



Revue internationale  
*International Web Journal*  
www.sens-public.org

## *The Gini out of the bottle* An interview with Branko Milanovic

CONDUCTED BY NIELS PLANEL

**Abstract:** Branko Milanovic is one of the leading world specialists on inequality. An economist at the World Bank, he's been dealing with issues related to income distribution for decades. In a book published this year, *The Haves and the Have-Nots*, he manages to make complex ideas about inequalities within individuals, nations and globally accessible to a wide audience. In it, his essays on these topics are illustrated by audacious and very original « vignettes » in which he answers fascinating and diverse questions such as: Were affluent Romans comparatively richer than today's super riches? Does the place where you are born influence the revenue you will generate over a lifetime? What did Anna Karenina get for falling in love? Will China survive by the mid-century? Who has the richest person in the world been? Feeding his reflections with the findings of Vilfredo Pareto, Karl Marx, Alexis de Tocqueville, John Rawls or Simon Kuznets at a time when the issue of inequality has become so important, his book enlightens us on a topic that is both ancient and captivating. Branko Milanovic has answered Sens Public's questions.

**Résumé:** Branko Milanovic compte sans doute parmi les spécialistes des inégalités les plus importants sur la scène internationale. Économiste à la Banque mondiale, il se penche sur les questions des disparités depuis plusieurs décennies. Dans son livre paru cette année, *The Haves and the Have-Nots*<sup>1</sup> (Les nantis et les indigents), il réussit le tour de force de rendre accessibles au plus grand nombre des idées complexes sur les inégalités entre les individus, entre les pays, et entre les citoyens du monde dans un style attrayant. Pour ce faire, l'auteur illustre ses propos au travers de petites histoires (des « vignettes ») audacieuses et d'une incroyable originalité, dans lesquelles il répond à des questions fascinantes : les Romains prospères étaient-ils comparativement plus riches que les super riches d'aujourd'hui ? Dans quel arrondissement de Paris valait-il mieux vivre au 13e siècle, et qu'en est-il aujourd'hui ? Sur l'échelle de la redistribution du revenu au Kenya, où se situait le grand-père de Barack Obama ? Est-ce que le lieu de naissance influence le salaire que vous aurez au long d'une vie, et si oui, comment ? Qu'a gagné Anna Karénine à tomber amoureuse ? La Chine survivra-t-elle au mitan du siècle ? Qui a été la personne la plus riche au monde ? Reprenant également les travaux de Vilfredo Pareto, Karl Marx, Alexis de Tocqueville, John Rawls ou Simon Kuznets à une époque où la question des inégalités préoccupe de plus en plus, son ouvrage fait le pari d'éclairer un enjeu aussi ancien que passionnant. Branko Milanovic a accepté de répondre aux questions de Sens Public.

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<sup>1</sup> *The Haves and the Have-nots – A brief and idiosyncratic History of Global Inequality*, Basic Books, New York, 2011. Non traduit.



## *The Gini out of the bottle*

### An interview with Branko Milanovic<sup>2</sup>

Conducted by Niels Planel

SP – Where does your interest in the topic of inequality come from?

BM – Since high school, and even elementary school, I was always interested in social issues. I selected economics precisely because of that: it was a social science, it dealt with probably one of the most important questions of the time: how to increase incomes of the people, how to allow them to live better lives, in larger apartments, with access to hot water and heating, better paved streets, cleaner sidewalks.

I studied in the then-Yugoslavia, which had very high rates of growth, people's welfare (including that of my own family) was improving every year, and achieving rates of growth of 7-10 percent per year seemed almost normal. I liked empirical economics, and chose statistics (within the economics department). In statistics, one of course works a lot with distributions. Then suddenly the two interests that I kept, as it were, in separate compartments of my brain, interest in social matters, and in numbers, came together.

I was quite fascinated (I was around 20-21 then), when I first learned about the Gini coefficient and Pareto and lognormal distributions, and began trying to see if the few income data that I had would fit the curve. It was a time when you used plain paper, pen and hand-held calculator to compute the size of each group, their share of total income and then to apply a statistical function to see whether it fits the numbers or not. It seemed to me that somehow the secret of how money is distributed between people, or the secret of how societies are organized would unfold in front of me. I spent many nights going over these numbers. I often preferred it to going out with friends.

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<sup>2</sup> French translation available on line : « Le Gini hors de la bouteille. Entretien avec Branko Milanovic »  
<http://www.sens-public.org/spip.php?article886>

SP – How much time did it take you to write your book on inequality and where did you get your inspiration for so many diverse stories (or "vignettes") from? Economists often seem to think in a very abstract fashion. By using examples rooted in people's daily experience (literature, history, etc.), what did you intend to do?

BM – The book was written in less than 100 days, and that includes the days when I could not write because of other things I had to do or was travelling. My best days were when I would write one, and at times even two, vignettes per day. However, all the ideas for the vignettes and the required data already existed. That's why it was possible to write it so quickly. It is during the many years that I was doing more "serious" work, that an idea (which later became a "vignette") would struck me, and I would spend several hours or days thinking and calculating something for which I saw then no clear outlet or way to publish it. The real challenge was to find a format where all these interesting tidbits that I liked, and that people seemed to enjoy when I presented them at lectures, would be brought into a single book. Once I, together with my first editor Tim Sullivan, stumbled upon the present composition, where each topic is opened by a rather serious, more academic, essay and then illustrated by the vignettes, writing the book was easy and really a pleasure. I generally write easily and quickly but it seems to me that I never wrote something as easily. And I think that it shows in the text.

I tried to accomplish two things: to enjoy myself while writing the vignettes, and to show to the readers that many of dry concepts of economics are not about "economic agents" (as people are called in economics) or "rational expectations", or "efficient markets" etc. but about people like themselves, or famous people, or fictional characters. And that they, the readers, have seldom made this transition, that is, realized that economics, and income distribution, is truly about people, about how they make and lose money, how the rich influence political process, about who pays taxes, why countries rise and fall, why always the same football teams win, even about how high inequality might have triggered the current crisis. All of these are, I think, topics that concern us all, frequently on a daily basis, and economists obfuscate them by using an impenetrable jargon.

SP – In France, writers like Victor Hugo and Emile Zola produced an impressive work on the social conditions and inequalities of their era. And one of the most famous vignettes of your book is based on Tolstoy's novel *Anna Karenina*. You also referred to Jane Austen's *Pride and Prejudice*... Is literature a tool as efficient as economics to understand, observe and explain inequalities? And if so, is literature still a potent force to sensitize people about inequalities in today's world, or is economics better at doing it?

BM – The European literature of the 19th century, and French in particular, are a real treasure trove of information on European societies at the time and thus on income distribution. The great novels of that time were concerned to describe societies as they were, to look at individual fates within the overall pattern of social evolution, and since money played such an important role, the books are full of detailed data on incomes, wages, cost of living, prices of things etc. This is true of Victor Hugo (whose books I know less), and of course of Zola and Balzac, or Dickens. I believe that Balzac's *Comédie Humaine* could be easily converted into an empirical study of income inequality and income mobility of the French society of the time. Balzac indeed saw it as the portrait of a whole society. *Pride and Prejudice* and *Anna Karenina* are more limited in their scope (particularly the former), but they focus on something that I found interesting: incomes at the top of the wealth pyramid, huge income differences between the well off and those extremely rich, and on the position of women whose often only path to comfortable or wealthy living was through marriage. This is why marriages and money, 'alliances' or 'misalliances' had such an importance in the literature of the time.

I do not know well today's literature. A clear change seems to me to have occurred in the last century. The objective is less to present a tapestry of a society and rather to focus on individuals, their internal life. I think that in principle such a literature is much less critical of social arrangements, mostly because it takes them for given, or, if critical, regards them as reflecting basic human malaise, an immutable human condition. To take an example, I liked and have read almost all of Sartre and Camus but you will not find hardly any numbers in their books about how much money somebody makes or how much things cost. This, despite Sartre's ostensible political leftism. By that measure indeed Balzac was much more leftist than Sartre. Similarly, you will not find anything like that in the seven volumes of Proust despite the fact that his work is largely about society and change in fortunes (often, literally, change in wealth) among the top income class. But do we know how much Mme. de Guermantes makes per year? How richer is she than Swann? Or for that matter, what is the income of the narrator's father?

I do not see today's literature as a very potent force for change. I think that it has lost the importance which it had in the 19<sup>th</sup> century Europe, Russia, and the United States. Today, you have hysterias about this or that book, and no sooner had the book been read, or rather semi-read, it is consigned to oblivion.

SP – In today's landscape, where do you see the Tolstoys and the Austens of the world -- authors and artists offering detailed views about inequalities?

BM – I think that this role has been "specialized" like many other roles in modern societies. It belongs now to the economists and to political philosophers. I see these two groups (combined

perhaps with sociologists to the extent that they are willing to study serious social phenomena rather than the minutiae of human behavior), as the people, pushed by their professional interests perhaps, who can say something about inequalities in the societies in which we live. And say something that is not merely “guesses”, or “feelings” but is based on empirical evidence or (in the case of political philosophers) on serious study and analysis of the way societies can or should be organized.

To be clear I want to give one example. Consider the current movement of the *indignados*, the movement of (as the slogan says) “99 percent vs. 1 percent”. But if we ask where, in the global income distribution, are many of these “99 percent” who demonstrate in rich countries, we find that they are in the upper portion of the global income distribution, say around the 80<sup>th</sup> percentile. In other words, they are richer than 4/5<sup>th</sup> of the people living in the world. Now, it is not an argument why they should not demonstrate, but this empirical fact immediately opens up the next question, the one addressed by political philosophers.

Suppose, not wholly unrealistically, that globalization works in such a way as to increase incomes of some of these “other” 4/5<sup>th</sup> of mankind, those living in China, India, Africa, and reduces incomes of those who demonstrate in the streets of the rich countries. What should be our answer to that? Should we look at what is better for the world, and say to these “99 percent”: you guys are already rich by world standards, let now some others, who are ready to do the same job for a fraction of the money you want, get it, and improve their own lot a bit, acquire hot water, or give safe birth for example, things that you already have and take for granted. Or should we on the contrary say that unless we first organize well the distribution in each individual country, that is, redistribute from the top 1% to the other 99%, nothing worthwhile globally can be done? A global optimum should then be reached when each individual country takes best care of itself first. The latter position was John Rawls’; the former position is of more radical political philosophers.

SP – Until the end, your book seems to refuse to step into political considerations about inequality. What is the role of politics in fighting or contributing to inequality?

BM – I wanted to make my book relatively neutral of today’s politics. Advocacy books with long and silly titles do not live long. They are “ephemerides”. Who remembers today books that twenty years ago warned of a Japanese takeover of the world and urged Western governments to fight back? And before, it was OPEC, and even before the Soviet Union.

Reducing inequality will be a long and drawn-out process. Since the late 1970s, a large spurt to inequality in the West occurred as a result of the ideological change at the forefront of which were economists like Hayek and Friedman, and the Chicago school in general. Their prescriptions

were implemented by Margaret Thatcher and Ronald Reagan. At the same time, Deng Xiaoping, following the same ideology ("to be rich is to be glorious") implemented similar neo-liberal reforms in China. In many respects, the reforms both in the West and China have been extraordinarily successful.

But they have failed to deliver a much happier society. Money, very unequally distributed, has fuelled corruption, allowed ostentatious living, trivialized concern with poverty of others through often fake rich-owned toy organizations that are ostensibly supposed to help the poor, reduced essential social services in which the idea of citizenship was embodied, like education and health. Western societies have become much richer, but, to use the famous Thatcher's quip, they have become much less societies: they are often just collections of mutually competing individuals. China has become immensely richer than in 1978, but it is one of the few countries in the world where people are every year becoming less happy, according to World Values Survey. And the same neoliberal programs, applied in Russia, after nearly failing to destroy the country, have led to massive increases in mortality and destroyed any social bonds and replaced them with anomie and cynicism.

So, to undo some of these developments, we need years of change. Moreover, we do not even see on the horizon how this clear demand for change can be effectively translated into the political process, and how politicians can ride on it to win elections. For, until they see it as a winning strategy, they will not exactly fall one over another to run on that platform. Obama has been a great disappointment in that regard. He was endowed with a massive mandate for change and has done very little.

We are often pessimistic or even cynical about the ability of politicians to deliver change. But note the ability to deliver change in a democracy primarily depends on what population wants. So perhaps we should look more at ourselves than at politicians to understand why the change of the current economic model is so difficult. Despite many negative effects of neoliberalism (which I just mentioned above), a large segment of the population has benefitted from it, and even some who have not "objectively" gained have fully internalized its values. We all seem to want a house bought with no down payment, we want a cheap second car if we get a cheap bank's loan, we run credit card debt way beyond our means, we do not want gas prices increased, we want to travel in airplanes even if they create pollution, we run air-condition whenever the temperature exceed 25 degrees Celsius, we want to see all the latest DVDs and movies, we own several latest TV sets... We often complain about precarious employment but don't want to give up any of the benefits, real or false, derived from the Reagan-Thatcher approach to economics.

When a sufficient majority of people feels differently, I am sure that there would be politicians who will figure this out, and win elections with this new (pro-equality) program, and even

implement it. Politicians are just entrepreneurs: if people want a given policy, they will deliver it, the same way that a coffee store will deliver you a gourmet coffee provided enough of us want it and are ready to pay.

SP – Did inequality become a global currency in today's world, or is prosperity more widely shared than in the past?

BM – Global inequality, inequality between all citizens in the world, has been at a very high plateau for the last 20 years. That high plateau is the highest level ever; after the industrial revolution some classes, and then some nations, became rich and the others remained poor. That has driven global inequality up from around 1820 to about 1970-80. After that it basically remained without a clear trend, staying at that very high level. But in the last 10 years, thanks to high growth rates of India and China, we may be beginning to see a decline in global inequality. If these trends continue in the next twenty or thirty years, global inequality may substantially go down. But one should not forget that it crucially depends on what happens with China, and that other poor and populous countries like Nigeria, Bangladesh, the Philippines, Sudan etc., have not seen much growth. As their populations grow, they would push global inequality up.

On the other hand, the world today is richer than at any point in history. There is no doubt about that. The 20th century was rightly called by Eric Hobsbawm "the century of the extremes": never before has so much progress for so many people been realized, and never have so many people been killed and exterminated by extreme ideologies. It was indeed a century of wealth-creation and massive destruction of people. The challenge of the 21st century is to stop the latter. But the developments in the first decade of this century do not yield many reasons to be optimistic.

SP – What would be the best way to limit inequalities in a globalized world?

BM – There are three ways to do it. The first is greater redistribution from rich world to the poor. We can easily dismiss that route. Total official development aid is slightly in excess of \$100 billion per year, which is about equal to the amount paid in bonuses for "good performance" by Goldman Sachs since the beginning of the crisis. Such amounts are not going to solve global poverty or global inequality, and if anything these funds will become less as the rich world has a hard time getting out of its crisis.

The second way is to accelerate growth of the poor countries, and Africa in particular. This is actually the best way to deal with both poverty and inequality. But this is more easily said than done. Although the last decade has been generally good for Africa, the overall record of the post-independence is bad, and in some cases catastrophically bad. However, I am not wholly

pessimistic. Sub-Saharan Africa has begun to sort some of its problems, and might indeed continue with relatively high rates of growth. However, the gap in average incomes between most of Africa and Europe is now so wide, that it would take a couple of hundred years to make a significant dent in it.

Which then leaves us with the third way to reduce global disparities: migration. In principle, it is no different from accelerating income growth in a given poor country. The only difference – but it is politically a significant difference—is that a poor person improves his/her lot by moving somewhere else rather than staying where he/she was born. Migration is certainly the most potent tool for the reduction of global inequality. Opening borders of Europe and the United States would attract millions of migrants and their incomes would surge. We see that every day on a smaller scale, but we have seen it also at the end of the 19<sup>th</sup> and in the early 20<sup>th</sup> century when migration was 2 to 5 times higher (compared to the then existing population) than today. Most of the people who migrated then increased their incomes.

Yet there are two big problems with migration. First, it would lead to lower incomes for some people in receiving countries and they would use (as they do use now) all political means to stop it. Second, it does create sometimes uncomfortable “clash of civilizations” as different cultural norms clash. That produces backlash which is so obvious today in Europe. It is an understandable reaction although many Europeans should perhaps give some thought to the time when people from Europe emigrated, in both violent and peaceful ways, to the rest of the world, and how much they found it to their own advantage. Now, it seems, things have gone full circle.

*Interview conducted by Niels Planel.*