Playing fair

The economist Branko Milanović on rising inequality and the threats it poses to democracy

Read this article in German.

Inequality specialist Branko Milanović says redistributing wealth won't cut it in our globalised world. Rather than just raising taxes for the rich, progressives need to pour their energy into creating better educational opportunities for everyone, no matter what their background. That means people will start off in the jobs market on a more level playing field. Anja Papenfuß asked him what that looks like in practice.

We have a paradoxical situation in Germany: although the economy is doing very well, a lot of people feel it isn't benefitting them. They say it's the fault of mainstream parties and are turning to populist alternatives. Do they have a point?

Germany's held up as an example of country that's adapted well to globalisation. It's the largest exporter in the world right now. Unemployment's low at around 5.7 per cent – even though the country's had to absorb lots of migrants.

However, incomes for the bottom 50 per cent of the German population haven't gone up in 15 years. When you look at the economy from their perspective, and then add in other factors like a fear people's jobs will be affected by migration, the rise of populist parties in Germany and elsewhere seems more understandable.

What about the trade unions? Have they done enough to support workers?

Because of the changing nature of jobs and the workplace, trade unions around the world are losing members, both in the private and public sectors. Even in Germany there's been a decline in trade unions. That raises real difficulties for left-wing parties which used to have strong links to the trade unions. Now these links are getting weaker, which means the Left needs to rethink its economic policies.

In what way?

Well, so far most policies go on the assumption that you and I will have different incomes, and the government will try and balance things out a bit through taxes and transfers. But if our starting positions in terms of education and capital were very similar then the outcomes would not be very different and the government wouldn't need to play such a big role.

Left-wing parties should expend more effort on policies that help people enter the labour market on a more equal footing. Rather than putting their time and resources into redistributing income that's already been earned, they should start pushing good education for everyone no matter what their social class and redistributing capital to the middle classes. That would be my recommendation.

If, as you write in your book, globalisation is the main driver of rising inequality, are policies of trade protectionism, like what Donald Trump is suggesting, the right answer?

No, I think they're wrong. His policies will actually be very difficult to implement because of all the international rules that exist to prevent protectionism. But even if Trump does implement them, I think they'll only be a temporary measure. They won't improve people's economic situation in the long term, or even the medium term. And only a very small number of people would gain from these policies. Most people would lose out.

Policies like these are bad in the long term for the United States and the rest of the world. The ability to reduce tariff rates constituted a breakthrough. 50 years ago, average rates in rich countries were 10 to 12 per cent; now they are down to one or two per cent. Going back to the old policies would be wrong.

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But multilateral free trade agreements like TTP and TTIP have also come in for a lot of criticism in the US and Europe.

As you know, many of these negotiations are held in secret. Paul Krugman, a well-known trade economist, told me he learnt of the details from leaked documents. There are lots of monopolistic practices there on protection of intellectual rights and patents on drugs, computers, software, and so on. So, these are really lobbyists who are trying to insert their own preferences into these trade negotiations

which are not in the interest of consumers or employees.

How is it that inequality *between countries* has been falling over the past three decades whereas *within* most Western countries it's grown substantially?

The answer is simple: the economies of the poorer, populous parts of the world, e.g. China, India, Vietnam, have grown. They've created what you could call a global middle class. You see this in the huge increase in Chinese tourism to Europe. That's what's resulted in reduced global inequality.

But when it comes inequality within nations, Western countries have responded to China's rise by slashing the jobs or wages of people working in industries that have to compete with China. The same force of globalisation which is increasing Chinese incomes and creating this global middle class might also have reduced incomes for some American workers. As a consequence, inequality in America is going up. But people shouldn't use this correlation as an argument for introducing punitive tariff rates. Rather it should prompt us to help those negatively affected by globalisation.

Why do you see rising inequality as a threat to democracy? Because it gives populists more power?

No, not only that. High inequality means many more resources in the hands of the top one percent of the population. A lot of legislation reflects the preferences of the rich. As rich people become more and more powerful and fund political processes and parties, they start dictating economic policies. And they dictate these policies in their own interest. So they reinforce the advantage they already have. And I think it's dangerous for democracy because it's now clear that not everyone's vote counts equally.

That's one threat. The other threat is that with greater polarisation we will see a decline of the economic middle class. That doesn't necessarily mean people have become poor. Many people have moved up to the richer classes, but the middle is being squeezed. And then, the question comes up – if democracy was built on the foundation of the middle class, how would it function in a much more polarised setting?

You have lots of rich people and lots of poor people: how do you ensure parliament represents this balance? Probably, you'll just get richer people entering parliament. That wouldn't be populism but plutocracy.

I actually see these two possible dangers: plutocracy and populism. And the ironic part is that Donald Trump, to some extent, probably intuitively, embodies both. Because he reduced taxes for the rich, which was a totally plutocratic policy that benefited only the very top. And now he says: I'm going to increase tariffs, which is a populist move. So you could call him a 'pluto-populist'.

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Will we still have a middle class in Western countries by 2050?

We'll probably still have one, but it will be smaller. But it's not all bad. In Finland for example, four out of five people who've shifted out of the middle class are now considered rich. One in five of those who've moved out of the middle class are poor. So, a shrinking middle class isn't bad *per se*, but it does raise issues of democratic representation.

What can be done to reverse this trend?

First, we need to de-concentrate capital ownership, because capital as a share of total net income is going up. If that capital remains very concentrated our society automatically becomes more unequal. Secondly, we need to guarantee equal access to excellent education. That applies especially in the United States, but it may be needed in other countries too. So, the biggest emphasis should not be put on better distribution of income that's already been earned, but on bringing everybody to a similar starting position.

It seems to me that this is a future policy for the Left, in combination with an inheritance tax, although that's not very popular. But it doesn't mean that you tax every inheritance. It would mean that you tax large inheritances of, let's say, over €1 million. This could be a sensible policy for the Left: to concentrate more on what is called the pre-redistribution stage. Because that's a more fundamental form of equality than simply redistributing the money once it's been produced.



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Branko Milanović is a visiting professor at the City University of New York. Prior to that, he was, among other things, senior economist of the research department at the World Bank. For his book *Global Inequality. A New Approach for the Age of Globalization* he won the Hans-Matthöfer-Prize awarded by the Friedrich-Ebert-Stiftung. Most recently he published *Capitalism, Alone: The Future of the System That Rules the World*.