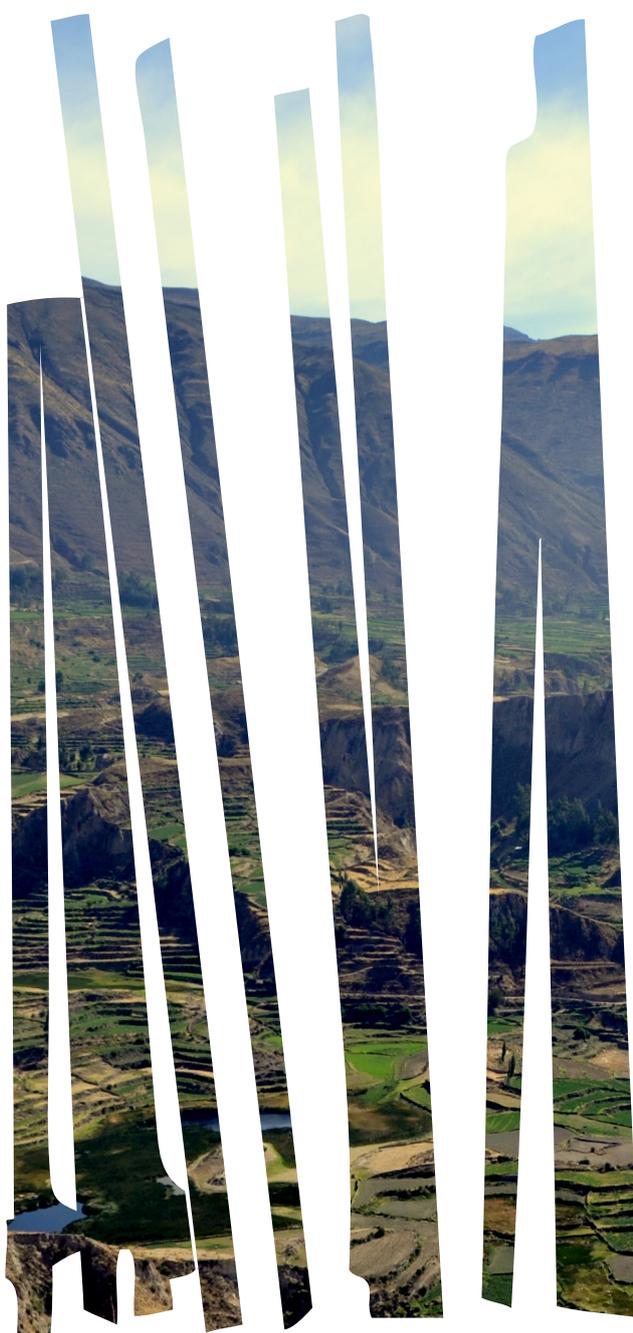


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Inequality in the Twenty-First Century
A Review on Rockstars of the Realm

Martyna Berenika Linartas



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Inequality in the Twenty-First Century

A Review on Rockstars of the Realm

Abstract

Not only has been economic inequality on the rise, but also the research agenda on inequality has moved decisively from the fringes to the center of policy and academic interest. This new concern and concentration in respect to this topic, data records, and methodological approaches have given rise to a vast amount of literature. It is for this reason that I review the most important recent works engaging with the origins of economic inequality – a debate which remains highly controversial. The usual categorization to explain the different storytelling – “to be or not to be neoliberal” – seems inappropriate. In this review on “the rockstars of the realm” (Thomas Piketty, Anthony Atkinson, Branko Milanovic and Walter Scheidel), I argue that the question and reason behind different approaches is instead: politics or the economy, which is the master that defines the space for action? The gradually established allegory of “the mirrored hourglass of inequality” illustrates the salience of this cleavage.

Keywords: Economic inequality | approaches | battle of ideas

About the Author

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prosperity has to reach all citizens (SZ 2018, TSP 2018, SPON 2018). Yet as Thomas Piketty et al. in the *World Inequality Report 2018* (WIR) reveal, we are a long way from achieving the proclamation.¹ The good news is that first estimates from the report of how the growth in global income since 1980 has been distributed across the totality of the world population find that inequality *between* countries has dropped. The bad news is: inequality *within* countries was rising and the middle-class has been “squeezed” as the gap between the top and the bottom has steadily widened (WIL 2018: 11, 14). If in future “business as usual” continues, the authors of the WIR state, global inequality will further increase. That rising economic inequality presents a challenge and that considerations should be given may sound obvious. Inequality breeds crime (World Bank 2002, 2014), harms societies (Oishi *et al.* 2011, Wilkinson 2011) and is seen as the root of evil (Pope Francis 2014).

But it is only recently the research agenda has moved decisively from the fringes to the center of policy and academic interest, and also, that inequality is now framed as a phenomenon that “hurts everyone regardless of economic status” (Ingraham 2018).

The shift in the debate occurred after decades of the supremacy of neoliberalist thinking that understood inequality as a central driver for a creative, productive and dynamic society. This stance was previously embraced by neoliberals whose convictions developed out of the opposition to the ideas of John Maynard Keynes² and the prevailing view of strong interventions by governments. Friedrich August von Hayek and Milton Friedman are the ones whose names are mostly attached to this market ideology. Both received the Nobel Memorial Prize in Economic Sciences, both were members of the Mont Pelerin Society (MPS)³ and as such it was in their aim to establish and spread their neoliberal beliefs. The state had long been seen as necessary. As Adam Smith, the father of economics, wrote in *Wealth of Nations*:

It is only under the shelter of the civil magistrate that the owner of that valuable property, which is acquired by the labour of many years, or perhaps of many successive generations, can sleep a single night in security (Adam Smith 2007 [1776]: 550).

But Hayek, Friedman and kindred spirits wanted to limit the power of governments and to unleash the powers of the market.

1 The World Inequality Report 2018 represents a compilation done by over one hundred researchers located over five continents that cover more than seventy countries in a consistent and systematic manner (WIL 2018: 26). Access to the WIR and the World Inequality Database (WID) is open to everyone.

2 Expressed in *The End of Laissez-Faire* from 1926.

3 Hayek was the founder.

(A)t the heart of the ideas behind the new laissez-faire was a political and ethical theory that put primacy on the markets as the only means to satisfy want and reward labor, and this would become core of the new intellectual reorientation that would redefine the discourse on economic inequality (Thompson 2007: 148).

The work of Hayek and Friedman laid the intellectual foundations for nearly four decades in Western societies. The foundation of the MPS in 1947 can be understood as the declaration of war on the interventionist approach current at the time, particularly the expansion of the welfare state. Hayek sought to win the “battle of ideas” in order to “discredit socialism and outline alternatives” (Butler 2012; Thompson 2007: 10). In the 1970s and 1980s, five Nobel Prizes in economics went to members of the MPS. In the late 1970s, Margaret Thatcher, at that moment being the new party leader, attended a Conservative Party policy meeting, interrupted a speaker that called for a pragmatic middle way, made a statement by taking out a book from her briefcase, while thumping *The Constitution of Liberty* written by Hayek on the table and said “(t)his is what we believe” (Ranelagh 1991). Apparently, it is not questionable that proponents of the neoliberal ideology had succeeded: the battle was won. “Over time”, as Michael Thompson observes, “this new market ideology has come to legitimize economic inequality as a necessary byproduct of capitalism” (Thompson 2007: 145). Interpersonal inequality, in both Hayek’s and Friedman’s opinion, resulted from interpersonal differences in skills and talents. According to neoliberal thinkers, market capitalism leads to the liquidation of class, it opens the door to social mobility and establishes equality of opportunity. Just as his descendants in the liberal tradition, John Locke – one of the founders of liberal political philosophy and limited government – stressed this aspect (Locke 2007 [1691], §4). But today’s analysis of Western societies reveals that family and social background become increasingly important and that the promise of capitalism has not been delivered; in the United States even less than in Europe (Blanden *et al.* 2013, Levmore 2015). Nonetheless, American citizens still hold on to the dishwasher-to-millionaire-story (OECD 2008). The distortion between reality and the external appearance from one perspective, and theory and beliefs in the US from the other are summed up cynically but appropriately by Saul Levmore:

Viewed from Europe, the United States looks like a greedy place where the rich get richer, finance political candidates including themselves, resist providing health care and other necessities to the poor, and refuse to be taxed at just rates. But when Americans look in the mirror, they continue to see the American dream (Levmore 2015: 843).

It is not that there were no fights for equality in recent decades, but these were on the “horizontal axis” only, as between black and white, women and men, homosexuals and heterosexuals among others (Eribon 2009, Nachtwey 2012, Milanovic 2016). In *Discourse on the Origin and Basis of Inequality Among Men* from 1755, Jean-Jacques Rousseau conceives two “species of inequality among [wo]men”: the natural, or physical inequality which exists by nature and “consists in the difference of age, health, bodily strength, and the qualities of the mind, or the soul”; and the moral, or political inequality that is established, or at least authorized. “This species of inequality consists in the different privileges, which some [wo]men enjoy (...) such as that of being richer, more honored, more powerful” (Rousseau 2009 [1755]: 9). What Rousseau termed the natural inequality fits best the above mentioned horizontal axis; whereas the present use of the vertical axis that describes disparities between poor and rich fits best to Rousseau’s term of political inequality. If one applies Rousseau’s terms of inequality for recent decades, the earliest history of the analysis of inequality appears paradoxical: Whereas the focus laid on the horizontal axis by which minorities entered political fights based upon natural inequality (in order to establish political equality), the vertical axis or the disparities between rich and poor – to use Rousseau’s term: the political inequality – was no political issue. By no means do I state that the horizontal axis is of no interest, but it should not, as stressed by many (Nachtwey 2012, Atkinson 2015, Milanovic 2016 among others) be the only or most important concern. By now, it is not: things have changed as the paradigm has shifted. Today, “We are the 99 percent”, or, as Nobel laureate and New York Times columnist Paul Krugman states, even the 99.9 percent, as the 99 percent slogan aims too low (Krugman 2011). As Miles Corak shows:

Presidents and princes, popes and high priests of capitalism, all, it now seems, have an opinion on the nature and consequences of inequality, and they all think it is a problem worthy of public policy attention (Corak 2016: 368).

In 2016, Corak lists the most influential works on economic inequality: “Atkinson (2015), Milanovic (2016), OECD (2011, 2015a), and Piketty (2014).” I agree with him, yet in my opinion, Walter Scheidel’s book which was published a year after Corak’s paper appeared, should be added. Furthermore, I would like to make another addition: the

two reports of the Organization for Economic Co-operation and Development (OECD) to which Corak refers are *Divided We stand: Why Inequality Keeps Rising* from 2011, followed four years later by *In It Together: Why Less Inequality Benefits All*. It was an earlier report that started the ball rolling: *Growing Unequal?* (notice the question mark). In 2008, the OECD published this report which analyses key features and patterns of income inequality and searches for the winners and losers of globalization. What the OECD finds is an overall trend in growing income inequality which differentiates itself among the countries due to different government policies. Even if inequality is on the rise and governments can and should combat this issue, the OECD also stresses that a society with perfect equality is neither desirable nor legally feasible. But what should be aspired to is equality of opportunity – the concept that was not achieved by neoliberal policies and which, according to Oliver Nachtwey, fades the vertical logic of redistribution (Nachtwey 2017: 111-112). The report from the OECD of 2015 stresses that an ongoing trend of inequality raises both political and economic concerns and identifies main areas in which policy packages are required – now. On 24 January 2018, Christine Lagarde, the Managing Director of the International Monetary Fund (IMF), expressed the same belief and idea that “there is no doubt that now is the right moment to act – the time to fix the roof is while the sun is shining” (IMF 2018). Coming back to Corak and overviewing the works he names, it is difficult to follow his hypothesis that two stories about inequality may be told. The tone set, according to him, will depend on ideological predispositions – whether you are neoliberal, trust the market forces and do not want government to intervene; or if you have a collectivist view, you are afraid of market failures and understand government as a necessary force for good (Corak 2016: 369). Immediately following his assumption, he wants to present hard facts and pure data, stating that we deal with numbers that are not made up on the basis of any ideological predisposition. The problem is: there is no vacuum out of which data present itself in a pure way. There is always a story behind them. Data are, no doubt, hard – but the quality and scale of hardness depend on the forge they come from. It is later in his article that the author dismantles his ironic tune towards “hard data”: “I am certain the selective choice of start and end points is often made in public policy discussion” (p. 378).⁴ But to question the choice, you have to understand that there was one. Tables and figures are not engraved in stone but are developed by researchers. As has been presented, not only has inequality been on the rise, but also concern and concentration in respect to this topic, the data record, and methodological approaches. It is for this reason that I review the most important recent works on inequality. In the next section I introduce the method, establish the concept on which it is based and explain my decision behind the choice. Next I open the third part with a short presentation of my selection before I focus successively on each

4 For reflections on data, see the Appendix.

author's books in turn. They all dedicate their research to economic inequality, call for interdisciplinary research and provide substantial new findings. Yet still, they differ substantially. In the last section I bring "the Four Angelists" together, integrate a critique of their research, show both their common ground and differences, while offering an explanation for their disputes. The established categorization to explain the different storytelling – neoliberal or not – seems inappropriate in the light of the analysis of the authors. As Corak states, they tell different stories, but not because of the question of whether "to be or not to be" neoliberal; and not only because they rely on different data. I think the question they are addressing is another one: Does politics give instructions to the economy or is it the economy that defines what politics has to do? Is politics an exogenous factor of the economy or is it endogenous to it?⁵ In the following I intend to show that this question is the key point of controversy in the debate about economic inequality, which yields different approaches about what needs to be done – or not.

2. Method: Get to the Point

As economic (or vertical) inequality moved from the periphery to the center of research and public interest, interested people are now faced with an increasingly large literature regarding both theoretical questions and policy recommendations over a huge range of particular aspects. It is therefore important to have these works reviewed in order to find their similarities and differences, to see if it is possible to generalize their findings and stimulate reflection and further research. A review does not present new findings on the chosen topic, rather the "main reason for doing a review is", as the definition by Paul Glasziou expresses, "to provide a readable synthesis of the best of the current research literature on an important question or topic" (Glasziou 2013: 89). Hence this paper is characterized by working methodically (not theoretically), as carrying out a review may be comprehended as a scientific problem and method in itself (Fettke 2006: 258). As such it is indispensable to take methodological guidelines into account. For this purpose, I establish a roadmap to both make a clear announcement of this journey through the mountains of information and to not lose sight the forest for the trees. A typology of fourteen different reviews from Maria J. Grant and Andrew Booth provides a useful overview of the variety of possibilities (Grant and Booth 2009). They offer various review types for which they offer a label and a descriptive insight pointing to their key characteristics, strengths and weaknesses. Another approach is presented by Peter Fettke (2006). This one comes without labeling, but categories upon which one has to decide for each characteristic. Taken together they complement each other

⁵ In German, "Politik" embraces policy, polity, and politics. For simplicity's sake, I use politics; yet mean all three, or rather the German "Politik".

well. The following table expresses where a literature review fits in the realm of all possible reviews.

Table 1: Characterization of Reviews

Characteristic		Category			
1. Style		natural language**		mathematical-statistical	
2. Focus		research results**	theory*	research method*	experience
3. Goal	Formulation	explicit**		not explicit	
	Content	central topics**	critique*	integration	
4. Perspective		neutral**		position	
5. Literature	Selection	explicit**		not explicit	
	Scope	key works**	representative	selective	complete
6. Structure		topical**	methodological*	historical	
7. Audience		researchers**	practitioners**	experts**	public*
8. Future Research		explicit**		not explicit	

Source: cf. Fettke 2006: 262. Legend: Two stars represent my choice; one star means I touch upon the category.

Based on the scheme presented above, my decisions for the literature review are as follows: I will write in natural language as words reach a broader audience than mathematical equations (I agree with Stephen Hawking, see p. 21).⁶ Furthermore, I orient my style towards *Economical Writing* by Deirdre N. McCloskey – an outstanding professor who treats economy like lyrics (FAZ 2013), strives for clarity beyond mere fluency, encourages academics to use more humor and states that “footnotes are nests for pedants” (McCloskey 2000, p.48). I did my best.⁷ In the next section I will introduce the work of four authors, namely Thomas Piketty, Anthony B. Atkinson, Branko Milanovic, and Walter Scheidel in chronological order. Within the meaning of a systematic review, first I chose the topic and research question (of similarities, differences, and the reason behind) and thereafter the best literature available to answer those questions (Glasziou 2013: 90). The authors chosen are the ones that are most influential in the recent debate on economic inequality as mentioned in the first section. The reasons for their selection is due to their contributions, expressed in the hyperbolic title that foreshadows their chapters and which I will present in the next section. The use of four key authors results in balancing the depth and breadth of the review in the scope of this paper. I aim to introduce key findings, to elaborate on their

⁶ And allows irony – which I will move down to the footnotes whenever it originates from my pen. McCloskey would welcome it (2000: 43) and Piketty shows the way (in his footnotes, too).

⁷ But I must admit that I use more footnotes than McCloskey would endorse.

views and to incorporate the author's approaches and methods as I wish to provide a comprehensible comparison. Of first priority is the introduction of key findings and to "get to the point" (McCloskey 2000: 11); but I will also present and formulate critiques of their work, aiming to do this from a neutral perspective (toward the authors) and ask for the reason why the "messages" of the "Angelists" or their stories (in the words of Corak 2016) are quite diverse. As the topic of economic inequality and the research question came before the literature choice, I avoid selecting work "that supports [my] world view, lending undue credence to a preferred hypothesis" (Grant and Booth 2009: 97). Yet a "weakness" of literature review which applies is a missing maximizing scope.

Any conclusions [literature reviews] may reach are therefore open to bias from the potential to omit, perhaps inadvertently, significant sections of the literature (Grant and Booth 2009: 97).

This holds true for my final conclusion concerning why different messages or stories are told; thus the findings provided here have to be treated with caution and represent a first approximation to this question which requires further research.

The goal of this paper is clear: Ultimately, I would like those interested in economic inequality – be they students from different backgrounds, the practitioner and decision makers in politics, or experts in inequality – to receive an overview of the most recent and influential contributions to the debate and sharpen their reflections in the sense that they question the work and perspectives of each author regarding economic inequality.

3. The Four Angelists

There can be no shadow of a doubt that we owe it to Thomas Piketty with his publication of *Capital in the Twenty-First Century* in 2014 that the topic of inequality reached center-stage in public discourse. As *The Economist* wrote: "It is the economics book that took the world by storm" (The Economist 2014). From Beijing to Berlin, Piketty, professor at the École des hautes études en sciences sociales (EHESS) and associate chairperson at the Paris School of Economics, travelled the world to present his bestseller. He emphasizes the role of wealth concentration and distribution and breaks down his theory into one formula, underpinned by data from the last 250 years: $r > g$. Piketty argues that the rate of return on capital r exceeds the rate of economic growth g and that this leads to growing wealth concentration and rising inequality. But as the system has been designed, it can be modified, and the relation of r and g reversed: a global progressive taxation on capital would address this problem.

Proposals from Anthony B. Atkinson, the “Godfather” of modern income inequality research, run in the same vein: the solution for problems of inequality lie in our hands. This does not come as a surprise given the joint work of Piketty and Atkinson since they first met at the London School of Economics in 1991. Back then, Piketty was a young student while Atkinson was an established researcher, known for his academic contributions which would finally span half a century, covering more than forty books and 350 scholarly articles (Piketty 2017). As Atkinson himself states, in the 1980s to the mid 1990s his work “fell on deaf ears, largely” (Atkinson and Stern 2017: 13). This changed when he wrote a report in 1995 which was the first work in 20 years that the OECD had published on income distribution (Atkinson *et al.* 1995). In *Inequality. What can be done?*, published in 2015, Atkinson demonstrates that constraints for his proposals are purely political, not economic. This marks him a genuine “possibilist” as he “sharpen(s) the perception of available avenues towards change” (Hirschman 1971: 37, see also Lepenies 2008) and brings the book of Piketty to the next level (FAZ 2016, Hollanders 2016).

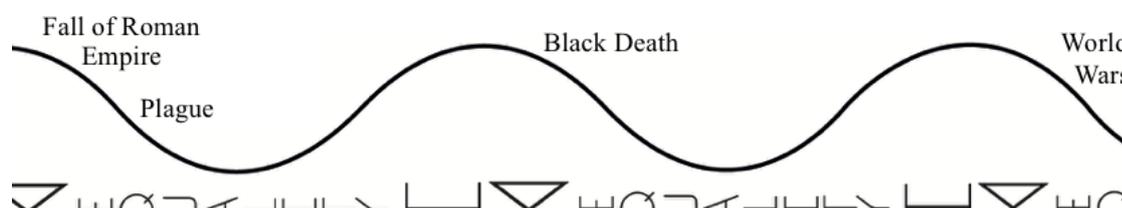
The third author that cannot be overlooked is Branko Milanovic. Currently professor at the City University of New York, Milanovic was previously a lead economist for the World Bank. With *Global Inequality. A New Approach for the Age of Globalization* (2016), Milanovic provides a study of inequality both within and among countries, a “must-read”, as Piketty notes. Beyond that, Milanovic introduces the model of “Kuznets circles” or “waves”. This new approach is, as the name suggests, based on the “Kuznets curve”, developed by Simon Kuznets in 1955. Kuznets assumed

a long swing in the inequality characterizing the secular income structure: widening in the early phases of economic growth when the transition from the pre-industrial to the industrial civilization was most rapid; becoming stabilized for a while; and then narrowing in the later phases (Kuznets 1955: 18).

Graphically displayed, the level of income plotted against the level of inequality would show an inverted u-shape. What seems perfectly clear in theory turns out not to be compatible with what we have observed in several countries since the 1980s. The problem, however, is that for decades, no new approach has emerged to replace the Kuznets curve that would have been capable to explain the growing level of inequality. Then came Piketty. Milanovic criticizes that while Kuznets cannot explain the inequality increase after 1980, Piketty’s theory fails to be applicable for the time before the twentieth century. While Piketty dismisses the Kuznets curve completely, Milanovic embraces and extends the curve, converting it into a wave.

Yet what these economists – all of them – have in common, is the explicit desire for interdisciplinary work on the topic. With *The Great Leveler. Violence and the History of Inequality from the Stone Age to the Twenty-First Century* (2017), the historian Walter Scheidel of Stanford University has welcomed this call. Echoing the wish, it is on the very first and last pages on which he refers to Branko Milanovic, Thomas Piketty and Anthony Atkinson. In this manner, he puts himself squarely in the interdisciplinary scientific discourse about inequality, self-confidently and well-knowing that he gives another impetus to the literature as he analyzes the entire history of inequality since the dawn of mankind. As Scheidel puts it, the challenge of inequality has only recently been an upcoming concern. Yet inequality’s history “runs deep” (Scheidel 2017: xv) and despite an enormous amount of attention towards this issue, a cross-cultural, comparative, and long-term perspective of its evolution had yet to be written. At the core of his work lie the arguments that first, high levels of inequality are the rule and not the exception ever since societies generated an economic surplus; and second, that massive violent shocks in form of the “Four [apocalyptic] Horsemen” war, revolution, state failure, and plague alone have been able to reduce economic inequality.

Figure 1: Stylized inequality trends in Europe in the long run



Source: Scheidel 2017: 87; own compilation.

Taken together, I consider that the four authors – or following the visual vocabulary of Scheidel, “the Four Angelists” (as they proclaim no good news, but groundbreaking findings)⁸ – tell four different stories, based upon different questions, theoretical grounds and using different tools to reach their various goals. Before I present them in comparison and interpret their findings, I examine each single author in turn.

3.1 Piketty: It’s the $r > g$, Stupid

Piketty’s *Capital in the Twenty-First Century* (in the following, “C21”) is based upon one central equation: $r > g$, where r is the rate of return on capital and g stands for the rate

⁸ Evangelist comes from the Ancient Greek: εὐαγγέλιον eu-angélion; eu means good, angélion news.

of growth in an economy (Piketty 2014a: 25). This formula derives from the observation that the rate of return available to an investor in capital manages to surpass the rate of growth available to the majority of the population. A person that inherited a huge fortune may lay back and see her wealth increase through good investments whereas by contrast, the average person must rely on income from work. Over the long haul, the gap between the two will rise and economic inequality will become bigger. In a nutshell this means that the “haves” become increasingly richer while the “have-nots” have to hustle.

3.1.1 The Structure of Inequality

In *C21*, Piketty dedicates the third out of four parts (and six out of sixteen chapters) to the topic of the structure that lies behind inequality. In this part, he examines the distribution of this phenomenon at the individual level and puts his overarching thesis on two pillars. As the following statement reveals, the first consists of the assumption that decisions and differences on an institutional and political level have had been of crucial importance.

(T)he two world wars, and the public policies that followed from them, played a central role in reducing inequalities in the twentieth century. There was nothing natural or spontaneous about this process, in contrast to the optimistic predictions of Kuznets’s theory (*C21*: 237).

The second pillar consists of the role of inherited wealth.⁹ But before delving any deeper into the subject, some simple thoughts about the concept of inequality may be useful. If we want to analyze inequality, it is best to first take a look at its composition and then *decompose* it. Inequality may be decomposed into three terms:

1. Inequality in income from labor
2. Inequality in income from the ownership of capital
3. The interaction between these two

Thus by definition, income inequality is the sum of inequality from the two components, labor and capital.

⁹ He had devoted particular attention to this aspect already in 2000 in his contribution to the first volume of the *Handbook of Income Distribution* with a chapter titled “Theories of Persistent Inequality and Intergenerational Mobility”.

As the level of analysis is the individual one, it is a smart and intriguing move to introduce these issues with a literary anecdote, as this way of proceeding offers a narrative to illustrate the data. Piketty uses *Père Goriot* from 1835 of the French Novelist Honoré de Balzac from the Belle Époque to make his points clear. In this novel, Vautrin has to learn that hard work and dedication would not be enough to achieve the same standard of living as is achievable coming from an inheritance and the capital which derives from it. These conditions describe the structure of France and Britain in the eighteenth and nineteenth century until the first decades after World War II, when inheritance lost at least some of its relative importance. But the questions are:

First, can we be sure that the relative importance of income from labor versus income from inherited wealth has been transformed since the time of Vautrin, and if so, to what extent? Second, and even more important, if we assume that such a transformation has to some degree occurred, why exactly did it happen, and can it be reversed (C21: 242)?

In order to answer the questions he posed, Piketty analyzes the inequalities with respect to labor and capital and presents the following findings:

- Inequality with respect to capital is always greater than inequality with respect to labor.
- Inequalities with respect to labor are moderate while inequalities with respect to capital are extreme.
- A historical change of the structure took place as the “Patrimonial Middle Class” was established. Balzac’s lesson is not sustainable anymore: a marriage into a rich family cannot be understood as a prerequisite to living comfortably.

As there are two different ways to achieve an unequal distribution of total income, it is necessary to study the interplay of inequality in respect to labor and capital – which changed in an unknown manner. A new phenomenon, rooted in the United States, came into play: the “Hypermeritocratic Society”. By definition, this society is characterized by a “peak of the income hierarchy (...) dominated by very high incomes from labor rather than by inherited wealth” (C21: 265).

These issues and findings form the basis for the following study of the structure of inequality. Piketty analyses France and the United States (US) as their evolution of income and wages is by far the best documented. Both countries had a compression of inequality after the shocks of the period 1914-1945. But because the increase in inequality in the time after has developed differently, Piketty reaffirms his suggestion

“that institutional and political factors played a key role” (p. 271). The case of France is representative for other continental European countries as well as for Japan, too. Analyzing the income inequality from 1910-2010 of total, labor and capital income leads to three important observations. First, “income inequality has greatly diminished in France since the Belle Époque” (p. 271).¹⁰ Second, the reduction of inequality was largely due to the fall of top incomes from capital. Lastly, he concludes that the history of inequality is political and chaotic – which is true not only for France but for every country (p. 286). It is essential to understand that not only economic factors and processes, but political, social, cultural and military, too, form different dimensions that finally intertwine and form the history of the distribution of wealth. In the history of France, it is the period of 1914-1945 when things changed to the extreme. It was “the chaos of war [in contrast to harmonious democratic or economic rationality] that erased the past and enabled society to begin anew with a clean slate” (p. 275). A profound change which took place happened especially in the composition of top incomes. Piketty talks about the change from a “Society of Rentiers” to a “Society of Managers”. By this he means that nowadays one has to be at a much higher level within the distribution of incomes until income from capital outweighs income from labor. As this is the case, Piketty subdivides the top decile into the 9 percent and the 1 percent for which income from capital is still the decisive factor and income from labor becomes gradually supplementary.

In the case of France (and as Piketty prefers long-time periods of at least thirty to forty years) the two periods of interest are the sharp decline of inequality in the period of 1914-1945 and the following time from 1945-2010. Based on data from these periods, Piketty formulates the hypothesis that “inequality tends to evolve procyclically (that is, it moves in the same direction as the economic cycle)” (p. 288). A remarkable phenomenon within the second is the emergence of the very top salaries in France since 1990. Even though these are remarkable, there is no comparable society which had such an impressive emergence of a subclass of “supermanagers” (p. 291) of large firms with very high incomes as the US. Comparing France and the US, the most obvious observation is that the US has become more inegalitarian within the same time period. Although the inequality started at a lower level, by 2010 it was as high as in the Belle Époque in Europe but it is important to note that it was structured differently. The biggest change of the structure had its beginning in 1980 when an extreme divergence between social groups gained ground. The numbers leave no room for doubt that inequality rose to the highest extent due to (both in relative and

¹⁰ The data depict a considerable drop of inequality of primary incomes (before taxes and transfers), with the share of the top income decile falling from extreme inequality in the Belle Époque with 45 percent to 30 percent after 1945 and subsequently increasing somewhat to 35 percent today.

absolute terms) enormous income growth of the richest 1 percent. A decomposition such as the one Piketty uses for his analysis of inequality, permits further conclusions and suggests that it was the increase of wages of “supermanagers” more than the growth of income from capital which explains most of the inequality increase in the American society. So finally, what we observe is a change from a society of rentiers to a society of managers.

But what were the reasons for this structural change and advent of supermanagers? In Piketty’s view, the most common theory which puts a race between education and technology as the explanation, is in some respects “limited and naïve” (p. 305).¹¹ What Piketty brings in is the hypothesis of imperfect information which makes it difficult if not impossible to assess someone’s contribution to the firm’s output; or in economic jargon, someone’s ‘individual marginal productivity’. As he writes:

It is only reasonable to assume that people in a position to set their own salaries have a natural incentive to treat themselves generously. (...) To behave in this way is only human, especially since the necessary information [of each manager’s contribution to the firm’s output] is, in objective terms, highly imperfect. It may be excessive to accuse senior executives of having their “hands in the till”, but the metaphor is probably more apt than Adam Smith’s metaphor of the market’s “invisible hand” (C21: 332).

The explanation then for the appearance of supermanagers in the US¹² is thus the acceptance of very high wages relative to other countries where managers could not go as far as their colleagues in the US. Different institutions and different social norms prevent them from doing so. In addition, data about individual firms prove the assumption that it is difficult to justify very high salaries (and very high differences among top managers) in terms of company performance. The question then would be where the social norms come from. And this is the point in the book where the very need of interdisciplinary work involving different sciences – in order to fully illuminate the phenomenon of inequality – becomes most clear because this is “obviously a question of sociology, psychology, cultural and political history, and the study of beliefs and perceptions at least as much as for economics per se” (p. 333). However, if the remuneration of the top managers is linked to social norms and once it is accepted that

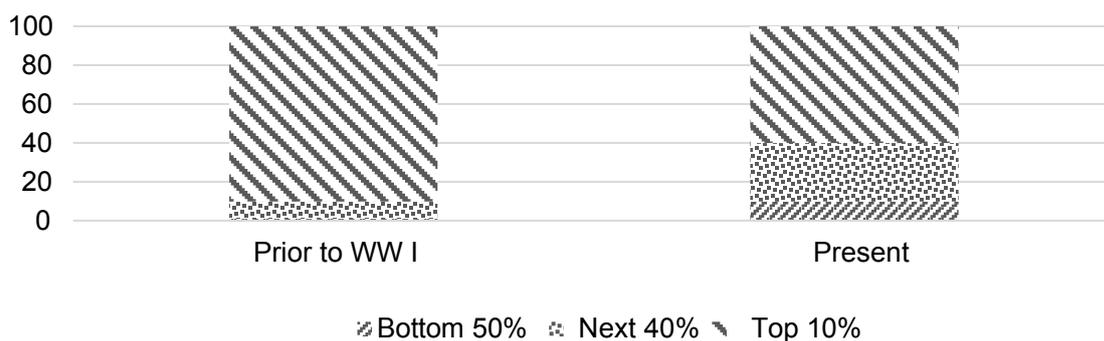
11 In a nutshell, the theory is based on the first hypothesis which states that a worker’s wage is equal to his marginal productivity and on the second hypothesis that the worker’s productivity depends on his skill and on supply and demand for this skill in a given society.

12 And to a lesser extent also in other Anglo-Saxon economies.

they set their own salaries, this could lead to a spiral that could increase still further the already excessive income gap.

While the structure of (inequality of) labor changed in the last three decades, this was not the case in times when income inequality in total dropped sharply.¹³ Instead income inequality in total decreased when incomes from capital declined (in 1900-1910 and 1950-1960). To examine the relation of the factors which lead to this event, Piketty uses wealth data from four countries – France, Britain, the United States and Sweden – which go much further back in history than data on income. This data show that there was an impressive concentration of wealth in all four countries: prior to the shocks of World War I, the top decile owned 80 to 90 percent of the total wealth, the top 1 percent between 45 to 60 percent (see Figure 2). At no moment was there a reduction, but, on the contrary, a slight but stable growth of the share of the rich.

Figure 2: Wealth Share of the Top 10%, the Next 40% and the Bottom 50% in France, Britain, and Sweden prior to World War I and at Present



Source: Data from Piketty 2014a: 346-350; own compilation.

Even the French Revolution did not change the vast concentration of capital:

France remained the same society, with the same basic structure of inequality, from the Ancient Régime to the Third Republic, despite the vast economic and political changes that took place in the interim (C21: 342).

This development also applies to Britain and Sweden and seems to be a general phenomenon for continental Europe. By now, the wealth share of the top ten percent is at 60 to 70 percent – still very high but far below the level of one century ago. The

¹³ This stands in contrast to the Kuznets hypothesis.

loss of the top decile (from 90 to 60 percent) goes in total to the next 40 percent, to the so-called “Patrimonial Middle Class” (p. 346). They own one-quarter to one-third of nation’s total wealth while the poorest half of the population owns between 5 to 10 percent.

On the other side of the Atlantic the top decile’s share of wealth started at a lower level of 80 percent but dropped to only 70 percent. Unlike the European case, today, the inequality of wealth in the US is higher than it was a century ago.

In short, the reason for the observed developments lies in the fact that throughout the centuries the return on capital r was significantly higher than the growth rate g , as stated earlier is expressed by the formula $r > g$. This may be not the only mechanism responsible for the hyper concentration of wealth, but according to Piketty it is the “primary” one. A relation of g to r in a relation of one to five, as it was the case over the period examined,¹⁴ creates perfect conditions for an “Inheritance Society”, defined by Piketty as “a society characterized by both a very high concentration of wealth and a significant persistence of large fortunes from generation to generation” (p. 351). Looking at the world level from antiquity until the present and comparing the rate of return to capital r (pretax) and the growth rate of world output g , the most striking fact is that the rate of return to capital has always been higher. Taking into account the after tax rates of return versus the growth rate at the world level, it is astonishing to note that after World War I, it was the first time in history that the return to capital r has fallen under the growth rate or world output g . As noted before, the world wars meant a huge destruction of capital. Also, directly after the war period, progressive tax policies were gaining ground. These two circumstances in addition to the high growth rate of world output after the world wars let the two rates r and g switch their positions for nearly a century ($g > r$). But according to Piketty’s predictions, the trend will topple, and taxes on capital will be close to zero (p. 355) and global growth (being “most excessively optimistic” when assuming it to be at a rate of 1.5 percent a year) will at no moment outperform the rate of return on capital.

But why did we not come back to the inequality level of the Belle Époque? Piketty does not claim to be able to provide a fully satisfactory answer to this question. The easiest part to explain is the severe destruction of capital during the world wars and thus the changed capital/growth ratio. In general terms, the reason is in part a question of time: “capital accumulation is a long-term process extending over several generations” (p. 372). Or to express it simply: capital takes its time to rise. But as the concentration

14 “I take this to be a historical fact, not a logical necessity”, Piketty 2014a: 353, 358-361.

of wealth has decreased, the earned income hierarchy is expanding, and wealth and income are increasingly correlated, thus the structure of inequality will not look like it did before. With these caveats, let me state that the overall importance of inherited wealth is once again nearly as high as it was in the nineteenth century – and this has far-reaching consequences with regard to extreme concentration of wealth, as “beyond a certain threshold, capital tends to reproduce itself and accumulates exponentially. The logic of $r > g$ implies that the entrepreneur always tends to turn into a rentier” (p. 395). For the future, Piketty predicts that the cumulative process will become even more rapid and inegalitarian, as the population will become older and bequeath inheritances later but in larger amounts. This means that the importance of inherited wealth will remain high, strengthening inequality further as inherited wealth is distributed “in a highly inegalitarian fashion” (p. 407). And the ongoing and widening divergence between capital and labor will not, as Piketty stresses, vanish if markets become freer and more competitive: “The idea that unrestricted competition will put an end to inheritance and move toward a more meritocratic world is a dangerous illusion” (p. 424).

3.1.2 Global Inequality of Wealth

After the analysis of inequality of wealth mostly within nations, Piketty faces the dynamics of wealth inequality on a global level and focuses on r . The question is whether there exist structural reasons for wealthier people receiving a higher return on their capital. Unfortunately, if it comes to the super-wealthy, we lack reliable information and have to use magazine rankings such as the *Forbes List* of large fortunes even if these are quite limited, and inaccurate methods lead to statistical bias (e.g. underestimation of the size of inherited fortunes, pp. 441-442).¹⁵ However, *Forbes*, publishing statistics since 1987, shows that there has been a huge rise of billionaires and their share in aggregate private wealth: in 1987 they counted 140 billionaires who owned 0.4 percent of global wealth; when Piketty wrote in 2013 there were 1400 billionaires collectively worth 5.4 trillion dollars and owning 1.5 percent. In 2018, *Forbes* lists over 2,200 billionaires, being worth in total 9.1 trillion dollars (*Forbes* 2018). As the analysis shows, they recorded an average growth rate of 6.8 percent above inflation, compared to the average global wealth per capita of 2.1 percent, whereas average global income increased by 1.4 percent only. This permits two clear statements: first, that wealth grew faster than income and largest fortunes grew by far much more than average wealth. And second, as a consequence from the first finding, the more wealth you have at the beginning, the

¹⁵ Piketty stresses how regrettable it is that national governments and statistical agencies should understand their methods and effort as insufficient – a challenge which they should acknowledge and take on, because “in the absence of reliable information about the global distribution of wealth, it is possible to say anything and everything and to feed fantasies of all kinds” (p. 437).

more you will receive at the end – the divergence amplifies exponentially. Piketty calls this divergence “spectacular” (p. 435) and indeed, it is. With higher return on capital than average, the divergence becomes bigger and the share of the rich does, too. This seemingly endless accumulation and distribution of wealth holds great potential for problems and lacks any rational justification in terms of social utility. What has to be done is to control democratically this social time bomb without at the same time clipping the wings of entrepreneurs and disrupting the international orientation of the economy. Piketty offers a solution:

(A) progressive tax on the largest fortunes worldwide. (...) The advantage of a progressive tax on capital is that it provides a way to treat different situations in a supple, consistent, and predictable manner while exposing large fortunes to democratic control – which is already quite a lot. (C21: 444)

In order to understand why taxation of capital is the best solution in the fight against a never-ending spiral of growing inequality, it is not sufficient to only consider the pros and cons of taxes as an instrument. It is also necessary to dismantle other instruments of fiscal and monetary policy as less adequate.

To do so, he shows that the widely spread myth, according to which inflation is considered to be the enemy of rentiers, is wrong. Inflation ultimately supports the wealthiest and makes inequality become even bigger. Another issue of interest is the rise of sovereign wealth funds (SWF). As state-owned investment funds have grown tremendously (according to the SWF Institute, they doubled within a decade), sovereign wealth funds own approximately 1.5 percent of the world’s total private wealth – as much as billionaires. The world’s largest SWF is from oil-rich Norway; when Piketty wrote his book in 2013, it was worth 700 billion dollars. In September 2017, the Norwegian SWF made the news when it reached the 1 trillion dollar mark. The CEO from the Central Norges Bank who manages the fund, appeared surprised: “I don’t think anyone expected the fund to ever reach 1 trillion dollars when the first transfer of oil revenue was made in May 1996” (CNBC 2017). Apart from inflation and SWFs, another major issue is introduced by the simple question of whether China will eventually own the world. China’s interest in high levels of investment in Africa is said to come possibly

from neocolonial ambitions, which “could give rise to serious tensions” (p. 461).¹⁶ However, whether we talk about a SWF or a huge national economy: the inequality $r > g$ can bring nothing but a steadily growing divergence in the capital distribution. In the summarizing words of Piketty:

As global growth slows and international competition for capital heats up, there is every reason to believe that r will be much greater than g in the decades ahead. If we add to this the fact that the return on capital increases with the size of the initial endowment, (...) then clearly all the ingredients are in place for the top centile and thousandth of the global wealth distribution to pull farther and farther ahead of the rest (C21: 463).

Under the given conditions of $r > g$ it is not a question of whether the divergence will grow but a question of which type of divergence it will be. According to Piketty the oligarchic types of divergence,

that is, a process in which the rich countries would come to be owned by their own billionaires or, more generally, in which all countries (...) would come to be owned more and more by the planet’s billionaires and multimillionaires [is a] process well under way (C21: 463).

After the analysis of the global inequality in the twenty-first century, its dynamics, structures, forces and issues, Piketty arrives at the conclusion that the given inequality is a major challenge that we can meet only in a coordinated and broad (regional) level. His proposal of a progressive tax on capital meets the criteria. Piketty is fully aware of the utopian character of this proposal thus he examines the possibilities and necessities of such a tax within the political landscape and calls the utopian concept useful as it serves as a worthwhile reference point.

¹⁶ I would like to make an exception at this point and make aware for the political dynamite of the polemic assumption that China could have neocolonial ambitions. Let me be clear: I neither want to judge or speculate about China’s intentions nor is it my intention to accuse Piketty of such conjectures, as he calls prevalent fears of growing Chinese ownership a “pure fantasy” (p. 463). But it is important to make clear that it was not China that forced Africa to decrease trade tariffs and open the marketplace, but instead the World Trade Organization. In the first place, Chinese investment should be seen not a sign of any particular aspiration, but a consequence of a ‘pure and free market’.

3.1.3 Regulating Capital in the Twenty-First Century

In the fourth part of his book, Piketty scrutinizes the “regulating (of) capital in the twenty-first century” (p. 497). On the one hand, he shows how (progressive) taxation evolved over the long run of the twentieth century. As with capital, the world wars and political changes resulting from it played a crucial role for the introduction of progressive taxation, without which a consolidation of social welfare systems would not have been possible (p. 497). On the other hand, he points out what is at stake if no changes will occur: first, as most recently the Oxfam report showed, inequality will reach extreme and unsustainable dimensions and as Piketty stresses, “(i)f the tax system is not made more progressive, it should come as no surprise that those who derive the least benefit from free trade may well turn against it” (p. 497). A progressive tax would not only put an end to inequality but first and foremost help to regulate capital while promoting and requiring international financial transparency (p. 518) and help avoiding crises as it would leave less room for conjecture and speculation. In this sense, “(i)t is important to understand that a tax is always more than just a tax: it is also a way of defining norms and categories and imposing a legal framework on economic activity” (p. 520). The most important justification for this tax can be seen in the fact that capital is a better indicator for wealthy people than income. Thus, a tax on capital has to be supplementary to the tax on income (as income becomes increasingly more unimportant the higher one climbs the ladder of the social hierarchy). Finally, Piketty calls for all three types of tax (on inheritance, income and capital) to be of complementary use. As capital is flexible and does not stop at national borders, a tax on capital in one country only would not bring the desired benefits. It needs to be implemented either in huge national economies like the US and China or at the European level in order to be effective.

At the end of his analysis, including what he claims is more extensive data than any previous author has assembled (p. 571), Piketty asks one further question: “Is there no alternative to the capital tax?” And the simple answer is: “No” (p. 534). Further challenges and issues remain which Piketty introduces (as the question of public debt, immigration, and the role of central banks, among others). His proposals of a further European unification, a creation of a budgetary parliament and an introduction of a European finance minister represent the requirements he identifies (pp. 558-562). Bearing in mind that right populist parties across Europe oppose fiercely any further European integration, this thrust to construct new continental instruments leads to the question of feasibility. Against this reproach, Piketty applies a cunning comparison: “Are all these proposals utopian? No more so than attempting to create a stateless currency” (p. 561). If one is to believe and follow the argumentation of Piketty, the progressive tax on capital addresses the root causes of the unlimited growth of global

inequality of wealth and could help overcome challenges of the societies of the twenty-first century. The biggest hurdle is the requirement of a high level of international cooperation among the entire European Union and a further integration of the EU. Let me end with the words of Piketty: “If we are to regain control of capitalism, we must bet everything on democracy – and in Europe, democracy on a European scale” (p. 573).

3.2 Atkinson: Yes, We Can

The book *Inequality: What can be Done?* by Anthony B. Atkinson is divided into three sections. The second part is most remarkable as it presents fifteen proposals and further ideas to pursue in order to reduce inequality. In the third part, Atkinson discusses objections and concerns deriving from his recommendations, before he finally summarizes and illuminates the way forward. The book is directed at the general reader – and as such, according to a saying of Stephen Hawking, it is devoid of equations as “every equation halves the number of readers” (Atkinson 2015: 6). Before I start with Atkinson’s proposals, let me briefly highlight the most important aspects from the first part to both show his broadly-based analysis and present the elementary aspects on which ground he establishes his proposals.

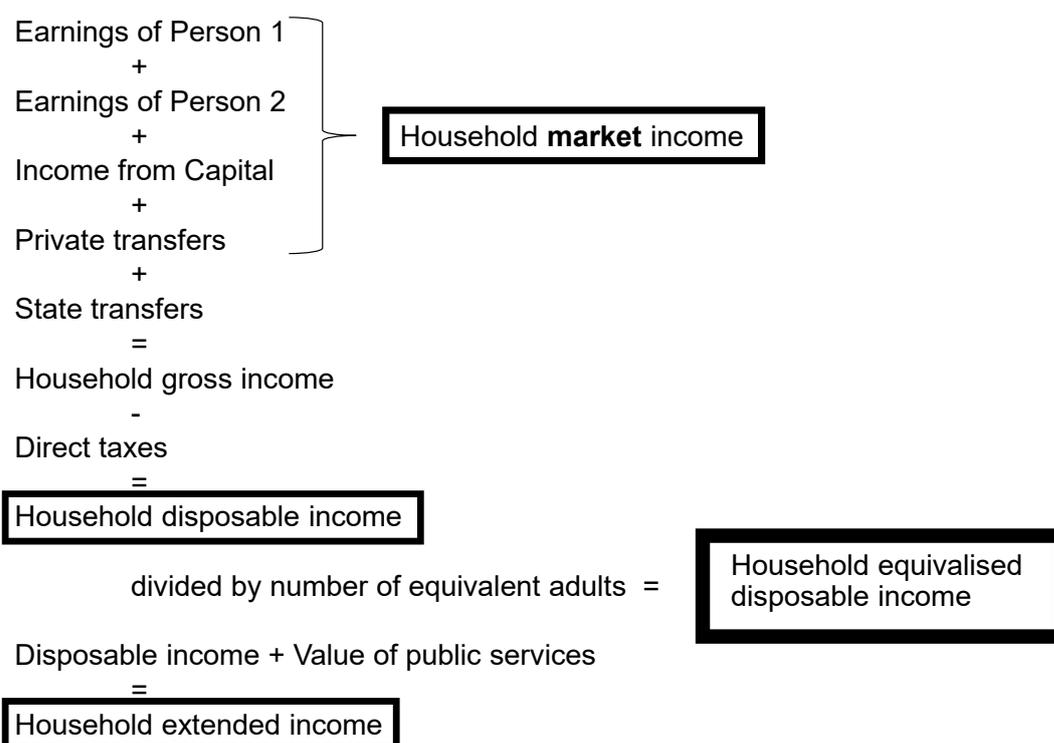
In the beginning, Atkinson takes a deep breath before he reaches out to formulate his comprehensive set of policies to deal with inequality – as if passing through the wide nature of the subject was a *condicio sine qua non* to ensure the utmost precision. The goal he defines is a significant reduction of inequality. The reason for his endeavor can be distinguished as instrumental or of intrinsic nature. Instrumental in this sense means that inequality generates bad consequences for societies.¹⁷ But there are also intrinsic reasons which may reveal an unsustainable level of inequality. The concept of equal opportunity that dominates present research and debates is important;¹⁸ yet more so is the outcome of inequality as, according to the capacity approach of Amartya Sen, not only access to primary goods counts (Rawls 1971), but whether one possesses the ability to convert these primary goods into living well (Sen 2009), as “today’s ex-post outcomes shape tomorrow’s ex-ante playing field” (Atkinson 2015: 11). After Atkinson has “set the scene”, he looks in the past in order to draw lessons for the future. As the scene is set mostly upon data reaching back to the beginning of the twentieth century, so do his questions target events within this time period in which

¹⁷ Likewise higher criminality, a lack of social cohesion, ill-health and further social problems; but also, less macroeconomic stability and less economic growth, pp. 11-12.

¹⁸ See Stiglitz 2013, Krugman 2015b, Knee 2015.

we can observe salient reductions in inequality.¹⁹ The two world wars caused a huge inequality reduction. Figure 3 helps to identify the different elements which came into play in the US, in a nutshell: the most important changes were that women came into the job market (adding another earning individual to households) and a huge growth of government transfers that took place. Two country case studies from Europe show what happened on the other side of the Atlantic after 1945. The *market* income gap widened in the United Kingdom (UK) and Germany until the 1980s. But the tax and transfer systems were able to reduce inequality to such an extent that the *household* income gap did not show an upward trend at all. After 1984, policy decisions taken in the UK changed the pattern and caused post-tax-inequality to rise sharply (p. 66).²⁰ Conversely, the German welfare system was able to prevent any rise in household inequalities.

Figure 3: Guide to Household Income



Source: Own elaboration, based on Atkinson 2015: 30.

¹⁹ Salient is defined as a 3 (or more) percentage point reduction in the Gini coefficient, poverty rate, and top income shares; and a 5 percent change in the ratio of the top decile to the median (pp. 55, 312).

²⁰ As data of the changes in earnings in the UK since 1977 show, big alterations occurred, and it is striking that "(t)he action was at the tails" (p. 105). The question that Atkinsons would like to find its way into today's media discussion and policy debate – "Who gains and who loses?" – is easily answered. But, until now, there has been no such dispute (p. 5).

In the course of time, mechanisms that were responsible for the reduction of inequality either stopped operating or reversed their direction – and this, according to Atkinson, is the main reason why the process of equalization “came to an end” (p. 75). Recent developments in Latin America offer different results. Within the last twenty years, poverty rates and the Gini coefficient (an index to measure inequality that goes from 0 to 1; a lower Gini number means lower inequality) fell in a number of countries. As the countries have had different economic growth patterns and political regimes, the findings show that there is no clear link between a falling inequality and those factors. Instead, “(i)n Latin America, as in the postwar decades in Europe, inequality reduction was achieved by a combination of changes in market incomes and expanded redistribution” (p. 80). Whereas Latin America’s inequality dropped, inequality in most OECD countries was on the rise since the 1980s. Different contributing factors altogether have played a crucial role in this development. Specifically (as presented on p. 82):

- Globalization
- Technological change (information and communications technology)
- Growth of financial services
- Changing pay norms
- Reduced role of trade unions
- Scaling back of the redistributive tax-and-transfer policy

The most important aspect, with regard to all components mentioned above, is for Atkinson to stress that these factors are neither exogenous to the social and economic sphere nor beyond our scope of influence. In addition, what history teaches us is that income inequality depends not only on macroeconomic factors. Andrea Brandolini calls this the “entitlement rule” certifying that household income also relies on “the mechanism regulating the appropriations of the output of the economy” (Brandolini 1992: 5). To put it simply: Even if two countries have the same macroeconomic conditions, their degree of income inequality may differ because they have different entitlement rules in force.

3.2.1 Proposals and Ideas

With his fifteen proposals, Atkinson offers a branch of possible actions to tackle inequality. In a classic manner, among them some call for progressive taxation and social protection. But as he believes that inequality can be reduced only if we also focus on inequality before taxes and transfers, consequently he considers the marketplace too.

3.2.2 Proposals for the Marketplace

Technological changes play a pivotal role in the macroeconomic distribution as the metaphor of the race between the greater capacities of the robot and the productivity of workers teaches us. Yet, for many workers, these robots are more than a metaphor; rather, they represent a real threat (p. 115). Nevertheless, technological progress did not come out of a vacuum. Conscious decisions were taken. The remaining question Atkinson formulates is: who takes them? There are several reasons why it should not be left to the market economy to decide on its direction of progress. Originally the distributional concern has to be placed first, because the question in the future and about the winners and losers will be directly linked to the question raised by Laura Tyson, Chair of the Council of Economic Advisors under President Clinton: “who owns the robots?” (McKinsey roundtable discussion 2014, cited in Atkinson 2015: 116). Another problem is the importance attributed to shareholders of the firms which may stand against the interests of society. The first proposal addresses the first problem: the government can influence the nature of technological change and thus the market income in total. The second proposal deals with the second problem: the balance which has to be found among all actors forming part of society because nowadays, as Atkinson argues, “the balance of power is weighted against consumers and workers” (p. 124). One of the reasons that provoked imbalances of economic power toward capital-friendly regulations is the decline of trade unions within the last decades. One inclusive possibility to counter-balance and resolve this grievance would be a Social and Economic Council which should consist of representatives of trade unions, but also consider the horizontal axis and questions of gender, generationality and ethnicity.

With the reduction of inequality as a goal, unemployment represents another hurdle that has to be taken. Unlike the time period until the 1980s, recent decades are marked by high unemployment rates. These times cannot be compared exactly to previous ones as the nature of employment has changed – and so should considerations on the design of social protection. With industrialization and urbanization up until the

twentieth century came the all-or-nothing (0 or 1) concept of work: either you have a job, or you do not. But in the twenty-first century it is not any longer possible to talk of the one concept of work only: “Nonstandard work is on the increase” (p. 135). The most common nonstandard work is part-time job. A striking fact is that it is a gendered phenomenon. Recent figures of the European Commission show that in 2015 a share of 32.1 percent of women worked part-time – in contrast to 8.9 percent of men (EC 2017). Another important question concerns the “involuntary” vs. “voluntary” appearance.²¹ Thus, the goal of maximum employment or a certain threshold by governments is not in accordance with the times; rather it should be to minimize involuntary unemployment.

In the third proposal, Atkinson wants the government to set a concrete target and to be “employer of last resort”. Whether in the US, India, or European countries – experiences show the feasibility of public employment within national programs. Furthermore, in his view, it is necessary to intervene in the market determination of pay, as a job is not always key if it comes to escape poverty and inequality (p. 146). As mentioned before, the economic factors of supply and demand leave space to bargain about payment. But if people take zero-hour jobs (as in the UK) it is obvious that they do so because they have no power in the labor market. A pay policy for minimum wage earners should be adopted; and furthermore, principals of a pay code for the top incomes should be engaged and fostered too, as the explosion of pay at the top within the last decades gives rise to concern.

Without a doubt, the role of capital cannot be omitted if we think about how to reduce inequality. Atkinson refers to Piketty when he emphasizes the mechanism which governs the distribution of wealth, regarding the two factors which are the rate of return on capital r and the rate of growth g . He identifies a number of mechanisms operating through factor g where according to him no policy proposals can be made²² and thus turns to factor r in order to formulate proposals in this field. It is of vital importance to recognize that “(t)he return on capital (...) is not the same as the return to individual households in the form of investment income” (p. 161). Small savers rely on financial services when they are willing to invest in financial assets and pensions. The difference between the rate of return on capital and the rate that savers receive is skimmed off

21 Whereas Central European countries embrace this concept widely and have higher numbers of part-time workers in general, it remains uncommon in Central and Eastern Europe; while Southern European countries suffer from a rising trend of part-time work in which more than half reported that they were working part-time involuntarily (Greece 72.9%, Cyprus 69.4%, Italy 65.65%, Spain 63.7%) (EC 2017).

22 Like the tendency of richer families to have less children than working families so that the distribution of property gets more concentrated over time; another trend that has been strong since 1980 and that further boosts intergenerational transmission of economic status is the so called “assortative mating”: when wealthy people tend to marry other wealthy people.

by the financial services sector and explains to a large extent the wedge between the two. The problem is that these high interest rates charged on certain forms of lending put enormous pressure on the less wealthy. For nearly all owner-occupiers (99 percent), houses represent the most valued asset they possess. But little has been done to ease the access to lending for householders – which potentially entails serious distributional consequences.²³ Again, we note that market competition did not bring a balanced outcome (with small savers being disadvantaged). A direct route against this predicament is presented in his Proposal 5 – an idea on which the Social and Economic Council should elaborate. The next proposal offers an idea as how to level the playing field so that everyone can be ranked among the small savers: an inheritance for all. As Atkinson notes, “Inheritance is typically seen as one of the mechanisms by which the wealthy are able to preserve their position at the top of the distribution, but there is nothing intrinsically wrong with inheritance. The problem is that inheritance is highly unequal” (p. 170).

To sum up, every citizen reaching adulthood would, according to her years she lives in a state, receive an inheritance that could be financed by an increased inheritance tax. Within the category of inheritance – though not on the individual but on the national level – falls the concept of Sovereign Wealth Funds. SWFs would generate additional revenue and enable the government to establish more intergenerational equity due to investments guided by sensitivity toward ethical criteria (considering social responsibility, infrastructure and climate change) and also in order to give an answer to the question of who own the robots: “the answer should be that, in part, they belong to us all” (p. 174).

3.2.3 Classic: Proposals for Progressive Taxation and Social Protection

From the time after the world wars until 1980, progressive structures set the norm of taxation systems. The turning point was reached with the “politics of retrenchment” of Margaret Thatcher and Ronald Reagan (Pierson 1995). In the extreme cases of the UK and US, top income tax rates have been halved; in the UK from 83 percent in 1979 to 40 percent in 1988; meanwhile in the US the top rate dropped from 70 to 35 percent. Atkinson advocates a return of higher rates than the present ones. In the first place he clarifies that the number 40 percent as an absolute maximum for a top rate which dominates the public debate is not cast in stone. Beyond arithmetic, what should be introduced into reflections on this issue is the “concept of fairness”

²³ Furthermore, as James Meades emphasizes, “the rate of return on property is much lower for small properties than for large properties” (Meades 2015, cited in Atkinson 2015:167).

(p. 187). In the case of the UK, Atkinson discusses and considers a top rate of 65 per cent as fair. Furthermore, as inheritance has proven to be an important factor and gifts *inter vivos* increasingly fulfill the same intention, they should not be exempted from the progressive rate structure. The eleventh proposal is addressed towards all countries that do not have a proportional tax on property – as it is the case for the UK. Complementary to the preceding proposals, some “ideas to pursue” broaden the spectrum of equalizing mechanisms. One idea consists of a re-examination of an annual wealth tax.²⁴ Another idea refers to an “ideal tool” to reduce inequality which Piketty introduces in his penultimate chapter in *C21*, a global tax on capital, which Piketty himself calls “utopian”. So what Atkinson does then is to take a step back and think of preconditions which would make the utopian idea more realistic. An imaginable step would be the creation of a World Tax Administration which could start by creating “a global tax regime for taxpayers” (p. 204). Last but not least, he wants multinational corporations to contribute to the public finances as they rely on and benefit from the infrastructure provided where they operate.

The mechanisms Atkinson presents would generate additional tax revenue. What can be done with it? In Atkinson’s opinion it is of utmost importance “to finance an expansion of spending on social protection” as “no advanced economy achieved a low level of inequality and/or relative income poverty with a low level of social spending” (p. 205). For this reason, he demands to increase and reconsider the structure of the welfare state. He understands a substantial child benefit as crucial and proposes to tax it as income so that all families in society are valued for their family responsibility and receive support – and at the same time more is given to those with bigger needs. As for adults, Atkinson presents a basic income, also known as citizen’s income, in a modified form based not on citizenship but on the principle of participation: the Participation Income (PI). “Participation” would be understood as the notion of a social contribution, as he agrees with John Rawls, that “those who surf all day off Malibu must find a way to support themselves and would not be entitled to public funds” (p. 221). These proposals have so far been discussed and to some degree have been put into force on a national level. But Atkinson believes them to be adequate for the European level with a Europe-wide salient reduction in child poverty as a first goal – “breaking new ground” for further ones. The principle alternative to the PI would be a renewal and reinvigoration of social insurance and should, first, not fall short of the amount they reached until the early 1980s, and second, adopt to the changed labor market of the twenty-first century. For the final piece of his set of fifteen proposals, Atkinson turns to

24 Its implementation could be more favorable than in the past as the level of income inequality and the ratio of personal wealth to gross domestic product are higher than the last time when the idea was considered in the 1970s.

the question of national responsibilities on a global scale and dedicates his attention to the relationship between countries that are rich and poor. In 1970, the United Nations General Assembly agreed upon the target of 0.7 percent of Gross National Income (GNI) for the Official Development Assistance (ODA) for the least developed countries.²⁵ According to Atkinson the bar should be raised to 1 percent. Arguing intrinsically, the ODA means a contribution of the rich by 1 percent of their income to the poor – it is an ethical question. Instrumentally, we can and should add national arguments, as altruism in itself “won’t get us far enough” (Jim Murphy 2014, cited in Atkinson 2014: 234). A lower pressure of migration to OECD countries, increased political stability and a reduced risk of terrorist attacks are thus strong arguments. These fifteen proposals represent not a tightly tied package, but interdependencies between them exist and if progress should be made, “we cannot rely on a sole approach” (p. 239).

3.2.4 Can It Be Done?

The third part of Atkinson’s book addresses the criticism of those who take these proposals seriously but doubt the feasibility in terms of economic efficiency or in times of a globalized economy. In a first step, Atkinson questions whether the cake has to shrink – a common economic metaphor.²⁶ Every single equality-enhancing intervention must be examined in the individual case. For now, what can be said is that, “there is no smoking gun. It is possible that some of the proposed measures to reduce inequality will have negative effects on the size of the cake – that cannot be ruled out. But there is no general presumption that this will happen, or that the rate of growth will be harmed” (p. 262).

On the question on the concerns about whether globalization prevents action, Atkinson clearly answers in the negative. As control remains on the national level, it is very much up to policy-makers whether less inequality will be achieved. “The impact on the extent of inequality depends on domestic policy, and this is one of the reasons we have seen larger increases of inequality in some countries than in others, even though they are faced with similar external challenges” (p. 280).

25 In fact, far less has been achieved than this – and for decades the numbers have been falling steadily. With the Millennium Development Goals from 2002, an upswing of bigger efforts to reach the target could have been observed. By 2015, six countries hit the 0.7 percent UN aid spending target: UK, Denmark, Norway, the Netherlands, Luxembourg, Sweden; Germany reached the 0.7 percent goal for the first time in 2016.

26 Even ranked among “The seven best metaphors for the economy”, BBC 2014.

It is important to emphasize that Atkinson has written this book in a positive spirit (p. 308) and this, without doubt, is a lesson in itself: that however great the challenge to reduce inequality is, it is indispensable to prepare the ground for optimism as the solutions to the problem lie in our hands. But what would it cost? The result of his calculations for the UK of all measures taken together is that the set of proposals is revenue-neutral to current policies (p. 294).²⁷ In conclusion: the proposals would enable a revenue-neutral policy-change which would promote a salient reduction of the Gini-coefficient, over-all poverty, and child poverty.

3.3 Milanovic: Round and Round It Goes

Milanovic's greatest merit lies in the analysis of inequality on a global level, consisting of inequality among as well as within countries. Beyond that he stimulates the theoretical debate on inequality by introducing the "Kuznets cycle" or "waves". With the extension of the "Kuznets curve" that was established more than half a century ago, he provides, as the subtitle suggests, "a new approach for the age of globalization".

3.3.1 The Rise of the Global Middle Class and Global Plutocrats

Milanovic opens his book straight away with the question who the winners of globalization are. As time frame he sets the period from 1988 to 2008, choosing this starting point in part because of available data from then on, but also because the interdependent world economy expanded in a considerable manner.²⁸ To illustrate the answer, he presents what is known as the "elephant curve"²⁹ (shown in Figure 4) with relative gains in income per person by worldwide income level for the time of the "high globalization" and identifies three points of interest where growth was either the highest or lowest. Group A can be identified as the one with the highest growth rate. People belonging to this group around the median (constituting the middle value in an ordered distribution) gained some 75 percent. In nine out of ten cases they originate from the emerging countries of Asia like China, India, Thailand, Vietnam and Indonesia (Milanovic 2016: 19). Not only on a global level but also within their own countries, this group represents the median and can be termed "emerging global middle class". Group B is richer than A, as they are to the right on the axis. In sharp contrast to A, no

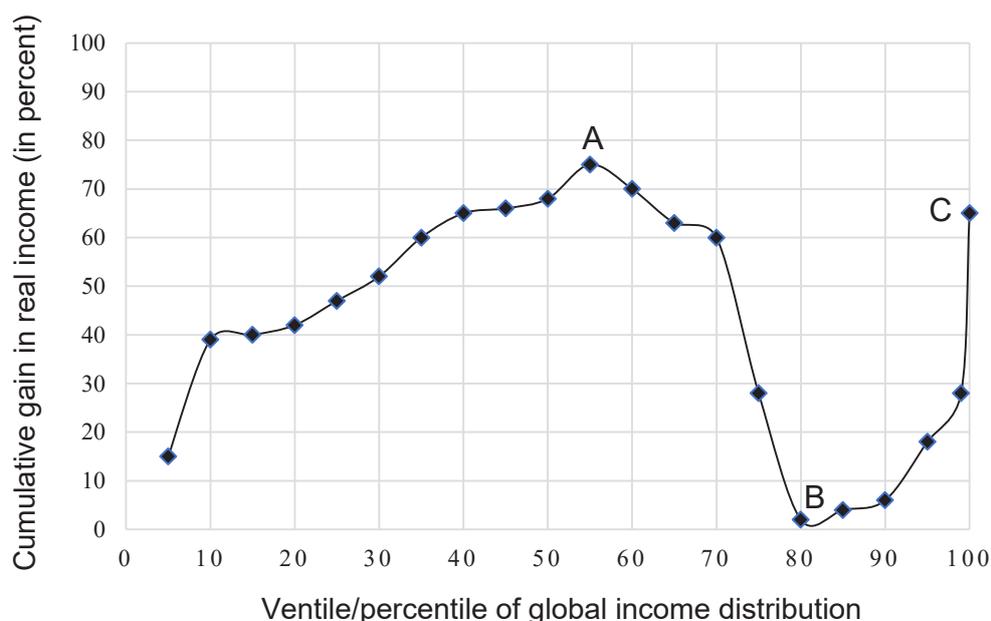
²⁷ All measures combined could achieve a 5.5 percentage point reduction of the Gini coefficient, bringing the UK from 32.1 (in 2015) to 26.6. Furthermore, the poverty rate could be reduced from 16.0 to 10.4 percent; and child poverty would decline from 16.8 percent to 12.1 percent.

²⁸ One thinks of the Berlin Wall, the collapse of the Soviet Union, economic reforms in India and China and in addition, the "communication revolution".

²⁹ Selected by Paul Krugman as the chart of the year 2015 (Krugman 2015).

growth in real income during the twenty-year period took place. This group consists of people from the rich economies of the OECD countries. Mostly they belong to the lower half of these countries.

Figure 4: The Elephant Curve



Source: Own elaboration, based on Milanovic 2016: 11. Relative gains in real per capita income by global income level from 1988 to 2008.

They may be titled “lower middle class of the rich world”. Group C is made up of the global 1 percent. This group has experienced a very strong growth over the last twenty years from 1988 to 2008. The bulk of this group is from the rich economies and may be called “global plutocrats”.³⁰ But how was the development after the “high globalization”, following the Financial Crisis of 2008? This crisis worked in favor to rebalance the economies of Asia. If we take a look on the relative gain of the median (Group A) for the time-period of 1988 to 2011, instead of 75 percent, we find tremendous gains of nearly 120 percent. For Group B we find little change. Group C seems to have lost in terms of relative gain in real per capita income. This weakening of the Global Top 1 Percent might seem bizarre, more so as it flies in the face of popular and current concern on

³⁰ A look at absolute gains in contrast to relative gains changes this perception: 44 percent of the absolute gains passed into the hands of the top 5 percent. At the same time, the “emerging global middle class” received some 2 to 4 percent. But this, in Milanovic’s opinion, should not revise the previous conclusion, as there has been a major economic success in Asia and relative gains are the ones that are firstly considered by the people affected (p. 28).

inequality. But the reason for this stems from the highly concentrated growth at the very top among the super-rich. Numbers from the *Forbes list* (and data from the Credit Suisse Institute) permit him to conclude that during globalization, the share of the hyper-wealthy expressed in terms of world gross domestic product (GDP) has more than doubled from nearly 3 percent in 1987 to more than 6 percent in 2013.³¹ This growth of the hyper-wealthy in addition to the growth of the emerging global middle class are the two most significant developments since the beginning of high globalization in the late 1980s (p. 45).

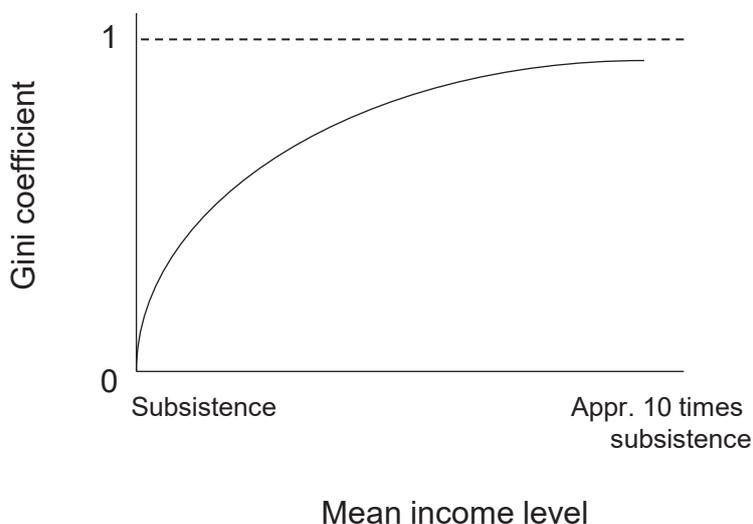
3.3.2 Inequality within Countries

Before Milanovic turns to analyze inequality within countries, he develops the methodology and introduces the “Kuznets Waves” to explain long-term trends in inequality. As Milanovic identifies shortcomings of previous hypotheses, his objective is to formulate an extension of the Kuznets curve in such a way that we finally have a coherent approach which is also applicable for the time before the Industrial Revolution (according to Milanovic, a shortcoming of Piketty), the “Inequality Turn” in the era of Reagan and Thatcher (shortcoming of Kuznets) and up to the present day.

The Industrial Revolutions’ peculiarity lies in two developments: first, it was the initiation of a relationship between the level of inequality and the mean income. And second, we can observe a rise in the latter. This “surplus” over the subsistence level shifts the “inequality possibility frontier”; or to put it differently, it leaves more space for more inequality (p. 52).³² Independent of the time horizon, when explaining the wax and wane of inequality, Milanovic distinguishes between “benign” and “malign” mechanisms – the benign “resulting from economic and demographic forces”, the malign “consisting of wars and revolutions” (p. 53). The combined appearance of both helps to explain the paramount inequality reduction during the world war period up until the 1980s, when “the forces that drove inequality down after World War I had come to an end”. This end marks a caesura; and in Milanovic’s opinion, it is appropriate to directly compare this revolution in technology with the Industrial Revolution as both widened the income disparities. In his view, it is the crucial changes that came by the technological innovations that are responsible for the inequality turn.

31 Milanovic fixed the wealth line in real terms, using the US Consumer Price Index: \$1 billion in 1987 is equivalent to \$2 billion in 2013. These super-rich he calls “(f)or simplicity’s sake” the hyper-wealthy.

32 Important to keep in mind: “The frontier is concave: maximum feasible inequality increases with mean income but at a decreasing rate” (p. 52).

Figure 5: Inequality Possibility Frontier

Source: Own elaboration, based on Milanovic 2016: 52. The locus of maximum feasible Gini coefficient as a function of mean income level.

“Pro-rich policies” (a form of benign forces) contributed to this trend, but they were “inherent in the information revolution”, thus *necessary* as tax policies after Reagan and Thatcher, followed by Bill Clinton and Tony Blair, remained the same (p. 55). These benign forces are solely found in societies with a rising mean income, thus after the Industrial Revolution.³³ On the contrary, malign forces are at work in both societies with either stagnant or rising mean incomes. They have been the only ones that were able to reduce economic inequality in preindustrial societies. More specifically, two special forms of malign forces came into play. The first to mention is plague. Plague increased real wages as the labor workforce became scarce; in addition, death also affected wealthy people resulting in their property becoming more fragmented.³⁴ But the consequences have not been the same everywhere: as Mattia Fochesato showed, institutions mattered and the extent to which they were able to check wage increases varied depending on their strength or weaknesses (Fochesato 2014). The second powerful factor was war. Milanovic refers to the explanation offered by Piketty, according to which the physical destruction of capital and inflation in times of war resulted in a decrease of income received from property (p. 64).

³³ Other benign forces are e.g. social pressure through politics such as in form of trade unions, widespread education, an aging population which pushes the demand for social protection, and technological change that favors low-skilled workers

³⁴ See Pamuk 2007, Álvarez-Nogal and Escosura 2011.

What was it that pushed inequality in preindustrial societies up “when mean income stays more or less constant?” (p. 65). The answer is: the moment when mean income rises – even if it is just for a short moment, as it shifts the inequality possibility frontier (like has been explained above). This possibility (note: not necessity) makes the main difference between societies with and without rising mean incomes. The remaining question is whether inequality went up as the mean income rose. According to the Kuznets curve hypothesis, the reason for the inequality changes lies within a structural movement from the agricultural sector with low income (and low inequality) to the industrial sector with higher income (and higher inequality). The hypothesis is in accordance with the findings for most cases until the 1980s.³⁵ It cannot explain the upswing in inequality since then. Here the Kuznets circles or waves and the second technological revolution come into play. By the following statements Milanovic offers an insight into his meta-theoretical approach: in the second Kuznets wave, economic, political and social forces all together are at work. In his opinion, it would be absolutely naïve to look only at the economic factors of supply and demand in order to explain the movement of the Kuznets waves. But to look solely at institutions would be also misleading as “institutions and policies work within what economics allows: they are, if one wishes to use this term, “endogenous”, that is, largely dependent on income level, and they can only vary within what income permits” (p. 73).

It should be clear that these assumptions build the basis of the hypothesis of the Kuznets waves.³⁶ According to his approach, three forces were responsible for the evolution of inequality: technology, openness (or globalization), and policy (or politics), which may be grouped together under the acronym TOP (p. 76). In the brief, Milanovic concludes his analyses of different case studies as follows:

As is nicely illustrated 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. But once these political limitations weakened or disappeared and economic factors became more favorable to capital (...) the situation reversed, and the second Kuznets wave, which is still in force (p. 87).

35 Milanovic searches for the answer in by analyzing the US, the UK, Spain, Italy, Germany, Netherlands, Brazil, Chile, and Japan.

36 Milanovic’s approach can be identified at an earlier stage when he speaks of economic necessities. This thought dismantles the same beliefs. It is exactly this debate about which opinions – or in scientifically adequate term, different epistemological approaches – differ.

But what were the reasons behind the inequality decline in the twentieth century? Milanovic names two different approaches before he offers a third and his own: the “traditional” and economic one, supported by Kuznets who identified economic forces (that enable a structural transformation) and neglected the role of war; and Piketty’s approach which is political in the first place. Not only did the two world wars destroy property and reduced large fortunes, but pro-labor-legislations came into force which Piketty presents as exogenous events, “that is as political elements outside economics proper” (p. 94). As we have seen before, this contradicts the assumptions of Milanovic who offers a third and new reading of the story how inequality declined. To ground his telling, he introduces the interpretation of the outbreak of World War I and integrates it into the framework of the Kuznets waves. In brief: in the theoretical argument set by Hobson, Marx, Luxemburg, and Lenin, colonialism and domestic maldistribution of income are linked and identified as the causes for the first world war. The benign forces which came later into play (such as high taxation and trade unions) were of crucial importance and Milanovic recognizes the role of ideology and economic elements which between 1950 and 1980 contributed to a downswing in inequality. However, these benign economic policies were the result of war. Yet in the first place the world wars itself have to be understood as the result of income inequality. Thus, the answer to the question, what was the reasoning behind the decline in inequality in the twentieth century was, to ‘get to the point’, inequality itself.

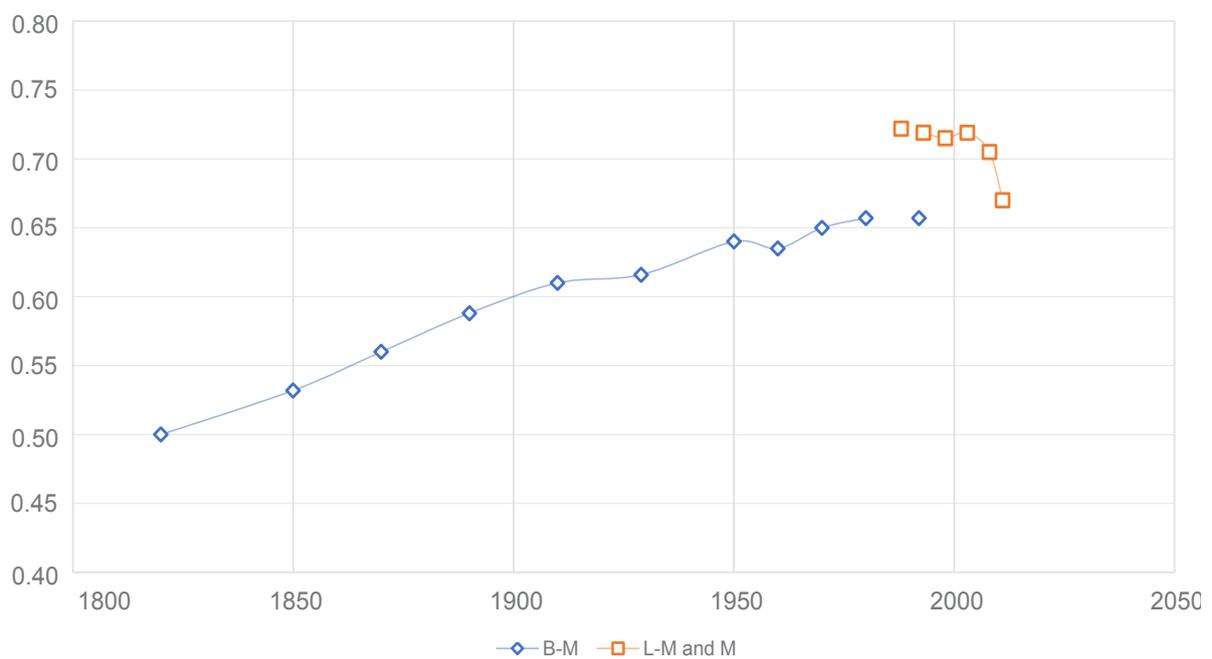
Turning to the upward portion of the Kuznets wave in the 1980s, and comprehending its course, it is important to understand several factors that participated in this development: while the wage inequality went up (as the labor moved from manufacturing to service sector), trade union density went down (as the organization of workers is more difficult and less relevant, due to the fact that the service sector has a higher dispersal of labor and units of smaller size at the same time). This downswing in addition to a huge increase in available labor and capital’s capacity to cross borders in search of lower taxes has weakened the bargaining power of workers (versus capital: 106). Furthermore, Milanovic points at Piketty’s *C21* who draws special attention to the role of capital income; a lower progressive taxation and lower taxes on capital also contributed to this trend. Even where the welfare state kept its social transfers high, it was not able to balance growing market income inequality. In addition to these factors, other concerns exist, namely assortative mating (when wealthy people tend to marry wealthy people) and changes in pay norms (which enable gaps between top managers). However, the two most important and underlying explanations Milanovic identifies are technological change and globalization, “wrapped around each other” (p. 110). If, as stated before, policy is seen as endogenous to globalization, this means that all three elements of

TOP (technology, openness or globalization, and policy) have to be seen as mutually dependent.

3.3.3 Inequality among Countries

The shift of focus from inequality within countries to inequality among countries has been quite a new endeavor, owing not least to missing data which have now become available.

Figure 6: Global inequality measured by Gini values, 1820-2011



Source: Own elaboration based on Milanovic 2016: 129, slightly different as the B-M series does not drop here. The B-M series is from Bourguignon and Morrisson (2002), the L-M and M series is from Lakner and Milanovic (2013) and Milanovic (2016).

What we can see is an ongoing growth of global inequality throughout the nineteenth century. While European Countries, North America and Australia showed a sharp rise during the Industrial Revolution, or as Milanovic names it, the first technological revolution, other countries' Gross Domestic Product (GDP) per capita level, like China and India, stagnated or even declined. According to Figure 6, inequality among and, as was shown before, inequality within countries, was on an unprecedented rise. But what we can interpret with caution is that global inequality became stable or even

declined at the beginning of the twenty first century. What this data and the Theil index (another index to measure inequality) allow to ask: what type of inequality prevails, the inequality within a country, which can be named “class-based inequality”, or inequality between individuals from different countries, thus a “location-based inequality”?³⁷ While at the beginning of the nineteenth century 80 percent of global inequality was explained by inequality within countries, 150 years later the proportions reversed. By 1970, around 20 percent of within country inequality and 80 percent of among country inequality accounted for the overall global inequality. As can be seen, while once the class mattered and a family in which one was born into, nowadays the question of location, thus where someone was born, has more influence on one’s lifetime income. Or as Milanovic notes, “The contrast drawn by Frantz Fanon [1925-1961] between the colonizers and colonized represents that type of world best – as opposed to the world with which Marx [1818-1883] dealt (...) which was the world of class” (p. 129).

As the recent trend shows, a renewed reversal of “local” and “class” inequality is conceivable. But for the moment, the country where people live, or the “citizenship premium”³⁸ explains more than two-thirds of the variability of incomes across countries. Hence the concept of equality of opportunity is not applicable on the global level. This may be understood by an argument which Simon Caney presents, following the implicitly “domain restriction” developed by John Rawls: civil and political rights as well as distributive justice are thought and understood in the national context but are not applicable to the international realm (Caney 2002). Milanovic discusses this contradiction within the concept of globalization which enables production, technology, capital and ideas to spread and move across borders – with the exception of labor. As he tries to reconcile migration with the unwillingness to open borders, he does so in normative terms but also from an economic perspective and concludes that we are confronted with three possible options, which I would like to quote:

1. Allow unrestricted movement of labor and enforce nondiscrimination between domestic and foreign labor in all countries [a concept that, at present, seems unattainable].

37 The Theil index allows “to decompose inequality into the part that is due to inequality within areas (e.g. urban, rural) and the part that is due to differences between areas” (World Bank 2005: 95). This means that it has the advantage that, in contrast to the Gini index, it is fully decomposable which, simply put, makes it “possible for [Theil] to register an increase in inequality in every subgroup of the population at the same time as a decrease in inequality overall” (Cowell 2009: 64).

38 The average rent or premium calculated across all citizens and “country against country” (p. 133).

2. Allow for a limited but higher level of migration than what currently exists, with legally defined relatively mild differences in treatment of local and foreign labor [which would make it necessary to outpace the current definition of citizenship and migration policy].
3. Keep the flow of migrants at the current level or an even lower level and maintain the fiction of equal treatment of all residents while allowing for de facto differential treatment of the “illegals” (p. 154).

3.3.4 Global Inequality in this Century and the Next

As Milanovic tries to take a look on the evolution of inequality in following decades, he states that the main economic theories which shape the thinking on global inequality at present and for the future are ‘Economic Convergence’ and ‘Kuznets Waves’ which cover both sides of the equation: inequality among and inequality within nations.³⁹ According to the first, globalization gives less developed countries access to technology and knowledge on economic policies from developed states (which did not have this advantage in past) so that poor countries should experience growth rates of income that exceed the rates of the rich countries. As the data reveal, up until the 1980s this was not the case. Yet for the last thirty-five years, both higher growth rates in relation to advanced economies and lower Gini coefficients of emerging countries show the trend of income convergence. Coming to the other side of the equation – inequality within nations – Milanovic chooses China and the US as prime examples because of both their size and their different economic levels, belonging to emerging and rich economies. Figure 7 presents a stylized estimate of the current position of China and the United States in the first and second Kuznets waves.

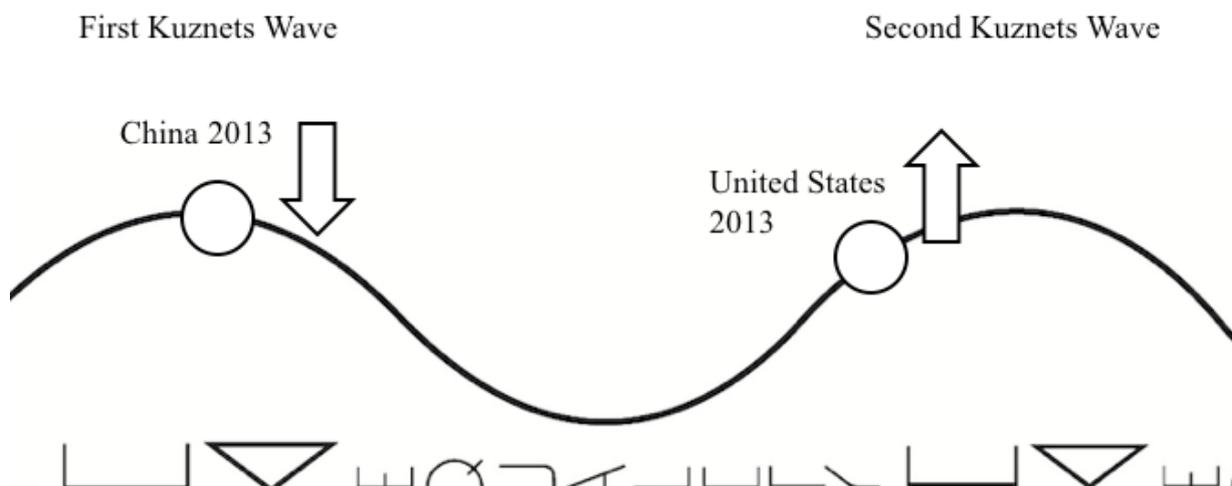
Following the analysis of data and literature on China, he expresses his optimistic view that China may have reached its income inequality peak.⁴⁰ But forces, like pervasive corruption, could push income inequality further. In contrast to China, the near future of the US seems to give no space for optimism. Various developments together may lead to, as Milanovic calls it, a “perfect storm of inequality” (Milanovic 2016: 180). Some

³⁹ The first envisages the matter of differences among nations as it states that globalization should entail an overall income convergence. The latter looks on individual states, their income level and structural features, as to identify their position along the Kuznets waves.

⁴⁰ His prediction is supported by different theoretical approaches; in the first place it would be perfectly in line with the Kuznets’s hypothesis (and the structural transformation from socialism to capitalism) and also with Tinbergen (who assumes that the relative wages of highly skilled workers should be reduced as the supply of more educated labor expands).

developments not only tend to let inequality rise, but compromise the foundations of democracy likewise the irrefutable fact of the growing importance of money in electoral politics: “The political importance of each individual becomes equivalent to his or her income level, and instead of a one-person one-vote system, we approach a system of one-dollar one-vote (...) A plutocracy is thus born” (p. 190).

Figure 7: Kuznets Waves for the United States and China



Source: cf. Milanovic 2016: 191; own compilation.

Some consequences of the developments are clearly reflected in numbers likewise the decline in the share of the middle-class population since the 1980s. The main problem of this development is that it is the middle-class which allows for both democracy and stability (p. 194). In the US it appears that democracy is still in place since freedom of speech, right of association, and free elections are maintained. But the scheme gets increasingly similar to a plutocracy (p. 199). Milanovic identifies two forms of suppression by the rich on the middle and the poor class. One way is through the suppression of the vote of the poor. The second suppression consists of the creation of a false consciousness of the middle and lower class, to use the terminology of Marx. With this concept Milanovic wishes to express that this group is distracted from their economic interests while their attention is brought to other issues of societal or religious nature – mostly deeply divisive. This means that “the culture war has a function, and that function is to mask the real shift of economic power toward the rich” (p. 202). In addition, this suppression is perverted and underpinned by the persisting overestimation of the poor people in regard to social mobility that makes them believe that everyone is the architect of his or her own fortune. This ideology arises from the American two-party-system and points to a deeply rooted problem. In contrast to the developments in the US, Europe faces other challenges as its systems are multiparty (and thus not

prone to plutocracy) and tools to manage migration movements are missing. Because of these two factors, globalization exerts pressure in two forms: first, in form of ongoing migration and second, through the movement of goods (imports) and capital (outflow) which in turn burdens the welfare state. When it comes to the welfare state, a common belief prevails that the poor (and migrants) are the main beneficiaries of it. But this is false and furthermore a threat to the stabilizers of democracy and stability:

The numerous attacks on the welfare state (...) are in reality attacks on the middle class (...) the middle class gain even more through free or subsidized health care and education, pensions, and, more than anything else, through the presence of a safety net to catch them were they ever to fall to a lower station on life (p. 207).

The reaction to the creeping process of the dismantling of the welfare state protection is a higher share of popular vote received by right-wing nationalist or populist parties in all Western and Central European countries. These two different types of backlash show the trade-off between globalization and democracy. While Europe tries to keep the flame of democracy by cushioning effects from globalization, America is willed to sacrifice democratic elements in order to further push globalization.

Some additional notes have to be made at this point: when this book was published, Donald Trump was not yet elected as the 45th president of the United States. Under the presidency of Trump – who is listed in the *Forbes List* (with an estimated net worth of \$3.1 billion) and his foreign policy of “America first” – both the tendency toward plutocracy and a populist and nationalist approach define the political agenda. Meanwhile in Europe, the British people voted for Brexit; Germany has for the first time since World War II a populist right-wing party in its parliament, forming the largest opposition party; and in France, the elected President and independent centrist Emmanuel Macron, a former investment banker, competed against National Front Leader Le Pen.⁴¹ What in 2016 sounded like a provocative idea, was caught up by reality. But to which extent the outlined scenarios of plutocracy and the rise of populism and nationalism are fulfilled, belongs to another debate.

⁴¹ In the first round for the presidential election Macron was leading with 23.9 percent while Le Pen was close behind with 21.34 percent (CNN 2017).

3.3.5 What Next?

According to Milanovic, the 'Economic Convergence' and the 'Kuznets waves' will determine the future, while economic growth will be the most powerful tool to reduce poverty and inequality. Concerning the rich countries, he dares the prognosis that the middle classes will continue to shrink and that in times of "new capitalism" success will depend much more on family background and luck than this has been the case in the last decades. Meanwhile we are observing that globalization leads to a dismantling of the welfare state. Here it is the governments of rich countries that play a crucial role as they should ensure a more equal market income, or in other words: the objective should be to tackle inequality already before taxes. More so as globalization challenges the rising scalability of jobs. This means that the difference between jobs in that a service or product can be offered once (like a taxi drive) and one that can be spread (like music or lessons from professors) becomes bigger as more and more people can enjoy and pay the respective fees. Much as music and lessons may be indulged to everyone interested, this entails further rising gaps of income between the ones that can reach more people via the world wide web and the ones that cannot. All these developments and tendencies make clear that there is a further need to focus not exclusively on the horizontal axis of inequality and nations as it has mostly been in the past. But it is necessary to devote more attention to the vertical dimension and global affairs as the peoples' life and circumstances are not conceivable as solely determined within national borders. This book proves that methodological advances in economics made it possible to do exactly this. And one certain finding can already be given: that inequality will not disappear as globalization continues (p. 239).

3.4 Scheidel: The Moral of that (Hi)story

For his overarching framework, Scheidel picks up the visual language of the Christian apocalyptic vision of the Four Horsemen; with the difference, that he assigns them other roles, namely war, revolution, collapse, and plague.⁴² According to his analysis, throughout the history of the last millennia, civilization was not able to conquer economic inequality which in periods without violent shocks was able to expand continuously. This argument is at the core of his thesis: massive violent shocks only have had been able to let economic inequality shrink. The appearance of their destructive power is a necessary (if not sufficient) prerequisite. When asked about other levelers of peaceful character, Scheidel negates their very existence. Before he presents "alternatives" in the form of other approaches and theories (e.g. democracy, economic development

⁴² Instead of the usual attribution of death, famine, war, and conquest.

or the interplay of education and technology) – just to unmask their weakness against the uprising inequality – he leads us through plenty of recorded history and several continents along the most violent disasters that humanity has ever experienced.⁴³

In order to value his work, it is important to understand what the book is about, and “what this book is not about”. First, Scheidel focuses on the material inequality within, but not between societies. Second, he is interested in violent shocks and thereby in identifying the mechanisms of leveling, but not *vice versa* how inequality may have impacted violence. For his analysis he relies mostly on the Gini coefficient and top income shares.⁴⁴ Besides these common ways of measuring inequality, he calls archeology, proxy data (e.g. ratio of land rents to wages), historian records of contemporary observers, and molecular biology also his repertoire. To measure inequality in premodern societies, one has to follow an eclectic approach. Equipped with a wide range of tools he is able and willing to do so. The reason why Scheidel wants to offer a historical background of the evolution of material inequality is that policy proposals which intend to tackle this issue often lack awareness of recorded history. In his “Brief History of Inequality” he finds that three factors may explain inequality and its persistence: firstly, “the relative importance of different classes of assets (e.g. material wealth)”, secondly, “how suitable they are for passing on to others (reliance on defensible natural resources)”, and thirdly, by “actual rates of transmission (from one generation to the next)” (Scheidel 2017: 38). In 6000 to 4000 BCE, these “structural ingredients” were already put in place, thus they were given a long time before the state formation had its beginning. But once governmental institutions were established, material and political inequality went hand in hand, exacerbating each other’s existence in an “upward spiral of interactive effects”. One anecdote from the Roman Empire delineates (even if exaggerating) the severe dimension that inequality reached at the beginning of our western calculation of time: “Imperial unification and connectivity facilitated the expansion and concentration of personal wealth. Under Nero, six men were said to have owned “half” of the province of Africa” (p. 75).

Over time, economic and urban growth fueled the increase of inequality. Commercialization and a growing wage dispersion also provided a partial explanation. These disequalizers boosted inequality in different composed complementarities, “determined by local economic and institutional conditions” (p. 100), but all over Europe

43 342 pages filled with good mood and optimism.

44 But he draws “attention to their limitations where appropriate” (p.13). To name the most important weaknesses: The Gini index usually derives from household surveys, top income shares from tax records and whereas the former does not capture the very large incomes, the latter suffers from comparability over time and space and is skewed due to tax evasion.

they did so whenever no violent shock occurred. Beyond Europe, the same may be assumed for Asia and Latin America. By the nineteenth century, all parts of the globe regardless of region, political system, and level of industrialization, show the same pattern of high inequality.

Technological progress, economic development, the widening globalization of the flows of goods and capital, and the ongoing strengthening of states, coupled with a century of unusually peaceful conditions, created an environment that protected private property and benefited capital investors (p. 111).

3.4.1 War

In the twentieth century, the above quoted environment was totally destroyed when two out of four Horsemen came across and raged for decades. Accurately, “total war was the single ultimate cause” (p. 117) but had a faithful companion – namely the transformative-communist-revolution – which followed his forerunner close behind. In developed countries all over the world, both main belligerents (such as the US and France) and nonbelligerents (as Switzerland and Sweden), experienced a huge deconcentration of income and wealth during “the drama of the thirty years war” (Charles de Gaulle 1946)⁴⁵ from 1914 to 1945. Various statistics show a common ground: the rate of decline of the top income shares was always bigger during war time than in the postwar period; and World War II revealed a bigger leveling effect than World War I. As ratios of private wealth to national income clearly demonstrate, the loss of the elite was not redistributed on behalf of the rest of the population but indeed wiped out (p. 140). Scheidel shares Piketty’s opinion in that it was due to losses in nonwage income that the Top 1 percent has suffered its tremendous reduction – brought about by combat, bankruptcies, rent control, nationalization, and inflation in the years of 1914 to 1945 (p. 147). Not only did the elite lose its gains from capital. A fiscal revolution brought about changes in progressive income taxation with very high marginal rates and estate taxes, as wartime justified a higher taxation on unearned incomes. All these mechanisms were direct or indirect consequences of the experience of war. But caution should be exercised when it comes to claim generalized findings. Scheidel accuses Piketty of exactly this mistake, when Piketty, based on the experience of France, assumed that “in the twentieth century it was war only (...) that erased the past and enabled society to begin anew with a clean slate” (Piketty 2014: 275). Between these two approaches there is a subtle but important difference. In contrast to Piketty, Scheidel assumes that war was necessary and worked as a catalyst. But a state did not have to be involved

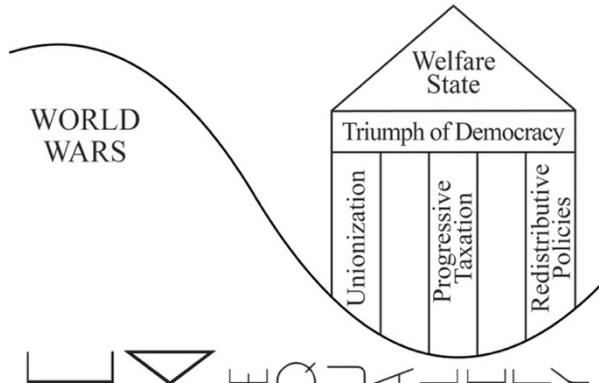
45 Speech at Bar-Le-Duc on July 28, 1946: “Le drame de la guerre de trente ans”.

and to undergo the chaos of war in order to shape the development of inequality in societies.

The case of Sweden is instructive in demonstrating that even a comparatively limited war mobilization effect could be sufficient to create the fiscal infrastructure as well as the political will and electoral support that were required for progressive policy preferences to carry the day (p. 164).

Another important scholar Scheidel cites is Max Weber who understood warfare as a force that paved the way for more political rights and thus a “Triumph of Democracy” (Weber 1950: 325-326, here Scheidel 2017: 167). The combination of the long-lasting process of the recovery of capital which was destroyed to a large extent and the triumph of democracy encouraged the promotion of an expectation for higher levels of fairness, participation and inclusion. This in turn laid the foundations for the modern welfare state, enabled through progressive taxation, unionization (a leveling force which is negatively correlated with income inequality) and democratization.

Figure 8: The Triumph of Democracy



Source: Own elaboration. The curve represents the decline of the Top 1% Income Share since WWI and WWII.

3.4.2 Revolution

The leveling effect of conflicts between states has been examined. But what about internal conflicts that “strive for a more comprehensive restructuring of society”? Only a few revolutions exhibited such an extreme level of violence that it is possible to find profound changes in the distribution of income and wealth. Again, it is the twentieth century which offers the best confirmation of this approach, as the communist

revolutions induced the most impressive reduction in inequality with more than 100 million deaths and low inequality levels comparable to those of the belligerents of the world wars. The first of this kind to name is the Russian revolution in the aftermath of World War I. “War Communism” under Wladimir Iljitsch Lenin from 1917, characterized by a high degree of open state coercion of all kind, a rampant inflation, and more than 7 million arrested people in the *Gulag* prison camps by order of Josef Stalin until 1924 caused an unprecedented inequality reduction. Yet inequality was on the rise as soon as economy was growing again from 1933 onward. After the second world war, political interventions as a result of communist ideology caused further leveling.⁴⁶ But in the immediate aftermath of the collapse of the Soviet System, inequality set off at high speed and the Gini coefficient doubled in only five years from 0.28 to 0.51 in 1995 (p. 222).⁴⁷ Once more the causation for great leveling can be expressed by the simple credo: “no violence, no leveling” (p. 223). The Maoist period in China shows particular characteristics to the Russian experience.⁴⁸ Other communist revolutions in North Vietnam, North Korea, Cuba and Nicaragua had the same intention – to restructure society in a comprehensive way and disestablish upper classes through nationalization – exercised violence to a lesser extent and missed any long-lasting inequality descent. This finding is also applicable for the French Revolution. No transformation occurred as changes in wealth concentration, income distribution and in landownership were on a small scale only. To put in plainly in the words of Scheidel:

(H)owever much it may have scandalized conservative contemporary observers, a revolution [that] turned out to be quite restrained in its means and ambitions yielded correspondingly less leveling (p. 238).

3.4.3 Collapse

The targets of the third horseman in form of collapse are state hierarchies and extractive institutions. Collapse may come in the form of state failure or system collapse. The first may be understood as a given when the state loses its capacity to accomplish its basic objectives like the control function for internal affairs and the promotion of basic security for itself as much as for key allies. System collapse can be defined as “rapid, significant loss of an established level of social complexity (...) that goes well

⁴⁶ In 1988, more than 96 percent of the workers were employed by the state.

⁴⁷ Both ends of the social spectrum reached new highs: the top quintile share grew from 44 to 51 percent until 2013 and the number of the poor accounted for 60 percent by the time of the financial crisis in 1998.

⁴⁸ “By the end of the Maoist period, between 6 million and 10 million Chinese had been killed or driven to suicide by the state, and about 50 million others had passed through the laogai camp system, where 20 million of them died” (p. 227).

beyond the failure of political institutions of governance” (pp. 257-258). A state failure acts as a catalyst for leveling as the enrichment of the elite is intertwined with political stability. If a state was not able to guarantee stable structures, the holding of wealth and income were put under threat and expansion was proved to be more challenging. The onset of instability was shaking existing income streams of the elite to the core and was able to lower inequality simply because the rich had more to lose than the poor. The difference between this event and a system collapse lies in the scale of impoverishment, as the height of fall for the rich appeared to be even larger. One of the best-documented premodern case studies is the Tang dynasty in China, established in 618 CE. The downfall of the Western half of the Roman Empire represents another case of leveling due to a state collapse (sic!) in the early seventh century. Considering that not only senatorial families were rubbed-out (in a literal meaning: no names appear in any historical records) but regional and sub-regional elites likewise disappeared, it is to question whether the losses of the top may have been transformed into gains for the bottom. To find an answer, Scheidel refers to a Stanford dissertation by Robert Stephan from 2013, who studied the house sizes of the Roman world.⁴⁹ And indeed, his findings allow for an approximation of a Gini coefficient and to assess that the failure of the Empire had a considerable leveling effect – which in turn reveals that not only the elite were pressed down but that the poor were lifted up. Other cases of such demise like the Mayan and Aztec societies, the old kingdom period in Egypt and Akkadian empire in Mesopotamia still remain a riddle. But it is possible to analyze a contemporary case that “may at least come close” (p. 283) to state failure: Somalia. The time period from 1991 to 2006 can be understood as a period in which Somalia was a de facto failed state.⁵⁰ The few available data leave no room for doubt that until the present time it is in a bad shape.⁵¹ The question is whether the experienced state failure changed the distribution of income and wealth. The disappearance of the elite “that greatly benefitted from rent extraction” at the expense of the rural Somali population allow for the assumption that state collapse entailed to level inequality.

In some cases of collapse, the entire population was worse off (but the richer to a higher extent). In other cases, like in Somalia, it was mostly the elite that became affected. Yet no matter to which extent the leveling took place, the underlying finding is that a collapse of state hierarchies and extractive institutions enables the reduction of inequality.

49 “House size represents an acceptable proxy for per capita economic well-being: household income and residential house size are strongly correlated across cultures” (p. 267).

50 From the overthrow of the regime of Mohamed Siad Barre until the Ethiopian intervention fifteen years later.

51 Data are available in form of the multidimensional poverty index and numbers of severe poverty; it is not possible to calculate the Human Development Index as data are missing.

3.4.4 Plague

The Fourth Horseman completes the quartet. To give an understanding how epidemic and pandemic diseases were able to reduce inequality, Scheidel refers to *An Essay on the Principle of Population* by Reverend Thomas Malthus from 1798. According to Malthus, in the long-term, population tends to grow faster than resources. But this “triggers” checks, namely “preventive checks” that lower fertility rate (by moral restraints) and “positive checks” that raise mortality. Epidemic and pandemic diseases belong to positive checks “which in any degree contribute to shorten the natural duration of human life” (Malthus 1992 [1798]: 23). These “positive checks” did not become effective within the last 150 years, but in premodern societies they burst with enormous force. Their leveling effect came by the changed land to work ratio which lowered the value of the former and caused the price of the latter to rise. An important precondition for this mechanism was an effective price-setting market: “Microbes and markets had to operate in tandem to compress inequality” (p. 292). But as soon as the population recovered and grew again, so did inequality as the pressure on the land-labor ratio decreased. The “Black Death” provides a good example: the most recent estimates for Europe range between a death toll of 25 percent to 45 percent of the entire population, shrinking from 94 million in 1300 to 68 million in 1400.⁵² To prove the underlying leveling logic of plague, Scheidel interprets historical accounts and laws (as the sumptuary laws in England which in 1337 allowed nobles and clerics only to wear furs; by 1363 it was permitted to everyone) and furthermore, he searches for quantitative evidence, as offered by Guido Alfani who gathered and analyzed data from archives in Piedmont (Italy) from the fourteenth until the nineteenth century. His data reveal a decreasing share of the Top 5 percent of society whose share in 1300 accounted for more than 45 percent and went down to 33 percent in 1450, before it returned to previous highs in 1650.⁵³ The Americas also suffered from the appearance of the Fourth Horseman, brought in from the Old to the New World in various forms such as smallpox, measles, influenza to name a few. The demographic change is estimated to be impacted by a loss of half the population.⁵⁴ The Justinianic Plague (541 to 750 CE) and Antonine Plague (165 to 180 CE) are further examples for the appearance of the Fourth Horseman and relying on historical accounts, molecular

52 A contemporary witness of the plague in Florence, Giovanni Boccaccio, describes that “such was the multitude of corpses... that there was not sufficient consecrated ground for them to be buried in” (Horrox 1994: 33, cited in Scheidel 2017: 296).

53 The Gini coefficient has the similar curve progression, starting at 0.45 in 1300, decreasing to 0.32 in 1450 and getting back to its old level in 1650 (p. 307).

54 Bernardino de Sahagún, a missionary priest from Spain and Aztec archeologist, wrote about the Aztec capital Tenochtitlan that “the streets were so filled with dead and sick people that our men walked over nothing but bodies” (Cook 1998: 202, cited in Scheidel 2017: 315).

biology, papyrological land and tax lists, calculations of infection and mortality rate, and changes in real prices and rents, Scheidel confirms his findings.

3.4.5 Alternatives

As Scheidel finds that, “(t)o a great extent, the scale of leveling used to be a function of the scale of violence: the more force was expended, the more leveling occurred” (p. 345), he questions first, whether there have been any peaceful attempts or events which have had similar effects on inequality; and second, is there nowadays a possibility to level it? Neither land reforms, debt reliefs, economic crises have had a systematic negative effect on inequality. He states the same for democracy and education.⁵⁵ Another popular perspective yielded by Kuznets that was introduced before and which is meant to level inequality is economic development. But as a pioneering study with longitudinal data from 1998 shows, Trinidad and Tobago are the only two out of forty-nine countries which would support the Kuznets thesis. Yet there are cases which call for Scheidel’s attention. One strategy to identify equalizing economic forces lays in the analysis of countries that were not directly affected by the world wars and that in addition “have shown a significant reduction of income disparities” within recent years: with reference to Latin America.⁵⁶ But according to Scheidel’s analysis, favorable conditions that made this evolution possible could have come to an end. Scheidel continues, as he put it himself, with an “unremittingly bleak” message as millennia proved peaceful leveling to be an exceedingly rare phenomenon.

I was able to trace the concentration of resources in the hands of the few to two principal factors: economic development and predatory behavior by those powerful enough to appropriate wealth well in excess of what their activities might earn them in competitive markets – what economists call rent. These mechanisms remain active to the present day (p. 411).

Education, globalization, fiscal institutions, in concrete, tax progressivity – all these factors are embedded, waxing and waning in a political sphere that in these days comply with the interests of the elite. Unionization, high progressive taxes on both income and wealth came hand in hand with the disastrous experience of the world wars but

⁵⁵ The relationship between democracy and inequality is ever since accompanied by contradictory research findings. A recent study by Acemoglu and Robinson finds no consistent effect of democracy on income inequality – neither for the market nor for the disposable income inequality (Acemoglu and Robinson 2015).

⁵⁶ Perhaps for the first time in recorded history, inequality fell across the region. In fourteen out of seventeen countries that have produced relevant data series, income Gini coefficients in 2010 were lower than they had been in 2000 (p. 381).

are evaporating within the last few decades. Furthermore, he surpasses his analysis by the simple clarification that economic inequality is greater than it may seem.⁵⁷ So what does the future hold according to Scheidel? When it comes to “recipes” against inequality, Scheidel names a long list of proposals and economists who mostly focus on tax reforms. But in his opinion, the ideas run short of attention to their scale of costs and benefits and lack both a “real-life political feasibility” and historical awareness (pp. 433, 436). Even though Atkinson’s package of measures is “relatively modest”, there “seems to be surprisingly little interest in how to turn such proposals into reality” (p. 436). Elaborating on the Four Horseman he assumes that they were ridden in the past and are unlikely to appear any time soon. Thus,

prospects of future leveling are poor [but] (a)ll of us who prize greater economic equality would do well to remember that with the rarest of exceptions, it was only ever brought forth in sorrow. Be careful what you wish for (pp. 443-444).

⁵⁷ This has three reasons: First, the Gini coefficient which is most common tool to measure inequality tends to leave out the very highest incomes. Second, according to estimates by Zucman 2013, 8 percent of world financial household wealth is hidden in tax havens. And third, whereas it is common to focus on relative indices (as Scheidel has done, too), absolute inequality would draw a more contrasting picture of income and wealth distribution (p. 424).

4. Same But Different

Even though the Four Angelists approach the same topic of vertical inequality, the reviews prove them to be different in many aspects. In this section I compare their works, summarizing the aspects in the form of a table. In the end, I provide a question. The answer to this question may help understand how it comes about that the messages of the authors vary (as in my opinion the categorization of neoliberal or not does not do justice). Beforehand I briefly integrate critical remarks as a review without reporting on deficiencies of scientific work would be incomplete; and furthermore, I believe pointing them out is like a litmus test for its robustness.

Once again, I start with Piketty. Whether or not one is to believe and follow Piketty's findings does not diminish the validity of Krugman's statement that he "has transformed our economic discourse; we'll never talk about wealth and inequality the same way we used to" (Krugman 2014). *The Economist* even goes so far as to say that contemporary books on inequality have to be divided into published BC (Before Capital) or AP (After Piketty; *The Economist* 2015). As his work is provocative, it was to be expected that it would encounter criticism from many quarters. In particular two aspects received most critiques. The first refers to his explanation of high salaries of top earners. In this context, Donald Boudreaux has criticized Piketty's reliance on insufficient microeconomic analysis and how he misses studies showing that wages of CEOs were highly related to the performance of companies (Boudreaux 2015). Even Krugman whose review is that "ink has been spilled glowingly", speaks of a "significant disappointment" when it comes to Piketty's argument on wage inequality (Krugman 2014; see also Syll 2014). Second, many reviewers target Piketty's data, among others, Chris Giles from the *Financial Times* (Giles 2014). It was Piketty himself who after six days only, commented on the accusation. In Piketty's opinion, Giles' critique was neither constructive nor applicable as suggestions of how to improve the data first ignore important studies (like Saez and Zucman 2014) and second, Giles chose data which underestimate wealth inequality in general (Piketty 2014b: 2). Another point of criticism includes the ignorance of public pensions and benefits that the middle class in the US enjoys. This leads Piketty to paint a darker picture than reality actually is (Levmore 2015: 849, 854; see also Green 2016). Furthermore, a critique which comes not by surprise is Milanovic's complaint against the "stickiness to r ".⁵⁸ In addition, Milanovic states that Piketty's formula $r > g$ is lacking a theoretical background and has to be treated as "empirical proposition whose accurateness will be confirmed or not by future developments" (Milanovic 2014: 527). Whereas Milanovic recognizes the empirical foundation as a weakness, Romi Khosla

⁵⁸ As has been presented before, Milanovic prefers to focus on market income, thus before taxes, which is obviously opposed to a global tax on capital.

states that it is the empirical evidence “which allows to move the discussion away from ideological and theoretical based conclusions” (Khosla 2015: 63). One further point of criticism I would like to add refers to Piketty’s formula. In order to inquire into the merits of income and wealth share tables he uses, Piketty criticizes the Gini and interdecile ratios (as often used by reports from the OECD). The problem he identifies is first the missing evolution of what happens between the top and bottom percentile and second, they often ignore the top end of the top shares (Piketty 2014: 266). The same is true for $r > g$: it is a ratio, too. Two countries could show the same records of r and g but have different levels of inequality.⁵⁹ However, criticism on his work has come *en masse*; positive, negative, and everything in between. Yet whatever the critique has turned out to be, it must be acknowledged Piketty has kindled a broad discussion on top income shares and introduced a new theory on rising inequality (as Milanovic 2016 states, after more than half a century: 47). On the question as how inequality has had been able to rise, he answers with a formula which has the potential to become the new $e=mc^2$. Focusing on Western countries and the time period from the French Revolution to the present, he relies on fiscal data to show inequality in the form of income and wealth share tables and reaches not only economists, but general educated readers alike (it has to be admitted, however, that they have to have perseverance to make it through this lengthy work). When it comes to providing a proposal as to what to do, he has a clear idea. With a view to his formula, he targets r and introduces the idea of a global (or at least regional) taxation of capital, emphasizing not only the ability but the very imperative to intervene in global processes in order to tackle the problem.

It was 1 AP (or 2 AP, as the French version of *C21* was published in 2013) when Atkinson’s book was published, hence *C21* and *Inequality. What can be done?* were being reviewed and put perceptibly in relation. Whereas some understand Atkinson’s work as a continuation which seeks to deepen Piketty’s findings (Harris 2015, Hollanders 2016), others see a support which even achieves to “remove some doubt” (Sabnavis 2015); while other reviewers state that the master still surpasses his disciple. As Tom Clark expresses it brilliantly, John Lennon once sang, “You say you want a revolution”, before adding a characteristic barb: “we’d all love to see the plan”. That is, as Clark clarifies, exactly what Atkinson contributed to the debate. Yet “Atkinson does not want a revolution (...) the Atkinson ambition is merely to narrow the gap in the UK to where it stood when he started [his academic career in the 1960s]” (Clark 2015). Atkinson’s work has not been spared criticism, calling his approaches either radical or outdated and thus without chance of being implemented by any government (Chu 2015, *The Economist* 2015). Furthermore, some accuse him of treating various issues only superficially or at least not to a satisfying extent. Carina Fourie for instance, misses a more in-

⁵⁹ For reflections on ratios and the decomposition of g , see Appendix.

depth discussion why economic inequality should be understood as a real threat. But literature in political philosophy can, according to her, bridge this gap (Fourie 2015: 4). Keeping in mind that further research in an interdisciplinary manner of this kind is exactly what Atkinson called for, Fourie's critique resembles the fulfillment of Atkinson's wish rather than a negative appraisal. Most criticism points toward the Eurocentrism and Britain-focus of Atkinson's analysis (Knee 2015, Sabnavis 2015 among others). On the contrary, Piketty identifies this point as a "main strength" because it shows that "governments have no real excuse for inaction" (Piketty 2015). In that sense, Atkinson is a "possibilist" *par excellence* as he searches for resources to reduce inequality that are "hidden, scattered, or badly utilized" (Hirschman 1988: 5). As Philipp Lepenies states, "possibilism looks for *what can be done* [highlighting by the author]" and one precondition is an "in-depth analysis of the individual patient before concluding which medical steps are possible in each case" (Lepenies 2008: 456, 457). With his analysis of the UK and other (mostly OECD) countries from the twentieth century to the present, using the most common inequality index Gini (and not the one named after him), the "Godfather" of measuring inequality not only offers the most concrete proposals to address the issue, but opens access to non-specialists due to his engagingly written style. As the "recipe" is written in a manner that anyone interested can understand, everyone's awareness will conceive that the most important medicine is faith that the solutions lie in our hands.

The next author is also excellent in expressing his thoughts clearly. Milanovic's tremendous knowledge about inequality is expressed pointedly and framed by many anecdotes and graphs. To elaborate on both inequality within and among countries and in addition rehabilitate Kuznets hypothesis by a transformation from a curve to a wave in a "relatively short book" (Milanovic 2016: 7), proves him to be a virtuoso in the field of inequality. And yet, I have to disagree with him (and others, e.g. Green 2016) from the beginning of his study in one aspect: I find his claim that this book was written for general readers with interest (and not for economists only) not fulfilled. Several times he offers "Excurses" to explain concepts, methods or to introduce important historical occurrences. But some remain unexplained and without economic background knowledge (as for example what "higher elasticity of substitution" means or Malthusian checks are), it would be difficult to follow. Nevertheless, these occurrences are the exception to the rule as most arguments, and by far more important, the overall direction of his ideas can be traced. However, a threefold biting criticism comes from Anthony Annett from the IMF (Annett 2016). In the first place, technological revolutions (as labeled by Milanovic) must not be understood as a driving force for inequality as four to six technological waves since the late eighteenth century can be identified (and they did not bring an upswing in inequality). Next, Annett accuses Milanovic of being

“murky” regarding the turning point of the wave. As in the explanation for the outbreak of World War I, Milanovic identifies inequality itself as the reason for the disastrous mass violence that finally brought a reduction. As Annett notes, “Milanovic takes us to the precipice, but then pulls back” as he does not explain what this means for our future. Out of this derives the third critical point: when talking about malign forces, he leaves out “one of the greatest malign economic forces of the 21st century, climate change, which could spell catastrophe for income distribution both within and between countries.” Indeed, while Milanovic discusses migration broadly, he does not take into account the aforementioned factor that forces mass migration movements all over the globe. Another point of critique I find is the discrepancy between data and graphs: first, for the upswing in inequality since the 1980s, his findings do not match with the assumptions deriving from the Kuznets waves. At certain points, Milanovic himself acknowledges these disparities (only the US and UK fit in their entirety; Milanovic 2016: 79, 81). Secondly, a faulty presentation of data in graphs discredits his arguments instead of supporting them. The statistical support for his hypothesis, as David Dodwell states, is without doubt compelling (Dodwell 2016). It is, then, all the more regrettable to find a downswing of a curve where data remain constant.⁶⁰ This criticism in mind, it remains that Milanovic has managed to shift the focus to the global level, away not only from analyses within countries but also broadening the picture by putting an end to the dominance of Eurocentrism. As Milanovic understands politics as endogenous to the economy, it would not be wisest to concentrate on (national) taxation as globalization and technological processes define the frame in which (national) politics is able to evolve. In his opinion it makes more sense to concentrate on market income and interventions before taxes, likewise through higher investments in education (Milanovic 2016: 221).

If asked for recipes against extreme and rising levels of inequality, Scheidel would question the question and answer twofold: first, statistics like from Oxfam (p. 1) are “perfectly normal” ever since mankind has had recorded an economic surplus (Scheidel 2017: 62, see also Mann 2017); and second: the moral of his(s)tory is that mass violence alone has had been able to level inequality. Thus, the counter question is: do we want inequality to shrink? This consistent pessimistic view is what most reviewers disagree upon, arguing that Scheidel pushes the importance of World War I and II too far, ignoring thereby institutional arrangements and processes of leveling that have been under way beforehand and have been rather thwarted than caused by the wars (Mann 2017, Bavel 2018 among others). Furthermore, as Scheidel concentrates on the state level only, he

60 In a graph in which Milanovic brings his (and Lakners) work together with the work of Bourguignon and Morrison (2002), the curve drops while data provided by Bourguignon and Morrison (2002) stay at the same level.

denies that it was not constantly an adequate level to draw general conclusions (Bavel 2018: 370). However, his extensive historical analysis of inequality with an eclectic approach and the wide range of measuring tools covering thousands of years and all areas from around the globe is impressive and shows that using archeology may help to trace the origins and development of inequality. But Kohler and Smith find fault with Scheidel's fondness for written documents; in their opinion he could have further deepened his gaze into the archaeological past (Kohler and Smith 2018: 4). If following works on the history of inequality even broaden the toolkit Scheidel has used, I think that will not diminish his accomplishments and contribution. As mentioned in the third section, Scheidel refers to the other three authors. He also discusses possible actions against inequality and states about Atkinson's book that it is "(t)he most detailed and precise equalization program that has been put forward to date" (Scheidel 2017: 434). Nevertheless, he considers any kind of political intervention to be only a drop in the ocean as he repeatedly stresses that nothing but the Four Horsemen have been able to tackle inequality.

Mann criticizes his deterministic perspective according to which for instance Scheidel assumes "that the result of the two world wars was given" (Mann 2017: 88). And as Bavel puts it, he attributes institutional arrangements some importance, yet this is "a slight one" (Bavel 2018: 379). It can therefore be concluded that Scheidel, just as Milanovic, understands politics as being primarily determined by economic conditions.

After the review of the Four Angelists, Table 2 below summarizes the findings.

I would group Piketty and Atkinson together as they understand politics as being outside of economics, and able to change the course of events; in contrast, Milanovic and Scheidel understand politics as endogenous to the economy and little or nothing can change the course of inequality. Yet I admit that Piketty and Atkinson are more similar to each other than are Milanovic and Scheidel.

Table 2: Same But Different – the Four Angelists in Comparison

<i>Same but different</i>	<i>Piketty (2014)</i>	<i>Atkinson (2015)</i>	<i>Milanovic (2016)</i>	<i>Scheidel (2017)</i>
<i>Goal</i>	<ul style="list-style-type: none"> ▪ Spread awareness of increase in inequality and income distribution ▪ Provide a theoretical and data basis 	<ul style="list-style-type: none"> ▪ Give an answer to the question “What can be done?” ▪ Raise awareness it can be done 	<ul style="list-style-type: none"> ▪ Lead the focus on the global level ▪ Introduce a comprehensive approach 	Substantiate key arguments <ul style="list-style-type: none"> ▪ inequality was driven by technology +economy +state ▪ leveling forced mass violence
<i>Contribution to debate</i>	<ul style="list-style-type: none"> ▪ Revolution: focus on top income shares ▪ New theory on rising inequality 	<ul style="list-style-type: none"> ▪ Offers most concrete proposals ▪ Opens access to non-specialists due to its engagingly written style 	<ul style="list-style-type: none"> ▪ Emphasizes the global perspective ▪ New approach 	<ul style="list-style-type: none"> ▪ Raise awareness for recorded history ▪ Promotes eclectic methods
<i>Question</i>	Why did inequality rise?	How can inequality be tackled?	Why did inequality rise?	What caused inequality to grow and decline?
<i>Approach</i>	$r > g$ (dismisses Kuznets)	Concrete proposals	Kuznets circles or waves	Eclectic (p. 39)
<i>Main unit of observation</i>	OECD countries (mostly France, US)	OECD countries (especially UK)	Global	Global
<i>Time frame</i>	French Revolution to the present	Twentieth century to the present	Pre-Industrial Revolution to the present (and since 1988)	Before Holocene to the present (mostly Ancient Era and Twentieth Century)
<i>Main source of data</i>	Fiscal Sources	Household Surveys	Household Surveys	<ul style="list-style-type: none"> ▪ Household Surveys ▪ Fiscal Sources
<i>Main measuring tool/index</i>	Percentage shares of income and wealth	Gini	<ul style="list-style-type: none"> ▪ Gini ▪ Theil 	<ul style="list-style-type: none"> ▪ Gini ▪ Percentage shares of income and wealth
<i>Implied audience</i>	<ul style="list-style-type: none"> ▪ Economists ▪ General educated reader with perseverance 	General reader	<ul style="list-style-type: none"> ▪ Economists ▪ General reader with background knowledge 	General reader
<i>(Main) proposal(s)</i>	Global taxation of capital	15 detailed proposals	Interventions before taxes	Change attitude
<i>Relationship of politics to economy</i>	Exogenous	Exogenous	Endogenous	Endogenous
<i>(Subliminal) Message</i>	Be wary of any economic determinism in regard to inequalities of wealth and income	Solutions for problems of inequality lie in our hands	New capitalism is a threat to social democracy	Be careful what you wish

As I showed in the first section, Miles Corak offers the explanation for different approaches in dependence of ideological predispositions. The story one tells depends on whether you have a collectivist view, you are afraid of market failures and understand government as a necessary force for good, or if you are libertarian, trust the market forces and do not want government to intervene (Corak 2016: 369). Saul Levmore argues that “reasons [for more or less progressive taxation] are weighted differently according to one’s political intuitions” (Levmore 2015: 851). I take issue with these categories by arguing threefold: first, instrumentally, as I think that the debate on liberal or not, or of political intuitions, is out of place when we call for more interdisciplinary analysis and discussion. Theories of economists are without any doubt important, even indispensable. But they do not underpin thoughts of researchers and practitioners outside economics who also deal with inequality. Second, as presented, the four authors Piketty, Atkinson, Milanovic and Scheidel tell different stories. Piketty and Atkinson, this is clear, are politically far away from being in line with liberals. But it would be also inappropriate to label either Scheidel (see first argument) or Milanovic as such. Milanovic is against the focus on taxation; yet he sees the responsibility of the government to intervene; for instance, he proposes to equalize the quality of schools and workers to receive a share from their companies (Milanovic 2016: 221). These proposals can also be found in *Second Treatise of Government*, John Locke’s most important political work (Locke 2007 [1689], Section 4, Section 27). He also advocated for intervention by government whenever necessary as inequality should not be allowed to increase unchecked. Milanovic’s and Locke’s ideas would be countered by Hayek and Friedman; thus he proves to be more in line with the first than with the latter two – and is not part of the neoliberal group. And third, it is time to “recognize that we are at the end of an era” as “the zeitgeist had changed (...) Neoliberalism has had its day” (Jacques 2016). A “movement toward a new paradigm” – away from the Washington Consensus (defined as policy paradigm of free market fundamentalism) – “is in progress” (Lütz 2015: 85).

I argue that the question and reason behind the different approaches is another: politics or economy – which is the master that defines the space for action? Most economists subscribe to what Ulrich von Weizsäcker stated in a speech in 2012: that it is the economy that sets the tone what “Politik” has to do (“Es ist die Wirtschaft die der Politik die Hausaufgaben diktiert”, Von Weizsäcker 2012). This group consists of the ones that believe that politics is endogenous to economy. But when it comes to this question, opinions tend to differ sharply.⁶¹ Others believe politics to be exogenous; a sphere for itself according to the definition that it is politics that defines the generally binding rules for a society – fiscal policy included. The first expects that there is not much we can

⁶¹ Milanovic stresses this difference between him and Piketty on p. 94; I point this out on pp. 23, 34, 57.

(or even should) accomplish as in times of globalization and ongoing technological progress, economic forces outside the sphere of our (national) influence define the frame in which we can operate.⁶² The second assumes that politics and society may, in a joint effort, change (or even reverse) the pattern as globalization and technological progress are not bestowed by God or nature but something that people collectively are able to decide upon. Thus, while the first group says we can do little (compared to the powers and factors that lie not in our hands), the latter call for a first step to realize that we are not powerless and leashed in chains and in a second step to overturn the idea of powerlessness. This requires more than an individual, but a collective effort based upon a democratic debate.

Imagine a gigantic hourglass (or see Figure 10 on the next page): whereas ones argue that time (in form of sand) passes through and there is nothing one can do; the others believe to the contrary: that the power lies in our hands and we can stop an ongoing increase in inequality. Yet one alone is not enough to make a change – and topple the hourglass.

⁶² This is in stark contrast to the neoliberal belief that interventions into the market are per se bad – rather they are understood as insufficient.

5. Appendix

5.1 A Brief Reflection on Data

An important aspect to be taken into account while analyzing inequality is the data one works with: “In seeking to draw lessons from statistics on inequality, we have to be confident in the quality of the data we are using” (Atkinson 2015: 45). As comparability is key to research, even though one hundred percent will not be reachable, used data should be harmonized – as offered by the Luxembourg Income Study (LIS; covering 50 countries) or the collection of secondary data from United Nations University-World Institute for Development Economic Research (UNU-WIDER; covering more than 150 countries). Household surveys bear several limitations, as they exclude people who do not live in households and are concentrated on lower range incomes (as Atkinson puts it, there is good reason to suppose that better-offs tend to reply at a lower rate) so that the upper tail of the distribution may be under-represented. Income tax data are another source. In this case it is important to not forget that they are a “by-product” and that tax avoidance and evasion also skew the results. Other data sources exist and can and should be taken into account, too, such as data on earnings, data on wealth and published tabulations from the past.

5.2 A Brief Reflection on the Ratio of r and g

The ratio of r and g offers an explanation for a growing accumulation of capital and thus an expanding inequality. But in order to make a real comparison and statement of inequality possible, growth g should be decomposed. A simple calculation shows why: imagine two countries both with $r=5$ percent and $g=1.5$ percent, for simplicity's sake, they keep this ratio for a long period. All factors of importance may start at the same level, even the taxation on r may be equal. If g is differently distributed, for instance in country A the top decile's share of growth (of 1.5 percent) is 0.5, the next 40 percent receive 0.5 and so does the poorer half. In country B the top decile benefits with 1.2 out of 1.5 percent of growth, the next 40 percent get 0.2 and the poorer half nearly nothing, only 0.1 percent of the total economic growth. As is known, the accumulation of any kind of income is a long-term process. But after a long time, even though both countries have the same r/g ratio, inequalities are different as the population benefits to varying degrees. Of course, this is just a simple model that leaves out considerations like a growing inequality which in turn could have consequences for further years, changing the growth rate, etc. . However, the same critique which Piketty addresses towards the Gini coefficient and the ratios used by OECD can be applied to his ratio of r and g .

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About trAndes

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trAndeS seeks to create and promote knowledge that can contribute to the realization of the United Nations' Sustainable Development Goals in the Andean Region. It focuses its efforts linking two dimensions: sustainable development as addressed by the 17 Sustainable Development Goals (SDGs) that the United Nations established for the year 2030, and the serious socioeconomic, sociopolitical and socioecological inequalities that persist in the Andean region. Our goal is to identify how these inequalities present challenges to achieving the SDGs and how progress toward the SDGs can contribute to reduction of these inequalities.

For more information, see the program website at www.programa-trandes.net.

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