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Waves or what? Review of Branko Milanovic (2016), *Global Inequality: A New Approach for the Age of Globalization*, Cambridge: Harvard University Press, 320 pp., $19.50. ISBN 9780674984035, paperback..

This is a vast, thought-provoking and excellent book. In five chapters and 239 pages of text, Branko Milanovic does a lot—authoritatively surveying trends in global income inequality, (both within and between nations and over both recent decades and previous centuries), discussing the underlying causes of fluctuations in inequality and suggesting future prospects and possible policy directions. As he notes, "Reading about global inequality is nothing less than reading about the economic history of the world." (3) The breadth of the topic and the depth of his scholarship combine with fine writing in accessible language to make this a book that deserves to be a best seller.

Milanovic's underlying ethical perspective is that the nation-states which now divide the world's territory and peoples are accidents of history, so concerns about social equity should be based on analysis of inequality among all humans. Chapter 1 therefor starts with his now justly famous graph of 1988 to 2008 growth rates of income at each percentile of the global income distribution. Variously called "The Elephant Graph" or the "Reclining S Curve" it shows how unequal income gains have been. Between the 30th and 70th percentiles of the world income distribution (i.e. in China and other emerging Asian economies) growth has been dramatic. The incomes of the world's top 1 percent have also grown spectacularly. But the incomes of the western working class which historically inhabited much of the top part of the global income distribution have gone nowhere. As Milanovic argues, globalization, technological change and politics have combined to produce a searing contrast between the insecure stagnation of western workers and the massive gains of both plutocrats and the Asian middle classes, with implications both benign and malign.

Chapter 2 surveys within-country inequality trends. As he notes, in the 1960s and 1970s the Kuznets curve "inverted U" hypothesis suggested optimistically that although economic development initially replaces a general equality of poverty with rising inequality of market incomes, eventually structural change, rising levels of education and the growth of the welfare state mean that richer countries become progressively less unequal. However, the popularity of that perspective died with the increase in inequality since the 1980s in the U.S., the U.K. and many other rich countries. Milanovic's innovation is to suggest that the way to think about inequality trends is to look instead for "Kuznets waves" of alternating increases and decreases.

In his analysis, Milanovic avoids mono-causal simplicity in favor of the realism of multi-causal complexity. He argues repeatedly that "It is the interplay between economic and political factors that drives Kuznets waves or cycles." (96) Although in recent years in rich countries, globalization (in particular, the mobility of capital) has constrained political options, the trend to trade openness / globalization depended on political choices, as well as technological changes. Politics matters, in major ways.

Milanovic argues, for example, that "the middle class was the largest supporter and beneficiary of the welfare state" (207), that "the key factors crucial for the reduction in inequality in developed countries (were) wars, left wing political pressure and social policy" (89) and "in Europe and the United States for the period after the Great Depression and World War II, the strength of trade unions, the political power of socialist and communist parties and the example and military threat of the Soviet Union all curbed pro-rich policies by constraining the power of capital." (97)

In analyzing broader historical trends in inequality, Milanovic builds on his seminal article with Lindert and Williamson[1] which pointed out that feasible levels of inequality depend on how much of national income is needed just to reproduce the population at a subsistence level of income. However, to build his case for long term cycles in inequality Milanovic has to use a variety of data sources—the social survey micro-data on which the inequality estimates of Chapter 1 are based did not exist before 1970 (and income tax data only start around 1920). But the historical data of Chapter 2 are of occasional frequency and very mixed quality. Extrapolating a trend in "inequality" from, for example, occasional estimates over the centuries of "average" land rent and wages in Spain also requires massive assumptions about population composition, the distributions of wages and rents and the quantities of labor and land supplied. Skeptical readers may therefore wonder how robust estimates of historic inequality actually are—and may differ in the conclusion they draw from Chapter 2's "eyeball test" for wave patterns when inequality trends over centuries for a variety of countries are plotted graphically.

Milanovic is on much firmer ground in Chapter 3's discussion of between country inequality trends. As he notes, until roughly 1800 the differences between countries in per capita income were relatively small, so a person's position in the global income distribution depended primarily on where they sat in their national income distribution. Over most of the last two hundred years, per capita incomes in rich countries grew much faster than in poor countries. By the 1970s, the income differences between OECD nations and the Third World were huge. Since then, the rapid growth of China and the Asian Tigers has been a major force for the reduction of global inequality—but in the global income distribution the within-country inequalities of "class" are still dominated by the cross-country inequalities of "location," producing massive rents of citizenship for the fortunate residents of rich countries. As he notes, these inequalities between nations produce massive incentives for migration—e.g. from Sub-Saharan Africa to Europe—with huge social stresses and uncertain political implications.

The connoisseurs of crucial details will find much to like throughout the book. Milanovic discusses carefully, for example, the reasons why household surveys and income tax return data may give somewhat different estimates of the income distribution and he outlines the pitfalls of combining separate urban and rural surveys into an estimate of the national income distribution of China. He summarizes the methodology underlying calculations of global inequality from household survey micro- data within individual nations combined with Purchasing Power Parity estimates of per capita incomes in different countries. When he decomposes global

[1]Branko Milanovic, Peter H. Lindert and Jeffrey G. Williamson (2010) *Pre-Industrial Inequality* The Economic Journal, 121 (March 2010), 255–272.

inequality trends into "between country" and "within country" components, he uses the Theil index (which can in fact be additively decomposed, unlike the far more popular Gini index). And in linking the evolution of inequality within rich nations to global trends, he goes right back to Hobson's original analysis of the maldistribution of purchasing power in late Victorian England, when the burgeoning profits of British capitalists created a political economy imperative to find ever expanding imperial opportunities for investment.

Milanovic's mastery of detail is combined with a willingness to paint on a very big canvas and address the political sustainability of inequality. He argues, for example, that Piketty's observation that in the 20th century, wars were a major determinant of inequality trends within European nations misses the main point, because Piketty takes those wars to be exogenous events. For Milanovic, wars are often endogenous to inequality trends. As he puts it (98), "A very high inequality eventually becomes unsustainable, but it does not go down by itself; rather it generates processes, like wars, social strife and revolutions, that lower it." But in painting the big picture, he also has a nice sense of the ambiguities of history and the perils of prediction. Chapter 4's title "Global Inequality in this Century and the Next" reveals its conjectural nature but the chapter begins by looking for evidence of predictive success in the "Big Picture" books popular thirty and fifty years ago. As Milanovic notes, it is striking how often some huge trends which now pre-occupy us (such as the rise of China or global climate change) were just not even on the radar back then. Meanwhile, other issues (such as Japanese industrial dominance) have faded drastically in urgency. The "Unknowable Unknowns" of the interactions of politics and technology are huge.

In the end, Milanovic argues that the two big trends that one can depend on to influence global inequality trends are the convergence of average incomes across nations and "Kuznets Waves" of income inequality within countries. But this reviewer is not so sure.

Convergence is a hopeful hypothesis, but in the U.K., U.S., Japan. Korea, China and the Asian Tigers, the road to prosperity started with industrialization. Export-led growth of manufacturing (enabled by trade openness) raised living standards as low-skill labor moved from farms to factories. In the 21st century, will this still be a possible path for poor countries, especially those in Sub-Saharan Africa? Direct labor cost is only part of the profitability advantages of robots. In many production processes, machines just do it all much better, as the consistency and precision of robots enables savings in materials wastage and huge improvements in product quality and reliability.[2] Meanwhile additive manufacturing (a.k.a. 3D Printing) is promising the possibility of nearly complete customization of production, upending the case for scale economies and global value chains. How likely is it that services or natural resources can provide the export base that today's poor countries need for development? Can we therefore be so sure about cross-national convergence in GDP per capita?

And in thinking about inequality trends within countries, the "Wave" metaphor carries much more cognitive content than the expression of a vague hope that

[2]Robots can also continuously perform operations impossible for human labour, in toxic environments, at speeds that humans cannot match, without strikes or insubordination.

something that has gone up may sometime go down again—a "wave" necessarily rises and falls, with predictable amplitude and regularity.[3] For inequality trends in rich countries today, the "wave" metaphor can be a comforting notion. But is it actually an appropriate framework for thinking about inequality trends? In Milanovic's own analysis, it is not so clear. In Chapter 4, for example, he suggests that rising income inequality within the U.S. is being driven by a perfect storm of coincident trends—a rising share of capital income in total income, concentration of capital incomes, increased correlation of labor and capital incomes, increased marital pairing of high income individuals and political power that is increasingly concentrated at the top, making pro-poor policy choices in education, taxation and public spending even less likely.

Although he presents a figure (191) in which the U.S. is pictured as being just before the peak of a Kuznets wave, after which the future is projected as a happy coincidence of declining inequality and rising GDP per capita, he also concludes explicitly: "These five developments are all strongly pro- inequality and it is hard to see where any forces might come from that could counter rising inequality in the United States" (190).

As Milanovic stresses in Chapter 5, the great middle class squeeze in rich countries is not at an end. His forecast is for continued polarization between "a very successful and rich class at the top and a much larger group of people whose jobs will entail servicing the rich class in occupations that cannot be replaced by robots" (215). In this environment, as post-secondary educational attainment converges on its feasible upper bound, years of education inevitably become increasingly similar, implying that access to elite positions will increasingly be determined by other variables—i.e. by chance and by family background. But although Milanovic argues that "it is hard to imagine that such a system could be politically stable," he never actually addresses the changing technologies of political control in the 21st century.

A century ago, the Tsars could not prevent revolution in Russia, despite ruthless use of their available technologies of secret police informers, paper files and crude propaganda. But in our world of Facebook facts and facial recognition software, the rapidly developing methods of artificial intelligence, big data analysis and psychographic modelling combine to create qualitatively new technologies of customized individual disinformation, mass manipulation and real time dissident surveillance. Leading edge developments in these technologies diffuse internationally. Can we therefor assume that in the 21st century increasing inequality will similarly endanger Putinism in Russia? How immune will other nations be to containing the social stresses of ever-increasing economic inequality by importing a similar mix of authoritarian, xenophobic politics and the new political technologies of surveillance and mass manipulation?

Milanovic also suggests that the policy response to increased inequality should focus much more on equalizing endowments (ownership of capital and level of education) than on taxation and the redistribution of current income. But since the

[3]In physics, a wave is defined as "any regularly recurring event, such as surf coming in toward a beach, that can be thought of as a disturbance moving through a medium. Waves are characterized by wavelength, frequency, and the speed at which they move." www.dictionary.com/browse/wave.

electorate in all countries is restricted to those deemed adult in age, the voters of today are now old enough that they have already received most of whatever endowment of education they are ever going to get. Since current voters get no personal benefit and any benefits for their children will only be seen twenty years or more in the future (if they exist), one wonders how many of the "left behind" working class in rich countries will see equalizing education as much of a solution for rising income inequality. The political stresses created by increasing inequality seem, to this reviewer, much more urgent.

Other readers will probably have different doubts about Milanovic's policy proposals—but this is really not much of a criticism. It is scarcely conceivable that a single book could remove all doubt about global inequality trends and what to do about them. But in reframing the discussion as inequality among all humans, in providing a persuasive narrative of its evolution and in stressing the interdependent importance of both technology and politics, Milanovic has made a major contribution. *Global Inequality* deserves to be widely read.

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