All animals are equal. But some animals are more equal than others.

—George Orwell, *Animal Farm*

**Inequality is one of** the major political issues of our time; it is part and parcel of our lives. According to how we define it, inequality can also teach us how we think about the foundational values of our societies. Both the notion of inequality and the daily experience of it compel us to consider what is fair and unfair, and to continuously—though perhaps unconsciously—connect the political to the ethical.

Inequality embraces many different dimensions, as testified by current debates on social, political, economic, gender, educational, race, and health inequality. Moreover, and more significant, the importance of these dimensions
has changed greatly, both historically and geographically; in many cases the very categories we use now would have sounded meaningless to people living in earlier times. Even today, many inequalities are still far from being universally recognized. An example is the apparently simple and self-evident issue of gender equality. Gender equality often is not accepted and, even when lip service is paid to the concept, not practiced. Though in different degrees, this applies not only to dictatorial countries where men enjoy a legal superiority over women but also in countries that consider themselves egalitarian (at least with respect to gender), such as Western democracies. Thus people may differ hugely in their opinions on inequality, not only in terms of what degree of inequality is considered acceptable or unacceptable but also, and more fundamentally, in terms of which inequalities are important since different people have different values at the core of their own moral universe. Because humans are social animals and inequality is, by definition, a relational dimension, discussions about equality and inequality are also discussions about a society’s structure. For these reasons, constructing a short history of inequality is an impossible task—at least if one wants to do justice to such a complex and varied phenomenon.

One component of the broader inequality issue, however, both undergirds and takes its place alongside other inequalities: economic inequality. Few would deny that economic inequality poses dramatic challenges to modern societies, both economically advanced and less developed ones. There is widespread agreement that inequality is a serious threat to the economic and political foundations of modern societies. According to former U.S. Secretary
Introduction

of Labor Robert Reich, the United States is reaching, possibly has reached, the point at which inequality is so widespread as to imperil economic growth and democracy. The Nobel laureate Joseph Stiglitz has remarked, “We pay a high price for this inequality, in terms of our democracy and nature of our society. . . . Our democracy is undermined, as economic inequality inevitably translates into political inequality.” This point is effectively summed up in an (apocryphal) observation by Supreme Court Justice Louis Brandeis (1856–1941): “We can have a democratic society or we can have the concentration of great wealth in the hands of a few. We cannot have both.”

It bears emphasizing that these concerns are not exclusive to those on the left of the political spectrum (both Reich and Stiglitz were influential officers in the Clinton administration, and Brandeis was an antimonopolist progressive). Even strong believers in the virtues of a market economy, such as former Chairman of the Federal Reserve Alan Greenspan, a staunch market fundamentalist, admit as much. In a September 2007 interview he argued that “if you have the increasing sense that the rewards of capitalism are being distributed unjustly, the system will not stand.”

It is also widely agreed that inequality is not solely the domestic problem of affluent societies gone off-track. The world as a whole faces an inequality problem. The increasing international economic integration known as globalization—especially in its more recent phase, characterized by financial deregulation and the weakening of state sovereignty—has had an important effect on inequality dynamics, both domestically and globally. Three economists of the International Monetary Fund—a
traditionally neoliberal, pro–globalization-as-we-know-it organization—recently wrote that the liberalization of international capital flows and the implementation of domestic austerity policies have not delivered as expected. In particular, economic inequality has increased—or remained stagnant at best—in most countries. As they argue, “Even if growth is the sole or main purpose of the neoliberal agenda, advocates of that agenda still need to pay attention to the distributional effects.”

Obviously, the overall picture is much more complex than these few comments suggest. For example, there is evidence that in the first decade of the twenty-first century inequality decreased in many populous Latin American countries, such as Argentina, Brazil, and Mexico. Moreover, the growth of China and India and their catching up with the rich economies has greatly mitigated, at the global level, the sharply rising inequality observed in many countries between 1980 and 2000. And yet, despite their recent positive record, Latin American countries remain among the most unequal in the world. Likewise, global inequality, although apparently lower than in the early 2000s, is still much higher than in any single country, and also much higher than it was at the beginning of the twentieth century, or in the 1970s.

In sum, despite a number of important caveats and qualifications with regard to specific countries and inequality indicators, the problem of widespread economic inequality is a major characteristic of the current global predicament and is central to current political and economic discourse both nationally and internationally. Thus, while remaining fully aware that we are discussing only one aspect—though an extremely relevant one—of a much
broader picture, we will focus in these pages on that specific issue only.

Whereas economic inequality per se cannot be said to be a new issue, its catalytic power in terms of political discourse is indeed novel. How has a subject that, until recently, captured the attention of only a small group of economists become one of the most debated issues of the day? Our answer lies in a very simple—and certainly somber—observation. While we have been used to consider inequality as a basic characteristic of many less developed countries (except perhaps the very poor countries, whose low inequality is mainly attributable to everybody being poor), only in recent years have pundits, the economics profession at large, and public opinion awakened to the fact that inequality has become a fundamental and structural problem in countries that have long considered themselves immune from it—mainly the advanced countries. Inequality, in other words, has penetrated the developed world, whereas earlier it appeared to be mainly a problem of distant regions.

We could not explain otherwise the “Piketty phenomenon”—how Thomas Piketty’s *Capital in the Twenty-First Century* turned into a publishing sensation when it was translated into English in 2014—or the smaller but still remarkable success of other books, such as Richard Wilkinson and Kate Pickett’s *The Spirit Level* (2009) and, more recently, Robert J. Gordon’s *The Rise and Fall of American Growth* (2016), which, as its subtitle reveals, discusses the U.S. standard of living since the Civil War and its disappointing record since the 1970s. The financial crash of 2008 and its aftermath have also fueled a mounting debate in core capitalistic countries by
dramatizing the question of the sustainability of radical inequality. As James K. Galbraith wrote in the opening sentence of his *Inequality and Instability*, “In the late 1990s, standard measures of income inequality in the United States . . . rose to levels not seen since 1929,” the year of the Wall Street crash and the beginning of the Great Depression.9

In addition, the combination of surging inequality with what has been dubbed the third wave of globalization, or “hyperglobalization” (mid-1970s to the present), has provided a novel spin to inequality dynamics. In particular, the combination of inequality and globalization has affected social groups in different countries in diverse, and often mutually opposing, ways. For instance, the phenomenon of globalization has had a very different impact on the middle class of developed and less developed countries, helping some groups to better their position in the global income distribution while forcing other groups into stagnation.

Two categories are thus involved when we discuss inequality: an international and a domestic category. They have dynamics of their own, but are also interdependent. Inequality trends between countries combine with trends within countries to produce a broad spectrum of interrelated phenomena. Some of these are particularly visible at the national level, such as the crisis of middle-class incomes in advanced economies, the widening gap between the top 1 percent and the rest, and the disruption of check and balances between economic and political power. Some of them, on the contrary, are intrinsically transnational, such as growing international migrations from poor to rich countries. These categories—the domestic and the
international—are evidently related, and global causes surely have domestic effects in multiple countries more or less at the same time. Thus the *within*-country and *between*-country inequality concepts we will be calling on in this book are intended only as analytical tools to understand an underlying more unified system.

To continue with our examples, the crisis of the middle class in advanced economies has its counterpoint in the rise of a “middle class” in a number of emerging countries (the quote marks are necessary here, as this emerging middle class is still very poor when compared with the income levels of the middle class in older industrialized countries). International migrations affect the supply of labor and the ratio between skilled and unskilled labor both in countries of origin and in countries of destination. Globalization challenges state sovereignty and the efficacy of mechanisms of political representation. The related emergence of national populisms goes hand in hand with increasingly globalized oligarchic networks. The political dimension of inequality, and the political neglect of this question (until very recently), have historically undergirded these dynamics.

The observation of these interrelated processes is at the base of what in 2011 the Harvard political economist Dani Rodrik dubbed the “globalization paradox.” Rodrik highlighted the political trilemma rooted in the unavoidable tension among (1) national sovereignty, (2) well-functioning democratic institutions, and (3) full-fledged economic globalization. In his analysis, largely shared by scholars and commentators, it is possible to have two elements together, but not three at the same time; one must be sacrificed.\(^1\)

One barely need notice how major political events of the last few years exemplify different political responses
to this unsustainable tension. The continuing euro crisis is testament to the conflict of sovereignty and democratic representation between national-level and European Union–level government in the face of increasing economic integration that, however, does not take the form of a proper transfer union. Unable to solve Rodrik’s trilemma, the EU suffers from a deep democratic deficit. National sovereignty is weakened, and countries’ ability to foster occupational, social, and equalizing policies is severely limited, thereby unleashing inequality forces. The 2015 Greek crisis was the quintessential demonstration of this malaise, with the so-called troika institutions (the European Commission, the European Central Bank, and the International Monetary Fund) dictating political and economic policies to the Greek government, de facto depriving the country’s government of its sovereignty and the Greek people of their political agency.\textsuperscript{11}

The withdrawal of Great Britain from the EU is a different response to the same conundrum, sacrificing in this case open borders to national sovereignty (although the Irish, Scottish, and Welsh people and their representative institutions, solidly against Brexit, have much to object to about the functioning of democratic representation within the borders of the United Kingdom). The first acts of the Trump administration—especially the withdrawal of the United States from the Trans-Pacific Partnership (a free-trade partnership), the support given to infrastructural national works (mainly to the benefit of the oil industry), the informal but very clear message that major productive activities such as the automobile industry must not delocalize, and the order to construct an anti-immigrant wall at the border with Mexico—are also a reaction, at
least rhetorical, to the economic crisis of U.S. middle-class and blue-collar workers, who feel overwhelmed and left behind by disruptive global forces such as international migrations and industrial delocalization. Whether an administration headed by an opaque construction magnate and populated with seasoned Wall Street people will actually be able to provide political representation for the blue-collar workers who voted for it is another question.

Very simply, globalizing processes feed inequality internationally and affect it domestically, and growing domestic inequality in turn affects global processes.

From the broad spectrum of problems related to inequality, global imbalances and the challenge to democracy are the two aspects we will discuss here, as examples of between-country and within-country inequality. Strongly interrelated as they are, they frame our age. We will take up these two aspects after first placing inequality in the context of the history of the economic discipline, looking for the reasons that impeded its full embedding in the discipline’s epistemological statute.

Chapter 1 of this book presents a synthesis of opposing positions on the inequality debate, and some elements useful in navigating the question of why inequality matters (if it matters at all). Despite the current centrality of the inequality debate in public discourse, some scholars and pundits consider the focus on inequality misleading and unimportant. By now it will be evident that we believe inequality to be a crucial issue of the contemporary world, but it is important to map out opposing views as well. To be clear, nobody in this debate is in favor of inequality.
per se, although some consider a certain degree of inequality beneficial, for it fosters saving, capital accumulation, and ultimately growth. The debate instead revolves around a different question, that is, whether we should focus on inequality or on other issues, such as poverty, or the ability to conduct a dignified life, or economic growth.

The historical analysis starts properly with chapter 2 and continues in chapter 3. In these chapters we discuss how the economic thought on inequality has developed in the last three centuries or so. In particular, we discuss a question that we deem important both for the history of economic inequality studies and for our understanding of current debates, namely, why inequality has for a very long time remained on the margins of economic discourse. The economy is often the principal focus of political discussion today, and economists have become the quintessential experts on how to fix social problems, yet until very recently economic inequality was consistently and stubbornly ignored. Turning inequality into a subject of statistical analysis, we argue, has been an elegant way to veil its true nature and marginalize it.

Chapters 4 and 5 address two contemporary issues, the relationship between globalization and inequality and that between inequality and democracy. Both issues powerfully shape the world in which we live and are particularly important for current political debates. As a consequence, we give them special weight in our analysis, considering each of them as valuable examples of, respectively, the between- and within-country dimensions of inequality.

Finally, chapter 6 addresses policy debates, offering a bridge to the (near) future. In other words, what discussions
Introduction

are shaping the current debate in a lasting fashion? What are the questions that seem to be relevant for the future of inequality? We are well aware that we walk here on particularly thin ice. And yet it is important, if only as an analytical exercise, to try to imagine how the current debate may evolve.

Unfortunately, economic inequality is a technical and complicated subject when discussed by insiders, and, like other branches of economics, it is highly mathematized. We have avoided these technicalities as much as possible, turning the inescapable ones into plain words. The appendix at the end of the book offers a brief discussion of the main concepts, databases, and calculations, to show the tools that underwrite our discussions and the meticulous work that economists do to refine concepts and information and offer increasingly reliable and plausible data to the community of scholars, government officials, and the public.

This seems a tall order for a short book, and indeed it is. But short books have at least one positive characteristic (besides being short): they force authors to stick to the essential matter and prompt them to be highly selective. Obviously, we have relied heavily on the cutting-edge research that many leading scholars are producing on subjects we can discuss only cursorily here. This book is certainly not alternative to the fundamental studies by Anthony B. Atkinson, François Bourguignon, Angus Deaton, James K. Galbraith, Branko Milanovic, Thomas Piketty, and Joseph E. Stiglitz, to name only a few of the most renowned scholars of development and inequality.

Still, this book has a precise distinctiveness. Besides introducing the lay reader to the main concepts and debates
of inequality studies, it discusses how inequality has long been marginalized in the economics field and how inequality is shaping two fundamental issues of our epoch: globalization and democracy. Whether we succeed in giving globalization a human face and keeping democracy a credible and truly representative political system will depend in greatest part on how we resolve the problem of inequality.