejudice, reach after marrying her suitor? In which Parisian arrondissement would you choose to live today and 700 years ago? In this book, Branko Milanovic presents an overview of global economic inequality past and present – successfully combining easily understood statistics with economic analysis. The book is divided into three parts and examines three types of inequality: inequality between people of the same nation; inequality between nations; and global inequality among people in different nations.

The latter type of inequality, accelerated by globalisation, has risen in recent decades and is causing an increasingly uneven distribution of wealth, as well as fuelling the growing problem of politically destabilising population flows from poor to rich countries. Nuggets of data are richly sprinkled throughout the book – such as the fact that 60 percent of income variability is due to place of birth, with parental income the next most important factor; or that the poorest 22 percent generate the same amount of wealth as the richest 1.75 percent. Such statistical information enables Milanovic to paint an accurate and worrying description of the dangerous course the world is taking as wealth accumulates in the hands of a few, and a mass of poor countries are left to
support the weight of the system. Fast-growing China and India appear as the only counterweights to this trend. However, their combined thrust is insufficient to overturn inequality in the distribution of wealth. This inequality is a greater danger to the economic and political stability of the world than the richer nations realise.

The author

Branko Milanovic is a Serbian economist at the World Bank in Washington and a visiting professor at the University of Maryland. He specialises in the study of economic inequality within and between countries and has written many reports for the World Bank on this issue, as well as several books aimed at general readers.

Basic idea and opinion

Branko Milanovic's book is useful and enjoyable for economists, as well as the non-specialist reader. The ample statistical data throughout the narrative is accompanied by helpful explanations of concepts (such as the Gini index, or purchasing power parity) and the author reviews the economic theories that explain inequality. Drawing from the reflections of John Rawls, Karl Marx, or Milton Friedman, Milanovic offers an almost chronological overview of the evolution of the distribution of wealth, and shows how globalisation and new technologies make the future ever harder to predict.

The book is divided into three parts – each tackling one of the three levels of inequality existing in the world. The first part discusses inequality between individuals in a community or nation. According to the author, this type of inequality is the easiest to recognise. The second part analyses inequality between nations, a phenomenon observed while travelling or watching the television news. A key aspect in this type of inequality is emigration, which the author insists is caused by a lack of opportunity and resources in the country of origin. However, a much larger and looming problem is causing nations to close the door on immigrants. The third part focuses on the sum of the above: global inequality generated by the tendency of an individual in a globalised world to compare his or her wealth with individuals from other nations.

Each type of inequality is illustrated with entertaining short stories (termed vignettes) that portray the author’s arguments. The author reflects, for instance, on where Anna Karenina and Elizabeth Bennet would be in the social pyramid; whether Bill Gates is richer than the Roman emperor Nero; and why just a handful of football clubs now field the world’s best footballers. These short stories illustrate the past and present of inequality caused by income level, social class, and place of birth.
**Inequality among people**

In the first part, Milanovic analyses inequality among individuals within the same nation. The issue tackled here is what causes this inequality – a topic which inevitably involves ethical dilemmas. In the mostly agricultural societies of the late nineteenth century, a rigid barrier separated social classes. However, the industrial revolution opened the doors and enabled even the poorest to obtain training – and so moving up the social pyramid became less unthinkable.

Importantly, the author asks whether very unequal countries grow faster. Milanovic wisely differentiates between ‘good’ and ‘bad’ inequality, and makes a comparison with good and bad cholesterol. The first generates competitiveness and incentives for people to study, work hard, and launch risky business ventures. The second, however, creates the urge to cling on to positions gained, and significantly weakens the economic efficiency of nations. Discrimination caused by inherited wealth is no different from sex or race discrimination – and the societies that encourage such discrimination are less likely to succeed.

Milanovic recounts ten entertaining stories that help explain inequality between people of the same country, and compares the past with the present. He starts with the life of two literary heroines, Elizabeth Bennet and Anna Karenina, whose social positions would vary greatly if they married ‘well’. The author also reviews inequality in the Roman Empire, or the various arrondissements of Paris past and present. Milanovic also asks who the richest man in history was – with John D. Rockefeller starting out as favourite because of his political, as well as economic, power. Milanovic’s brief analysis of equality in socialist countries is also interesting given that these societies championed universal equality. Although the author accepts that equality existed, nationalisations and increasing state subsidies meant that the socialist system eliminated any incentive to work hard and handed out the best jobs to a small group of people within the circle of power.

On fiscal redistribution, Milanovic focuses on its beneficiaries in order to highlight a paradox: although one might assume that it is the middle class who vote for and then benefit from redistribution, this is not the case. The poorest benefit the most from redistribution, and so it must be concluded that the middle classes vote for redistribution with a ‘just in case’ scenario in mind. This demonstrates that the intention to vote is sometimes influenced much more by ideology or values than by strictly economic interests.

**Inequality between nations**

In the second part, Milanovic focuses on per capita GDP inequality between countries. The Industrial Revolution was the Big Bang that repositioned some countries above others, generating an inequality that rose continuously until the
1950s, and with it, the figure of the Third World. However, the first problem economists encountered when trying to measure inequality was how to express per capita GDP in comparable units across countries and over time. The device invented to tackle the problem was purchasing power parity (PPP). With this new measurement, it was possible to reliably analyse the effect on inequality of events such as the fall of communism, or Latin America’s ‘lost decade’. These large differences in income are the main forces behind emigration and the desire of people in poor nations to move to rich nations. While some forces are increasing the imbalance, there is a new and positive pressure that is narrowing the gap: the rapid growth of China and India. Given that both these nations are so populous; their success is having a substantial effect on global inequality.

The author highlights the erroneous idea that globalisation causes convergence between nations, and that globalisation will mean faster growth for poorer nations. Reality proves otherwise: capital tends to flow from rich nations to other rich nations, with the exception of the special case of China. As a result, what has been termed ‘Globalisation 2.0’ seems less beneficial for poor countries than economists expected.

Perhaps one of the biggest changes in the level of inequality between nations occurred when place of birth began to determine position in the income pyramid more than social class. Milanovic shows statistically that birthplace explains more than 60% of variability in incomes. Thus, a person’s income is almost wholly decided by just two factors: citizenship and parental income. The proportion that reflects personal effort is minimal, meaning that people who wish to improve their quality of life must either wait for their country to grow, or move to a richer country. Migration is often the only option, making packing your bags is a rational response to the huge global differences in the quality of life.

To prove this, it is enough to look at the 3-1 difference between the incomes of nations that send emigrants and those that receive immigrants. This means that individuals in poor nations can improve their income threefold by migrating. Currently, almost everyone living in a rich nation is in a better position than almost everyone living in a poor nation. The poorest Americans, for example, are richer than two-thirds of the world population. In fact, if there were no controls on immigration, nations such as Bangladesh, Romania, and Albania would see their populations halved. Faced with this flood of people, the rich world has begun closing the doors, an attitude that does not solve the underlying problem and causes further migration. The only lasting solution is to reduce inequality between nations.

**Global inequality**

The final part of the book examines a phenomenon created by globalisation – the study of the income gap between individuals from different nations (rather than...
between individuals within the same nation). Global inequality is very considerable, with a Gini index of 70. The richest ten percent currently receive 56 percent of the world's wealth, while the poorest ten percent receive just 0.7 percent. The ratio between the highest and lowest level is 200 to 1. What the richest earn in one year would take the poorest some 200 years to earn. The only factor that is reducing this trend is the growth of China and India. More than 70 percent of people with high incomes live in rich Western nations. An effective way to visualise the situation is to imagine a pyramid in which the poorest 77 percent of the world population form the base of the pyramid and generate just 20 percent of global wealth. The next 20 percent of wealth is generated by 12 percent of the population; the following 20 percent slice is generated by 5.6 percent; followed by 3.6 per cent; and the final 20 percent slice is generated by just 1.75 percent of the population, the world's richest.

The problem of global inequality is that, unlike the other two types of inequality, it is beyond the reach of policy actions. The absence of a world government means that nobody can take global action. However, inequality remains extremely important as a globally destabilising force because of the migratory flows and political instability it causes. High rates of global inequality increase the likelihood of global chaos. The situation is unsustainable: if differences between the nations persist and limits on migration are imposed by rich nations, then the level of globalisation must descend. It is clear that if the situation of people in poor countries does not improve, then they will move in even greater numbers to rich countries.

The author also makes a very revealing analysis of the situation in Asia and Latin America. While Asia is composed of highly unequal countries, inequality within each state is relatively low. Latin America is the opposite, with high inequality within each nation, but less inequality between one nation and another. Milanovic uses these types of images to describe the financial crisis from the perspective of the distribution of wealth. According to the author, it is not hedge funds and bankers that lie at the root of this crisis, but the vast inequalities in the distribution of wealth. The political problem of slack economic progress in the middle classes was solved by making available cheap credit. The author goes on to describe the challenges for this century: increasing African wealth; peacefully integrating China; and making Latin America accept real world economics. All of this must be done while keeping the peace, and avoiding ideological crusades. Meeting these challenges is crucial in order to drive down inequality in a world of strong opposing forces with the power to jeopardize the global order.