

We Can't Go Back to a Golden Age of Capitalism

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Interview by

Pablo Pryluka

The Serbian-American economist Branko Milanovic is one of the world's foremost scholars of global inequality and the author of numerous important studies on income distribution. A former chief economist at the World Bank, Milanovic has since dedicated himself to the study of inequality from a global perspective, measuring both inequality within countries and among them.

Milanovic's work has been an instrumental guide to understanding some of the main features of contemporary capitalism. These include a rise in inequality in the West over the last forty years, while at the same time, global inequality has been in decline — thanks in no small part to the rise of the middle classes in China and India; and the different shapes that capitalism has gone through since its origins, delving into its more recent transformations in his latest book. He has also written extensively on the emergence of a new ruling class in the West, one that combines incomes coming both from capital and wages.

Although Milanovic sometimes seems to hint that this picture of contemporary capitalism is anathema to Marx's nineteenth-century understanding of class divisions, his latest book *Capitalism, Alone* shows him to be perfectly conversant in Marxist analysis and, as its title suggests, attempts to wrestle with the specificity of capitalism as a historical system.

Milanovic took a moment to speak with Pablo Pryluka for *Jacobin* about his recent book and recent world events.

PP. (Pablo Pryluka)

In your most recent book, *Capitalism, Alone*, you've taken a slightly different tack than in your earlier work. Rather than focusing on inequality, you seem to be more interested in examining the foundations of capitalism itself. It's curious too that Thomas Piketty also took a similar approach in his most recent book, *Capital and Ideology*. What led you to shift focus from inequality to an all-encompassing explanation of capitalism?

BM. (Branko Milanovic)

I was actually always interested in empirical studies of capitalism, since I was in university. Some of the things that I'm working on now are essentially things that I really wish I had done forty years ago: for example, the relations between different types of income — capital versus labor — and how they interact empirically within society, this is something that I really was always interested in. But in those days, you didn't have data like that available.

You mentioned Thomas Piketty. He made one great contribution, which was bringing back the study of capital and the importance of capital income in income distribution, which had been practically expunged from income inequality studies for a very long time. The basic idea for my recent book, not so different from his, is really to attempt to combine what is sometimes called factorial income distribution with interpersonal income inequality.

In working on my book, one thing I started to really notice is that you have more and more households that are what I call “homoploutic.” By that I simply mean that people with high capital and labor income generally end up at the top of the income distribution. When you combine these kinds of advantages (i.e., ownership of capital and labor) with what is called assortative mating — basically, when you marry someone of the same income, educational level, or social status — this leads to the intergenerational transmission of inequality. Basically what I am describing is a dynamic driving the formation of a self-sustaining elite, something I address in the second chapter of *Capitalism, Alone*.

The difficulty with dealing with some aspects of inequality is that they are not in and of themselves controllable or even necessarily bad. For example, if someone marries a person of a similar status, there is nothing wrong with that. But the fact is that when they do that, they are more likely to be rich and to transmit all these advantages to their children, creating a kind of a new aristocracy. And this is a big issue.

~~PP.(Pablo Pryluka)~~

Speaking of income inequality, perhaps it would be useful to step back and compare our present age with that of the welfare state. What were the main characteristics of the so-called golden age of postwar capitalism? Why do you think the welfare state was able to reduce inequality while guaranteeing economic growth? How much of that has been undone under neoliberalism?

~~BM.(Branko Milanovic)~~

The main characteristic that people tend to emphasize was the ability of West European countries and the United States to, as you say, both maintain high rates of growth and reduce income inequality. Now, if you pose the question in these terms, there is no doubt that both of these statements are true. Western European countries, from 1945 until probably the end of what the French called *Les Trente Glorieuses*, had rates of growth at about 4 to 5 percent. That was something absolutely new — we’d never seen rates of growth that size in the past. Secondly, inequality did actually decline also very significantly. So both of these statements I think are true.

But I would urge some caution here in talking about the golden years of the welfare state. I’ve lived through that period, and we should not over embellish it. It had many difficult parts. During that period France was twice on the edge of civil war, with the Algerian crisis and resistance — not to mention the far-right Organisation Armée Secrète was actually performing terrorist attacks in France at that time, including several attempted assassinations of [Charles] De Gaulle. And there were lots of similar stories like that all across the world. If it was such a great period, why did we have a military junta in Greece,

or Franco in Spain, Salazar in Portugal, and so on. How did we have Baader–Meinhof, or the Red Brigade in Italy? There was a lot going on, so we should be careful not to believe that we lived in some kind of utopia or Arcadia during that time.

But, to return to your question, how was high growth and reduced inequality achieved? I think the basic story is that, where high growth is concerned, you had a process of catching up because of the effects of World War Two. In many countries — take Germany, for example — significant capital was destroyed during the war, but skills were maintained, and so was the ability to organize production. That meant that you actually had a huge amount of human capital and labor that had to be put to work. And under the proper conditions, it effectively was, to the effect of producing growth.

"When it comes to the reduction of inequality, I think what played a role was the realization by the capitalist class — or what people call the bourgeois bloc of parties — that they really had to be very careful, lest they be overthrown."

When it comes to the reduction of inequality, I think what played a role was the realization by the capitalist class — or what people call the bourgeois bloc of parties — that they really had to be very careful, lest they be overthrown. People should remember that, for example, in 1947 the French communists were in government. They were quite a powerful party, as they were in Belgium. In Italy in 1973, the communists became the largest party in the country. But they were actually pushing the sort of right-wing or bourgeois parties to be much more conciliatory, because they actually wanted to preserve capitalism against various threats.

And then, likewise, there was a very strong opposition coming from the socialist and communist parties, which were connected with the trade unions. On top of that, there was a Fordist system of production in which you could actually organize workers at the point of production. Essentially, all these factors made the capitalist class more likely to entertain the ideas associated with social democracy or the welfare state. I'm of course emphasizing Germany, France, Italy, but obviously similar processes, though not exactly the same, happened in the Nordic countries.

And then, to answer your other question, there came the neoliberal turn. That was basically driven by growing dissatisfaction with the role of the welfare state and particularly with the slowing of growth after the 1973 oil crisis. I think Margaret Thatcher really captured the mood by essentially saying: "We want to grow faster, we have to get rid of all these things that are impeding us."

So the welfare state, which had been perceived very favorably in the 1960s, started to be seen as a drag on economic growth in the late 1970s. That was a dramatic change, although maybe slightly more dramatic in language than in reality. If you compare the size of the welfare state today and then, it has not really changed that much. It has become less redistributive, that much is certain. But neoliberalism has not been able to overturn the welfare state in the way that they claim to have done.

~~PP. (Pablo Pryluka)~~

Many also claim that the welfare state was driven by political motivations, namely to offset the appeal of socialism. In *Capitalism, Alone*, you argue that socialism has mainly served to foster development in poor, backward, and colonized societies — China tends to be your main example. Is that road to development still open? Or has globalization cancelled that possibility?

BM. (Branko Milanovic)

Regarding the general or global historical role of communism, my argument is that this was an historical process that people had not anticipated — neither those opposed to communism, nor even those who participated in the communist movement. But I actually think that communist parties were uniquely well-situated to affect two revolutions. One was to liberate countries from foreign interference, that is, to decolonize their countries. Even a country like China, which was not formally colonized, had customs duties that were collected by foreigners and, essentially, their economic policy was dictated by foreigners, there was extraterritoriality for foreign citizens, and so on.

The second revolution was to end a number of pseudo, or quasi, or even real feudal practices: the role of landlords, the practice of usury, the miserable situation of women, education for the people, and so on. The communist movement in these countries laid the basis for a social transformation that was similar to what the bourgeoisie had accomplished in the West. Of course, the difference was that in the West they didn't have liberation movements since these were independent states.

In my book I discuss roughly twelve countries — China, Vietnam, Algeria, Ethiopia, and so on — where you can observe this combination of national independence movements and a sort of anti-feudal movement that fought for the elimination of feudal impediments to growth. So I think this is what the communist movements effectively did, and then, unbeknownst to them, they actually set the basis for the development of indigenous capitalism, as happened in China and Vietnam. Of course the topic is much more complicated than that, and in my book I also discuss the role of the Comintern in the 1920s, and the unusual decision they made to form alliances with bourgeois parties in the colonized countries, which was really not part of the Marxist textbook.

As for whether that path remains open, I don't think so. And the reason why is that the two key factors — feudalism plus colonization — are no longer in place. We don't have these conditions anymore — feudal-type relationships might exist somewhere at the edges of the developed world, but that's about it. And on the other hand, we don't really have formal or even informal colonies. There are of course countries that depend on foreign lenders, or international organizations like the IMF and the World Bank, but this is not the same as a colonial relationship.

PP. (Pablo Pryluka)

There are certain schools of thought in Latin America, I'm thinking in particular of dependency theory, that might push back against what you are arguing. You in fact discuss dependency theory in your book and I was wondering if you could say something more about the subject.

BM.(Branko.Milanovic)

The Latin American structuralists are an interesting case. Naturally, that question can be better answered by those who are more familiar with that school, but I think what happened, as I say in my book, is that they were latecomers. What I mean is, had they come earlier, say in the 1920s, I think they would have actually gone much more to the left. But they appeared in the 1960s, when there was already disenchantment with the socialist experiment and the socialist system itself — because of Stalinism and the enormous human costs that were clearly borne by the people in those countries. And additionally, the anti-colonial path that I mentioned before — the combined fight against colonialism and feudalism — was not the same because Latin America became independent in 1820s. So they could not replay in the 1960s what had happened a hundred fifty years ago.

I think this question raises a separate but related issue. I was asked by several people if Turkey, for example, could follow this path. And I think the answer is no, because Turkey was not colonized. Although there were certain suggestions, when Turkey was at its weakest before World War One, that the country did actually occupy a colonial position, despite the fact that Turkey itself was a colonizer in the Middle East. Turkey under Atatürk adopted a very strong, political — somewhat leftist — movement, which was not that unlike the Kuomintang in China.

PP.(Pablo.Pryluka)

In the opening of *Capitalism, Alone*, you write that capitalism's success has hinged in large part on convincing the world that its overarching goals are inline with everyday people's desires and values. Why was capitalism so successful?

BM.(Branko.Milanovic)

What is needed for the success of any system is that there be a coincidence or concordance between the needs of the system and the values that people hold. And it goes back even to Plato when he talks about the four different, imperfect systems — democracy, tyranny, oligarchy, and timocracy. The same is true in capitalism: you need profit, because without profit you will not have capitalist growth. But also, at the personal level, you have to instill a value system that puts wealth acquisition at the top of the agenda, because it is only through wealth acquisition as the supreme value that one can become either a consumer, or an investor, or a worker, all toward the end of furthering the objectives of the system.

"What is needed for the success of any system is that there be a coincidence or concordance between the needs of the system and the values that people hold."
The really big question is: why was it so successful? Here, there are two different possibilities. One option is to simply accept that capitalism is a natural system, because there are innate human desires for riches and dominance. In that line of thinking, capitalism is the closest reflection of human nature. I'm against this point of view, because I think that capitalism, like any other system, is a historical system.

I think that what actually happened is that capitalism was able to concord quite well with our current historical needs. Of course when I speak of needs I mean those needs that are socially created — in that sense, you could even say that we actually feel quite comfortable with capitalism. But it doesn't mean that our needs can't be changed: one can imagine a different system, a different organization of production, greater abundance of goods, maybe greater leisure time, where labor would become a dominant factor of production — in the sense that labor would be scarce and capital would be abundant.

~~PP. (Pablo Pryluka)~~

One of the more interesting sections of *Capitalism, Alone* deals with the connection between capitalism and liberal democracy. There, you define two different kinds of capitalism: liberal meritocratic capitalism, on the one hand, and political capitalism on the other. How are these two versions of capitalism different?

~~BM. (Branko Milanovic)~~

I think as a result of the capitalist propaganda machinery over the last thirty years, people basically identify capitalism with a liberal political system. But if you review the historical record of capitalist regimes and draw up a balance sheet of democratic vs. non-democratic capitalist societies, you will probably find that from 1815 onward less than half of the capitalist countries have actually been democratic. And in the case of democratic capitalist societies, we have to remember the example of those like the United States, where we find that 13 percent of the population owns the entire country and — forget about the right vote — the rest of the population is basically treated as machines.

If you do the mental exercise I'm describing, you quickly realize that there is no necessary association at all between capitalism and political democracy. That link is an idea of fairly recent vintage, and even then, many of the countries that are now democratic were not so sixty years ago. One only has to think about all the military dictatorships in Latin America — Argentina, Brazil, Chile — not to mention, again, Portugal, Turkey, Spain, and a whole host of other countries. Take Indonesia, a country that was clearly capitalist but was also a dictatorship. The point is, we can go on and on listing these countries: Thailand, Germany, Japan before World War Two, we're talking about some of the biggest capitalist countries, which were not democratic.

~~PP. (Pablo Pryluka)~~

Can you explain what you mean when you distinguish between political capitalism and liberal meritocratic capitalism?

~~BM. (Branko Milanovic)~~

Let me put it this way: one of the things that prompted me to write the book is that I was feeling very anti-Fukuyamista. Again, I start by rejecting the idea that capitalism and liberal democracy have any kind of necessary relationship. And secondly, you then have to consider a powerful capitalist country like China, or other similar capitalist countries that diverge from the normal political models we have come to associate with capitalism. If we just take contemporary China, we can say with some certainty that the future will not be dominated by a single political model. In part, the world is way too complicated to be dominated by one single economic and political model.

The question then becomes, how do these countries differ? They differ in that, in the political realm, you don't have democracy in China. You have a one-party system and the role of the state is so predominant that it would seem immune to being captured by private interests. Let me just give you an example of what I mean here: recently, what would have been the largest IPO (initial public offering) in world history — Jack Ma and his AMD company — was cancelled by the Chinese government.

It was actually even more interesting; the meeting where that took place was between Jack Ma, one of the richest persons in the world, and relatively mid-level Chinese government officials from the regulation commission. This clearly shows you the power of the state in China. It would be much more difficult to do something like that in the United States. Imagine if they were to meet with Elon Musk or somebody like that and send mid-level officials from the Commerce Department to tell him to redo his IPO.

PP. (Pablo Pryluka)

One of the main ideas in your book has to do with how, if we narrow our focus on the super rich, we observe that the composition of capital and labor in that class has changed a great deal in the last thirty years. Can you explain that idea?

BM. (Branko Milanovic)

It goes back to the concept of “homoplutia” that I mentioned earlier, where we have people at the top of the income distribution who are both rich in the sense of capital and labor income. This is a new development. Let me put it like this: for anybody who has studied classical economics or actually been interested — even sociologically — in what Smith, Ricardo, and Marx wrote, they will know that these thinkers basically understood the world as divided in classes.

In Ricardo there are landlords, capitalists, workers, and these three classes were practically non-overlapping. It doesn't mean that there has never been a worker who had more wealth than someone with capital, and there were, of course, differentiations between workers. But broadly speaking, there were a few capitalists that were actually overtaking landlords in 1817, and there were almost no workers that, by virtue of their income, were overtaking capitalists. So really, functional income distribution determines your position in the interpersonal income distribution.

But that has really changed with the evolving character of capitalism in the twentieth century. Now we find that at the very top of the income distribution, there are people with very large salaries. And I'm not talking about people who get, for example, different stock options. I'm just talking about people who have large wage incomes — they could be CEOs, or they could be very successful doctors, IT workers, engineers, or whatever. And on the other hand, you have people who accumulate large incomes, and then use that income to save and invest, or maybe they actually have inherited a lot of wealth from their parents. In any case, they end up with large assets, which actually give them quite a lot of money when they invest. And these same people are also highly skilled, which gives them large labor income.

Again, this is something new. In the US data, we see that from 1980 to today, if you take the top 10 percent of the income bracket, about one-third of these people are both in the top 10 percent by labor income and top 10 percent by capital income. Again, this was not the case in the past. In the 1970s that percentage of people who were in the tenth percentile for both labor and capital income was only 15 percent; that figure has now doubled. This is the case in a number of countries. Not all of them of course: in Latin America, Mexico, and Brazil, for example, you do not have that overlap, because these are more standard capitalist countries with big-time capitalists who are not working.

Now, the interesting question pertaining to all this data is: What happens? That is to say, what happens when almost 100 percent of people in the top labor income decile are also in the top decile of large capitalist owners. Once more, this is a totally new situation in history. To some extent, you can say it's an improvement, because we don't have an automatic association between capital and wealth, and labor and poverty. But on the other hand, it becomes a society where all the assets are in the hands of one group of people. And that group of people transmits these assets to the next generation. So I think it becomes a very interesting question, to ask whether current trends might not lead to an even more segmented and stratified society than the one we have now.

~~PP. (Pablo Pryluka)~~

You recently questioned the Nobel Prize's tendency to overlook economists who do work outside the canon of accepted economic theory. Can you say something about the profession and discipline of economics? Who are the economists that haven't received a fair hearing in mainstream economics?

~~BM. (Branko Milanovic)~~

That discussion started with one small tweet, and then of course it snowballed. I recently read an excellent book by Avner Offer and Gabriel Söderberg, *The Nobel Factor*, which basically lays out the whole history of the Nobel Prize. When you read the history of the Prize, it's like reading the history of rich families: it basically all starts with crime and plunder. The Nobel Prize — which was not originally the Nobel Prize — was given by the Swedish Central Bank.

The idea behind the prize was that it would reinforce the independence of the Central Bank against social-democratic governance. There was never this idea of the Nobel Prize as we know it — it was basically a right-wing prize that was supposed to reinforce that political position against the government. Eventually, the Swedish National Bank gave the Nobel National Committee permission to invest in some financial instruments — to make a long story short, the National Committee was bribed.

But leaving the origin of the Nobel Prize to one side, if you look at the really significant, large developments that we are currently witnessing now, everything points back to China. After the Industrial Revolution, and even including the great period of American economic expansion, there has never been an event of economic relevance like the rise of China. We are talking about more than a billion people expanding at the rate of 8 percent

over forty years. My point is that, while we are witnessing that event, we don't have any Nobel Prize winner who has been able to understand what is happening. Nobody is really studying China in that way.

It's a little bit as if, at the birth of the English Industrial Revolution, you were to overlook Adam Smith, who was discussing the birth of commercial society and the growth of capitalism and say, well, that's actually neither here nor there. This is what is happening today within economics departments in terms of China. If you have the worldview that capitalism is the same as economics, and everything else is noneconomic, that means you don't think it's relevant to understand the feudal system, or the Roman, Byzantine, or Greek systems, and, by extension, you don't care about China before 1978. The only thing that interests you is the West from last thirty or forty years. Anything else pertaining to economic history, or different economic systems, is best to reject.

"After the Industrial Revolution, and even including the great period of American economic expansion, there has never been an event of economic relevance like the rise of China."

Now, the global reduction of inequality is essentially the product of the rise of Asia — and not just China, but also India, Indonesia, and so on. This trend is in a sense a mirror image of what happened during the first Industrial Revolution, where, of course, inequality increased because the West became much richer than the rest of the world and pushed up inequality during the nineteenth century. Now, with the rise of Asia we almost have a mirror image of those world events — a whole region that started with very low levels of income and, in becoming richer, is now reducing global inequality.

~~PP. (Pablo Pryluka)~~

I wanted to follow up by posing a political question. We have seen increasing political polarization in recent years in many Western countries: with the Gilets Jaunes in France, Donald Trump in the United States, and Jair Bolsonaro in Brazil; and on the Left: with the rise of Bernie Sanders and Podemos, social uprising in the Andean countries, especially in Ecuador and Chile. As you say, the world has become globally less unequal, but you also add that it is becoming more unequal in the West. What is the relation between increasing inequality in the West and political polarization?

~~BM. (Branko Milanovic)~~

There is little doubt that increased inequality, and certainly the stagnation of middle-class incomes, has to do with this polarization. We saw this very clearly in the last US elections: people were dismissing Trump, but he won more than 70 million votes — that's not something to dismiss. And when you look at where the votes came from, they came from disaffected people, many of whom are upset because they saw the top 1 percent or the top 10 percent becoming richer and richer.

As I have written in several places, this is a process of "disarticulation" moving northward. What we are finding is that in countries like France — where people began writing about the phenomenon of disarticulation in the 1970s — there is an elite class which is very well

integrated into globalization, and which really doesn't care much about the hinterland. In my view, a similar thing is happening in the United States — it's really become a struggle between the top class and the hinterland.

So, I think this political polarization is the result of higher inequality, globalization, and lack of interest by the elite in what is happening to the middle class. The solutions are, unfortunately, not so obvious, but I think there are some policies that the Left can pursue in an effort to not keep losing ground to the right wing and the plutocratic tendencies of the Trumps of the world.

P.P.(Pablo Pryluka)

That actually leads to my next question, which is about globalization and fragmented sovereignties. You've claimed that rather than trying to return to the golden years of the Bretton Woods era, the Left should instead be working to form a new type of internationalism that would provide an effective answer to globalization. How do you think that is possible? What I mean is, beyond the rhetoric of international solidarity, what is the concept of sovereignty underpinning your vision?

BM.(Branko Milanovic)

This is perhaps the big question, and I don't know that I can do it full justice. I would start by answering in a negative sense: I believe that this pining for the golden age of capitalism or the *Les Trente Glorieuses* is completely wrong, because the conditions are entirely different today. I think it is clear enough to everyone that this period cannot simply be conjured up again. But even still, we find people on the Left who are actually in favor of limiting migration or trying to restrict the outflow of capital, which is difficult because they both imply scaling back globalization — which would actually have the effect of reducing global incomes. I think these reactionary measures are harmful and we need to guard against a certain anti-internationalist impulse.

"As long as there is a huge difference in wages between the rich Western countries and those in Asia or Africa, the underlying forces of capitalism will always be on the side of globalization."

I think the basic difficulty here is that the Left has been very comfortable, for historical reasons, to work within the parameters of the nation state while also proclaiming a kind of rhetorical solidarity with other peoples. But now we have a problem in which poor people want to move to the nations with an existing welfare state, and in doing so they potentially undermine the position of domestic laborers.

So there is a real conflict here: Who do you represent and how you can reconcile these two things? One of the points in my current book is about how we approach the issue of migration. I suggest we try to find some kind of middle ground solution: allowing foreign migrants into the country but not giving them a straight path to citizenship. This would reduce the opposition of the right wing to foreign labor, because they would see their entry as a temporary measure. We should really start to consider different options with migration, what are sometimes called "graduated forms of citizenship," which basically amounts to having different layers of citizenship.

Beyond that, I have a series of recommendations that I make at the end of my book: we need to break up capital ownership, which cannot be done in one day. My point is this: we could take many of the same advantages that are now enjoyed by large asset owners and give those to people with very modest assets. This would include tax deductions or lower tax rates for small investors, employee stock ownership plans, which could actually be linked to lower corporate taxation so long as we have more workers involved as company shareholders.

A second part of my proposal has to do with eliminating extremely expensive education, which only serves to maintain and reproduce social inequality. That can be done by giving much more money to public schools and taxing private schools and their endowments. Finally, you have the classic labor campaigns: increasing the minimum wage, which many cities and states in the United States have already done, creating much stronger workers' rights, including trade union rights, and so on. These are all measures that I believe would be appealing to the middle class, too.

There will still be problems: we will still have the outflow of jobs, because even today the forces of globalization are very strong. If they can hire somebody in Laos at one-tenth of the wage in the United States, that will remain a problem. But my point is that we can begin to work to improve the lives of future generations. For the current generation that is getting older, we can start to provide proper social security and health care so that they are allowed to live reasonable lives. And then their children would not be at risk of forming part of a sort of a growing underclass as we have in the United States. This, I believe, is the real danger we face, that in the future we will have three generations of people without sufficient education, no steady job, and so on.

PP.(Pablo Pryluka)

You mentioned that globalization remains as strong as ever. Some would claim that in the age of the coronavirus we are seeing a reversal of integrated global economies and value chains.

BM.(Branko Milanovic)

I don't really agree. Many people are saying that the pandemic will mean a complete reversal of global value chains. Of course, we do have to revise our understanding of the world a little bit, because the current model does not account for the kind of external shocks to the system that the coronavirus represents. But I think we need to be careful. Even if we look at the conflict between China and the United States, investment in China has actually been higher than before the pandemic. The reason is of course that China has recovered much faster than everybody else.

But I think that the underlying forces of globalization are so powerful that they can't simply be undone from one day to the next. As long as there is a huge difference in wages between the rich Western countries and those in Asia or Africa, the underlying forces of capitalism will always be on the side of globalization. The only thing that could possibly undo that trend would be a global convergence of incomes in which the advantage of cheap overseas labor disappears. But it will be a long time before that happens.

