INTRODUCTION

Globalization and Inequality

There has been a great deal of debate around the subject of globalization. It has been depicted as a panacea, an instrument for modernization, and a mortal threat. Some believe it has contributed to the "wealth of nations" by making them on the whole more efficient. Others feel it has caused the majority of humanity to sink into poverty in order to benefit a privileged elite. Criticism has been heaped upon it. Globalization is said to be the cause of economic crises, the destruction of the environment, the excessive importance of finance and the financial sector, deindustrialization, the standardization of culture, and many other ills of contemporary society, including an explosive rise in inequality.

My goal is to shed some light on this debate by focusing on one of the above points in particular, one that has arguably drawn the most attention: inequality. Globalization is a complex historical phenomenon that has existed, in some form or another, since the beginning of human society, but which we can track with more precision over recent centuries.[1] No one denies that it exists, and there is little doubt that it will continue. The real question is whether, as it is often claimed, globalization is responsible for an unprecedented rise in inequality in the world over the last two decades. Is the globalization that we see today sounding the death knell for equality? If it continues, will it destroy any hope of social justice?

In order to answer this question, it will be essential to distinguish between inequality in standards of living *between countries* and standards of living *within countries.* Once we've done this, a two-part historical trend emerges. On the one hand, after two centuries of rising steadily, inequality in standard of living *between countries* has started to decline. Twenty years ago, the average standard of living in France or Germany was twenty times higher than in China or India. Today this gap has been cut in half. On the other hand, inequality *within* many countries has increased, often following several decades of stability. In the United States, for example, income inequality has risen to levels that have not been seen in almost a century. From the perspective of social justice, the first trend seems decidedly positive, as long as it is not undermined by the second.

Because we have a tendency to look to our surroundings rather than beyond them, the rise in *national inequality* has in general eclipsed the drop in *global inequality*, even though this drop is undeniable. In the public mind, we are living in an increasingly unequal world, one in which "the rich get richer and the poor get poorer." And as the rise in

[1] See, for example, Patrick Boucheron (dir.), *Le Monde au XVe siècle* (Fayard: Paris, 2009), and Suzanne Berger, *Notre première mondialisation* (Paris: La République des Idées/Seuil, 2003).

national inequality, where it has taken place, seems to coincide with the recent acceleration of globalization, we have a tendency to conclude that the latter was responsible for the former, even if, paradoxically, globalization has *also contributed* to a drop in international inequalities. However, once we have looked at it through both national and international lenses, the relationship between globalization and inequality turns out to be more complex than it first appears.

This is how the title of this book, *The Globalization of Inequality*, should be understood. It has two meanings. On the one hand, it is a reference to questions of global inequality. The importance that is given in international economic debates to effectively re-equilibrating standards of living between countries is the clearest sign of this. But the title also resonates with the feeling that a rise in inequalities affects all of the countries on the planet and is becoming a matter of grave concern.

Of course, these two perspectives are not unrelated. The expansion of international trade, the mobility of capital and labor (notably for the most skilled), and the spread of technological innovation have partially bridged the gap between the wealthiest countries and the developing countries. But, at the same time, they have also contributed to a change in income distribution within these economies. Global economic growth has led to certain lines of production emigrating from developed countries to emerging ones, with the result that the demand for unskilled labor has shrunk in more advanced countries—which has led to a drop in its relative compensation. The international mobility of top skills and the growth of global trade have meant that across the world the high end of the wage distribution falls in line with that of the countries where economic elites are the best compensated, and the income stream from capital is everywhere increasing faster than that from labor. Naturally, other factors influence inequality at both the national and international levels: technological progress, the local capacity for economic growth, specific strategies for development, and even the politics of redistribution through taxes and transfers of wealth. But, in the end, how big a role has globalization played?

The goal of this book is to illuminate the relationship between globalization and inequality by carefully distinguishing between global and national inequality, paying close attention to the causes of the two prevailing trends and examining policies that could potentially bring together equality, greater economic efficiency, and globalization.

In the present day, the question of income inequality has returned to the spotlight for economists, social science researchers, and the political world. During the last few years, rising inequality in certain countries, notably the United States, has been the subject of or inspiration for several major books—among which it would be difficult to overstate the importance of two recent books by Joseph Stiglitz and Thomas Piketty, the success of which is a clear sign of the mounting public interest in the issue of inequality.[2] While few books address global income inequality directly, with the exception of Branko Milanovic's *Worlds Apart*,[3] many have analyzed inequalities in development between

[2] Joseph Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future* (New York: Norton, 2012); Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge, MA: Harvard University Press, 2013).

[3] Branko Milanovic, *Worlds Apart, Measuring International and Global Inequality* (Princeton, NJ: Princeton University Press, 2005).

countries or regions, which are the principal determinants of inequality at the world level. One of this book's contributions is that it combines the two levels of analysis by closely examining the degree to which inequality *between* countries and *within* countries have become substitutes for each other within the globalization process and the dangers such a state of affairs can cause. The central question is whether the increase in inequality observed in the United States, in some European countries, and in some emerging countries may be considered the consequence of a globalization process, which, at the same time, has drastically reduced income differences between developed and developing countries. Does diminishing inequality among countries fuel rising inequality within nations?

Some people would dismiss the issue of inequality altogether. They would argue that, provided everyone in a society has enough to live on and sees his or her welfare improving over time, why worry about whether progress is faster at the top than at the bottom or the middle? As long as inequality per se has no direct and sizable impact on economic progress, it is an issue that should be left to philosophers. Advocates of such a view would also insist that, despite being more unequal than others, some countries have been able to grow as fast if not faster than other countries—even in times of increasing inequality. Of course, the United States is the archetypical example of such a country.

Others would question the definition of inequality, distinguishing between income and opportunity. They hold that inequality of income does not matter as long as people have more or less the same opportunities to become rich. If everybody has the same chance to become Bill Gates, Warren Buffett, or Lady Gaga, then it does not matter whether

Gates's, Buffett's, or Lady Gaga's annual income is 300 or 3,000 times that of someone working at McDonald's.

These questions will be discussed in some depth later in the book, where it will be shown that excessive inequality has negative effects on economic efficiency and individual welfare. More fundamentally, however, the exclusive appropriation of economic progress by a small elite will, after a time and beyond a specific threshold, necessarily undermine the stability of societies. If, indeed, globalization is perceived as benefiting exclusively those with the top incomes—as in the United States, where the real median income and incomes below it barely changed over the last thirty years—then, at some stage, globalization and the economic model behind it are likely to meet increasing political opposition and be brought to a stop through various types of protectionist and other interventionist measures. The general benefits brought to a country by globalization would then be lost. Occupy Wall Street in the United States or *los indignados* in Spain may have been precursors of such a general movement and if inequality keeps increasing, there is a point at which even a minor economic recession is likely to trigger major social disruptions. Where this tipping point lies is unknown, but there is a definite risk in ignoring such a danger, and both society and the economy would experience severe negative consequences well before that tipping point was reached.

This book is intentionally not limited to the study of national inequality in a small number of countries or a single region of the world. Instead, it examines the role played by various common factors, including globalization, and then looks for those factors that are specific to the evolution of inequality within countries that are essentially quite different.

The book contains five chapters. The recent evolution of global inequality, which is to say, between all of the citizens of the world, is a good starting point in that it combines inequality in standards of living among nations—i.e., the difference between rich and poor countries, with inequality inside nations—i.e., the difference between rich and poor within countries. The fact that its general trends have shifted direction marks a historical turning point. This will be the focus of my first chapter.

The second chapter studies the development of national economic inequalities, and the return, in a number of countries (including many developed countries), of certain dimensions of inequality to levels that had not existed for several decades. What are the causes of this reversal? Should we look for them within the context of globalization, or are they in fact specific to individual nations? These questions will be the main theme of the third chapter.

The last two chapters will be both prospective and prescriptive. The intention is to anticipate certain key trends in the future of the global economy, including demographic factors, and to figure out what their significance might be for the future of inequality. The key will then be to identify economic and social policies that would be best suited to preserving the convergence of standards of living between countries while halting the deterioration of national income distributions. Although on paper it still seems as if it might be possible to redistribute the products of economic activity and prevent inequalities from worsening, we must not forget that any redistribution has potentially significant economic costs and would be subject to political constraints that cannot be ignored.

At the end of this analysis, I will present some conclusions that I offer up to ruling elites, political parties, civil society, and citizens in general about what should be done to create a global economy that would be fair and efficient both nationally and internationally.

I endeavor to examine all of these questions in a concise and nontechnical manner. The issues addressed in this book are of major importance for the understanding of our societies and their future. They are sometimes of some analytical complexity, and it is crucial to make them accessible to a wide audience. I hope this book will contribute to that goal.