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What Next?

Ten Short Reflections on the Future of Income Inequality and Globalization

If you tender your advice with modesty and the opposition prevents its adoption, and, owing to someone else's advice being adopted, disaster follows, you will acquire very great glory. And, although you cannot rejoice in the glory that comes from disaster which befalls your city or your prince, it at any rate counts for something.

—NICCOLÒ MACHIAVELLI, *Discourses on Livy*

In this concluding chapter I would like to go over some of the key themes and messages of the book. The chapter is part reminder of the book's main points, part prediction of future trends, and part agenda for change. It is organized around ten questions concerning mat-

ters of global income distribution that will be important in the years to come.

1. What Forces Will Shape Global Inequality in This Century?

The two forces that will shape global inequality are economic convergence and Kuznets waves. The prospect for convergence, or the economic catch-up of Asia with the West, seems strong. Even if China's growth were to sputter, the high economic growth rates of at least some of the very populous Asian countries such as India, Indonesia, Bangladesh, Thailand, and Vietnam will continue. It is unlikely that they would all slow down together. Until the turn of the twenty-first century, Chinese growth was largely responsible for the reduction of global poverty and inequality, but in the future, more Asian countries will be able to play that role, and consequently the chances that the process will continue will be greater—the eggs won't all be in one basket.

World economic power will shift much more toward Asia. In a nice exercise he has conducted for several years, Danny Quah has

charted this gradual shift. In the 1980s, the center of gravity of world output was in the mid-Atlantic, located between Europe and North America. In his latest calculations, Quah locates the center in the middle of Iran, and notes that it has moved almost directly east over the past thirty-five years (Danny Quah, pers. comm.). By 2050, Quah expects it to lie between India and China, which will have thus taken on the roles previously played by Europe and North America (Quah 2011).

The catch-up of incomes in many Asian countries with incomes in Western European and North American nations will also reduce global inequality. However in this case, the role of China becomes ambiguous. Although China has been a great force for the reduction of global inequality over the past four decades, and until approximately 2000 was indeed the sole force because China alone made the difference between rising and declining global inequality, in the near future its fast growth will begin to add to global inequality. That effect will be small at first, but then, depending on what happens in Africa and whether the gap between China and populous poor coun-

tries increases, the effect may become greater. The bottom line is that for global inequality to go down, the world needs fast growth in other places besides China. That growth seems most likely to occur in Asia; it is doubtful that it will occur in Africa.

The role of the Kuznets waves is also not simple. Even if the waves were to be “well behaved,” that is, if income inequality began to move along the downward portions of the Kuznets curves, first in China and later in the United States and the rest of the rich world, it still might take a decade for the reductions in national inequalities to become established and have an impact on a global level. Moreover, we cannot be sure if China and the United States are indeed at the peaks of their respective first and second Kuznets waves. In China, the main offsetting forces—that is, those that may keep inequality high—are the increased share of income coming from private capital, corruption, and regional income gaps. In the United States, those forces are the heavy concentration of capital in the hands of the rich, the unification of high capital and labor

incomes in the same people (the “new capitalism”), and the political power of the rich.

Income inequality and political problems will remain closely linked. While one cannot expect high or even rising inequality to fundamentally alter the American political system other than by pushing it even further toward plutocracy, high inequality may end up undermining the Chinese political system and either transforming the rule of the Communist Party into a more nationalistic and autocratic regime or pushing it toward democracy. Either of these political changes would likely be accompanied by huge economic dislocation and a decline in the growth rate.

2. What Will Happen to Rich Countries' Middle Classes?

Rich countries' workers are squeezed between their own countries' top earners, who will continue to make money out of globalization, and emerging countries' workers, whose relatively cheap labor makes them more attractive for hiring. The great middle-class squeeze (which I discussed in [Chapters 1](#) and [2](#)), driven by the

forces of automation and globalization, is not at an end. This squeeze will in turn further polarize Western societies into two groups: 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 where human labor cannot be replaced by robots. Education may not have much influence on what happens because many rich societies are already near the upper limit in terms of quantity of education (measured by the number of years of schooling) and possibly even in terms of quality of schooling that can be offered; in addition, many of those employed in service jobs are already overqualified for what they do.

We may have to adjust our thinking to a situation where the difference in skills and abilities between the top class and the service-sector workers is small. Chance and family background will play much more of a role than before. A person could become a Wall Street banker rather than a yoga instructor simply because of walking down the right street (and meeting the right person) one evening. Already, among the top 10 percent of wage-earners, we cannot identify differences in

observable characteristics (education, experience) that could explain why salaries between the top 1 percent and the remaining 9 percent differ by a factor of ten or more (Piketty 2014, chap. 9). The reduced importance of education as an explanans of wages may spread down the wage ladder as educational attainments become more similar. Ironically, Tinbergen may turn out to have been right that the education premium would almost cease to exist in a society where everybody is well-educated, but that would not put a stop to large wage differences. In addition to blind chance, family endowments in wealth and, perhaps more importantly, connections, will matter more. One sees the effect of family money and networks in the United States very clearly in the occupations where lots of power and money accrue. Political dynasties are more common today than they were fifty years ago; people whose parents have been film actors or directors are almost ensured of a career in the same industry. The same is true in the financial sector. Are the children of politicians, actors, or stock traders the best qualified to do those jobs in the next generation? Assuredly not. It is just that

previous success in these occupations breeds more success, including success for their offspring. Access to the people who make hiring decisions is crucial, and that access is helped by family background and connections.¹

The new capitalism, where the contradiction between labor and capital will have been resolved at the top (in a peculiar way, since the richest people will be both the top labor earners and the top capitalists), will be more unequal. Success will depend on the chance of having been born well and having luck in life, more than it did in the past century (which was a century of major political and social upheavals). The new capitalism will resemble a big casino, with one important exception: those who have won a few rounds (often through being born into the right family) will be given much better odds to keep on winning. Those who have lost a few rounds will see the subsequent odds turn increasingly against them.

A child who has the luck of being born to the right (rich and educated) parents will benefit from heavy parental involvement and investment in education. Start with the ultimate

objective parents set for their child: to get a good, high-paying job. To get such a job, one needs to go to the best university; to get to the best university, one needs to go to the best high school; to get to the best high school, one needs to go to the best elementary school; to get to the best elementary school, one needs to go to the best kindergarten. So a child's path is already determined by age five, provided his or her parents have enough knowledge, foresight, and indeed money. Very few poor or less educated parents have the resources or knowledge to make these choices so early on. If their child realizes later in life what is required to succeed, the path for him or her will be much harder. On the other hand, a child of rich parents is launched onto a path of success from the very beginning and may deviate from it only if he or she is uninterested in it or exhibits serious learning or behavioral problems.

It is hard to imagine that a system with such high inequality could be politically stable. But perhaps inequality will decline, and the problem of instability will disappear. What happens next depends on (1) the nature of technological progress, which might evolve in

a pro-poor way, as by the replacement of people in some occupations that are very well paid now, say, professors, with lower-paid workers, and (2) the ability of the “losers” in this system to organize themselves politically. If the losers remain disorganized and subject to false consciousness, not much will change. If they do organize themselves and find political champions who could tap into their resentment and get their votes, then it might be possible for the rich countries to put into place policies that would set them on the downward path of the second Kuznets wave. How could this be achieved?

3. How Can Inequality in Rich Welfare States Be Reduced?

The short twentieth century is the only sustained period in history when rising mean incomes have been accompanied by decreasing income inequality. This happened not only in rich countries but also in many developmental states and in all communist countries. The second Kuznets curve will have to repeat the behavior of the first if inequality is to decline

again. But it is doubtful whether this second decline will be accomplished by the same mechanisms as those that reduced inequality in the twentieth century: increased taxation and social transfers, hyperinflation, nationalization of property, and wars. Why not? Globalization makes increased taxation of the most significant contributor to inequality—namely, capital income—very difficult, and without a fully concerted action from most countries, which does not seem even remotely possible today, highly improbable. Simply put, capital is hard to tax because it is so mobile, and the countries that benefit from this mobility have no incentive to help those that lose out. Tax havens exist not only in microstates, but in large countries like the United States and the United Kingdom. Think, for example, about the recent unwillingness of the United States to investigate and extradite Chinese citizens accused of embezzlement by their government (66 out of 100 of the “most wanted” people accused of economic crimes by the Chinese government are thought to be hiding in the United States and Canada),² or London brokers all too eager to accept Russian money regardless of

its origin. Even high-income labor is becoming more difficult to tax because it can easily move from one country to another: there are no obvious reasons why a top executive may not be able to work in Singapore or Hong Kong rather than in London or New York. Hyperinflation and nationalization have fallen out of favor as a means of despoiling creditors and big proprietors. No more land will be nationalized. The balance of power has shifted to the side of the capitalists, with owners of assets and creditors holding political power. Finally, one hopes that major wars will be avoided, although no sensible person can, unfortunately, exclude that possibility.

Interventions done before taxes and transfers kick in are a much more promising approach for the twenty-first century. These include a reduction in the inequality of endowments, especially inequality in the ownership of assets and in education. If endowments (private wealth and skills) became less unequal, and assuming that the rates of return on wealth do not differ markedly between big and small fortunes, market incomes (that is, incomes before taxes and transfers) would be

distributed much more equally than they are today. If market income inequality could be controlled, and over time curbed, government redistribution via transfers and taxes could be much less important. A smaller emphasis on redistribution would satisfy those who believe that high taxes have negative effects on growth and are in favor of a small state, as well as those who believe that lower disposable income inequality is valuable in itself or who support it because it promotes equality of opportunity and is good for economic growth. It will also eliminate one of the most pernicious aspects of family-transmitted inheritance that I discussed in the previous section.

Economic models that combine low inequality of market incomes and a relatively small state are not unheard of; indeed, they exist in several Asian countries. [Figure 5.1](#) shows a comparison of selected Western countries and three rich Asian countries (South Korea, Taiwan, and Japan). The Gini coefficient for disposable income (after taxes and transfers) is shown on the vertical axis, and the Gini for market income on the horizontal axis. The three Asian countries have about the same

level of disposable income inequality as rich Western countries, but their market income Ginis are much lower, by as much as 15 Gini points. Consequently, to achieve a given level of disposable income inequality, government redistribution in Asia can be much smaller, and the government can also be smaller. Consider Taiwan and Canada. Both countries have a disposable income Gini of 33 points. But to get to that point, Taiwan engages in almost no redistribution (that is, its market and disposable income Ginis are almost the same), and its social transfers are equal to only 12 percent of market income. Canada, on the other hand, has a large tax-and-transfer system (three times greater than Taiwan's in relative terms) that brings its inequality level down from 47 Gini points (at market income level) to 33 Gini points (at disposable income level).

Figure 5.1 also shows that in Western countries, differences in disposable income inequality are a result of differences in the amount of redistribution (e.g., the United States and Israel redistribute much less than Germany and France) rather than of differences in market income inequality. This is why a lot of

scholarly attention has focused on the redistributive role of the state, as if redistribution were all that could be done to reduce inequality. The distribution of endowments is almost taken as a given. But as we see in the case of the rich Asian countries, this is not the case: endowments can be made more equal. So, the same level of inequality in disposable income can be achieved either through large taxes and transfers or through much more modest interventions by the government superimposed on a relatively equal structure of endowments.

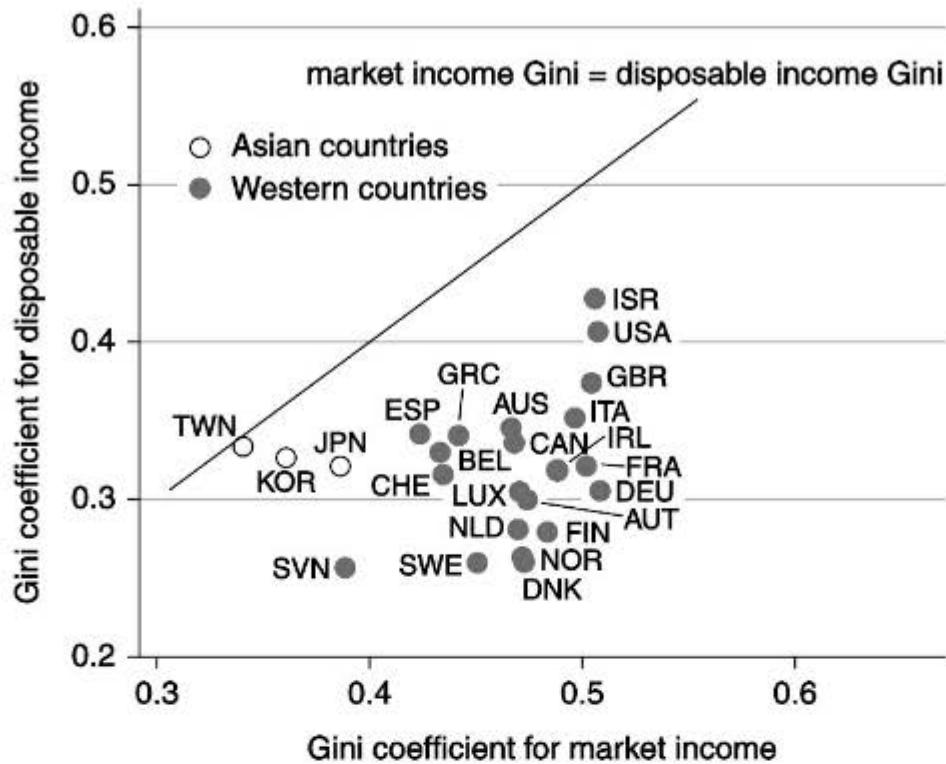


FIGURE 5.1. Inequality of market income and disposable income in selected rich Asian and Western countries (around 2010)

This graph shows the relationship between inequality of disposable income (income after social transfers and direct taxes) and inequality of market income (income before social transfers and direct taxes) for selected rich Asian and Western countries. The line shows the situation where disposable income inequality is equal to market income inequality. The distance between the line and the dots shows how much market income inequality is reduced as a result of government redistribution through social transfers and taxes. The three Asian countries have low market income inequality and low government redistribution (their dots lie close to the line). Country abbreviations: *Asia*: JPN Japan, KOR South Korea, TWN Taiwan; *Western countries*: AUS Australia, AUT Austria, BEL Belgium, CAN Canada, CHE Switzerland, DEU Germany, DNK Denmark, ESP Spain, FIN Finland, FRA France, GBR Great Britain,

GRC Greece, IRL Ireland, ISR Israel, ITA Italy, LUX Luxembourg, NLD Netherlands, NOR Norway, SVN Slovenia, SWE Sweden, USA United States. Data source: Calculated from Luxembourg Income Study (www.lisdatacenter.org).

How can the equalization of endowments be achieved? Here again, as in the past, the role of the government is crucial, although the government does not in this case work on current incomes (taxing and redistributing them) but rather works toward longer-term equalization of capital ownership and education. Policies that would work toward this long-term equalization include (1) high inheritance taxes (as Piketty calls for), which would keep parents from being able to transfer large assets to their children, (2) corporate tax policies that would stimulate companies to distribute shares to workers (moving toward a system of limited workers' capitalism), and (3) tax and administrative policies that would enable the poor and the middle classes to have and hold financial assets. Also fitting with this proposal is de Soto's (1989) call for much broader ownership of assets, along with the legalization of the assets the poor already possess, such as prop-

erties that in many countries are held without legal title and so cannot be used as collateral for loans.

But these policies would not be sufficient. The high volatility of returns from capital and the need for lots of information in order to make wise investment decisions, in addition to the problem of combining the risk of working for a company with the risk of owning shares in the same company, make a “people’s capitalism” very difficult to realize. To reduce inequality in endowments, more widely spread ownership of capital needs to be combined with more equal distribution of education. By that I mean not only making sure that everyone has the same number of years of schooling, but equalizing *meaningful* access to education. Achieving this kind of access requires a reemphasis on state-funded education. The reason is as follows. If the objective is simply to make the number of years of education the same for all, we could conclude that four years at Harvard and four years at a small state college are of equal value, and the objective could easily be achieved. But if access to Harvard remains for all practical purposes limited to the children of

the rich and the returns to four years of education at Harvard exceed manifold the returns to four years of education at a state college, nothing fundamental will have changed. There would be an apparent but not fundamental equality of education endowments. To attain fundamental equality, we need to equalize access to the schools that produce better returns to education and/or to equalize returns across schools. To equalize the returns by fiat is impossible in a market economy, since no one can dictate to firms that they must give equal pay to people who studied at different schools, regardless of the quality of those schools.³ The only remaining sensible way to equalize educational endowments is to make access to the best schools more or less equal regardless of parental income and, more importantly, to equalize the quality of education across schools.⁴ The latter can only be done by state investment and financial support.

In a system focused on equalization of endowments, the state has an extremely important role—but that role is quite different from the one it had during the Great Leveling. During the Great Leveling, the state worked on

expanding access to education and on mechanisms of income redistribution consisting of insurance (e.g., Social Security in the United States) and assistance (e.g., food stamps in the United States). During the second Kuznets wave, it should work more on endowments and less on taxes and transfers.

But even if such policies are theoretically possible, and even if we have examples of countries that have used them, that does not mean they will be implemented. European welfare states, and to a lesser extent the United States, have been managed for almost a century on entirely different premises, and changing them now will not be easy. The anti-equality headwinds of globalization will make it even harder, as will the unevenness in returns to labor that often goes with globalization. To this we turn next.

4. Will Winner-Take-All Remain the Rule?

It is often said that winner-take-all is one of the characteristics of current globalization. For it is only thus that massive income differences between people with approximately the

same abilities can be explained. As in tennis, a tiny difference in skill level is sufficient to make one person number one in the world, earning millions, and another person number 150, covering the costs out of his own (or more likely his parents') pocket in order to participate in tournaments. A useful way to visualize the winner-take-all rule is to think of the scalability of different jobs. As Nassim Taleb writes in *Black Swan*, scalable jobs are those where a person's same unit of labor can be sold many times over.⁵ A typical example is that of a top pianist who in the past could sell her ability only to those who would come to listen to her. Then, with the invention of the record player, she could sell it to all who would buy the recordings; today, via the Internet, YouTube, and webcasting, she can sell it to practically the entire globe. Those who are just slightly less good pianists, or perhaps have not had as much luck, will hardly be listened to by anyone. Scalable jobs, then, create very large income differences within the same occupation. Moreover, these income differences are disproportionately large compared to any objective assessment of the differences in abilities.

Figure 5.2 is a schematic graph that shows the relationship between how many times a unit of labor can be sold (extent of scalability) and jobs' rankings according to scalability. Jobs on the far left side of the horizontal axis are jobs that cannot be scaled: a pedicure can be delivered only to the customer who is taking it; a spaghetti meal, after being cooked and prepared, can be sold only once; a taxi ride can be sold only to one person or one group of people at a time. Their value on the vertical axis is 1. A person has to produce more of these goods and services in order to earn more. Income from these jobs (compared to scalable jobs) is by necessity limited because the number of units one can produce is limited by the number of hours one can work. Advances in productivity may increase the number of units produced per day, but they do not change the lack of scalability of such products. (These can be characterized as private, excludable, and rival goods and services. The scalable goods and services, on the other hand, are private and excludable but nonrival; i.e., goods whose greater consumption by one person does not reduce possible consumption by another person.)

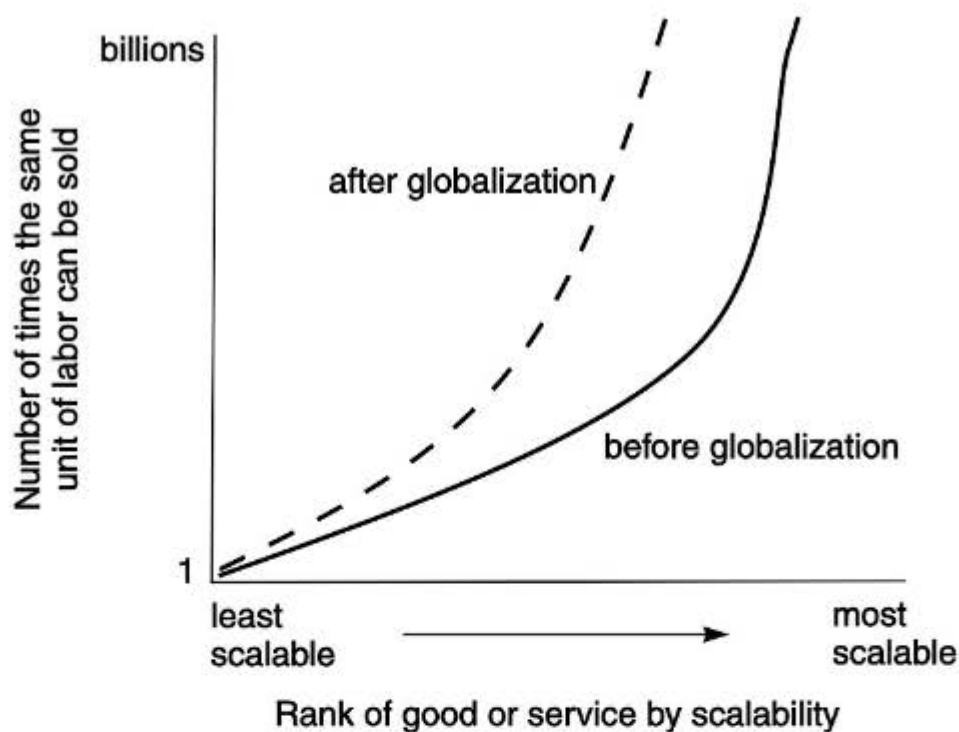


FIGURE 5.2. Scalability of goods and services

This graph shows how many times one can sell the same unit of labor in different types of activities. For activities on the left side of the horizontal axis, a unit of labor can be sold only once; for those on the right side, it can be sold many times over. The more times one can sell the same unit of labor, the more scalable is the activity. The dashed line shows the increase in the extent of scalability with technological change and globalization.

As we move to the right on the horizontal axis, we get to jobs that are increasingly scalable. Our examples of a tennis player or a pianist who can be watched (for a fee) by everyone on the planet are the extreme examples of scalability. Novak Djokovic and Rafael Nadal

do not need to play a match for every spectator who watches them: they play once and get paid through millions of individual sales fees. Their unit of labor is almost infinitely scalable (that is, up to 7 billion people in the world).

Now if the scalable activities employed a very small number of people, their impact on overall wage inequality would be limited. But with globalization, more jobs become scalable, and thus more people become employed in them. Further, the extent of scalability increases. This can be visualized by an upward movement of the curve in [Figure 5.2](#). The new scalability curve is shown by the dashed curve that is higher for each individual job: a unit of labor can now be sold more times than before. Evidently, if there are more jobs with very high within-job inequalities, overall wage inequality will also tend to be greater. Thus, the massive wage differences that exist within the same types of jobs are a combination of (1) technological change, which makes jobs in principle scalable (without the ability to record sound, a pianist's performance would not be scalable) and (2) globalization, that is, the ability to reach every corner of the world.

As I discussed in [Chapter 2](#), we see here again that the effects of technological change and globalization cannot be readily separated: the two, while conceptually distinct, go together.

Perhaps the most important change will continue to be the increasing number of activities that are scalable. In *Black Swan*, Taleb gives the examples of a sex-worker and a cook as people whose activities are not scalable. But this is no longer necessarily the case. Entire industries have grown up on the Internet with people advertising their own nudity or teaching cooking, and doing this for thousands of fee-paying viewers simultaneously.⁶ The point is: technology has tremendously expanded the ability of sex workers, cooks, personal trainers, teachers, and many others to sell their services: a rival good has become nonrival. Or take the example of people who have become famous on social media and are now paid by companies to mention (i.e., advertise) their products. In a recent interview, Josh Ostrovsky, who is famous under his Instagram name of Fat Jew, explains the advantage of scalability: “I want as many people as possible to know that I am very ... funny,... but why would I fly around the world

to do a stand-up show to hundreds, maybe thousands of people when I can reach far bigger numbers through my Instagram?"⁷ There are some activities that, at least currently, we cannot imagine becoming scalable: a haircut is one; the same spaghetti cannot be eaten twice. But many things, and especially services, will increasingly become scalable.

It is important, however, not to confuse scalability of services with the ability to sell one's service more broadly. Surgery can now be performed remotely, with a surgeon in Houston controlling scalpel-wielding robots and operating on a patient in Chennai. This increases the income of the surgeon but still involves the sale of a discrete unit of labor only once. This is not the case with professors' ability to sell their teaching: they can sell it worldwide, many times over. I have to work only once to prepare my lecture but can (if there are any takers) sell it thousands or millions of times on the Internet to whoever wants to pay to listen to it. It is these types of occupations (professor, chef) that will continue to expand with the second technological revolution, and as more

jobs combine scalability with wide reach, wage inequality will tend to rise.

5. Why Is It Wrong to Focus Exclusively on Horizontal Inequality?

In his book *The Killing Fields of Inequality*, Göran Therborn asks a puzzling question: Why have rich societies been so much more successful at reducing legal inequalities between various groups (blacks and whites, men and women, heterosexuals and homosexuals) than in reducing overall income and wealth inequalities? A focus on “existential,” or “categorical,” inequality was considered a radical position in nineteenth-century Europe, where it was associated with post-1789 developments. Once all formal distinctions of class between the clergy, the aristocracy, and the people were abolished, there would be, it was argued, no need to focus on income differences. As Piketty reminds us in *Capital in the Twenty-First Century*, this view reached its peak under the French Third Republic, when income inequality was going up by leaps and bounds but the existence of formal equality

was used as an argument against trying to do anything about actual income inequality.

Therborn wonders if there is a trade-off between existential equality and income inequality. Will the achievement, or close achievement, of the former be regarded as such a success that we will forget about pursuing reduction in income or wealth inequalities? Or do we believe that the achievement of existential equality will ultimately translate, as it were automatically, into lower income inequality? Will equalization of the mean wages of women and men, for example, lead to a lower spread among wage-earners as a whole?

There have been substantial advances in the past thirty years in the equal legal treatment of different groups. For example, there is no official apartheid anywhere in the world, and gay rights are being accepted by an increasing number of countries. But until some thirty years ago, apartheid existed in South Africa, and until forty years ago, the World Health Organization listed homosexuality under the rubric of mental disorders. There has also been a strong push for “horizontal” equality, which

is the term used in economics to indicate that on average there should be no wage difference between, for example, men and women, blacks and whites, heterosexuals and homosexuals. Or more exactly, if there are differences, they should be explained by measurable factors like better skills or greater experience. There has been significant progress in that area, too, although not as substantial as in legal equality. For example, in OECD countries, the gender wage gap has narrowed from an average of 20 percent in 2000 to 16 percent in 2010 (OECD 2012, 166).⁸

But an almost single-minded focus on existential inequality is not always helpful, and in some cases may be outright harmful to achieving a reduction of income and wealth inequalities. Note that success in reducing income inequality would also reduce income differences due to racial or gender discrimination. In other words, pushing for the reduction of overall income inequality may be preferable even if our primary objective is to reduce specific gender or racial income inequalities. But this is not the approach that has been taken. Rather, the focus has been on horizontal in-

equalities, while overall, general inequality has been left to its own devices.

The exclusive focus on existential inequality is wrong for at least three reasons.

First, an emphasis on group differences quickly spills into identity politics, splintering the groups that have an interest in fighting for change. The joint front crumbles, with different groups focusing only on their own situations; once their complaint has been addressed, they are indifferent to the plights of other groups.

Second, a focus on existential inequality leaves the basic problem unsolved because the way it poses the question is wrong. Take discussions regarding legalization of prostitution. To many feminists and others, prostitution is a reprehensible activity that they would like to either ban, discourage through education, or curb demand for by punishing clients, who are predominantly male. The issue is framed in gender terms. But this approach just drives the problem underground without solving it. It is also futile, because the root cause of prostitution is not addressed. The root cause today (and perhaps throughout history) is

income and wealth inequality. There are many (mostly) men with high incomes and many (mostly young) women with poor job prospects and no money. This drives prostitution nationally and globally, as in sex tourism, where it is at its most obvious. The point is not to address gender inequality itself but rather its economic cause. Consider what would happen if horizontal income equality between men and women were achieved, something that may happen soon, given higher graduation rates among women than men and growing numbers of rich women. Prostitution might be transformed so that instead of 90 percent of customers being men and 90 percent of sex workers being women, there would be a “fair” and “gender-neutral” distribution of customers and workers, with 50 percent men and 50 percent women. Would anti-prostitution activists be content with this achievement? Obviously not: prostitution would merely have become gender-balanced. This hypothetical scenario reveals that the real cause of the problem lies elsewhere, in inequality of incomes and wealth, not solely

in the income gap between men's and women's earnings.

Third, an emphasis on existential equality is politically relatively easy (and its pay-off is limited) because it does not go to the core of the problem. It faces no real opposition from right-wing politicians and conservatives because it does not affect the underlying structure of economic and political power. Instead of fighting for meaningful change, proponents of existential equality care only up to the point where legal equality is established. They give short shrift to issues on which progress in the past thirty years has often been minimal, especially in the United States, but which would move the wage-profit ratio in favor of labor and would thus face strong opposition from business (e.g., increased vacation time *for all*, a shorter work-week *for all*, longer maternity and paternity leave and better working conditions *for all* parents, a higher minimum wage *for all*). Strictly speaking, capitalists also know that existential equality is in their interest; discrimination is inefficient for the employers who practice it. On the other hand, general measures that improve the position

of all workers do not please those who have economic power. Thus, the proponents of existential equality stop midway. Formal equality is surely a necessary condition for overall betterment. But it is not sufficient. A movement toward more generalized equalization of the human condition requires not only legal equality between the different groups that humans are divided into, but also substantively greater income and wealth equality.

Existential equality is equivalent to what John Rawls calls meritocratic equality—what he views as the lowest level of equality, where all participants are legally free to pursue whatever career they choose but where their starting positions are often vastly different. Those who care exclusively about “identities” aim to place everybody on the same starting line but do not care that some come to the starting line with Ferraris and others with bicycles. Their job is done once everybody is on the same starting line. Case closed: just when the real issues begin.

6. Will Labor Remain Different from Other Factors of Production?

When it comes to labor and migration, global governance of almost any kind is missing. By contrast, global institutions exist that deal with economic development (the World Bank), balance of payments and international debt (the International Monetary Fund), health (the World Health Organization), trade, including in intellectual property rights (the World Trade Organization), central banks (the Bank for International Settlements), and now regional trade (the Atlantic and Pacific trade agreements). When it comes to labor, the International Labor Organization, which is the oldest among the institutions mentioned here, has little power and deals mostly with national labor rules. The International Organization for Migration is a keeper of accounts and statistics, duly following all catastrophes, rather than a policy-setter. The reason for this lack of multilateral institutions regarding labor and migration is obvious: the rich and powerful countries have no interest in raising the issue.

But ignoring the problem by following an ostrich policy is becoming more difficult as globalization makes people more aware of the glaring differences in national standards of living, and physical distance is much less of an obstacle than ever before. Europe, faced by an exodus from Africa, and more recently from the Middle East and the Indian subcontinent, will be perhaps the first to begin defining a multilateral policy on the movement of people. However, unlike what is envisaged now (multilateralism among EU members only), such a policy needs to include the sending countries as well. A world of more orderly migration, and of quotas at the level of both the sending and the recipient countries, should be the goal.

In order for such a change to become feasible, we need to change the binary character of the current rules for national citizenship (as argued in [Chapter 3](#)). With some exceptions, citizenship today confers on the person who obtains it the same rights and duties as are enjoyed by all other citizens. It is that binary nature of citizenship that makes current citizens reluctant to share their “citizenship rent” with migrants: in monetary terms, the

citizenships of rich countries are very valuable. Physical walls between jurisdictions are being built, in part, because there is a huge financial wall between being and not being a citizen of a rich country. But citizens of rich countries might be more open to foreign migration if this financial wall could be lowered through the introduction of an intermediate level of citizenship that would be less valuable (because, for example, it might involve higher taxation, lower access to social services, or an obligation to return to work in one's country of origin at periodic intervals). A policy such as this would bring globalization to the forgotten factor of production, labor, and through migration would lower global poverty and inequality. For this to happen, two changes are essential: (1) the redefinition of citizenship, and (2) multilateralism involving sending and recipient countries.

But even if migration were to become more common than it is today, it is still extremely unlikely that the change would be so momentous as to lead to fully open borders and a situation whereby GDP growth rates of poor countries would become unimportant because

people could just leave whenever they wanted to. Thus, the growth of poor nations will remain of crucial importance. We turn to this next.

7. Will Economic Growth Still Matter?

Economic growth will still matter a great deal in the coming century: it is the most powerful tool for reducing global poverty and inequality (as it is, also, for reducing national poverties). One can hardly overestimate its importance in poorer countries as a means of making the lives of ordinary people better. The disparagement of growth that surfaces from time to time comes mostly from rich people in rich countries who believe that they can dispense with more economic growth. But these people either are deluding themselves or are hypocritical: their own behavior—for example, when they negotiate their salaries and fees—shows that they do care about material incentives. Moreover, if growth were unnecessary, why wouldn't we celebrate the recession instead of trying to get rid of it? If growth did not matter, why would the referendum on Scotland's inde-

pendence, or the possible future referendums on the United Kingdom staying in the European Union or Catalonia seceding from Spain, revolve around economic issues and often be decided by them? If rich people care about income and economic growth, why shouldn't poor people care even more?

Those who are calling for a slowdown in growth because of environmental concerns are themselves often the biggest contributors to environmental degradation and global warming. One need only think of the hypocrisy of conferences on carbon-neutrality where the organizers try to convince the well-heeled participants not to feel bad about flying for fifteen hours to get to the conference by paying the so-called carbon emission offsets—a practice similar to the erstwhile practice of buying indulgences for the expiation of sins in the Catholic Church. It suffices to look at the amounts of air conditioning, driving, and meat consumption that is being done by the global top 1 percent or global top 10 percent to realize that the rich are the main contributors to climate change. But they are often the ones calling for a reduction in growth (implicitly, in

poor countries as well as rich countries) on the basis of the eventual ecological unsustainability of a world where today's poor would enjoy the standard of living of today's rich.

There is an unevenness in carbon emissions that is seldom recognized and on which empirical research is lacking, despite the availability of data. One could easily estimate the distribution of CO₂ emissions across the world population by income group and not, as is done today, by country. If income elasticity of carbon emissions is unitary (i.e., a 10 percent increase in real income entails a 10 percent increase in carbon emissions), then the Gini coefficient of global carbon emissions is around 70 points, which would mean that more than one-half of all emissions are made by the global top 10 percent.⁹ Almost all the people in the top world decile come, as we know, from rich countries. Not from Africa.

High rates of economic growth will remain crucial, especially for poor countries in Africa, and a few in Asia and Central America. Our main concern therefore should not be how to manage a slowdown in growth but how to raise the growth rates of the very poor coun-

tries. There is also a direct connection between the growth rates of poor countries and the migration pressure that was discussed previously. If the growth of poor countries picks up, we shall also more easily solve the problem of pent-up demand for migration as well as other political problems associated with migration in the recipient countries. That would mean less populist and often xenophobic politics in Europe, and less use of migration as a political football in the United States.

It is important to realize that a fine balancing act must be done between three variables: growth rates of poor (and populous) countries, migration, and environmental sustainability. Migration and the development of poor countries are, from the point of view of global poverty and inequality reduction, equivalent: poor people would become richer, either in their own countries or somewhere else. Politically, of course, they are not equivalent. But this worthwhile objective of increasing people's incomes has to be balanced by making sure that it is ecologically sustainable. That would, in principle, require the largest sacrifices from the rich. In other words, if, because

of improvements in the standard of living of today's poor (whether through migration or faster growth in Africa and Asia), the ecological balance is upset, restraints on growth should be imposed on the rich. I know that this is an especially unpopular proposition to make while the Great Recession either still goes on or has barely ended, but the reasoning behind it seems to me incontrovertible.

8. Will Concern with Inequality Disappear from Economics?

It might have seemed until a couple of years ago that the concern with inequality was just a "flavor of the month," or at best, of the year, and that as the months and years passed, economists would move on to another topic. I do not think that this is a reasonable position to hold anymore.

First, there are methodological advances in economics, thanks to the reintroduction of inequality into economists' way of thinking, which will be difficult to forget about or ignore. Economics is moving from an almost single-minded concern with representative

agents and averages to a concern with heterogeneity. And as soon as one enters the territory of heterogeneity, she is dealing with inequality. It need not be inequality only in wealth and income; it could be inequality in education, health status, IQ or SAT scores, trust, corruption, or anything. But once you no longer think only in terms of averages, your outlook on the world changes dramatically. It can be likened to going from a two-dimensional to a three-dimensional world. By now, these concerns are fairly deeply implanted among the new generations of economists and social scientists. Economists are including them in their dissertations, research projects, and empirical papers, and as these long-term projects become completed, and as the new generation begins to fill academic and research positions, the paradigm will gradually change. Replacing an old paradigm takes a long time; it sometimes requires an important economic event to reveal the discrepancy between what a paradigm teaches and how the world really functions. (This is precisely what the Great Recession did for the paradigm of the representative infinitely lived income-maximizing

agent with perfect information.) The new heterogeneity-and inequality-based paradigm that is being created now will take some time to impose itself, but it, in turn, will not be easy to displace.

Increasing interest in inequality has also spurred an important ideological change whereby we look not only at the similarities among people but at the differences. We no longer try to cover up differences between economic agents or companies or individuals by the process of averaging, that is, by looking at group means; rather, we do exactly the opposite: we try to uncover dissimilarities. Once we start seeing the world through this new lens we cannot go back to the old ways.

9. Why Is Methodological Nationalism Becoming Less Relevant?

The concept of methodological nationalism is used to convey the idea that in social science research we often take the nation-state as a natural unit of analysis. Thus, income inequality, as we have seen in this book, is most often measured at the level of a country, the effects

of economic policies are contrasted between different countries, government expenditures or exports and imports are calculated for countries, and so on. Indeed, for many economic variables it makes sense to use the country as the unit of observation not only because accounting is done in such a manner but because most policies are conducted by national governments—that is, neither by supranational bodies nor by local or provincial governments.

However, in many other instances, methodological nationalism is either becoming less relevant or may prove to be directly counterproductive for our understanding of new phenomena. Let us consider several examples where methodological nationalism is not useful or cannot be applied. Perhaps the best example is the introduction of the euro. Overnight, the monetary statistics of individual countries (the so-called base money, M0, or broader money supply, M2), which for decades were key national policy indicators, disappeared. There were no longer separate national monetary authorities or monetary series for France, Italy, or Spain. Nobody knows for sure how many euros in cash are held today

in Spain as opposed to Germany. Another way that governments can lose all or a part of national monetary policy is by adopting another country's currency (as Panama and Peru have done with the US dollar). It is estimated by the US Federal Reserve System that about \$1.3 trillion US dollars circulate outside the United States.¹⁰ Anyone who has traveled to Russia must have noticed that despite twenty-five years of capitalism and the freely exchangeable ruble, many transactions are done, or prices are quoted, in US dollars. Since these dollars represent real purchasing power and are unlikely to return to the United States any time soon, Russian monetary policy must take into account their existence. In other words, they limit the ability of national authorities to conduct monetary policy.¹¹

Or take the example of EU laws that supersede national laws or require harmonization between the laws of different nations. Methodological nationalism is clearly inappropriate in this situation. It is also unclear what relevance national exports and imports have in an integrated and globalized economy where large companies, through transfer

pricing or internal “exports” and “imports” designed to minimize taxes, can strongly affect national trade statistics, showing a country’s exports to be higher or lower without anything having been effectively changed. Similarly, if, for example, a high proportion of a country’s exports comes from companies that belong to foreigners (as is the case with Ireland), export statistics may look high and Gross Domestic Product may increase, but Gross National Product (which includes only the earnings of citizens) may be much smaller or may move differently from the GDP. Indeed, in Ireland the gap between GDP and GNP is some 20 percent. With increased globalization, a discrepancy between GDP and GNP will become more common. The situation becomes even more unclear when we ask who these foreign citizens are. Many people have double nationalities, and many live in several different countries. As a result, net factor income (return on investments) that flows out of Ireland may appear to go to the citizens of the United States if a company is registered there, but it might turn out that these US residents are also Russian citizens who have a tax residence in

the Bahamas. Has this income that has flowed out of Ireland gone to the United States, Russia, or the Bahamas? When the most important output is financial services, and net factor outflow is to individuals hiding under shell companies in the Cayman Islands (or in Luxembourg, where GNP is only two-thirds of GDP), the issue becomes even more intractable. As Gabriel Zucman (2015) points out, it is intentionally made intractable, so that incomes may be made untraceable and taxes evaded.

The gap between one's original citizenship, given generally by place of birth, and one's current citizenship or residency, although it affects only about 3 percent of the world's population, puts into doubt even our most venerable statistical indicators like GDP and GNP. Clemens and Pritchett (2008) have argued that "national" product should be calculated across people who were born in a given country and not, as it is now, across those who currently live in the country. For example, there may be a significant gap between the per capita income of people who were born in the Philippines and that of the current residents of the Philippines.

Transborder movements of people, income, and capital lead to statistical issues that were totally unknown even some twenty or thirty years ago. Mexican households report, among their social transfers, pensions received by Mexicans who have worked in the United States but have since returned and retired in Mexico. Should we treat these pensions as we treat “normal” Mexican pensions, thus giving the wrong impression about the size and distribution of Mexican social transfers? Or should we treat them as remittances, even though remittances are unrequited transfers between different individuals and not (like a pension) payment for past services to the same person? Mexico and the United States are just a representative pair here: the same problems appear in other parts of the world where a significant percentage of national population works or has worked abroad.

Studies of global inequality transcend the limits of methodological nationalism. But as we have seen in this book, the global level is best seen as a new, additional layer on top of national layers. The global level may in many instances be more useful to study, but the

analysis still cannot dispense with the nation-state. For example, we have seen in [Chapters 2 and 3](#) how inequalities within nations and among nations, respectively, enter into the calculation of global inequality, and how both of them still matter. But once we are willing to look at the world as a whole rather than as an agglomeration of nation-states, a number of issues appear under a new, and more revealing, light. We discussed in [Chapter 3](#) two such examples: the rule of law and equality of opportunity. Believing that the rich always have an interest in fighting for the rule of law or property rights in their own countries might have made sense when transnational movements of capital were difficult or impossible. It does not make sense now. Equality of opportunity cannot be a goal restricted to the level of the nation-state. We must pursue it globally.

As the world becomes more integrated, many more such revisions will affect the basic economic tools we use. I have already mentioned that national accounts will become less relevant and that monetary policy may no longer be conducted by states. (And one

can think in addition of the role that private monies such as Bitcoin may play.) But even essential economic concepts like comparative advantage, which is based on an implicit assumption of methodological nationalism, that is, of national accounting and immobility of some factors of production, may have to be revised. In a single market both wine and cloth would be, as in David Ricardo's famous example, produced in Portugal because workers and machines would all move there (and none would stay in England). As the world changes and becomes more integrated, our ways of thinking and the tools we use to understand the world become obsolete. New ways to look at reality in the age of globalization are needed. This book is a modest step in that direction.

10. Will Inequality Disappear as Globalization Continues?

No. The gains from globalization will not be evenly distributed.