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PAST, PRESENT, AND FUTURE

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MR. DERVIS: Welcome everybody. I'm glad you made it despite the rain and I know it is also a pod cast so there are others watching. It is a great pleasure and honor to welcome Branko Milanovic and his new book. There are other books but this is his brand new one. I won't make a long introduction but just to say that Branko is right now senior scholar at the Luxembourg Income Study Center and Visiting Presidential Professor, Graduate Center at CUNY. He has all his life resisted just being a world banker or an international bureaucrat but he has been a world banker and has remained an academic and intellectual debater and when you look at the details of his life has navigated that not so easy balance between working in a big institution and going back to teach. I think he is one of the best examples of that. He is of course well known for his work on income distribution from many angles and that is the topic of today.

We are very lucky to have our own colleague Carol Graham with us today who is the Leo Pavlovsky senior fellow at the Brookings Institution and also college professor at the School of Public Policy at the University of Maryland and a research fellow at the Institute for the Study of Labor, ISA. Carol has been leading Brookings in many kind of different positions heading many different departments. She is also a real academic but deeply into policy as you know and she has probably one or two or three world leaders in measuring things somewhat differently than in terms of human progress then just GDP or income numbers. Her book “The Pursuit of Happiness Towards and Economy of Wellbeing,” which was published in 2011, has really become a classic and we're happy to have Carol with us to give her perspective from her approach to the topic of income distribution.

Finally we've got Eduardo Porter. I'm really grateful to you to have come down from New York. Eduardo writes the Economic Scene column for The New York Times. Formally he was a member of The Times editorial board where he wrote about business, economics and other matters. He is a global person as far as I can tell. He was born in Phoenix but grew up in the United States, Mexico and Belgium. He was a correspondent in London in 1996. He moved to San Paulo, Brazil as editor of American Economic Business magazine. So many other things and he is one of those writers who has dealt with this topic and many other topics from a very global perspective as well as from an American perspective. So I am really pleased to have you all here.
Branko is going to give his overview and then we'll I'm sure have a lively discussion.
Branko will take about 10 to 15 minutes and usually we don't encourage PowerPoint's so there are no
PowerPoint's but you all know his incredible diagram. I travel with that diagram in my iPad and wherever
I distribute the diagram it is like the highlight of the day. I take the credit of having that diagram with me
and showing it to people who are quite floored by because in one diagram you have so much information
and such interesting information as to who gained and who lost in the period from 1988 to 2011. Okay
Branko we're all ears for you.

MR. MILANOVIC: Thank you very much Kemal that is a beautiful introduction. I have to
thank everybody for coming here on a rainy day. I am also grateful to Carol and Eduardo for having
accepted to being commentators. As Kemal mentioned I do face a double challenge. The double
challenge is 10 minutes that I have to speak and without diagrams. I usually speak for an hour with lots
of slides so I've had to adjust.

The way I decided to do it was to give you a very short synopsis of what the book says
and of course so you have a little bit of a feeling if you want to buy it or not and what types of things you
would also like to discuss. The book is called “Global Inequality.” So my approach throughout the book
is look basically at the world as a whole as a single entity. Now is most dramatically described in the
graph that Kemal eluded to is that graph essentially takes the whole population of the world and then
looks at them over the period 1998 which actually happens to coincide with essentially the end of
communism really joining by China of the international markets. By the late eighties China was really a
participant there. It also happens to coincide with the time when in 1991 was the crisis in India and
India's policy changed. The interesting part there and I will skip many other details which go into
production of this graph which was in a paper that I did with Krista Flockner is that when you line up
people in the world from the poorest one percent to the richest top one percent then you actually put it on
the vertical axis and you look like how much was the real income gain in each of these percentiles over
the period of 25 years. We know that coincides with the high globalization era. What you notice of
course if the poorest people have gained about 15 to 20 percent in (inaudible) but then the gains become
stronger and stronger and stronger and around the median of the global income distribution the gains
have become very substantial and reach on average 100 percent and some cases even more.
What is interesting then you have a very sudden drop and you come somewhere about the 80th percentile in the world and the gains become very small, zero, five percent, 10 percent but they are dramatically less. Then you continue and go all the way up to the top one percent and of course there is no surprise their gains are substantial.

The interesting part is you ask the question who are these people who are at point A which is this large gains in the middle? Who are the people at point B which are absence of gains and who are the people at point C which again large gains? Not surprisingly although the first time I did this graph in June 2012 I was absolutely floored. I just couldn’t believe what we knew intuitively does come out in the numbers is people who are at point A of large gains although they are relatively poor are essentially people in resurgent Asia. Lots of them are from China and India, Indonesia, Vietnam and so on. So much so that 90 percent of people in that group from Asia.

Then you go to point B that I said saw very little real gain and there are (inaudible) and you’ll find that about 75 percent of the people who are there are people from the rich countries call it the old OECD and the lower parts of their income distributions. So these are people who actually still gain and the three countries because of their size stand out. It is the U.S., Japan and Germany. Very little gain in the lower parts of the income distribution we are talking about single digit gains and in the case of Japan even negative and in the case of the U.S. double digit but small. I think it was depending on which group but these were gains between 12 and 18 or 20 percent.

So that provoked lots of discussion and I don’t need to tell you what are all the implications but there are all the issues did globalization benefit Asian middle class to the detriment of the rich world middle class. You can also ask if globalization continues with China being sort of succeeded afterwards by India, Indonesia or Ethiopia in the future whether that particular pattern of development in the west will continue and whether that particular part of development is compatible with democracy and democratic institutions and so on. Obviously the rise of Trump did help actually in making the graph more popular so I’m actually grateful for that.

Then of course the last point is point C where actually it is not surprisingly we have the large increase in income so the global top one percent. Although the global top one percent is essentially composed of people form the old rich countries. Just to give you an idea half of the people in the global
top one percent are from the United States. Putting it differently 12 percent of the richest Americans are the part of the global top one percent. It is easier to be part of the global top one percent then to be part of the U.S. top one percent.

You can also raise the issue like you can see the middle class if you will within this graph. The middle class in the U.S. or in France or Italy or Spain or U.K. is being squeezed from two ends. Being squeezed onto one hand from cheaper labor in less developed or poorer countries, people who can basically do the same jobs that they can do for less money and being squeezed domestically from their own top one percent or the people who have done very well during globalization.

So this is really the first part of the book and I intentionally opened the book with that particular slide which I described so beautifully now. I was actually asked by a friend could I do the same slide for the period before globalization. The issue there is that the data really comparably of low equality. But if I use Francois Berginyon and Kristen Morrisets numbers you can do that and there what is interesting you don’t find this remarkable sort of sliding scale of gains and losses. You get really more or less flat line. In other words everybody has gained about the same from 1960 to 1988. So this is of course a dramatic difference now with the period after the 1960's and up to the globalization today.

So this is essentially what is in the first chapter. Since I took so much time I have to be quick on the rest. My second chapter deals with inequality within nations. There is a logic to that because inequality in the world can be conceptually divided into two parts. Inequality within nations and inequality between in the first case we speak of inequality within the U.S., Mexico, China, India whatever and in the second case we speak of gaps in income between the U.S. and Mexico, between Morocco and Spain or between Russia and Armenia and intentionally using countries where you have large immigration because you will see that is one of the stories in that third chapter. So the second chapter is about inequalities within nations. It is a fairly ambitious chapter because I introduce sort of notification or development of the Kuznets curve I actually believe we are going through Kuznets waves. I actually used quite a lot of data not only from the modern times which I take it from like the beginning of the industrial revolution but from the pre-modern or agricultural societies or middle age Europe and to show basically that inequality that is historically gone in cycles and it was driven by what I call malign and benign forces. I will not now have time to explain all of them but benign forces are forces of education, social legislation,
and social security and so on. Malign forces are historically quite well known forces of war which generally would lead to the decline of inequality and epidemics in history.

So that's actually the chapter about the Kuznets cycles. The interesting part about that is if you believe in Kuznets cycles and I try to convince you that you should is that you can actually argue that the rich countries are now in the second modern era upswing of the Kuznets cycle. The good news about that is that if there is an upswing now ultimately down the road there should be a downswing too. Of course I am very careful about that because I do see currently the forces in the U.S. which rather push the further increase of inequality.

The third chapter is a chapter about the differences in mean country incomes and the interesting part there is if you look at historical data essentially that chapter is kind of has a cute title I think. It is called from Karl Marx to Frantz Fanon and back to Marx with a question mark. Because historically if you look at the world at around 1850 most of inequality in the world was due to inequalities within Asia. You can call that class because it is inequality between rich aristocrats and poor peasants or capitalists and workers. Only 50 percent was due to the differences in the development or income of the countries. You then fast-forward to today you actually have much greater chance to the differences in mean country incomes. What happened over the last 150 years you had rich countries becoming richer and richer and two very important countries India and China being stagnant or even on a decline.

But most recently within this 25 years these two countries in particular and others have started catching up so that a composition of global inequality if you project it in the future is changing in a peculiar way and bringing us back to something that existed in 1850. In other words there is a shrinkage of the population way to the differences between the countries because of the catch up of Asia. There is also the widening of inequality within Asia. So if you were to project that you could actually see the class element becoming more important in the future whereas most of the 20th century and still now it is really the country element which was more important and the use of Fanon as a writer who actually emphasized the difference between poor and rich countries.

Just a final note on that I just saw today for example the World Bank has abolished which I'm very happy to hear the term developing countries anymore so they don't exist anymore. I think it makes sense it is really becoming more and more difficult to figure out the difference and somebody was
quoted as saying the difference between Malawi and Malaysia is greater than difference between Malaysia and the U.S. So it doesn’t really make sense to put all the countries in the same bag.

The last chapter is the chapter that looks at the future of global inequality. There I use essentially two forces to give an idea. One is the force of economic convergence which would convert presumably the mean incomes should converge and the second is the force of the Kuznets cycle. Let me just say a couple of sentences on each of them. On convergence I think that if you look at the large countries in Asia plus Brazil and if you look at their growth rate and even drop China out in the last 35 years they have grown faster every year then the European Union, U.S., Canada and Japan combined. If you really believe that there is something that would actually now happen to change the dynamic it is very difficult for me to see what it would be. I am actually rather optimistic on the convergence front. However I'm optimistic with the caveat because we don't know what will happen in Africa and because of the increase of population in Africa. That could be something which actually might sort of change a little bit our rather optimistic story of the convergence of incomes. That's between the countries.

Now within countries I really discuss essentially the U.S. and China. I am relatively optimistic in China because I believe there are forces there that would actually push inequality down and if you look at the official data China has not had an increase in inequality for almost 10 years. We have huge problems with China's data but that is a separate issue.

Then for the U.S. I'm less optimistic and I see in the short run forces that would push inequality up and I would just list them. One is the rising share of income from capital which we know has been happening and second force is the rising concentration of capital ownership which is actually quite dramatic because eugenic efficient people don’t talk about that very much and I didn’t study it very much either. The eugenic efficient of income from capital in practically all rich countries is between 85 and 90. So that's something which is almost unbelievable.

The third force is one that received attention is that assertive mating. Recently I've seen papers that that force which much less strong explanatory factor of rising inequality then was originally claimed but it essentially means that people of similar educational level, income level marry each other and that increases inequality.

Number four is an important element which has been recently brought out in a paper and
that's the fact that more and more people nowadays have large incomes both from labor and capital. That is actually quite striking because nowadays if you’re in the top one percent by labor income you have 80 percent change to be in top (inaudible) capital income. So we are talking about new capital where it is not like you can imagine old capital when capitalists were rich but they had no labor income but workers were poor but they had no capital income. Nowadays we have top people who have both capital and labor income.

The fifth element is the importance of money in the political process. Much has been written about that so I basically only used the results of other people and I just bring that as another element which makes me pessimistic.

So on that note I will finish and we will now have a discussion. Thank you very much for your attention.

MR. DERVIS: Okay Branko let me start with two or three points that you make in the book but there is one question in particular. One point I think that you make but which when I read it again it is an obvious point but it made me again concentrate is that take a person who has a million dollars and a person who has ten thousand dollars annual income and both have a 10 percent increase. So one gets another thousand dollars and the other one gets another hundred thousand dollars. The income distribution remains the same between the two but the absolute increase is one thousand versus one hundred thousand. So when we look at source phenomenon and political phenomenon and all that I wonder whether in your research you’ve come across that point. Income distribution as a relative concept is one thing but the actual gains when you compare gains can be overwhelmingly different without changing the distribution. Sometimes I wonder even with an equal distribution whether the gains in absolute terms have an impact on Carol Graham’s happiness statistics. That is just a point that you may want to react to. The real question I want to ask to start the discussion has to do with the Kuznets waves and I may be wrong because I haven’t gone back and reread Kuznets and so on but I have the feeling that his wave was essentially a wave that was indigenously economic. It had to do with rural urban migration with economic forces whereas your waves are political economic waves. Am I correct in saying that and maybe you can elaborate on that?

MR. MILANOVIC: Thank you Kemal. Let me just over this two questions. The first one
is we tend to work with relatives and when I describe the sliding scale of gains and losses it was all in relative terms. One has to realize that what is in relative terms for people who are actually making five dollars a day is like doubling in absolute terms for the rich people is really sort of peanuts. Inequality measures I'll give you a small example. I am very proud of having 20,000 followers on Twitter. The other day I was talking to Paul Krugman and he says well I don't know 1.6 million followers. What was the rounding error for Paul was more than the total amount of followers that I have. Even if we grow maybe by percentages I gain one follower and he gains one hundred thousand or something like that. So our work is always in relatives. As Kemal said if you take a different approach and say okay the whole GDP of the world has gone up between 88 and 2011 by 100 who got that 100? Then of course you see that about 47 percent was gained by the top one percent. In that sense the gains were very unequal in absolute terms. Even if people in Asia did extremely well but as I said before there absolute gains were relatively small if you just look at the part of the additional pie that they got.

On the second questions Kuznets waves I'm glad you asked that we didn't plan this but of course I can go a long time on that. Kuznets had an economic view of the waves or in his case he only had one curve. In my case I think actually I see the forces of politics redesign and war actually as very strong forces. I think we were thinking about war I would say get this book it brings the war to the center stage. We tended to forget wars and I actually argue but I will not go into that but I have called it I argue about World War I was to some extent precipitated by rising inequalities in the countries before the war. That is somewhat an old theory but I was only two pages into my book and I wrote much more. My wisely said you don't want to have this book discussion of the origins of World War I because everybody in the world has an opinion on that. But I do see political elements playing much more a role then in the original formulation. For me it is actually puzzling that Kuznets work actually in the office of prizes which really dealt with the war really never mentioned the war as an element that really led through taxation of the U.S. of reducing inequality but maybe I missed some of what he wrote.

MR. DERVIS: Thank you Branko. Carol I turn to you now to give your comments, questions and perspective.

MS. GRAHAM: Okay well I'm supposed to be the optimist because I work on happiness but I'm going to have to try hard to do that. About the book I'm very optimistic. This is a terrific book. It is
not surprising; Branko has a long line of them. But just a couple of key features. It is just remarkable in its
clarity and explanatory power. So the metrics that we use to measure inequality are complex even this
issue of relative versus absolute the average person can't understand why standard economics wouldn't
care that a billionaire gains one hundred thousand and a poor person gains a thousand and we don't see
that as an increase in inequality. So there are lots of complicated metrics that we use to measure
inequality. Branko does an amazing job in making these accessible to the lay reader. For example we
were talking about this earlier is in a little box in the book. What does it mean to be a billionaire? How
much money do you have to spend? Most of us can't conceive of that. He says well if you inherit a billion
dollars and you spent a thousand dollars a day it would take you 2,700 years to blow your inheritance.
So that's a lot of money. That is out of the range of imagination for most people. But Branko puts a real
world element. That's very rare in books written by economists. I am one of them so I confess to be in
the same group. The other thing that he does, he really weaves in as he was talking about the war. A
really keen sense of history, of politics and literature, even in his writing so it makes the book a real
pleasure to read in addition to a real learning experience. Now obviously I can't cover everything in the
book and also try and say something new in about five minutes so I just want to talk about a couple of key
themes in the book and how those link to some new work I've been doing on current trends of well-being
and ill being in the United States.

So one key theme is this concept of Kuznets waves, the curse that Kemal has been
carrying all around the world and so the idea is that rather than seeing inequality as something that first
increases with development and then goes away or declines, this waves hypothesis suggests that it's a
process that reoccur and reoccur over time along with economic, technological and political changes so
that is a very new element in the discussion of Kuznets but it does a great job of describing the situation
today so in today's Kuznets waves, the big winners are the very wealthy in the rich countries and the poor
and middle classes in the emerging market economies, particularly Asia and the biggest losers in
contrast, are the lower middle classes in the rich countries and the losers in this story are driving two
worrisome forces, populism and nativism and these forces could in the end result in a very costly
backlash against globalization and it's something that we are already seeing in both Europe and the U.S.
in very heightened political debates so within the scenario, the U.S. stands out as sort of the poster child
for inequality as the data also suggests and as Branko just described, we have this perfect storm of inequality and he described the forces that lead to that so I am not going to repeat that but it is very relevant to what is going on in terms of the backlash in this country.

So the perfect storm has already resulted in very worrisome trends and my work on inequality of wellbeing in the United States finds some really remarkable stark trends in the data.

One example, I am from Peru and always grew up thinking the U.S. was a land of opportunity as many first generation immigrants do but the poor in the U.S. today are much less likely to believe that hard work will get them ahead than are the poor in Latin America, significantly so. And when I saw that figure, I was wondering if it was a data miscode or something. I kept going back to make sure that was correct and then optimism about the future, which we find in both empirical work and experimental data, optimism about the future is very much linked to people’s willingness to invest in those futures. If you believe in your future, you are likely to invest in that future and those of your children.

If you don’t think you have a future, you know, why bother. What we find is in the U.S. there is a not -- there is no optimism in the future, there is deep desperation among certain groups and what I think you’ve increasingly been reading about in the papers today, although I was finding this over a year ago is that the most miserable and unhappy group, and the most pessimistic about the future in the U.S. are poor whites. That surprised me when I first found it. It equally surprised me that poor blacks are the most optimistic of the poor groups. Poor blacks actually score almost a whole point higher on a ten point future optimism scale. That’s a very big change, than do poor whites.

Poor Hispanics are somewhere in the middle but poor blacks are very much the most optimistic groups and these differential views about the future are also playing out in our mortality trends. The U.S. mortality rate is being driven up by preventable deaths among poor and uneducated middle aged whites. Suicide, opioid and other drug addiction, diabetes, obesity. That is not -- blacks and Hispanics are not part of that trend. Their mortality rates have continued to fall. Indeed, black life expectancy, while still lower than that of whites has narrowed the gap from a seven year difference in 1990 to just over a three year difference now.

So you’re really seeing this backside in terms of progress, in terms of optimism, in terms of all kinds of things among poor whites and also near middle class whites and when you look at what
drives these differences and attitudes, I could go on for a long time. I won’t but the one thing that I think is very compelling is that poor and middle income blacks are much more likely to be comparing themselves to parents who are worse off than they were, meanwhile, poor and blue collar whites are comparing themselves to parents who had a much more secure existence and a much more stable employment.

And so the political ramifications of these trends are stark. Donald Trump is clearly one of them but I think there are also more pockets of racism, nativism and other political backlashes driven by concerns about downward mobility and falling even further behind.

So as Branko described this perfect storm. It’s clear it’s not going to go away by itself and the solutions are deep seated ones which aren’t readily resolved in political debates like the one we are having now but they requires addressing inequality in endowments up front and not just redistribution ex post so let’s hope -- I am trying to be optimistic here that as a society, we can get past the daunting hurdle of the 2016 elections and begin to think about productive policy solutions and if there’s a good part of the story in terms of how frightening the political debate is, maybe it will produce some sort of wakeup call and clearly the U.S. is not the only critical player and this is also occurring in Europe but clearly if unhappiness among downwardly mobile Americans drives a major backlash against trade, immigration and globalization more generally, it’s hard to imagine that there wouldn’t be a more negative fallout for the rest of the global economy.

So, I am going to try and end on a more upbeat note which is you really have to read this book. It’s a great book and also, hopefully, it will trigger some productive policy thinking in the future.

MR. Dervis: Thank you very much, Carol. Just one point of clarification again about the data we are talking about and it’s particularly, I think important in the comparison of Europe and the U.S. We are basically using household consumption data.

MR. Milanovic: Absolutely. Income, actually income --

MR. Dervis: Okay, but income after government transfers.

MR. Milanovic: Right, after government and taxes.

MR. Dervis: And taxes.

MR. Milanovic: Yes.
MR. Dervis: Although some in kind government transfers may not be there.

MR. Milanovic: That’s true actually in that sense it underestimates the incomes where you have large government paid health and education.

MR. Dervis: Exactly. But I think it’s very important to remember which -- what numbers one talks about because there are the pre-policy numbers, there are the post-policy up to a point and then we can even go further and try to impute value to things which are not there.

MR. Milanovic: Absolutely. Just for people to maybe some people know but for example pick at the size numbers are numbers which are only marketing which means it does not include government transfers and does not deduct direct taxation. My numbers are actually including both of these elements.

MR. Dervis: Right, and am I correct in saying that the pre-policy and post policy difference, while positive in the U.S., I mean --

MR. Milanovic: Of course.

MR. Dervis: Is much larger in Europe?

MR. Milanovic: Yes, it’s significantly larger in Europe. U.S. is very brave but U.S. is very interesting because it has slightly higher market inequality, underlying inequality than most European countries but not dramatically far but it also redistributes less so the U.S. actually is kind of more I suppose -- let’s call it modern, it has relatively high inequality, underlying inequality but moderate redistribution so that’s basically what -- when you compare U.S. to other rich countries, that’s what you find.

MR. Dervis: I mean the point that I am trying to make here is that it seems that economies that are basically market economies have been able, up to now at least, to redistribute a significant amount from a starting point which was unequal and without too many differences between these market economies. I just wanted to --

MR. Milanovic: But I wanted to say actually what Carol mentioned about the endowments, you have a small counter -- I mean example of countries that actually have more equal underlying market inequality and these are Asian countries and unfortunately I have only three of them because there are not that many rich Asian countries. It’s Korea, Taiwan and Japan. They actually -- a
particularly interesting example is Taiwan. They start with relatively low market income inequality so in order for them to reach the level for Taiwan, to reach the level of inequality of Canada, they don’t need to distribute more than 15 percent of income and Canada needs to redistribute 50 so that’s really the difference.

MR. DERVIS: Okay.

MS. GRAHAM: Can I just -- a quick point about overtime trends in the U.S. which I think are -- standout. If you look at what’s been going on with redistribution in the U.S. over the past -- the same years that inequality has increased so much but the past few decades, things like that TANF and other aid to the poor have been falling dramatically. I mean the charts are very stark and the language around redistribution has also become very much more divisive.

The programs, the redistributive programs in the U.S. very much stigmatize the poor, in contrast with programs in Latin America which do the opposite.

MR. DERVIS: That’s a good point. Let’s always keep in mind what distribution we’re talking about, market or after -- now, Eduardo, sorry for breaking in here but now we are ready for your perspectives. Anything you want to emphasize and hopefully a little bit also on the political flavors that we perceive these days.

MR. PORTER: Well first I should maybe offer a disclaimer. Unlike my partners here on stage, I am not an economist, not a social scientist, I just play one in the newspaper so I am a little intimidated here -- by my partners here.

But I would like to offer some thoughts on Branko’s fantastic work. I wrote a piece about your work. I think maybe three years ago about -- that was the first time I encountered your lying down S of the distribution of global incomes and a question that has been gnawing at me ever since I wrote that piece and I think I eluded to this when writing it was whether the overall net dynamic that we were seeing was a good or a bad thing because this S shows declining inequality between countries but rising inequality within countries, including, at this stage of your data in China as in the United States and many other rich countries and of course, perhaps what we would ideally like to see, I mean if you’re of an egalitarian bend would be declining inequality everywhere but given that we have this sort of distribution, I wondered what can we conclude from a normative point of view because there’s an interaction between
these two things of course.

I mean part of the increase in inequality in the United States has a lot to do with globalization, technological change that has enabled large shares of production to move to poor countries which have then brought millions of people out of poverty so there is an interaction between these two phenomena and it does lead to me to a question of is this great? I remember I called Danny Roderick who said: “Yes, this is great” because we have decreased the Frantz Fanon inequality but within, written in an American newspaper and read by the folks at the AFLCIO, they were like: “What do you mean? At the cost of our welfare -- this was our welfare so we’re happy because it helped poor Chinese.”

So I think that’s a really interesting question. I don’t have solutions about it -- for it but I find it interesting. And from that, I wonder whether this combination of dynamics is actually going to continue or not and you mentioned that you were optimistic about the convergence between countries and I am going to perhaps unfairly profit from the fact that you included Brazil in your list as a proof of convergence.

Well actually the IMF suggests that between now and 2017 or ’18, the Brazilian economy is going to shrink by 10 percent. Income per capita there is in a fairly bad shape and if you ask me, is Brazil on the verge of a China? Is there a chance that it becomes a Korea? And I look at how its economy is kind of heavily dependent on commodities, very low human capital; I would say not a chance.

And so this leads me to a broader thought, which is the idea that the countries that you referred to in Asia, that have actually made the leap, you know, Taiwan, Korea, to some extent China, which came from very very steep poverty to kind of middle income status had been based on basically building manufacturers to sell them to the rich world.

And there is a good argument to be made that that kind of path is becoming closed to future countries so if you look at the share of say, employment in manufacturing across different countries that have developed over different periods of time, amongst the countries that developed very early, you know, like the UK, the United States, Europe, you see very very high shares of manufacturing employment and as you move over time, you find that manufacturing of employment peaks at a lower level of income so there is -- manufacture of employment is giving you less bang, less kind of economic development bank and this has been a gradual process that has taken place over decades so the
question to me is, if the path that we knew works, is losing a lot of its oomph, what will replace it?

And this is the particularly, say, pertinent question for India, which you mentioned and you know Prime Minister -- Modi has suggested that India will have an industrial renaissance and I think there are good reasons to be very skeptical that that will in fact happen, not only because China already takes up a large share of the manufacturing space but also because of technological change and forces like reshoring, bringing manufacturing back to rich countries because you can use more technology so cheap labor is not necessarily as important hence transportation costs become more important, energy costs become more important and your distribution of global manufacturing, which benefitted employment in poor countries is now being reorganized in a different sort of way so that leads me kind of to kind of be perhaps more pessimistic than you are on the convergence and on the internal factors, I would, looking at China today, I would agree with you that perhaps that’s a good example of a country that is hitting the down part of the Kuznets curve where income inequality declines as wages rise more broadly but pretty much -- I mean everywhere -- that’s a rare exception. If you ask me and if you look at most industrialized countries and even countries where there has been some decline in inequality like Latin America, Mexico, where I am from and Brazil, it’s -- I find it very difficult to see what are the forces that -- which will need to be sustained over a fairly long period of time that would actually bring inequality down. Again, the United States is perhaps the worst possible place to think about in terms of producing inequality but it’s -- I find it’s very important, not only because of the intensity of inequality and the size of the country, but also in terms of kind of perhaps policy lessons that could be shared around the world.

And I don’t -- if you look at the moment where inequality declined in the United States, which is essentially after the New Deal and World War II, the policy changes which brought this about, which are essentially new government regulations and large increase in taxation and redistribution were brought about by a very very unique circumstance which was World War II.

Even before, before the New Deal, we had the progressive movement which included a lot of activist government, the first income tax was passed. We got the Sherman Act to combat trusts and even then the inequality needle moved very little and it was only when we had this really massive global event that seemed to justify what at the time was called the conscription of capital of the rich in the service of the national purpose, did we manage to reduce the inequality in the country and so standing
here today, I see really no kind of discontinuity of the magnitude of World War II. Not even Donald Trump does that.

That might actually induce the system to kind of like make the changes in policy that did it in the past. My thoughts are not entirely pessimistic and I note that you spent some time kind of like speculating on what might be the forces that could reduce inequality again in the United States and you mentioned that perhaps new technologies that kind of replace the work of the rich, rather than the work of the poor, so pro poor technological change might be a way.

You also mentioned other policy changes, like for instance, perhaps higher inheritance taxes so that you can have a better distribution of wealth and policies that will lead to better distribution of education, of human capital so that we might get into a situation more like Taiwan. I was going to add one more that I think is potentially powerful and also potentially feasible, which is kind of like reforming the institutions of the market so as to attack what I suspect to be a really big driver of inequality in the United States, which is economic rents.

I might be over blowing the importance of this but I think there is a growing body of work that suggest that rents, which drawn by monopoly power, market power over certain sectors of the economy are actually contributing significantly to income inequality.

The head of the council of economic advisors, Jason Furman and Peter Orszag wrote a paper not long ago suggesting that in the inequality of income, which is the biggest inequality in the United States, which is driving income concentration in the United States, is not mostly wealth, it’s mostly about wages, your market incomes. What’s happening not within firms but between firms.

There were firms that were paying that had the ability to pay much much more than other firms and so that, they suggested, was perhaps evidence of growing rents in the economy that then these firms could distribute to the top very well in leading to this increasing concentration of income.

So my guess is that the politics of redistribution, if you portrayed them as politics to make markets function better, that is by reducing market concentration, reducing monopoly power, perhaps effecting things like occupational licensing or better application of antitrust are more easily -- will be more easily digested by the political system than a redistributive agenda even if it’s only limited to the inheritance tax or even to a more egalitarian educational agenda which we haven’t managed to put in
place despite decades of ostensible reform.

So, this -- I do think antitrust has a perhaps -- will have more of a role, a more important role than we might thing and I also think perhaps that the reform of finance will also -- could also pack a lot of power in reducing income inequalities.

Market concentration in the financial sector -- I mean financiers are amongst one of the big groups in the top one percent, the ones that benefited from the trend of growing concentration over the last four decades. And I think there is by now a pretty solid consensus in this country that finance needs to be reformed in some way or other.

I mean it brings about crises every three or four years that impose an enormous cost on the rest of society and so the notion that, you know, this sector should no longer be allowed to impose such externalities or at least should pay for them is growing. I even heard Larry Summers say this, which was incredibly surprising and so this, I think offers an opportunity to address why is it that finance has managed to absorb such a large share of national income and perhaps through the regulatory apparatus, through perhaps imposing some price so that they internalize the negative externalities, might allow for a broader, intersector distribution of income that could actually make for more equal distribution in the economy.

MR. Dervis: Thank you.

MR. Porter: There you go. I'll stop there.

MR. Dervis: Thank you very much, Eduardo and I think the issue of monopoly power, I don't know, some of you may have seen Joe Stiglitz’ latest project syndicate article along those lines where there are metrics of monopoly power actually having grown quite a bit. Particularly in certain sectors like pharmaceuticals and things like that but I would like to add one element to that and then give it back to Branko before we open up to the floor.

There is also now new technology that leads to the ability to price discriminate which is amazing. I mean you all know now that depending on the day, the hour -- you take a plane, you pay completely different prices. Those of you who are not too young will remember that 20 years ago there were one or two prices, three prices and that was it.

I just found out that by changing one day in trying to reserve a flight, it ended up tripling
price. Uber, in a way, is the same model, you know, and when you think about monopoly and market power, there is something efficient about price discrimination because every consumer pays like what they are maximally willing to pay, it also absorbs the consumer surplus into whoever does the pricing, okay?

And then the big question is why isn't there more market entry? Why is it that Amazon is such a monopoly or close to a monopoly or why is it that Google is such a close to monopoly and I think you’ve touched on something very important in modern capitalism that despite world trade, despite globalization, despite the competition for emerging countries and all that, in many sectors, monopoly has dramatically increased actually so what does that do to --

MR. MILANOVICH: You know, Kemal, I would stay actually because I think we would have lots of policy discussion so I would, if you would allow me, I would just like to respond to one or two points of Eduardo, not policy points.

MR. DERVIS: Yeah, sure.

MR. MILANOVICH: Because I am sure we will actually talk more about that but these are more technical issues. First of all, on the issue of convergence, one thing which is very important to realize sort of at a level of intuition is what we have seen during the last 25 years of globalization is that you can have rising inequalities practically in all of the countries.

Not to all, but two thirds or three quarters with global inequality going down and that’s actually sometimes very difficult to sort of have this feeling but what is really happening is that you really have a niche country rising in inequality but there is a catch up and that’s where the convergence comes in between the poor and rich countries so that dampens the global inequalities so that’s very important.

Now why it is also important is because it kind of totally, how should I say, sort of cover your view of what is optimistic or pessimistic because what is optimistic from one perspective is pessimistic from the other and to give an example. Optimistically we can say that convergence is very good.

The poor countries are catching up with the rich countries. Well the other side of that face of the coin of that convergence is precisely maybe what we are seeing now in the U.S. and the rich countries is that actually the middle class is not going so there you have an optimistic story that in the
future there will be other poor countries that would grow, world poverty was going to go down. Africa will actually start becoming obviously not rich but middle income and so on so this is all a very rosy picture but because the world is organized in nation states, that rosy global picture, when you translate it at the level of nation states is much less rosy because in rich countries, there are people who are not growing at all and in some of the poor countries, inequality has really dramatically increased so that's where this difficulty comes is that you have to keep, all the time these two different -- juggle with these balls, which really tampers your own view to view everything in a sort of a rosy colored, or to view it only very very dark ones.

A second point on the Kuznets waves, I actually do believe that actually Brazil and China provide very good sort of examples for my story because I actually see both Brazil and China being at the peak and actually Brazil on the downslide of the first Kuznets wave and actually to some case, Brazil is almost the poster child for the Kuznets waves because the movements that have happened in the last 15 years which reduced inequality in Brazil are really increasing education, reduced wage premium of the highly educated people, a higher minimum wage, which is exactly the result of social pressures of a maturing population, greater redistribution and of course, large social transport programs.

So actually Brazil fits it almost, I would say, perfectly to the extent that real numbers can fit kind of some up-thread concept.

And there, where I see China also entering that stage, despite corruption and huge differences between provincial incomes and so on, there is a push towards the introduction of much more social transfers than currently -- they are basically limited to state owned enterprises but there is really a push for that and there is also finally the end of the lowest type of growth with unlimited supply of labor at the constant wage rate.

So that's where I see both China and Brazil as being good examples of my Kuznets waves and just to clarify, they will be like down -- going down the first peak but the U.S. and the rich countries are actually up hill on the second wave so that's where I see them as being.

Now, obviously that's not going to fit exactly every country but if it fits about a dozen large countries, I will be very happy.

MR. DERVIS: Okay, let's open it to the floor. Jed, you raised -- and then the lady next,
yeah. First, Jed.

QUESTIONER: I'm Jed Schelling and --

MR. DERVIS: We'll take two or three.

QUESTIONER: Huh?

MR. DERVIS: We'll take two or three questions at once and then go back.

QUESTIONER: Well I have one quick comment and two quick questions. The comment with what Carol was saying about looking at different percentage -- the same percentage increase at different levels is one concept that doesn’t get a lot of attention in economics is declining marginal value of money. If you are a poor person making 10,000 a year, and get an extra 1,000, it's incredibly valuable because you can finish feeding your family and do a lot of other important things. If you're a millionaire and get an extra 10,000 dollars, you probably don’t even notice it and it's not clear that it's increasing your welfare so more money they goes into the bottom level, even if it’s a lower percentage, is going to have a better impact on improving the welfare of the people, not just the incomes. And then a couple of questions.

To what extent can you take account of the technological revolution in looking at income distribution because the industrial revolution created lots of jobs and brought up the lower class? The technological revolution that we're having now is not creating, needing as many jobs, just creating a lot of wealth at the top, and with robotics, is eliminating a lot of the working class jobs, which also contributes to the slower growth of the income of the middle and lower classes in the United States, because many of the good manufacturing jobs are lost to robots here, not to people working in China. So, how that is taken into account would be useful.

And then the other thing, going beyond the concern about the wrath that’s going in the monopolies is what I characterize as paper assets, where you now have in the quasi-financial sector these derivatives and lots of other assets that create lots of value, and people make lots of money trading. But there is no real production based on that capital. It is just what I call paper capital, and a lot of the people in the finance sector are also making large amounts of money trading daily or every two seconds, depending on how they can do it.

So, you're getting a lot of that level of income that doesn't correspond to creating anything
real for the economy, the way income is supposed to do that. So, that's another factor I don't know if you can take into account in looking at why and the kinds of income inequality you have.

MR. DERVIS: Thank you. Yes?

SPEAKER: Okay, so I'm just going to totally toss in another variable to discuss. But especially in light of like talking about China and India, I feel like it's impossible to not also consider climate change, and sort of like many -- like climate change brought by a lot of manufacturing.

And my question is whether you envision different proposed solutions to climate change to be a sort of boon or like a potential solution also, to inequality or perhaps, another perpetuation of inequality.

MR. DERVIS: Thank you. You're bringing in another big topic. Yeah? Anybody? Vito, and then --

SPEAKER: Can I ask another question?

MR. DERVIS: Yeah. We'll take also you, afterwards.

SPEAKER: You know, I just published a book, and the title of the book is "From Economic Miracle to Stagnation." But in Italy --

(Audio drop out)

SPEAKER: -- 1 percent in the last 10 years have been about (inaudible). The same thing happened to Germany. The same thing happened to Japan. The same thing, to some extent, happened to Korea. So, why this will not happen in China and India? Because as these countries grow, the rest of the world becomes smaller, so the exports that they are doing will be much more difficulty for the rest of the world to absorb them.

So, are we sure that really, this trend will continue, or what is the view? I would be very skeptical -- I also wrote a book on China, by the way, and I'm very skeptical that the Chinese will keep growing at this rate, assuming that the rate that we normally measure is the correct one. I have lots of questions about that.

MR. DERVIS: Thank you. Yes?

SPEAKER: Thank you. Could you advise me? I ask how do you see the recent (Inaudible) mechanism and that income inequality? And for example, how do you see the difference of
the income equality between democratic countries and the non-democratic (Inaudible) countries? Do you think that the democratic countries are better in mitigating income inequality because of its function to redistribute incomes through taxation? Thank you very much.

MR. PORTER: Well, with that, you have another five hours (Laughter) -- I'm not just yours, but you know, climate change, convergence, growth. Anyway, take --

MR. MILANOVIC: But I would actually be very brief, because actually, many of these issues -- of course, they're extremely important, but you know, this is just one book. And it's a book which actually deals with global income. And basically, what needs to realize, there is only one variable there, and that variable is income.

Now, that's not to address questions like what Jed asked, for example, labor. You know? That would be another book or somebody else should write that book. So obviously, the two industrial revolutions -- I'll go back a little bit in order. Industrial revolutions were different, and I'm not totally convinced that actually, that the only way to develop is through production of things. I actually believe that we have gradually moved from (Inaudible) culture societies, because essentially, our needs were food to textiles to things, and then to services.

So, this is not something which is universally accept, because I still believe that development is basically manufacturing. But I'm not quite sure that in the future, we would see it the same way. But anyway, on jobs, I don't have much there. Similarly, what you would call the -- was it fictitious capital or I don't know --

SPEAKER: Paper capital.

MR. MILANOVIC: Paper. I think Morris called it fictitious. I don't have much about that either, because obviously, they're like sub questions of this big global passion which basically works with, as I said, one variable, which is income. Now, same thing, unfortunately, applies to climate change. So, I can actually discuss with you that, but as an informed observer. But it's not something that I've studied that is in the book.

Now, going to Vito's question. Why I'm actually -- again, I'm looking at it from the global perspective. It does not require for me -- for global inequality to go down that China continues growing at 8 percent. And actually, China is a very interesting case, because China is now reaching the level where
it’s maybe even now in 2016, at the level where its growth adds to global inequality.

China is now about to become a global inequality disequalizer, because it has been relatively -- become rich. But it is sufficient that other countries grow at the rate which is higher than the growth rate of the rich world. And on that, I would actually take a bet for the next 10 years that the rich countries are going to grow at the lower rate than these five countries which exclude China that I have in my book, and which are actually, I think, Indonesia, India, South Africa, Brazil and Vietnam.

And I would take a bet, really, of like 50 to 1 that these five countries are going to grow faster. And if they grow faster, that’s a sufficient force to reduce global inequality. So in that sense, I’m optimistic. Now as I said, I don’t think China will continue at 8 percent, nor will Vietnam, but they would continue maybe at 4 ½, whereas Europe would be at zero, so that would be still you know, a reduction of global inequality.

One final point I want to mention before the democracy and totalitarianism. One final point. When you also look at this global inequality, it was a nice idea that John Drummer had, and we had a small paper on that, is that actually, if you make your welfare function going back to utility which doesn’t have only your income, but has your income in relative terms to the mean of your country, and then, you play with the parameters, there is at one point where your perception if inequality is rising, because you’re really basically only comparing those up to your own country, and you don’t really care that the global inequality is going down.

So, it’s a very tricky part, and that might explain why many people believe that inequality is going up, because that’s what they observe. They don’t really look at inequality you know, in Zambia or you know, China or elsewhere. So finally, I don’t have -- I mean, this is really -- I can sort of think about it -- there are papers that show that democracies are better for inequality. But then, that was of course, the (Inaudible) Robinson point of view.

But then, remarkably we wowed, actually, communist countries, which it was a mistake, because they were actually countries with totalitarian governments and with low inequality. So, you cannot just think it was at some point with their one third due to mankind and say, well, it doesn’t really matter for my model. So, I am not really sure about this, but I would tend to believe that of course, democracies are better for redistribution, but it’s not really some empirical work that I’ve done.
MR. DERVIS: Any additions to these comments? We’ll have another round, but I --

MR. PORTER: I, again, not being a social scientist, I don’t have to have studied it very seriously to be able to comment on it (Laughter). So, I will take on the climate change question.

MR. DERVIS: Please.

MR. PORTER: Which I’ve written a little bit about. I mean, I think at first order, you’d have to think that the climate change would be an ability to use fossil fuels, which were the things that powered economic development for you know, the entire period of history, since the industrial revolution - - the fact that that’s become much more expensive will hurt poor countries more than it hurts rich countries who can make transitions to more expensive renewables, and so on.

And so the first order is less access to energy to countries that really most desperately need energy. I think that is the overriding impact of the current moment. It could be addressed through transfers. There is you know, this big a hundred billion a year kind of promise to developing countries to help them pay for this transition. I am not sure that this money will materialize or that it is enough.

I think that in the global warming worried community, there is a bit of a misunderstanding of the magnitude of the energy needs in poor countries, so you get people talking about distributed solar in Africa as a solution, like say, a solar panel on every hut.

A solar panel will not power an iron. And if you know, Zambia needs is a refrigerated plan for you know, thousands of people can work in the hot summer, distributed solar is really not going to do the trick. So, I think that is a really worrisome -- I mean, global warming is worrisome for a variety of reasons, but I think including the impact it has on inequality around the world.

MR. DERVIS: Carol?

MS. GRAHAM: I just wanted to -- I have thought a little bit about this democracy and redistribution question, although as Branko mentions, it’s very difficult to answer, because you can have authoritarian governments like the former Soviet Union but redistribute it too much, to a point that was just not productive.

You can have democracies with populists that redistribute to the point that they mess up the macro economy for years to come with huge costs to the poor. And then, you can have democracies
like the European ones, where there’s basically a consensus on how the state should operate, how much, you know, citizens are protected by the state. And then, you have democracies like the United States, where there is a very strong anti-redistribution sentiment and reality among much of the political establishment which you could argue means we haven’t redistributed enough to reduce inequality.

So, my hunch, like Branko’s is that democracies are better forms of government and better in reflecting citizens’ preferences, but they’re not always efficient. And sometimes, citizens’ preferences can vary tremendously across societies, and then you’ll get very different inequality outcomes, not because of the kind of government, but what’s sort of the norm of the redistribution.

MR. DERVIS: And let me add on one thing on Jed’s point, because when I gave the example, I was thinking of the diminishing marginal utility and the weak counter-argument. But I think it’s an interesting -- and if anybody you know -- broader issue, including the (Inaudible) thing that’s in your book.

But you can have a review of the world. These are, at the end of the day, value judgments where you know, from an ethical point of view, what matters is if basic needs are taken care of. Okay? And in that sense, obviously, the world has made tremendous progress. I mean, the world a hundred years ago was a much worse place in terms of basic needs of human beings than it is now. No question about it.

And then in a sense, the rest is almost irrelevant. I mean, the kind of conservative, political arguments will say, well, who cares if the guy has you know, a trillion dollar income? What does it matter? I mean, it doesn’t harm anybody. And so you know, you can put it that way.

The other side, however, I think is the political economy side. Another $10 or $1 to a very poor person compared to another few million can have politically hugely different impacts. In other words, if your metrics is political influence and power rather than marginal utility of consumption, you could get a very different kind of perspective on that, and one could argue that that, in terms of what creates the political debate and the political tension, it’s much more the latter these days than the former.

So, I mean, I think it’s a valuable point, but I think it’s more complicated than just diminishing marginal utility. Why don’t you say one thing about the roles in the two Rawls’ books. I mean, “The Theory of Justice and The Theory of Peoples,” because it goes to Eduardo’s point about
what's so bad about the fact that we have this you know, broad convergence, even though within nations, there is increasing inequality. And you address it in the Rawls debate.

MR. DERVIS: Yeah, I would be -- I'll try to be brief, because actually, it's a very contentious point, you know, because I have to tell you, that's one of the points that maybe many people would disagree with. But when you really talk about inequality in the world, this transparent situation that we still are living through, it raises, really, two very important issues.

One: What I call global inequality of opportunity. In other words, that actually the same person born in a rich country has multiple or (inaudible) higher income than the same person born in a poor country, which raises a political philosophy, should the political philosophers, like Rawls, have dealt with. And that actually is an issue that has to be brought to the table, because when we speak of inequality and opportunity implicitly, we only take nation's states as our reference.

So, the question actually can be re-asked, does really inequality and opportunity end at the national border? And it's a very important question in terms of political philosophy, and Rawls believed that it was the case for the reasons that are too long to explain, but basically, that there was no compact or you know, the famous veil of ignorance that actually is placed in front of all the citizens in the world, but that each country does it separately. And that may not be something that in a global world, we really sort of necessarily have to believe anymore, but it's an important issue.

The second problem that is raised by that is the issue of migration, because I really would like to see migration -- I make a big point of that, as part of globalization and global inequality, and as very important, too, for the reduction of global inequality and for the reduction of global poverty.

So, that really raises all of these issues, and the controversial part is there that actually, I suggest that if we want to keep that tool working, we have to accommodate the willingness or reluctance of the native populations to allow more migrants by sort of allowing for different status, or different statuses in plural, if this is the correct plural, of migrants.

So, that's a very controversial issue, because it essentially means that not every migrant can immediately claim or expect to get citizenship and the right to stay in that country forever. And to put it very bluntly, it is moving us maybe towards some kind of a combination of the Western European and the Gulf State models, not that the Gulf State model is a good one, but it actually -- it has an
 advantage that people go there, make money, send this money back and make people in India and Bangladesh richer. So, that's an advantage. It is kind of fair that these people are discriminated and treated very badly.

MR. Dervis: Super controversial. But anyway, I think Eduardo wants to say something --

MR. Porter: Oh, yes, I just wanted to --

(Simultaneous discussion)

MR. Porter: Shall we -- is that okay?

MR. Dervis: Yeah, briefly. Yeah.

MR. Porter: The idea of how inequality interacts with democracy is actually an interesting point that you actually address at some length in the book. And you know, inequality affects the character of the democratic regime. So, you propose that it will drive it into an either a classic equilibrium, where you know, the plutocracy that controls the wealth and power essentially uses this wealth and power to you know, continue with this kind of like an equal distribution of income.

So, that essentially traps the country in a certain level of inequality or actually makes an increase. Or, in a populist equilibrium, which might be characterized by what we see in some countries in Europe these days, where again, there is really no improvement in inequality. I mean, the democratic institutions do not actually lead to more redistribution and the diminishing of inequality, but actually, are captured by different forces that impact and entrench the inequality that's there. So, democracies are clearly not like spectacular tools in every instance.

MR. Dervis: So, I just want to try to take people -- Vito, I mean, is it very, very brief? Because there is a gentleman there who hasn't -- okay. Please, yeah, in the back.

SPEAKER: Hi. My name is Mohammed. Thank you very much for the interesting presentation. And so, the first one in your book, you are talking about reducing inequality, but naturally achieving equality. Right? So, that's the first one, because like in our perspective, we want to reduce inequality, but we don't want equality, at the end of the day. So, that's the first one.

The second one: Who should be handling or tackling the issue of inequality? Is it markets or governments? Don't you think that a governmental intervention to reduce inequality will
result in increasing poverty? Thank you.

MR. MILANOVIC: Can I do very briefly on that? On the first one, you know, it's very important. We are not (Inaudible) able to (Inaudible) things. It's not like you know, you have inequality or everybody has the same income. We are talking, inequality is like a continuous variable, so you can be high inequality, medium inequality, less medium inequality and so on. This is a perennial debate. I believe both have a role, so, I would like to leave it at that.

MR. DERVIS: Vito, very quickly.

(Audio drop out)

SPEAKER: I will try to be quick on a complex issue (Laughter) which has been mentioned -- it's the question of migration. You know? I mean, the most fundamental role of a state is to protect frontiers. As long as people come through the official channels, you can protect frontiers. But when the thousands and thousands come through the sea, then you have a question of civil rights against national rights. It becomes very, very difficult to stop these people.

Now, we have the situation where we have billions of people who potentially could move in this way in very small areas. Well, that's the greatest, really, challenge to the world that we know. I don't know what is going to happen, but I'll be curious to have some reaction to that.

MR. DERVIS: Anybody else who wants to come in at this point?

(Audio drop out)


MR. PORTER: Yeah, when I was talking about the technical industry's impact on jobs, I wasn't talking just about manufacturing jobs, but the bulk of income most people get comes from working. But the technology has shifted that to creating a small number of high income jobs and the financial sector has, and they're leaving more low income jobs in the service and other sectors. So, that shift in the kind of jobs is having an impact on income equality.

MR. MILANOVIC: Right. Can I take it very, very briefly? On Vito's, actually, I thought like -- I think there's a challenge of the next hundred years. If you look at the numbers, Africa is going to have four times as many people as basically EU in 50 years, or actually, at the end of the century. Sorry. So, that really is a huge challenge.
I mean, these people are going to come and to multiply their incomes by 10 times, and you know, Europe is not ready to accept it. So, I totally agree. On this other point --

MR. Dervis: Europe or anywhere else.

MR. Milanovic: Or anywhere else. Yes, exactly. That's why I think it's very important to think of migration not as something that really fell from the sky, but within the context of global inequality and inequalities between the countries.

Then, on the services versus the manufacturing, actually, I show -- I have sort of nice results for the U.S. where actually, obviously, inequality within services has increased much more in wages, because they are very heterogeneous, than in manufacturing. And moreover, there is, I think, one very important implication. Services are such that actually you have small units, and they are dispersed.

You cannot have labor forces organize in trade unions, and that's one of the reasons why trade union density is declining, because you don't have like any more big plans with 5,000 workers in one place. You have hundreds of units, one which is in the U.S. and the others in India, a third one is in Africa. So, I think there are many implications there, and moreover, of course, if you don't have trade unions, then you have an issue of the rent, so the workers are losing out, and inequality goes up on that account, as well.

MR. Dervis: We'll take one last round. And just one thing. Branko and I are going to a conference -- when you said the primary role of a state or a nation is to protect its borders. But the title of the conference we're going to in the summer is, "Why Do We Have the Nation State?" (Laughter) So in a sense, you know, I mean, the point is --

MR. Milanovic: You should come with me (Laughter).

MR. Dervis: -- why are there these borders? I mean, are they particularly legitimate, particularly God given, nature given, whatever? So I mean, I'm just saying from a philosophical point of view, of course we need the nation state.

But I think the question you raise, I agree, is one of the biggest questions of the century, because in this globalized world, what is it that allows -- and don't think of Italy -- think of a small gulf sheikhdom that by not accident of history, but imperial design of you know, Britain, let's say, is sitting on
trillions and trillions of wealth. Okay? And somehow, because it is a nation state, it has the right to tell the Yemeni or the Pakistani immigrant that she or he doesn’t have the same opportunity -- ranked opportunity.

So, I think it’s even more complicated than you said, Vito. But anyway, the last round. We start with -- just the last few comments, if you have any.

MR. PORTER: Oh yes, yes, yes. Indeed (Laughter). You know, to me, one of the questions that I have grappled with unsuccessfully, of course, is how does this -- in the American context, how does this end? And what is the political moment that brings it to an end? And the way I described it was, well, when does the American Jacobin moment happen?

Is there a moment that these inequalities which have rebounded so sharply from the great recession, and seem to be now going even higher than they were in 2007 -- is there a moment when this makes the political system explode? And reading Branko’s book, and when he was describing this plutocratic system can evolve from these kind of inequities, it kind of perhaps clarified my thinking and made me wonder whether you get to a point where the plutocracy, in order to defend the system from the pent up dissatisfaction, anger and whatnot finally concedes that inequality has gotten too high.

Now, this is pie in the sky sort of like Snow White type thinking, but when I look at the fact that Donald Trump is there, and the challenge that he has imposed to the Republican orthodoxy, which is basically a lower and lower tax sort of economy policy, and Trump comes with a mixture -- with a grab bag of ideas that includes things like maintaining Social Security spending up and it includes perhaps -- I mean, depending on what day he’s speaking, it might include increasing the minimum wage.

You can see -- and it’s also wrapped in extremely, you know, racist and xenophobic and so on arguments, as well. You can see that the Republican orthodoxy could feel threatened enough, perhaps, to change or to you know, open some space for increased redistribution, for I don’t know, somewhat bigger EITC, for you know, the kind of policies that might, at some point, mitigate at least at the margin, the increasing growth of concentration of income.

I mean, it’s me grasping at straws, frankly, so I realize that you could really easily slap this argument down as crazy, but you know, I do wonder whether that is a dynamic worth considering.

MR. DERVIS: Carol?
MS. GRAHAM: Well, lots of different thoughts. But going back to the nation state and immigration point. I think one thing that -- I mean, we sort of respect with nation states, but their nature may be changing. But on the immigration point, we have this model where we assume that everybody that migrates wants to come and be American. And so, they either come and they get full rights, and then if they don't, they can't leave. They're stuck here. Maybe they want to leave. Maybe they want to come and work and go home to wherever they're from.

But it's sort of either you migrate illegally and you are stuck in a nation state you may not want to be in, you may not even want to be a citizen of, you may just want to work, versus other people want to come and be citizens. And even when you think about the great migration crisis now in Europe, I mean, I'm sure plenty of Syrians would love to go back to Syria if there were ever peace there. You know? It's not clear that they want to be Danish.

And so, it strikes me that this sort of -- the kind of very rigid nation state management -- I mean, nation states have a right to manage who comes in and out of their countries, but that this kind of - - it's still very locked in sort of black and white terms, and I think it is a time we should be thinking about it differently, both because of inequality and because it's such a huge crisis -- a terrible crisis.

MR. Dervis: And Branko touches -- I mean, we may agree or not with his policy prescription, but he definitely touches on this in the book. Branko, last word.

MR. MILANOVIĆ: Well, last word, because we are on that, you know, and we knew that migration would become a big topic, so Kemal and I agreed that we will just bring it at the very end, because it's a book not about migration. Migration is only within that you know, sort of scheme of things of the global inequality.

But you know, what I actually just asked somebody who disagrees with me, is to acknowledge that there is a trade-off between giving all the rights of citizenship which entail not only voting rights, but obviously, working rights, rights to Social Security and everything else that this is in the past, with -- there is a trade-off between doing that willingness to accept migrants.

Once you agree that there is a downward sloping line, there is a trade-off, that if we give - - the native population gives less rights, they will be more open to having more migrants, then everything else follows. We can agree at which point we should draw the line, but I actually think that we need to re-
examine the idea of citizenship as a binary category which is either zero, that you’re not a citizen, we
don’t care about you, or, you are one, you’re a citizen and you have all the rights.

Once we actually accept to re-examine that, then I think we will actually maybe agree,
different countries will put the equilibrium point at different -- you know, equilibrium at different points. But
we would actually really move towards using migration as a tool for reduction of global poverty and global
inequality, and making it compatible with the acceptance of the local populations, because if native
populations don’t want migrants, then this big tool of the reduction is just going not to be with.

MR. DERVIS: Thank you very much, and I think this gives me an idea to try to organize
an event like this with the title “Multiple Identities, Different Levels of Nationalities” (Laughter). How about
that?

MR. MILANOVIĆ: Yeah, that’s a good one.

MR. DERVIS: Anyway, thanks a lot for coming. Thanks, Branko, for doing this here and
for --

MR. MILANOVIĆ: Thank you very much.

MR. DERVIS: -- and thanks to the panelists. Thanks a lot. (Applause)

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