

Introduction

This is a book about global inequality.

Throughout the book, I look at both income inequality and political issues related to inequality from a global perspective. Because the world is not united under a single government, however, we cannot dispense with the need to look at individual nation-states. On the contrary, many global issues are played out politically at the level of the nation-state. Thus, greater openness (commercial interchange between individuals from different countries) will have political consequences not at some imaginary worldwide level but within actual countries where the people who are affected by trade live. As a consequence of globalization, for example, Chinese workers might ask for free-trade-union rights from their govern-

ment, and US workers might ask for protective duties from their government.

Although individual nation-state economies are important, and almost all political action takes place at this level, globalization is an ever stronger force affecting everything from our income levels, our employment prospects, and the extent of our knowledge and information, to the costs of the goods we buy daily and the availability of fresh fruit in the middle of winter. Globalization also introduces new rules of the game through the nascent process of global governance, whether through the World Trade Organization, limits on CO₂ emissions, or crackdowns on international tax evasion.

It is therefore time to look at income inequality not as a national phenomenon only, as has been done for the past century, but as a global one. One reason to do so is simply out of curiosity (a trait much appreciated by Adam Smith)—our abiding interest in how other people, outside our own country, live. But in addition to “mere” curiosity, information about the lives and incomes of others may also serve more pragmatic purposes: it may help us in evaluating what to buy or sell and where,

in learning ways to do things better and more efficiently, in making decisions about where to migrate. Or we may use the knowledge acquired from how things are done elsewhere in the world to renegotiate our salary with the boss, to complain about too much cigarette smoke, or to ask the waiter for a doggy bag (a custom that has spread from one country to another).

A second reason to focus on global inequality is that we now have the ability to do so: in the past decade or so, the data required to assess and compare income levels of all individuals in the world have become available for the first time in human history.

But the most important reason, as I believe the reader of this book will appreciate, is that a study of global inequality over the past two centuries, and especially during the past twenty-five years, allows us to see how the world has changed, often in fundamental ways. Shifts in global inequality reflect the economic (and frequently political) rise, stagnation, and decline of countries, changes in inequality levels within countries, and transitions from one social system or political

regime to another. The rise of western Europe and North America following the Industrial Revolution has left its imprint on global inequality, driving it up. More recently, the fast growth of several Asian countries has had an equally significant impact, pushing global inequality back down. And national inequality levels, whether increasing in England during the early industrial period or increasing in China and the United States during recent decades, have also had global implications. Reading about global inequality is nothing less than reading about the economic history of the world.

This book opens with the description and analysis of the most significant changes in income distributions that have occurred globally since 1988, using data from household surveys. The year 1988 is a convenient starting point because it coincides almost exactly with the fall of the Berlin Wall and reintegration of the then-communist economies into the world economic system. This event was preceded, just a few years earlier, by a similar reintegration of China. These two political changes are not unrelated to the increased availability of

household surveys, which are the key source from which we can glean information about changes in global inequality. [Chapter 1](#) documents in particular (1) the rise of what may be called the “global middle class,” most of whom are located in China and other countries in “resurgent Asia,” (2) the stagnation of the groups in the rich world that are globally well-off but nationally middle- or lower-middle class, and (3) the emergence of a global plutocracy. These three salient phenomena of the past quarter century open up several important political questions about the future of democracy, which I address in [Chapter 4](#). But before thinking about the future, we return to the past to understand how global inequality has evolved in the long run.

Global inequality, that is, income inequality among the citizens of the world, can be formally considered as the sum of all national inequalities plus the sum of all gaps in mean incomes among countries. The first component deals with inequality in incomes between rich and poor Americans, rich and poor Mexicans, and so on. The second component deals with income gaps between the United States

and Mexico, Spain and Morocco, and so on for all countries in the world. In [Chapter 2](#) we consider within-nation inequalities, and in [Chapter 3](#), among-nation inequalities.

In [Chapter 2](#), I use long-term historical data on income inequality, going back in some cases to the Middle Ages, to reformulate the Kuznets hypothesis, the workhorse of inequality economics. This hypothesis, formulated by Nobel Prize-winning economist Simon Kuznets in the 1950s, states that as countries industrialize and average incomes grow, inequality will at first increase and then decrease, resulting in an inverted-U-shaped curve when one plots inequality level against income. The Kuznets hypothesis has recently been found wanting because of its inability to explain a new phenomenon in the United States and other rich countries: income inequality, which had been decreasing through much of the twentieth century, has recently been on an upswing. This is difficult to reconcile with the Kuznets hypothesis as originally defined: the increase of inequality in the rich world should not have happened.

To explain this recent upswing in inequality, as well as shifts in inequality in the past, going back to the period before the Industrial Revolution, I introduce the concept of Kuznets waves or cycles. Kuznets waves can not only satisfactorily explain the most recent spell of increasing inequality but can also be used to predict inequality's future course in rich countries like the United States or in middle-income countries like China and Brazil. I distinguish between Kuznets cycles as they apply to countries with stagnant incomes (before the Industrial Revolution) and as they apply to countries with steadily rising mean incomes (the modern era). I distinguish between two kinds of forces that drive inequality down: "malign" forces (wars, natural catastrophes, epidemics) and "benign" forces (more widely accessible education, increased social transfers, progressive taxation). I also emphasize the role of wars, which in some instances may be caused by high domestic inequality, insufficient aggregate demand, and search for new sources of profits that require control of other countries. Wars can lead to declines in

inequality but also, unfortunately, and more importantly, to declines in mean incomes.

In [Chapter 3](#), the focus is on the differences in mean incomes among countries. Here we face the interesting situation that now, for the first time since the Industrial Revolution two centuries ago, global inequality is not being driven by rising gaps among countries. With the increases of mean incomes in Asian countries, the gaps between countries have actually been narrowing. If this trend of economic convergence continues, not only will it lead to shrinking global inequality but it will, indirectly, also give relatively greater salience to inequalities within nations. In fifty years or so, we might return to the situation that existed in the early nineteenth century, when most of global inequality was due to income differences between rich and poor Britons, rich and poor Russians, or rich and poor Chinese, and not so much to the fact that mean incomes in the West were greater than mean incomes in Asia. Such a world would be very familiar to any reader of Karl Marx, and indeed to any reader of the canonic European literature from the nineteenth century. But we are not there

yet. Our world today is still a world in which the place where we were born or where we live matters enormously, determining perhaps as much as two-thirds of our lifetime income. The advantage that people born in wealthier countries possess is what I call “citizenship rent.” I discuss at the end of [Chapter 3](#) its significance, its political philosophy implications, and its direct consequence: pressure to migrate from one country to another in search of higher income.

After having looked at the separate components of global inequality, we can return to considering it as a whole. In [Chapter 4](#), I discuss the likely evolution of global inequality in this century and the next. I avoid the seemingly exact projections of global inequality, because in reality they are treacherous: we know that even much more elementary projections of countries’ GDPs per capita are most of the time not worth the paper they are written on. It is better, I believe, to try to isolate the key forces (income convergence and Kuznets waves) that are driving nations’ and individuals’ incomes today and to see where they might lead us in the future. We must remember,

though, that in making these predictions, we are often on speculative ground.

While writing [Chapter 4](#), I went back to some of the popular books of the 1970s and 1980s that were trying to predict the future by extrapolating from current trends. I was struck by how time-bound they were, as if imprisoned not only in their space (the place or country where they were written) but even more so in their time.

At the end of *À la recherche du temps perdu*, Proust marvels at how old people seem to touch, in their own personas, very different epochs through which they have lived. Or as Nirad Chaudhuri writes in the second volume of his beautiful autobiography (*Thy Hand, Great Anarch!*), it is not impossible to have seen, in one's lifetime, both the peak and the nadir of a civilization—Roman glory at the time of Marcus Aurelius, and the moment when the Forum was abandoned to grass-grazing sheep. Perhaps with age we acquire some wisdom and the ability to compare different epochs that might allow us to better see the future. Yet that wisdom was not evident to me in the writings of the important authors from

thirty or forty years ago. It seemed to me that some authors who wrote a century or more ago were more prescient of our dilemmas today than those who were much closer to us in time. Was it because the world dramatically changed in the late 1980s with the rise of China (which nobody writing in the 1970s foresaw) and the end of communism (which similarly was never envisaged)? Can we rule out similarly unexpected events in the next several decades? I do not think so. Yet I hope, though I am far from being certain, that this wisdom of which Proust and Chaudhuri speak and which is acquired with age may be more in evidence to the reader of this book thirty or forty years hence.

I end [Chapter 4](#) with a discussion of three important political dilemmas that face us today: (1) How will China deal with the rising participatory and democratic expectations of its population? (2) How will rich countries manage perhaps several decades of no growth among their middle classes? and (3) Will the rise of the top one-percenters nationally and globally lead to political regimes of plutocracy or, in an attempt to placate the “losers” of globalization, populism?

In the last chapter, I review the main points of the book, distilling its key lessons and making proposals that I believe will be crucial for reducing domestic and global inequalities in this century and the next. For within-national inequalities, I argue for a much greater focus on equalizing endowments (ownership of capital and level of education) rather than on taxation of current income. For global inequality, I argue in favor of faster growth of poorer countries (a rather uncontroversial position) and in favor of lower obstacles to migration (somewhat more controversially). The chapter is divided into ten reflections on globalization and inequality that are more speculative and, unlike the rest of the book, draw more on my opinions than on specific data.

Perhaps the best way to understand the organization of the book and appreciate its symmetry is by means of a schematic chart of its major chapters ([Figure I.1](#)).

As the reader can easily see (if she holds a print copy of the book, or if she looks at the total number of words in an electronic copy), this is a relatively short book. It has quite a few graphs, but I hope that they are easy to under-