

BOOK REVIEWS

Global Inequality: A New Approach for the Age of Globalization, by Branko Milanovic, Belknap Press: An Imprint of Harvard University Press, April 2016, pp. 320.

The topic of inequality is widely discussed during present days by economists and the policymakers, resolving inequality as a long contentious matter. Despite experiencing its detrimental effects on society, few countries around the world have been able to overcome this challenge effectively. American award winning writer, George Packer, considers inequality as a single biggest problem faced in the United States. Taking into account the complexities in resolving this issue, Janet Jalen, presently serving as the Chair of the Board of Governors of the Federal Reserve System stated in 2006 that “Inequality has risen to the point that it seems to me worthwhile for the U.S. to seriously consider taking the risk of making our economy more rewarding for more of the people.” This alarming statement from then President of Federal Reserve Bank of San Francisco came at a period when the U.S. economy was booming.

Globalization has indeed been a major factor behind growing inequality in the United States. The country intensively exports goods and services that require skilled labour and intensively imports goods that require less skilled labour. While skilled workers, managers and executives have gained, the well-paying manufacturing jobs have steadily declined over the decades as foreign produced goods have been in more demand. During the same period, technological advancement has allowed employers to find workers from different parts of the world to perform computer based tasks which has also led to a decrease in demand of domestic workers.

Given the immense influence which globalization is having on inequality in different parts of the world, Branko Milanovic’s book *Global Inequality: A New Approach for the Age of Globalization* is a timely and important study on this matter. The author has done extensive research on inequality between countries and within the countries. With the help of statistics, he has elaborated patterns of inequality and observed factors that have led to growth and reduction in inequality, over two decades. His informed insights have made this book very relevant for those who are interested in this topic.

Milanovic has offered distinctive reasons for patterns of inequality than the previous studies and has also highlighted various contributing factors towards growth in inequality. In mid-20th century, Simon Kuznets examined that inequality

within countries follows a U-shaped trend. According to Kuznets, inequality rises initially when the country embarks on development due to low level of employment but when development occurs then inequality starts to fall as economy moves towards full employment, triggering increase in wages of workers. However, data does not support his hypothesis as inequality started to rise in Western countries in the 1980s.

In 2013, another significant work on inequality, *Capital in the 21st Century*, was presented by the French economist, Thomas Picketty. In response to Kuznets, he argued that inequality only fell in the first place due to loss of capital during the two World Wars and with the economic system in place in the West; the rise of inequality was inevitable. Milanovic tends to disagree with both in his book. He presented the idea of 'Kuznets waves' which represent his findings that throughout the history inequality has been flowing in cycles. He suggests that perhaps there is an endless cycle where inequality rises, falls and then rises again.

He has examined globalisation along with technological change and shifts in policy that occurred due to industrialisation. Many workers moved away from farms and found better paid jobs in factories. The increase in manufacturing jobs raised average incomes but there was also a higher gap between workers' income. In this book, the author has also discussed as to how the malign and benign forces impact inequality in the both the positive and negative ways over time. Earlier, economic growth led to inequality in the West, but then during the 1970s, the fall in inequality, occurred due to wars, political disputes and increase in overall education as well. He has further stressed that malign forces have often emerged due to inequality as societies with high inequality are more prone to violence and wars. The analysis and data suggest that policymakers should be more watchful while basing policies on economic indicators and should take into consideration the broader factors.

In a World Bank's working paper (in 2012), Milanovic presented a chart which plotted percentage income growth rate against the percentiles of the global income distribution. On the chart, the data he examined covered the period from 1988 to 2008 and is transpired in the shape of an elephant, thus it is becoming known as the 'elephant chart.' The chart caught the attention of academicians who consider it as a crucial development in this field. According to the chart, the worlds poorest have only gained slightly while the super-rich have gone on to become richer. Much debate has ensued over the trajectory of the middle classes in developed and developing countries. Many interpreted that globalisation supports the growth of developing countries while hindering the economic prospects of middle classes in the developed countries. In this book, the author explains the chart and provides his much awaited views on the intriguing findings.

He adds that in the emerging middle the classes, Asian Economies have benefited immensely. A great proportion of these winners belong to China. The super-rich of the world have also been the beneficiaries from globalisation. In this case,

the United States is dominant as it boasts the largest chunk of global one per cent and has experienced persistent gain in its income during this period. According to his findings, the gap between the rich and poor in the developed world has widened and so he implies that globalisation has been favourable to those who were better-off before as well.

Along with presenting statistics and their interpretation, he has brought reader's awareness towards political implications of inequality and also prescribes policies to world leaders. While he considers the gain of world's poor and middle classes an encouraging development, he has serious concerns about what is happening in the rich countries. According to him, the elite capture the politics and their negligence towards greater economic prosperity reinforces inequality. This is a major factor behind the rise of populist movements in the West.

By explicating the relationship between politics and macroeconomics, Milanovic has given sound arguments aimed at prompting much needed policy adjustments. The work is not only informative but applicable as well.

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