

# Addressing inequality

**Getting More Philadelphians Back to Work:**  
Business Density and the Role of Black and Minority Owned Businesses

**(1) Global trends: Milanovic**

**(2) What can be done at the level of the nation-state**

**(3) What can be done at the local level city and/or region**

CENTER CITY DISTRICT

# Branko Milanovic

**BRANKO MILANOVIC**  
**GLOBAL INEQUALITY**  
A NEW APPROACH FOR THE AGE OF GLOBALIZATION

**Early chapters (not assigned) make the following argument:**

**In agrarian, rural economies, with very slow growth, level of income inequality is not great**

CENTER CITY DISTRICT

# Colonial America at time of Declaration of Independence

a world of primarily agrarian & urban artisan equality for white, male residents; southern economy built on slavery

CENTER CITY DISTRICT


# Emergence of inequality

**When European & American economies first industrialized in 19<sup>th</sup> century**


**industrialization meant the concentration of capital (wealth) in industrialists hands**

CENTER CITY DISTRICT


**Income extremes**




with movement of workers from farms to cities – huge income disparities emerged between capitalist owners & working class laborers

 CENTER CITY DISTRICT

**But rather than result in class warfare, as Marx predicted following Paris 1848**



 CENTER CITY DISTRICT

**After decades of labor organizing & strife**



 CENTER CITY DISTRICT

**Unions formally recognized as representatives of workers  
Their bargaining power raised wages**

**Progressive era in US (1900-1914)**  
– regulating of monopolies & business

**Social welfare benefits were put in place at the national level**

- unemployment compensation
- retirement/pension systems: social security,

**Europe in 1880s and 1890s**  
**US in 1930s following the Depression**

 CENTER CITY DISTRICT

## Branko Milanovic



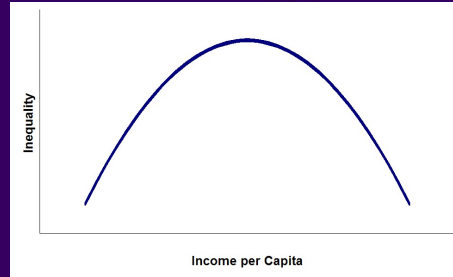
Simon Kuznets Russian born American economist; joined Wharton's faculty in 1931,

*National Income and Its Composition, 1919–1938*, published in 1941 developed first measures of the Gross National Product

CENTER CITY DISTRICT

won Noble prize for economics in 1971

**Kuznet's curve:** hypothesis that as an economy develops market forces first increase inequality, but then decrease economic inequality



CENTER CITY DISTRICT

In early stages of development, investment opportunities for those who have money within cities multiply, while an influx of cheap rural labor to cities holds down wages.

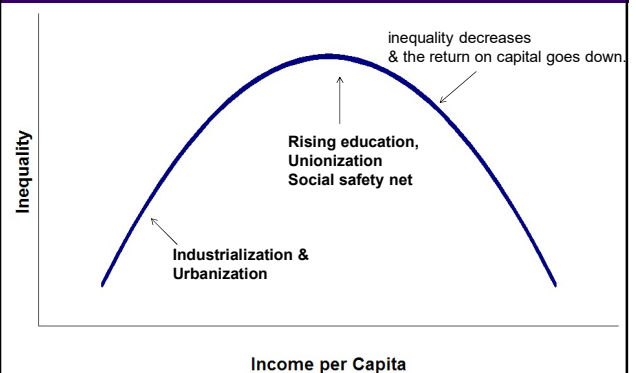
Return on capital creates huge disparities in wealth

But then gradually as education & skill level rise among workers, unions form & strengthen bargaining power

social safety net-  
social security, unemployment compensation  
aid to families with dependent children (welfare)  
were put in place.

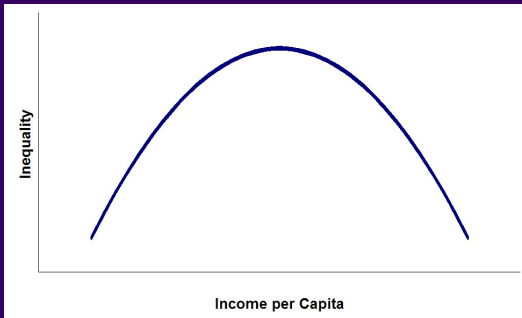
CENTER CITY DISTRICT

## Kuznets curve



CENTER CITY DISTRICT

Long-term: capitalism tends toward equality & stability  
 Partially describes the US in 1945-1980  
 Labor peace & strong growth  
 Very reassuring message in middle of Cold War



CENTER CITY DISTRICT

Similarly the industrial revolution in Europe & North America, created global disparities between Atlantic economy & rest of the world (age of European colonialism)

Post WW 2 independence movements challenge European control  
 & as 3<sup>rd</sup> world economies: China, India, Brazil  
 Go through a similar process of urbanization, they go through a similar process of inequality & then greater equality  
 So global inequality will also decline

Huge reduction of poverty & formation of a giant new middle class in China's cities

CENTER CITY DISTRICT

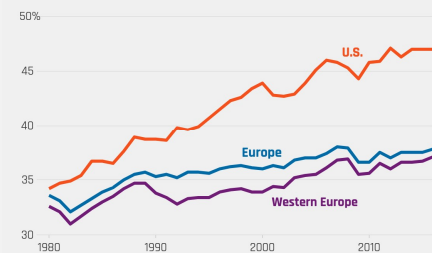
This theory seemed to hold until 1980s  
 when we experienced rapid growth in inequality  
 in Atlantic economies – Europe & North America –

this wasn't supposed to happen

CENTER CITY DISTRICT

# Share of national income earned by top 10% of earners 1980-2016

**Inequality has increased more rapidly in the U.S. than Europe**  
 Share of national income earned by the top 10% of earners, 1980-2016

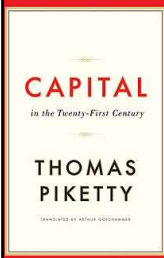


Source: WID.world [2017]

Equitable Growth

CENTER CITY DISTRICT

## Thomas Piketty, *Capital in 21<sup>st</sup> century*



French Marxist economist  
Published in France in 2013; English, 2014

Decrease in 20<sup>th</sup> century disparities in wealth is a special case:

- driven by two world wars which destroyed capital & wealth
- high-rates of taxation to finance the wars
- rise of democratic socialist & new deal policies

But in 1980s, the “normal” tendency of capital to yield higher returns resumed

CENTER CITY DISTRICT

## Review of tax policy

Progressive income tax introduced in US in 1918

70% top tax rate highest income brackets between 1919-1922

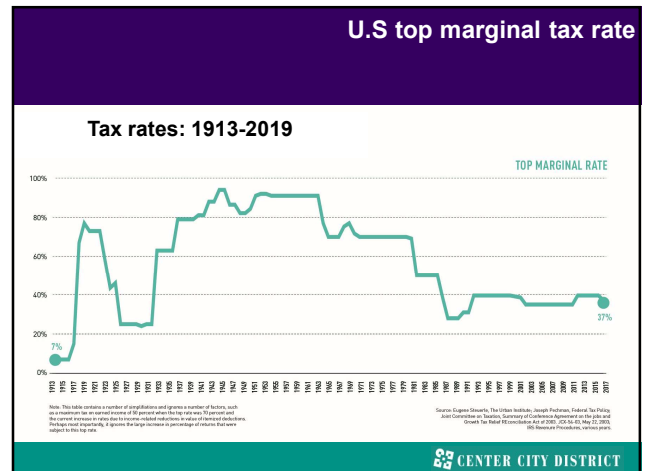
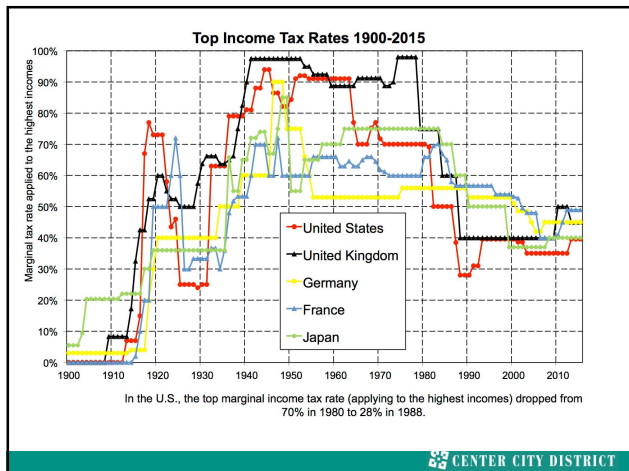
Cut in the 1920s to 25%

FDR -1933 63%; 79% in 1937

88% in 1942 - World War 2

90% thru 1950s, period of greatest prosperity in US; tax policy is what achieves relative equality

CENTER CITY DISTRICT



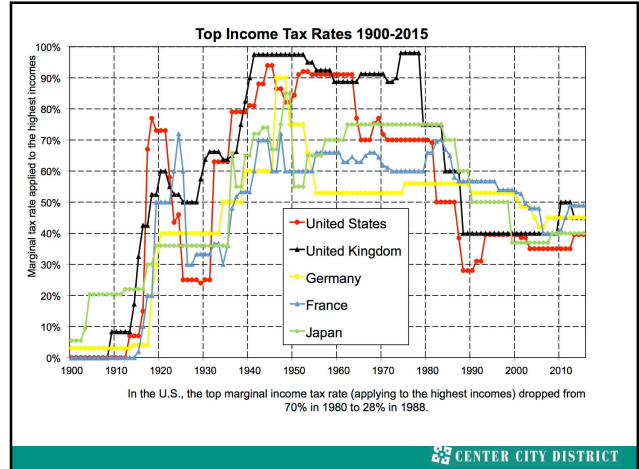
## Piketty

Beginning in 1980s, the “normal” tendency of capital to yield higher returns has resumed, unions have been weakened, tax rates have gone down & the influence of money in politics has gone up.

Marginal tax rates fell to 30%-40% 1980-2010  
Climate in which executive compensation skyrockets

It's not structure of economy, but national tax policy that accounts for inequality

CENTER CITY DISTRICT



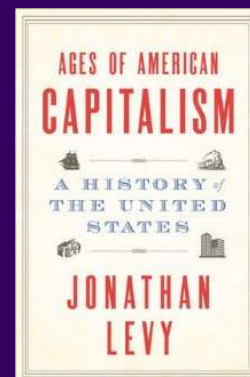
Piketty does calculation of total taxes for education, health and pensions as a percent of national income

### Total taxes as a percent of national income Dedicated to social welfare functions

US	30%
Britain	40%
Germany	45%
France	50%
Sweden	55%

Argues for a political solution: redistribution

Proposed a European scale estate tax  
higher marginal tax rates on high income earners  
Would need to get all EU countries to agree






Bernie Sanders: similar focus on tax policy

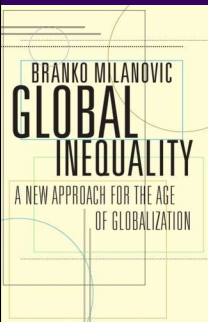
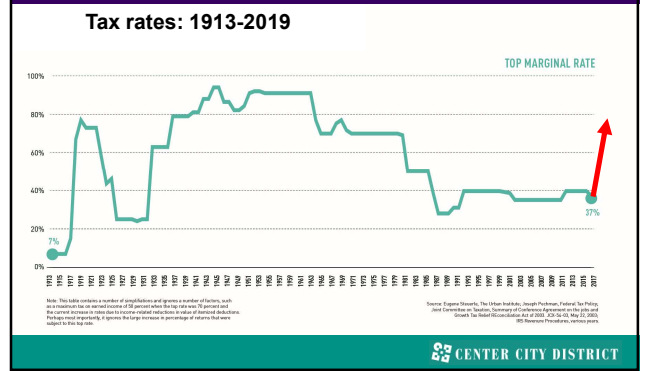
As a democratic socialist was not calling for public ownership of means of production

Keeping capitalism in place, but raise tax rates on the wealthy at the national level

To fund universal health care; free college; Affordable housing

 CENTER CITY DISTRICT

To fund universal health care; free college;  
Affordable housing




**BRANKO MILANOVIC**  
**GLOBAL INEQUALITY**  
 A NEW APPROACH FOR THE AGE  
 OF GLOBALIZATION

**Milanovic offers different explanation for inequality**

1980s ushered in new (2nd) technological revolution: information technology & rise of a diversified service sector.

This occurred simultaneously with the emergence of major Asian economies.

Increase in inequality happened because once again new technologies in innovation industries strongly rewarded a new generation of entrepreneurs & highly skilled labor, and this drove up the share of & return on capital

 **CENTER CITY DISTRICT**

**Increase in inequality happened because once again new technologies in innovation industries strongly rewarded a new generation of entrepreneurs & highly skilled labor, and this drove up the share of & return on capital**

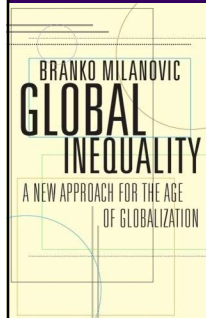


7

**Moretti; the *great divergence***  
Some place are pulling ahead, many falling behind



**Milanovic**



The combination of IT concentrating wealth & the process of globalization opened affluent, Atlantic economies to competition from rapidly industrializing China & India, with much lower labor costs.

Both China & former Soviet block nations entered the global labor market, weakened labor's bargaining position & decreased earning power of working & lower-middle class.

 CENTER CITY DISTRICT

**Milanovic: 3 overlapping explanations**

**Political:** Reduction in marginal tax rates increases inequality

**Globalization:** Heightened mobility of capital also makes it much harder to tax at national level & puts downward pressure on the wages for the working class & this exacerbated inequality

**Social:** Women entering workforce in increasing numbers & tendency of high-skilled, high-wage individuals to marry each other, or same-sex marriages, only reinforces income concentrations.

 CENTER CITY DISTRICT

**Branko Milanovic**

At same time: growth of Asian middle class;

Flattening out of earnings of working & lower middle class in Europe & America

Compounded by immigration from Africa & the Middle East into EU & from Mexico into the US-

Low-skilled labor usually taking jobs that existing residents don't want but prompting anti-immigrant sentiment.

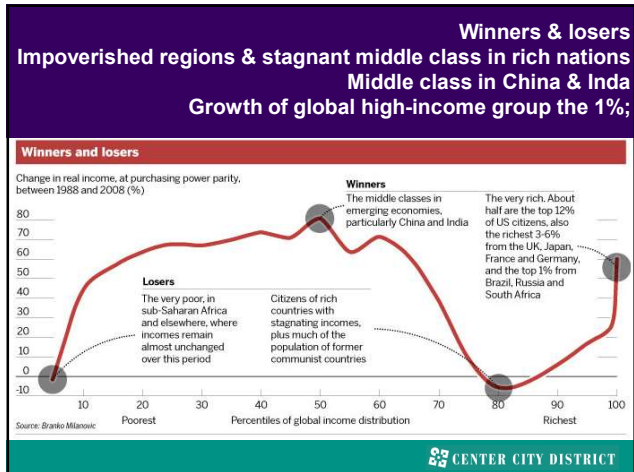
Global income disparities decreased during 2008-2011 Recession due to high growth rate that was sustained in China while there was a slowdown in Atlantic economies: Europe & North America

Reaction:

Nationalist opposition to free-trade; domestic opposition to immigration

 CENTER CITY DISTRICT





- ### Branko Milanovic: Possible solutions
- (1) increase marginal tax rates (mobility of capital makes this hard)
  - (2) education/skill level rise for working & lower middle classes
  - (3) lower returns on capital – in technology & other service sectors – through higher business taxation – capital gains
  - (4) rising wages in China & India – cause companies to bring jobs back to US (but downward pressure from Indonesia, Vietnam or Ethiopia); (or tariffs, national *Buy America* provisions)
  - (5) new technologies improve productivity of lower skilled workers without making them redundant
- CENTER CITY DISTRICT