



WIRTSCHAFT.WEITER.DENKEN.

Hans-Matthöfer-Preis für Wirtschaftspublizistik

Award Ceremony for Prof Branko Milanović

Global Inequality –
A New Approach for the
Age of Globalization

Berlin, 19 March 2018

WIRTSCHAFT.WEITER.DENKEN.

Hans-Matthöfer-Preis für Wirtschaftspublizistik

Award Ceremony for Prof Branko Milanović

Global Inequality –
A New Approach for the
Age of Globalization

Berlin, 19 March 2018

Foreword

Kurt Beck

Former Minister-President of Rhineland-Palatinate, Chairman of the Friedrich-Ebert-Stiftung

Since the outbreak of the latest financial and economic crisis in 2007/2008, at the very latest, it has become apparent that those of the usual economic theoretical models, especially the so-called neoclassical mainstream, and many of the economic policy recipes built upon them, have reached their limits. Leading economists failed to see the financial and economic crisis coming, nor have their economic-political recommendations resulted in a fast, sustainable solution to the crisis, least of all in Europe.

In the context of the many problems and challenges of our time – e.g. stability of the financial markets, high unemployment in Europe, increasing income and wealth inequality, globalisation, digitalisation and climate change – the neoclassical mainstream fails, in the eyes of many observers, to deliver adequate answers and lasting solutions.

With this background in mind, the Hans-und-Traute-Matthöfer-Stiftung within the Friedrich-Ebert-Stiftung decided in the course of 2013 to encourage more plurality in the increasingly one-sided economic-political debate in Germany's academia, political sphere and press by offering an award for writing on economics. Only greater theoretical diversity, a pluralism of methods and an interdisciplinary approach can guarantee scientific competition over the best economic ideas, models and political recommendations on a sustainable organisation of the economy and society.

The Hans-Matthöfer-Preis für Wirtschaftspublizistik "Wirtschaft.Weiter.Denken." honours economists and social scientists who are searching for and developing new answers to the big economic and social policy challenges of our time – beyond standard economic theory or the macroeconomic mainstream.



This year the Hans-Matthöfer-Preis für Wirtschaftspublizistik is being awarded for the fourth time. In previous years the recipients were:

- Mark Blyth (winner 2015), Professor for International Political Economy at Brown University in Providence, Rhode Island (USA), for his book *Austerity – The History of a Dangerous Idea*;
- Mariana Mazzucato (winner 2016), Professor in the Economics of Innovation at the University of Sussex in Britain, for her book *The Entrepreneurial State – Debunking Public vs. Private Sector Myths*;
- Oliver Nachtwey (winner 2017), Fellow at the Institute for Sociology at the Technical University Darmstadt and at the Institute for Social Research at the University of Frankfurt, for his book *Germany's Hidden Crisis – Social Decline in the Heart of Europe*.

The Hans-und-Traute-Matthöfer-Stiftung within the Friedrich-Ebert-Stiftung, besides supporting historical and contemporary research, concentrates on the publication and funding of books and texts that address the economic and social sciences, the development of technology and its consequences for the humanisation of work and society. The significance of societal actors, especially the labour unions, the study of the aspects of globalisation and contributions to the development of the theory of social democracy are additional thematic guidelines for the selection of the foundation's projects. The awarding of the 10,000 euro "Wirtschaft.Weiter.Denken." prize for writing on economics is in concordance with the goals of the foundation that was founded by Hans Matthöfer (1925-2009) – a well-known SPD politician and trade unionist who was a minister in several federal governments between 1974 and 1982 – and his wife Traute. I am very happy that this year we can once again celebrate this award thanks to the financial commitment of the Hans-und-Traute-Matthöfer-Stiftung.

During the nomination processes in autumn last year we received more than 40 suggestions – books, blog pieces, columns, commentaries, reportage, articles in newspapers and specialist journals. In the name of the Hans-und-Traute-Matthöfer-Stiftung and the Friedrich-Ebert-Stiftung I would like to express my thanks for this vibrant participation. The large number of submissions and the many positive responses show that we're on the right track in awarding this book prize.

Of the submissions, the following publications made it onto the short list for this year's Hans-Matthöfer-Preis für Wirtschaftspublizistik "Wirtschaft.Weiter.Denken.":

- Uwe Fuhrmann's book *Die Entstehung der ‚Sozialen Marktwirtschaft‘ 1948/49 – Eine historische Dispositiv-analyse*, published by UVK Verlagsgesellschaft, Konstanz and Munich, 7/2017;
- Stephan Lessenich's book *Neben uns die Sintflut – Die Externalisierungsgesellschaft und ihr Preis*, published by Hanser Berlin in the Carl Hanser Verlag Munich, 10/2016;
- Branko Milanović's book *Global Inequality – A New Approach for the Age of Globalization*, published in German by Suhrkamp Verlag, Berlin, 10/2016;
- Aaron Sahr's book *Keystroke-Kapitalismus – Ungleichheit auf Knopfdruck*, published by Hamburger Edition, Hamburg, 9/2017;
- the book by Till van Treeck and Janina Urban (eds.) *Wirtschaft neu denken – Blinde Flecken der Lehrbuch-ökonomie*, published by iRights media, 12/2016.

The members of the independent selection jury,

- Dr Brigitte Preissl, editor-in-chief of the journals *Wirtschaftsdienst* and *Intereconomics*,
- Prof Dr Peter Bofinger of the University of Würzburg, member of the German Council of Economic Experts for Overall Economic Development, and
- Thomas Fricke, former chief economist of the *Financial Times Deutschland*, today chief economist at the European Climate Foundation and columnist for *Spiegel Online*

have, following an intensive process of assessment, selected the winner from the five finalists. I would hereby also like to thank them warmly for their dedication and their involvement.

The selection jury's choice was by no means an easy one to make. Still, at the end it was decided: The 2018 Hans-Matthöfer-Preis für Wirtschaftspublizistik "Wirtschaft.Weiter.Denken." awarded by the Hans-und-Traute-Matthöfer-Stiftung within the Friedrich-Ebert-Stiftung goes to Branko Milanović, Professor at City University in New York, former chief economist

in the research department of the World Bank and one of the world's most renowned researchers in the field of income distribution, for his book *Global Inequality – A New Approach for the Age of Globalization*, the German edition of which was published by Suhrkamp Verlag in Berlin in autumn 2016.

In her laudation honouring the award winner, Dr Brigitte Preissl will illustrate more precisely the reasons why the jury decided to select this book. Without jumping ahead, I believe that the jury has once again made an excellent choice. Professor Branko Milanović's book, with its focus on increasing inequality in the world and the resulting international migration flows, is extremely relevant today.

And it is true: increasing inequality is one of the most pressing economic, societal and political problems of our time.

To highlight one figure: \$US 1,760,000,000,000. In words: one-point-seven-six-trillion. That is the sum total wealth of the 62 richest people in the world according to estimates by Oxfam. A few dozen billionaires have as much money at their disposal as the poorer half of the global population – or 3,600,000,000 people. The scale of the imbalance takes one's breath away.

Using new, budget-based data on income and wealth, Branko Milanović investigates the causes and consequences of increasing inequality. He shows, on the one hand, that in the course of advancing globalisation the gap between the poor and the rich states has lessened. On the other hand, the gap has widened dramatically within individual nations. The upper income groups, especially, have profited heavily from growing prosperity in recent years. But the middle and lower class have hardly profited at all.

At the same time, Branko Milanović indicates in his book that poverty and a lack of prospects are the driving force behind international migration flows. A child's country of birth is still the decisive factor determining the level of his or her future income. Massive global inequality therefore leads to increasing migration from the poorer countries of the South to the rich North, with all its positive but also negative side effects.

Branko Milanović rightly warns in his book that increasing global inequality endangers not just the economic stability of the industrial, emerging and developing countries. With the collapse of the (lower) middle

class in many industrial countries, it is also grist to the mill of right-wing populism and threatens, therefore, our democracy. We need to develop new political ideas in Germany, in Europe and on the global level. Ideas that put a stop to increasing global inequality. We must shape capitalism and globalisation so that the possible gains in prosperity benefit all people equally. In his book, Branko Milanović describes several innovative policy approaches that are worthy of discussion.

All in all, this is a current, engaged book, which will change the way we think about this unequal world and our place in it.

I very much hope you will enjoy reading the speeches delivered at the award ceremony held on 19 March 2018 at the Friedrich-Ebert-Stiftung in Berlin: the award speech given by Andrea Nahles, MP, chairwoman of the SPD Parliamentary Group in the German Bundestag, the laudation given by Dr Brigitte Preissl, editor-in-chief of *Wirtschaftsdienst* and *Intereconomics* and member of the jury, and the acceptance speech of Prof Dr Branko Milanović, the prize winner.

Award Speech

Andrea Nahles, MP

Chairwoman of the SPD Parliamentary Group in the German Bundestag

I would first like to thank the Friedrich-Ebert-Stiftung for inviting me to today's event. I would like to thank them for presenting this award, the Hans-Matthöfer-Preis für Wirtschaftspublizistik. I would also like to thank and congratulate this year's award winner, Professor Branko Milanović. His book *Global Inequality – A New Approach for the Age of Globalization* was published already in 2016. This book very much contributed to an improved understanding of inequality, not only in our individual countries but also by opening up the greater global perspective. That is important, because at the end of the day it is crucial that we get a clear picture of the reasons for and dynamics of the unequal development of incomes so that we can react to it politically.

I must say that as I intensively read through the book – I unfortunately didn't manage to read every single

page – I sensed a good dose of pessimism. While I was reading, I thought: That which I considered normal while I was growing up in the 1970s and 1980s – rising incomes on a broad basis and sinking inequality – was an historical exception. If you grew up with a different experience such a realisation is at first difficult to stomach. I also got something very encouraging, something very optimistic out of the book, because it was, at the end of the day, all about political creativity, the question of how politics were done and the concept of the state that made this anomalous situation possible.

In other words: less inequality can be achieved. It is a question of policymaking.

That, in turn, very much encouraged me. Today, within this field of conflict, I would like to examine the



Andrea Nahles, MP

book from a German perspective. Because there is one thing that I noticed as Labour Minister over the last few years: We published the fifth report on poverty and wealth and dedicated several hundred pages to this problem in Germany alone. We painted a differentiated picture of the social situation in our country. One of the significant findings is that poverty cannot be reduced to a question of monetary benefits. We also found that those who live permanently at the minimum subsistence level will be more and more excluded. This is one of the reasons that the latest debate initiated by Federal Health Minister Jens Spahn is totally misdirected as it was based on a simplified conception of poverty.

Instead, we are trying to apply an expanded concept of participation in society and therefore it is important to make this participation possible. Here I have to be self-critical and say that we in Germany have for far too long stood by as we held up a carrot in front of people, namely the chance of reaching the primary labour market through the programmes offered by labour market policy. In reality, however, these programmes, often half-hearted programmes, are unsuitable and people are often humiliated. Even though that wasn't the intention, that was the effect!

Therefore, people need something better. They don't need programmes, they need job contracts, they need work. Because work is dignity. Therefore, in the coalition agreement of the new government we have agreed to take a decisively new approach. We've said the following: we're going to create a social labour market, a public labour market for the people who have been unemployed for a very long time, who are dependent on social benefits. For the first time we're going to take a real leap. Billions have been earmarked for the concept of the social labour market, which will for the first time make possible so-called passive-active exchange.

This means we can deploy the funds that are currently spent on passive benefits for active ones. In the last legislative period the Federal Finance Minister was opposed to this. But we have to provide possibilities that get people off of benefits in a dignified way. That must be the primary focus and the foundations have been laid at a very critical point, where we had too little progress in recent years. I'm happy about that.

It's not an answer to the problem of fundamental inequality but it is the answer to the question of how we should deal with the group that is the most left

behind, namely the long-term unemployed. And I believe we have reached a breakthrough. It has to be realised now and as SPD parliamentary party leader I'm keeping my eye on it, you could say, putting it mildly.

In the last Bundestag election campaign – Mr Milanović, I don't know if you heard about it – we as Social Democrats said it was “time for more fairness”. One could say: they got the message. That's exactly what they expect from us. But the campaign didn't go so well, because of that focus, which is crazy. Something else happened – and Kurt Beck already hinted at it. Something else covered up the classic issues of rich and poor, the divide between the rich and poor, the inequality debate, namely we suddenly had an ethnicisation, a regionalisation, you could say, of this fundamental confrontation, and, let's say, to put it in a friendly way, a drastically oversimplified superimposition of the inequality debate.

Because what happened was that a million refugees came to Germany. We didn't batten down the hatches. We assumed responsibility because a huge migration was happening, particularly due to the civil war in Syria, but also from other parts of the world. And then we observed – and I can at least say for myself that I understood it too late – that suddenly inequality materialised in another form than what was obvious to a progressive movement like Social Democracy. Inequality and fairness were intertwined with these experiences. For example, although for many years we had growing prosperity in this country a lot of people were left out. In the report on poverty and wealth that I mentioned we found out that in the last 20 years 40 percent of lower wage earners no longer benefited from the real increase in wages.

Now this basic experience – for years I have not benefited from the increase in real wages – suddenly meets the immigration issue. Here come some totally new people and – oops – all of a sudden they've got plenty of money. And I say, that in this combination, suddenly no longer the original conflict of income distribution, but the superimposed one in which one group was being treated better than me – imposed itself, so that the Social Democratic election slogan “time for more fairness” didn't work, because it didn't react to the form that people were perceiving – even though the fundamental conflict remained completely unresolved.

At any rate, the argument that there was no money must have also sounded strange to the long-term un-

employed for whom we only had modest programmes. And then regional components were thrown into the mix. You have to understand that in Germany, like everywhere in the world, there are some very left behind regions, that see themselves as such regions. It's not perceived individually, but regionally. That came on top, because of course the distribution of refugees was often decided according to the availability of cheap accommodation and not the regions that made the most sense, because at the beginning it was totally uncontrolled. The residence obligation that was later introduced changed little. It continues to be ignored and is not being applied, as I found out.

So, now the migration issues – one could say that you already predicted this – were superimposed over the other points. And I believe that this consequence is something that we have yet to make a clear picture of. I believe, namely, that we have to discuss this issue openly, get to the crux of the matter, so to speak, in order to draw the right conclusions. The right conclusion isn't that we're going to stop migration until we have solved other problems. That would be nice: we take a break, I'm going to take a rain check, then we'll sort out the shop, and once everything is perfectly integrated, we'll open up the doors again.

These are the fantasies politicians sometimes have. But they're total nonsense. Instead – and we agreed upon this in the coalition agreement – we're going to make an immigration law. This is urgently overdue in Germany. Namely, we actually need a sensible, transparent and easy to comprehend system for how you can immigrate to Germany. By the way, I'll say it loud and clear: religion can't be a criterium for immigration, because belonging to our country does not depend upon your religion.

And there I will say again, with the debate that we've been having here in the background: we need other criteria. We need to discuss them. But at this point, in my opinion, we need to have a reboot of this debate. A double reboot. On the one hand, a reboot where we don't allow these subliminal economic distortions to be ethnicised or repurposed as religious wars. Also internally. One must, at this point, clearly follow the principle of the Enlightenment, that of argumentation and truth. On the other hand, we have to take just as seriously the underlying frustration of people who are unhappy with the inequality that they experience themselves and then fight it with the appropriate means.

Our country urgently needs migration in the future – we have a demographic development that makes it obvious. We have a different situation than in other countries. Only Japan is comparable. Therefore, we can least afford to simply accept that quite a few people are stirring up hatred. That's the one side.

But that means that, on the other side, we also have to work on the structural inequality in our society which manifests itself in economic, regional and real-life problems. Therefore, we need a capable state. Yes, Social Democracy has been saying this forever. But what does that mean now?

Today, the capable state can no longer be limited to the nation state. That's something that makes it more difficult. On the other hand, it means we have to make use of the elbow room that we have at the national level. I'll take an issue that wasn't often the object of state action in recent years, the new social issue in our country: housing policy. This is, in fact, a pressing social issue. The favourable growth in wages – and in the last few years we have had extremely good wage growth – is being eaten away by rising rents everywhere. It's become extreme. People who have lived in a certain neighbourhood for years, here in Berlin for example, lose their homes. They have to move because modernisation of their building drives them away.

Therefore, as a basis for this new government, we have for example placed a great deal of importance on getting through a reduction of the modernisation allocation. That sounds somehow cryptic, but means nothing else than that a limit is placed on the costs of modernisation and that they can't be completely passed on to the renter, so that they can at least cope with it. We're committed to the construction of 1.5 million new apartments – affordable housing, social housing. Although the federal government is no longer responsible for housing construction, we nonetheless allocated two billion euros. And more: namely a total of four billion euros, because the federal states also set aside two billion euros for housing.

I just want to say: we have to tackle the problems that impact individuals in specific ways. It doesn't help to point out the positive growth in wages. Instead, we need to look closely at what really ends up in people's pockets. How does it manifest itself in reality? What is important, from my point of view, is that we tackle these new social issues in this way.

Old social issues were things like: how can I count on work? In recent years, for many people, work could no longer be depended upon. Because the wages were too low, because contracts were limited, because work became, for several groups – and not just a few – simply precarious.

Against this background is our brutal struggle for the abolishment of unfounded fixed-term work contracts and the hard cuts that come with successive fixed-term contracts. Here I am very satisfied. We're heading in the right direction, even if the goal hasn't been reached. I think we need to have this confrontation. Funnily enough, Mr Milanović, there's always friction at this point when we try to get something like this through. Put differently: the hardest point during the entire coalition negotiations came with the discussion about ending unfounded fixed-term work contracts.

That's actually crazy if you really think about it. It didn't actually have to be a struggle, but it was one. Here you realise that we have lost a lot of ground from under our feet over the past decades. In reality this reflects the success of the neoliberal debate of the late 1990s, which is manifested in the growing precariousness of work, which we have been unable to prevent or slow down in this form.

So, we must tackle these issues very concretely, because the new wave of flexibilisation and modernisation is already here. Whether it results in more inequality or not depends upon how we position ourselves. And I say, that's why we haven't yet answered the question of whether digitalisation leads to more self-determined time for workers or whether the workers turn into the service providers of digitalisation. Possibly it will be one way in certain industries and another way in other industries. My political goal is – and this is an important goal – that we can shape this future. That's the one thing.

But it's only shapeable in connection with other things. And self-determination of working time, combined with a possible reduction of working time, if the possibilities of machines and robotisation allow it, is also a way of dealing with the productivity boost. Cash or time? I'll tell you, IG Metall, one of the biggest unions here in Germany, just had an interesting round of collective bargaining, in which they chose time over cash. That's also an interesting point for unions. They had already agreed on the possibility of part-time work for educational purposes and now comes this new round of bargaining where they

achieved a voluntary reduction to a 28 hour week. I'm of the opinion that we should try to support this politically, also financially, which wasn't so easy in the coalition negotiations, but that's it.

A final aspect of the state's ability to act which is important to me is the international level. Punitive and protective tariffs are the instruments of the past. But not all workers see them that way. They perceive them as a protection to some degree. One of my taxi drivers here in Berlin recently told me: well, Trump, he does something for his people. That was his opinion. The fact that he is introducing protective tariffs might be bad for Germany, but actually he was impressed by the underlying gesture.

I'll put it this way: as export world champion we naturally can't employ that sort of response. But apparently we shouldn't underestimate the ideological foundation this whole thing has amongst people who are often unprotected in the face of globalisation. And by no means am I just talking about the workers.

Dear people, the fact is that totally normal craftspeople and traders, who pay taxes here, feel exactly the same way. Because they're being challenged. The social market economy, as we know it in Europe, is currently being challenged by Chinese state capitalism, but also, if you'll allow me, by the libertarian Silicon Valley monopolists called Amazon, Google and Facebook – who don't pay taxes here in Germany. From our perspective this is not acceptable, but the competition is getting stiffer all the time. From a purely market economy perspective, monopolies are the opposite of a good market economy. The social market economy looks different anyway.

Therefore I say: I believe we must – and this is one of the answers to this analysis, Mr Milanović – be honest in naming the challenges. Because here in Germany and Europe with our social market economy, we believe we are still trying to correct some of the inequalities and even this small correction is challenged by a totally undemocratic Chinese state capitalism and a monopoly-controlled, human-rights-rhetoric-spouting Silicon Valley capitalism. I'll be totally honest with you, I'll say it clear: neither is our model and we don't want to live in either of them.

It's more the opposite: We have to rise up and try to preserve and develop our model, our model with high educational opportunities, with a good economy, a

good social welfare state. We will only manage to do so if we actually assume a more active and more resolute position.

One response is the strengthening of Europe as a whole. Because without a functioning Europe, each individual country – including Germany – is too small, with too little power to sustain the interests I have just formulated, interests in further developing the social market economy, the defence of this basic idea. Therefore, as the future SPD party chairwoman, I would like to outline three important points where we need to do more work.

We need to connect value creation with an inclusive and sustainable economic policy. We haven't had a sensible debate on economic policy for years. I, personally, couldn't tell you anything about the SPD's latest economic policy concept.

We need new policies for good work, also for sectors without measurable productivity. These sectors still lack strong advocacy groups and tariff commitments, which are actually shrinking in this area. Measurable productivity is how we define ourselves in Germany. But in truth two thirds of our jobs are linked to services. Here the structures are much more fragmented. Organisation is much worse – which is also an analysis that you performed, Mr Milanović. The fact is that the level of organisation of workers in this area simply doesn't suffice in order to realise the old logic of socially corrective mechanisms. Therefore, the following question is also an issue: How do we, on the one hand, achieve a stabili-

sation in the measurable area – it still exists – and on the other hand, how can we actually organise workers and organise the interests of workers, a task that we, but also the labour unions, of course, must ask anew.

And we need a comprehensive concept for domestic and social security. Because public goods and not private risks are an important building block in this context. This also applies to the potential for intellectual development. In my view, we definitely need to revive this debate in the coming months.

So you can see: You have indeed inspired me to look at several of the points that we're discussing here in a larger context. At this point I would like to simply thank you for the fact that here another attempt was made – without sounding trite, as the distribution of equality and inequality is truly interesting – to say that we have a clear mission that we must embark upon with renewed vigour.

On every level it's very practical when it comes to the question of inclusion and integration of people who feel left behind, but also absolutely theoretical because I believe that after neoliberalism was finally exposed – also through the financial crisis – we nonetheless lacked the strength over the past few years to formulate an alternative model with which we could counter it. We shouldn't attempt anything less, because something less wouldn't be enough to reduce inequality in the world.

With this in mind: Let's get to work! Many thanks!



Laudation

Brigitte Preissl

Editor-in-chief of *Wirtschaftsdienst* and *Intereconomics*,
Member of the Jury of the Hans-Matthöfer-Preis für Wirtschaftspublizistik

Branko Milanović is a professor and also the director of the Graduate Center at City University in New York. He began his academic career by completing his doctorate on income inequality in Yugoslavia at the University of Belgrade. For nearly 20 years he headed the research department of the World Bank, a position which surely shaped his perspective on political realities. Numerous teaching posts at various American universities accompanied his research activity and underscored his position in the academic community. Milanović has received multiple awards for his publications on the subject of inequality, including the Leontief Prize for Advancing the Frontiers of Economic Thought 2018, which he received together with Mariana Mazzucato, the 2016 Matthöfer laureate. The book we are honouring today was preceded by numerous publications on the unequal distribution of income and wealth which have over many years formed a foundation for the current, remarkable findings.

Much has been written over the last few years in Germany and Europe on the subject of inequality. But apart from the recurring annual poverty reports and numerous studies that show a slight improvement here or a worsening there – in other words, business as usual – not much new has happened. The discussion had nearly become fatigued. The realisation that the problem must lie in education did not reinvigorate the discussion. Then came Branko Milanović's book.

The first impression is one of enormously rich detail. The deeper the research on inequality on the national or global level goes, the more unsuitable simple truths become. Nearly every statement on global inequality proves to be premature when another method of measurement is applied, namely to consider households instead of individuals, or if one is talking about this or that country, or this or that period of time. If one looks more closely, ones finds bifurcations in the



observations, which often, to the dismay of the reader searching for answers, make the possibilities of fighting inequality – which inequality, in fact? – appear rather limited.

But let's take a closer look: word has gotten out that inequality has increased within the rich industrial countries over the past decades, but has decreased globally. Now, the main beneficiaries of this development have been China and several other Asian countries. Milanović's analysis shows with quasi-mathematical certitude, that, as soon as China has reached a certain level of average per-capita income, inequality will rise again if countries in South America and in Africa, in particular, fail to keep up.

A historical analysis of distribution processes in a series of countries shows that inequality always increases when the income of an entire society rises. These phases are then halted by favourable market conditions, political measures but also hyperinflation or wars, followed by a phase of decreasing inequality.

Such did the economist Simon Kuznets, with his famous curve, describe the progression of income inequality. One of Milanović's outstanding findings is that the processes of income distribution do not actually resemble the shape of an upside-down "U". Rather, the curve should be replaced by a wave. Milanović speaks of Kuznets waves. By opposition to the Kuznets curves, this can explain the considerable rise of income inequality in many rich countries since the 1980s.

What is interesting is that, historically, there is an exception to the rule that rising income results in ever more inequality in a society. Milanović discovered it – you've probably already guessed it – in the so-called short 20th Century, the era from the end of the Second World War till around 1979 in the rich industrial countries. It's worth taking a closer look at this period.

After the Second World War, there was a labour shortage, which strengthened the bargaining position of wage earners. There was a strong aversion towards extreme political positions. Politics were inclined to encourage social equilibrium. Rapid technological advancements boosted productivity and enlarged the scope for redistribution. The competition of systems – market economy here, socialism there – required an emphasis on social elements in the market economy system which was clearly expressed in the social market economy model. Thus, it was not just the econ-

omy alone that reduced inequality through inherent mechanisms, as is suggested in pure theory. Here it was the result of a favourable convergence of economic, political and institutional factors.

Since 1980, the equalising forces were replaced by factors that favoured inequality. The following developments can be observed:

- the collapse of the socialist system ended competition between systems;
- the spread of information technology weakened the position of workers in lower income segments. Higher levels of qualification have been unable to adequately compensate for this trend;
- structural developments that led to a greater emphasis on services resulted in a reduced level of labour organisation due to greater heterogeneity;
- shared interests are no longer so clearly identifiable;
- capital is becoming ever more mobile or plays a smaller role in the production process of services, facilitating the evasion of regulated labour markets.

The result has been a general weakening of the bargaining power of workers. International competition for jobs and the rapid spread of technical progress across borders limit the scope of action for national policy. Politics and its institutions manoeuvre – as Milanović clearly puts – within the space that the economy gives it.

Noticeable is that in rich industrial countries between 1970 and 2010 market incomes in particular saw highly unequal development. A distribution policy, which, as in Germany, was concentrated primarily on redistribution after the realisation of income, cannot by itself make up for inequality that has arisen from the growing gap in market income. A situation arises in which transfers grow ever higher, but in which inequality still increases.

If there is a broad consensus on one thing in Germany, it is that education must be improved. Here, too, Milanović's approach proves to be very helpful. Let us first take a look at the effect education has had and does have on inequality. What kind of distribution

problem can be addressed here and how? What can be done if educational offensives don't help, because the qualification bonus loses impact once everyone has reached the same level?

Only recently a study by the German Institute for Economic Research (DIW) showed again that educational strategies by no means adequately compensate for the differences resulting from a person's origins. The parental home determines which school or university a person will attend, which studies abroad will complement formal qualifications and with which cultural and social background a person will begin their educational and working career.

A further merit of Branko Milanović's book is that he has made transparent the connections between national and international inequality. The distribution processes on both levels can only be interpreted and understood together. Kuznets already knew that a reduction of material poverty led to increased tensions between poor and rich due to increased contact. The human right to be able to move through the world gains importance. And so one cannot take for granted globalisation and be against migration. Development policy also means allowing migration. Once again, Milanović's argumentation convinces us of this with his unsparing clarity.

He elaborates: greater equality between countries is, under certain conditions, paid for with higher inequality in individual countries. Migration must be understood as an expression of higher international inequality, which has a direct impact on the distribution of income on the national level. To deny this would be more than naive. Using migration as a means to overcome international inequality perhaps demands that we allow for temporary inequality between native residents and immigrants in immigration countries. Linking the right to equal opportunities to citizenship could mean – seen globally – that a person's place of birth would be the limiting factor for equitable distribution instead of class. Such a local bonus can disappear through migration or global growth. As much as this answer fails to satisfy, Milanović manages nonetheless to point to better solutions for migration than the construction of walls and fences.

To conclude: we currently find ourselves at a place in the Kuznets wave where inequality will probably increase even further. What makes the situation so difficult at the moment?

It is evident that the factors that previously ensured more balanced distribution, namely taxes and social transfers, inflation, nationalisation of private property, economic crises and war show only a limited impact or are simply undesirable. The positive experiences of the post-war era cannot simply be repeated. Each Kuznets wave requires a different reaction by the state.

The current situation can be characterised by the following:

- It appears necessary today to place less emphasis on ever-higher transfers, and more on an equalisation of market income, and not just in income from work but also income from capital.
- The inequality of initial conditions is grave. More income and wealth equality in conjunction with an educational system which is largely independent from people's origins would create good conditions for generally more balanced market incomes.
- In groups of persons at the upper end of the scale the favourable income situation is usually due to the simultaneous presence of higher income from work and higher income from capital.
- Furthermore, inequality of income and wealth through inheritance and the advantages of good "starting conditions" have a cumulative effect.
- Globalisation has made capital more mobile. Higher taxation of capital can only be implemented if many countries act together. This is hindered by international tax competition.
- The relative (and partially absolute) disappearance of the middle class rules out a significant increase in transfers.
- Participation of employees in corporate capital is of only a limited benefit if the value of a company fluctuates drastically on the stock market.

So much for the economic factors. On the political level we can see developments on both sides of the Atlantic that will have a lasting impact on economic policy. This has disquieting repercussions on the functional capability of democratic systems. In the US, election results are largely dependent on the fi-

nancing of candidates by the rich and powerful. This means that lobby groups gain ever more influence over politics. The consequences cannot be ignored. In an increasingly plutocratic system, inequality automatically hinders its own opposition.

In Europe, populist parties have gained strength. While wealth and power have less of a significant influence on politics than in the US, a nativism is spreading here that promotes unequal treatment on the basis of birthright.

Both developments are damaging to both national and international stability.

A positive development is that economic research has rediscovered “distribution” as a subject for study. Last but not least, thanks to Branko Milanović’s book, economists will no longer manage to quickly paint over and forget the findings of recent years through theoretical nitpicking or sheer ignorance.

At the end of the book the question of whether inequality will disappear is answered with a succinct “no”. But here, too, the characteristic “yes, but” could be applied to Milanović’s book: yes, the analysis allows for no other conclusion, but we still have politics and, hopefully, aware societies and outstanding economists such as Branko Milanović.

Many thanks for this book!



From left to right: Kurt Beck, Branko Milanović, Andrea Nahles

Acceptance Speech

Branko Milanović

Professor and Director at the Graduate Center of the City University of New York, former Chief Economist in the Research Department of the World Bank

Well, I would like first to thank the Friedrich-Ebert-Foundation and the jury and all the previous speakers for an excellent discussion and, to a large extent, the summary of the main points of my book. So that would make my job easier, since I would also like to stay within the allotted time and I would not have to go through all the book to tell you, because many of the points have been extremely well and ably already mentioned.

When Mrs Preissl mentioned Leontief, actually one thing struck me, and I have to mention it because it shows the power of – how should I say? – of writing or of books. A small detail: When I was recently at a book fair in Mexico, in Guadalajara, precisely for my book which was published in Spanish, then I looked

among other books, and I saw a translation of Leontief's dissertation on input-output tables – that was the first, actually, work on input-output tables that was defended in Berlin, I think in 1926 or 1928, and it was published in German. And the first non-German translation was only done recently, in Spanish.

So when you think, actually, how the world is connected, it is in more, sort of, unusual and bizarre ways. And I think us, as writers of books, always hope that actually certain events of that nature would also help *our* books. But we are even more pleased with, actually, what happens during our lifetime, so that we can enjoy it while we are down here and alive. And I'm, of course, especially happy to be today in Berlin and to receive the award.



I would like to actually divide my intervention in two parts: first of all, to talk a little bit about already some of the themes also that Mr Beck and Mrs Nahles have mentioned, and it is this distinction between global inequality – or international inequality – and national inequality; and in the second part of my talk, especially because I am in Germany, I would like to say only a few words (and I'm sure there will be more discussion afterwards) about what I see as maybe new policies in terms of, you know, the role of the welfare state, and on migration.

So let me start with the first part. To put the story, sort of, clear, I think that we are actually living in a current time. We are living with two worldwide developments, of which we're aware but maybe we don't actually always think of them. The first one is that we now have only one socioeconomic system in the world, and that is capitalism. As Andrea said before, we have of course state capitalism of the China variety, and we have a different, liberal, monopolistic capitalism of the US variety. And maybe Germany's somewhere in the middle. But nevertheless the system is always capitalistic – defined in a very narrow, obvious way that Max Weber and Karl Marx did – which was essentially production for profit, using privately owned capital, wage labour and decentralised coordination. So that's one development.

The second development – which is also reflected very much in my book, as you will see in a minute – is that we have what you can call the “rebalancing” of economic positions between Europe and Asia. So we have to view what is happening with the rise of Asia – China, India, Indonesia, Vietnam, Thailand, and so on – as a process whereby the relative income levels between most of Asia and Europe would be brought to about the same ratio – which was really very close to each other – back to where they were in the 15th century or earlier. And my book has quite a lot of the historical part in the beginning, and this is where we actually see how global inequality evolved.

In other words, the global inequality went up when one part of the world – which meant, really, basically Western Europe (or North-Western Europe) and later the United States and later Japan – became much richer than the rest of the world.

And to think of this in very simple ways, I think you should think of three units in the world: essentially, the West, meaning Western Europe and North Amer-

ica; then India; and China. So what happened during the 19th century? India and China – because I'm talking about the three parts, because they're really the most numerous parts in terms of population – really did not grow, and China actually went down. And that created, at the global level, a significant increase in inequality. So that's actually where most of global inequality comes from.

It's ironic, because most of global inequality comes from the success of one part of the world. But nowadays – as Mrs Preissl mentioned in her address – we have a decline in global inequality because countries hitherto poor, like India and China, are now catching up with the West.

So we have now a very favourable development, globally speaking, despite what happens to the top one percent (which maybe I will speak later about). We have this favourable development, that large groups of people – actually, we're talking about two and a half billion people – are becoming richer and they're converging, or they're catching up. And, probably in about 20 or 30 years, they would even catch up more closely with the rich part of the world.

So it's an extremely favourable development, and it has to be seen in that global context as a different and new technological revolution. So, when you had to simplify it, the first Industrial Revolution propelled the West to a position of economic, political and military dominance and created, as it were, global inequality.

And now you have a second technological revolution which in many respects is different – in some respects it's similar to what happened before – and which is also now challenging, obviously, that economic and military dominance of the West, and is equalising the relative income levels between, essentially, China and Western Europe, to a position which existed in about 1500.

I recently – because I'm now working more in China – I recently, for example, read books which actually talk about ways of life of China, to the extent that we know, around 1400 to 1500. Now, of course, there are remarkable similarities between those levels then and, for example, levels of income, food consumption and the ability to deliver water, for example, between developed parts of China and developed parts of Italy – essentially Florence, when you compare Florence or

Tuscany, or when you compare Amsterdam with developed parts of China.

So that's actually the historical context where I think we should really put or place the second globalisation. If the first one was British-led from, I suppose, 1850 to 1914, this is the second globalisation – maybe you can say, in some sense, the second technological revolution, or some people call it the third, or whatever the number is, but it's really this technological revolution.

Now, why do I think it's important? Because we have apparently two contradictory movements – it was already mentioned in all three interventions. We have this broadly favourable movement at the global level, where you have many people growing out of poverty, catching up, becoming richer, and we have at the same time increases of inequality in practically all the countries in the world. So these are really these two contradictory developments. You have increase of inequality in the United States, in the UK, even in Germany – actually, I was just looking at the recent data with flexible income study in New York, and we've received socioeconomic panel data from Germany – and the 2015 data show a further increase in inequality in Germany. So even Germany, which of course did not have an increase of the size that the UK and the US had, is continuing with increases in inequality. Even countries like Sweden had one of the largest increases of inequality compared to its original level in 1980. And then obviously China, which now has a level of inequality above the level of the United States, and India likewise, and Russia.

So this is yet another contradiction – between increasing inequalities in individual countries and an overall diminishing in inequality thanks to the rise in incomes in countries that used to be poor. Now, the reason why the topic of inequality is so big and probably, I believe, why I'm here today at all, is because we do react much more strongly to the increases in inequalities in the countries where we live because we obviously share a government, share a sort of social compact, we compare our incomes with other people who live here. So the issue of inequality became a salient issue, especially after the 2008 financial crisis. And especially after the crisis, because it led to the declines of income of many people, and then people started questioning, "Why is that, that actually I have not had an increase in real income for a very long time?" And actually, as Mrs Nahles mentioned, there was, of course, even in Germany, if you look at the bottom

part of the income distribution, you have a stagnation of real incomes. And then, on the other hand, they notice that people at the very top have had large increases in income, and that issue of inequality became a politically salient issue. So this is the context, I think, in which we have to distinguish these things.

Now, my book has lots of numbers. But I have to say that, actually, the objective when you write about inequality, and inequality is such a fundamentally social topic, that just, sort of, showing numbers and throwing numbers to the readers is only useful if you have a narrative and a story, and you can explain those numbers by looking at what shaped and what led to them. And these are of course political decisions, this is technological change, this is globalisation. And when you look at the global inequality, there are also other political forces there which are very interesting.

I would just mention one, when you take this global inequality and decompose it into two parts: one part which is due to inequalities *within* nations, that I already mentioned; and the second part, which is due to inequality *between* nations, that also I mentioned by saying that, of course, there are very rich countries and there are poor, and you can actually just measure how much of total inequality is due only to debt. You find that, in the mid-19th century, the two parts were about equally important. So the "within national" part, that I call in the book – for simplicity but I think rightly so – I called it "class", which is due to, really essentially, differences within countries. You had a bourgeoisie that was rich, or landowners that were rich, workers that were poor, and so on – that component was fairly large in explaining global inequality.

And if you place yourself in, I suppose, 1865 or maybe 1867, when Marx's *Das Kapital* was published, you actually have a fairly good argument to say, "Well, the fact is that the class part is a significant part of total inequality." The position of the bottom classes in most countries – whether it is the UK or whether it was China or Russia – is relatively similar, around subsistence, so there may be some kind of international solidarity at that point. I was mentioning somebody that was recently reading Rosa Luxemburg's papers, and actually she explicitly talks about international solidarity, really driven by similarity in economic conditions.

But then, when you fast-forward a hundred years, what you notice is that, when you decompose global

inequality, most of that global inequality is due to inequalities between the states. And it is that there were rich countries and poor countries. And even people who are poor in rich countries are significantly better off than people who are poor in poor countries. So what has become is that, actually, you have had an increase in global inequality driven by inequality *between* nations.

And now, that's where what I've called the "citizenship premium" or the "citizenship rent" comes from. It was from the very fact that many people who are otherwise equal – I suppose, in terms of education, knowledge, sex, gender, whatever – by simply being born in a rich country, will have a lifetime income which is ten times, twenty times or even more, higher than someone who is born in a poor country. Which opens a political philosophy issue – and a somewhat economic issue (and I'll come to that in a minute) – which is whether these differences are justified.

I'm not a political scientist or political philosopher, and I will not have an answer to that. But I think we have to put that question on the table because, when we talk about inequality of opportunity, we always talk only about inequality of opportunity within the nation-state. We don't like the fact that somebody who has inherited lots of money from their parents is able to remain rich, simply because of that. We also disapprove, essentially, that somebody, because he is a man, has a higher income or higher wage than a woman. We disapprove that somebody who is maybe of one colour or one religion has a higher income than somebody who is equivalent to him or her but of a different religion or colour of skin.

But we never think about the global inequality of opportunity. So it is an issue – when I started, actually, working on global inequality, basically as an economist, I got lots of interest for my work from political philosophers, because they were the only ones who thought about this issue, but they did not have the numbers. So that was, I think, one issue which is discussed in the book, and which is then directly linked with migration.

So now I want to go to migration. Now, migration obviously is a huge topic. Now, I would like you to think of migration not as something which has suddenly appeared, simply, now. And I want to really exclude totally the issues which are linked to wars and asylum-seekers and other things, because these are re-

ally important problems, but they are discrete events. They are events which happen when there is a war and many people have to leave the country, so we are really not talking about that.

We are essentially talking about migrants, of people who are trying to get a higher wage. In other words, in the language that I was using before, trying to get that "premium" which exists in the rich countries – that premium which may be money (which can be from the wage), that can be social welfare payments, that can be protection, that can be advantages for their children. But there is, if you will, a package of goods that they are trying to receive.

But you have to see it, within the context of globalisation, taking place within conditions of unequal incomes between the countries. Now, this is a very big statement, but let me explain what it means. It means that, if you had a world which would look exactly like the EU-15, with relatively small differences in incomes between the countries, you would not have systematic migration. You of course would have, you know, German citizens who, because of nice weather, go to Spain and live. Many of them, as we know, live in Spain, but it's not systematic migration. It's somebody who likes to live in Barcelona and work as a software scientist from there rather than from Hamburg, can do that. But you are not going to have three million Germans simply moving to Spain because of higher wages. Nor would you have three million Spaniards, when the incomes have suddenly become relatively similar, move to Scotland because they like to play golf in Scotland. So in the EU-15 you don't have these systematic movements.

Already, by EU-28, as we know – and maybe that's why we will have EU-27, because we *do* have systematic movements – is you do have systematic movements. Because somebody from either Poland or Romania or Bulgaria can increase his or her wages by five times, or three times, by going to a rich country. And the world is not "EU-28", it's actually "World-180" or "World-190" with, of course, many much greater differences in income. So it is within that context that we should see migration.

When we think of migration we need that context. Then we realise two things. First, migration is a movement of a factor of production, which is labour. So, technically speaking – fundamentally, conceptually speaking – it should not be treated any differently

(and Andrea said that) – any differently than the movement of capital. If we have migration, with free mobility of *one* factor of production, there are no reasons that we should really not have the other factor of production, on a very conceptual level. And, if we had a full freedom of movement of labour, we would have – which we know from the studies – we would have, obviously, reduction in global poverty, we would have reduction in global inequality, and we would have a significant increase in world GDP.

And actually, there are studies that show that you can actually try to express impediments to migration in terms of tariff rates, as it were. So the tariff rates on migration – obviously, that varies bilaterally between countries – are in excess of 100 percent. So we are basically having a protection policy, with tariff rates of 150 percent on labour. So that's not good.

So, if you start with that position and say, "Okay, let's liberalise entirely migration and let everybody move", that of course is politically not feasible. And then – that's why I come to my, sort of, proposal in the book, which is not going to please many people, but I have to put it on the table – *that's* when you say, "Okay, if it's not feasible, but it is essentially a good thing", and it's not feasible because people are not avatars, so you cannot just simply move them like you move them on a computer game, because they come with their culture, view, preferences and other things, then what is the solution?

Well, one solution you notice is that, of course, we can actually go and rich countries can just close themselves off and put more borders and improve Frontex and, you know, create more walls and barbed wire, and so on. But it is a bad solution. It's a bad solution for those countries that close themselves off, because they are in need of labour. They are actually declining populations, whereas in Africa you have a huge boom of population. So it's not good for them. It's not good for migrants, because migrants are of course the biggest beneficiaries of migration. It's not even good, necessarily, for the countries that emit migration, because they may have a surplus of labour and there may be political instability, and so forth.

And then I propose – I say, sort of, realising that politically it's not a feasible option to have open borders, and it's not a very good option to have zero migration, for the reasons that I've just mentioned, I say, "Okay, allow me to make the following proposition".

That there will be a negative correlation or negative relationship between the amount of rights that one gives to migrants – including the right to citizenship and the right to stay forever in the country where the person has migrated to – and a willingness to accept migrants. So once again I have to say that, if there is a negative relationship between these two – that if I give migrants more rights, then I will be less willing to accept more of them – then you draw the curve, which then would go from a situation where you give migrants all the rights immediately – let's suppose, technically – they just land on the German soil, they become absolutely equal like any other German citizen, you give them citizenship and everything. The likelihood that you would really, in that case, accept many of them is relatively small. And the other extreme, where you give them very little rights, you might actually accept more of them.

Now each country, I believe, should find its own, optimal position along that line. But my point is twofold. First, we should see that as a trade-off. We should try to find our own – in each individual case – optimal position, and we should also get away from the 18th-century, sort of, binary view of citizenship, that either you're a citizen or you're not a citizen.

In order to deal with migration, with globalisation, and with the welfare state as it is now, I think we need to create various gradated levels of citizenship where, for example, some migrants would come to Germany or France or to any other country, and they would come on temporary visas, stay here for a temporary amount of time, would not have any other civic rights or any other rights – except the rights which actually derive from their job, in terms of wage, protection of labour, and so on, health protection, obviously – and they would have to return to their country.

I know that many people in Germany are sceptical, because it looks very much like the *Gastarbeiter* programme, but it does have one difference. It has the difference that these people would be forced, would be actually returning to the countries where they came from. It's a system which exists in a very, sort of, rough format in the Gulf countries and in Singapore. So that's one extreme.

So you can go along this curve and line and give more rights but, I think, the essential idea is that one should not be prisoner of two things. One should not be prisoner of the view that we need, really, to close off all

the borders, and one should not be prisoner of the view that there is a binary nature of citizenship.

And I'm aware that, actually, it's a proposal that doesn't satisfy the Left, because it seems to be very discriminatory towards migrants – which is true –, which doesn't satisfy the Right, because the Right might want, actually, to put a “zero” position on migration. So it doesn't satisfy, maybe, anybody.

And it also raises the issue – which is a deep issue – of what citizenship is, and can we really create, sort of, sub-citizenship categories in order to accommodate globalisation? But I believe that we can, and that we should think out of the box because we are faced, with globalisation, with an entirely new world, which is not the world of nation-states that existed until twenty years ago.

It's a new world and, for that new world, we have really new categories that need to be created. And that's why, of course, one of the subtitles of my book is that it's actually the problem of inequality in the age of

globalisation, which is very different from the problem of inequality in the pre-globalisation age.

So, thank you very much for your attention. Of course, I will have a chance, I'm sure, to answer many of your questions and critiques of this proposal.

Thank you very much!



From left to right: Andrea Nahles, Kurt Beck, Branko Milanović, Brigitte Preissl, Thomas Fricke

The laureate, Branko Milanović, has donated his prize money of 10,000 euro, in equal parts, to two charitable organisations: the Kompetenz-Zentrum für Integration – Integration statt Isolation (IsI) e.V., and Die Arche – Christliches Kinder- und Jugendwerk e.V.

“Dear Mr Milanović, with great pleasure we were informed about your donation to our project. (...) As an organisation in Plauen Saxony, we look after about 120 refugees mainly from Arab countries. The aim of our project is to support these people and to give them a good start in Germany.”

M. Rother and S. Postier, chairwoman and member of the board,
Kompetenz-Zentrum für Integration – Integration statt Isolation
(IsI) e.V., Plauen

“Dear Mr Milanović, thank you so much for your support and our congratulations for the award. Together, we can find strong answers to inequality and child poverty.”

Bernd Siggelkow, chairman of the board, Die Arche – Christliches
Kinder- und Jugendwerk e.V., Berlin

Award Ceremony Programme - 19 March 2018

Presentation of the Mans-Matthöfer-Preis für Wirtschaftspublizistik "Wirtschaft.Weiter.Denken." 2018 to Prof Branko Milanović

Global Inequality – A New Approach for the Age of Globalization

- 1:00 pm Musical Prelude: *clair-obscur* Saxophone Quartet
- 1:05pm **Welcome Address**
Kurt Beck, former Minister-President of Rhineland-Palatinate, Chairman of the Friedrich-Ebert-Stiftung
- 1:15 pm **Award Speech**
Andrea Nahles, MP, Chairwoman of the SPD Parliamentary Group in the German Bundestag
- 1:45 pm **Laudation**
Dr Brigitte Preissl, Editor-in-chief of *Wirtschaftsdienst* and *Intereconomics*, Member of the Jury of the Hans-Matthöfer-Preis für Wirtschaftspublizistik "Wirtschaft.Weiter.Denken."
- Presentation of the Hans-Matthöfer-Preis für Wirtschaftspublizistik
"Wirtschaft.Weiter.Denken." 2018 to Prof Branko Milanović**
- 2:00 pm **Acceptance Speech**
Prof Branko Milanović, Professor and Director at the Graduate Center of the City University of New York, former Chief Economist in the Research Department of the World Bank
- 2:25 pm Musical Postlude: *clair-obscur* Saxophone Quartet
- 2:30 pm End of the event