
Branko Milanovic, *Capitalism, Alone: The Future of the System that Rules the World*, Harvard University Press, Cambridge (MA), 2019, pp. 287.

Branko Milanovic's new book *Capitalism, Alone* offers a stimulating and original analysis of the contemporary capitalist system that will be of interest to readers and scholars in the fields of economics, the social sciences and economic history. It builds on writings on economics that the author has published in the last two decades, mainly on the topics of income distribution and inequality. Specifically, Milanovic's new work is based on his well-known "elephant graph" of 2013 and on his 2016 book *Global Inequalities*. In this sense, the volume under review forms another piece of a vaster scholarly project aimed at tracking the multifaceted process – rich in economic, social, cultural and institutional consequences – of what the author describes as the "undoing of the effects of the first Industrial Revolution."¹

In fact, long-term historical analyses show that global inequality arose starting in the 1850s, driven by what Pomeranz famously called "the great divergence,"² i.e. the technological, economic, political and

¹ B. Milanovic, *Capitalism, Alone*, p. 211.

² K. Pomeranz, *The Great Divergence. China, Europe, and the Making of the Modern World Economy*, Princeton, Princeton University Press, 2000.

military success of today's advanced rich countries, which enormously increased the gap between them and the rest of the world. The rising trend in global inequality probably peaked between the 1970s and the 1990s, when it was reversed by what Richard Baldwin has called "the great convergence,"³ principally led by China. From the late 1970s onward, under the leadership of Deng Xiaoping, China undertook a profound reform process, rapidly reducing its disadvantage with respect to the West. This result was achieved against the backdrop of another technological revolution, the information and communication technology revolution, which Milanovic reads as a mirror image of the first industrial revolution.⁴ Indeed, whereas the latter was responsible for widening the gap between rich and poor countries, the ICT revolution is narrowing it, at least in terms of GDP.

In *Capitalism, Alone* Milanovic examines the global characteristics of this epochal turnaround, placing the reduction in global income inequality in a wider economic, political and cultural context. The shrinking of global inequality is not a homogeneous trend and it affects different countries and social classes in profoundly different ways. In this sense, the book tells a familiar story of winners and losers on the world stage. The data Milanovic marshals make it clear that in the last few decades the top percentile of the world income distribution have made sky-high returns on their capital, while the new middle classes of Asia and Eastern Europe have largely benefitted from the economic growth of their regions. This has produced detrimental effects for the working middle classes of the West, whose incomes have progressively declined as their industries are hollowed out by foreign competition.

How is this reshuffling affecting the economic organization of the globe? What are the distinguishing features of the new world system?

³ R. Baldwin, *The Great Convergence. Information, Technology and the New Globalization*, Cambridge (MA), Harvard University Press, 2016.

⁴ B. Milanovic, *Capitalism, Alone*, p. 9.

How have political and institutional arrangements evolved in recent decades? A large part of the book is devoted to answering these questions. The author's main thesis is that, for the first time in history, the entire world is operating according to the rules of a single system, capitalism, understood here in the Marxian and Weberian sense as an economic system where most production is carried out with privately owned means of production, capital hires legally free labor, and coordination is decentralized.

Ever since capitalism first appeared on the world stage in the 15th or 16th century, other economic systems always existed in its interstices, flanking and complementing it. Moreover, from the second half of the 19th century and, more concretely, after the Bolshevik revolution of 1917, capitalism constantly faced the challenge of a powerful opposing ideological system, embodied for half a century by the Soviet Union. Recently, capitalism has extended its control to previously non-capitalist economic spaces and its technological progress has embraced virtually every region of the globe. After the fall of the Berlin Wall and the collapse of Soviet power in 1989-1991, no alternative system is left to confront the dominion of the capitalist mode of production and its profit-seeking values. For the first time in history, therefore, Wallerstein's distinction between "world economy" – as an expression applied to the whole world – and "world-economy" intended as *Weltwirtschaft* – that is, an economically autonomous unit whose internal links give it a certain organic unity in spite of the many political, religious and cultural divisions existing within it – has disappeared. We are faced with a new and unprecedented situation. A capitalist world-economy is becoming the economy of the world. Braudel's "innumerable blank spaces from which no sound comes at all," the vast "zones of silence and undisturbed ignorance,"⁵ have vanished. They have been supplanted

⁵ F. Braudel, *Civilization and Capitalism (15th-18th Century)*, Vol. III. *The Perspective of the World*, London, Collins, 1984, p. 18.

by a world “where everybody follows the same rules and understands the same language of profit-making.”⁶

Capitalism, then, is now alone not only in terms of geographical coverage, but also of values and day-to-day life. Digitalization and the gig economy are greatly expanding the area of commodification, permeating our daily economic experience and transforming our private spaces – our properties, houses, cars or use of free time – into potential capital assets. Nowadays, hyper-commercialized capitalism economically empowers individuals as consumers, allowing them to purchase goods and services – for instance, cleaning, repair work, child-rearing, food preparation, or even gardening – that were previously provided outside the market by family, friends or the local community. On the other hand, it offers individuals as producers a series of opportunities in supplying these services and goods to others. This is actually one of the key outcomes of the digital revolution: the creation of specific markets for an increasing number of commodities that were unthinkable just thirty years ago. Today, everyone is, at least potentially, a capitalist. Unfortunately, this does not automatically lead to a better or more egalitarian society.

Milanovic does not claim that the uncontested dominion of capitalism leads to the “end of history.”⁷ In the most innovative and persuasive part of his book, he proposes two ideal-typical forms through which contemporary capitalism manifests itself: liberal meritocratic capitalism, exemplified by the United States; and political capitalism, championed by China. The bulk of the book consists in an examination of the main features of these two capitalist formulas. Overall, Milanovic investigates three main elements: the subterranean forces that make the two capitalist sub-systems become more and more inegalitarian over time; how those forces might be arrested or at least curbed; and how, if not

⁶ B. Milanovic, *Capitalism, Alone*, p. 3.

⁷ F. Fukuyama, *The End of History and the Last Man*, London, Hamilton, 1992.

curbed, they can lead, in both of the sub-systems, to a plutocratic future marked by a combination of political and economic power in the hands of a narrow, super-rich elite.

The author's definition of the first variant – liberal meritocratic capitalism – comes from John Rawls's theory of justice. Here, meritocratic equality simply means the absence of legal obstacles preventing individuals from reaching a given position in society, while liberal equality represents the egalitarian correctives applied to an unequal capitalist society in the form of high taxes on inheritance or free education, as a way to reduce intergenerational transmission of advantages. On this score, it is useful to point out that if these egalitarian remedies characterized the "glorious thirty years" after the Second World War, they have been steadily eroded in the past few decades. It is precisely the scarcity of these adjustment measures that has generated the transition from the social democratic capitalist system in operation between 1945 and the 1980s to contemporary capitalism. In Rawls's terms, therefore, we would say that the latter system remains meritocratic, because there are no legal impediments to people getting certain jobs, but it is clearly becoming less and less liberal and equal in terms of opportunities and life prospects.

Milanovic examines at length the systemic inequality-increasing features of liberal meritocratic capitalism. First, he observes that capital takes an increasing aggregate share of national income, that is to say that returns from capital have increased while returns from labor have decreased. This is coupled with a high concentration of capital ownership, leading to a higher rate of return on the assets of a handful of very rich individuals. Moreover, high capital and high labor incomes increasingly go together in the same individuals, a trend the author labels *homoploutia*. This is actually a major break with respect to classic 19th-century capitalism. Smith, Ricardo and Marx portrayed capital and labor as two distinctly separate classes, capitalists living entirely on their profits from capital, labor exclusively on wages. Nowadays, individuals possessing high capital income are often also high-earning workers, which

makes it more difficult to institute economic policies aimed at reducing inequalities. The last two inequality-producing features Milanovic discusses are, first, high homogamy, i.e. people with the same educational status and income level intermarrying, “one of the key mechanisms of within-generation creation of inequality and its intergenerational transmission”;⁸ and, second, the extraordinary ability of top-income individuals to control the political process, producing a legislative apparatus favoring greater transmission of income and wealth across generations by means of cuts in inheritance and estate taxes and in taxes on high incomes.

Among the foremost victims of this trend is the welfare state, which is rapidly declining in coverage and efficacy. With income polarization, in fact, the wealthier segment of the world population is progressively divorcing itself from the rest of the society. As the author rightly stresses, the richest individuals are realizing that they are better off creating their own private protection systems, because sharing a mass system with those who are considerably poorer and face different risks – such as a higher probability of unemployment or of contracting certain diseases – would lead to substantial top-down income transfers. Private systems also provide better quality for the rich per unit of expense, as they save on outlays for the types of risks that the rich do not face. As Milanovic sums it up, “this leads to a system of social separatism, reflected in the growing importance of private health plans, private education, and private pensions.”⁹

Such mechanisms produce an extremely polarized society, where “the children of the rich will have, compared to the children of the poor, much greater opportunities.”¹⁰ In this regard, “not only can they count on greater inheritance, but they will also benefit from better education, better social capital obtained through their parents, and many other

⁸ B. Milanovic, *Capitalism, Alone*, p. 37.

⁹ Ivi, pp. 51-52.

¹⁰ Ivi, p. 41.

intangible advantages of wealth.”¹¹ The quasi-automatic transmission of inequalities is, therefore, a structural characteristic of the United States and, to a lesser degree, of Western society. The main trend at work is thus facilitating a high intergenerational transmission of advantages – and disadvantages – leading to a substantial reproduction of the status quo and its associated inequality.

The second capitalist alternative identified by Milanovic is China’s political capitalism. Milanovic does not doubt that contemporary China qualifies as a capitalist economy. If capitalism is defined as a system where most production is carried out through privately-owned means of production, most workers are wage-laborers, and decisions regarding production are decentralized, Milanovic affirms, China scores positively capitalistic on all three counts. Although Chinese ownership patterns are extremely intricate, convincing evidence supports this thesis. In terms of industrial output produced by state-owned versus private enterprises, the number and size of private firms, fixed investment and employed workforce, Chinese trends shows a vast retrenchment of the state in favor of privately-owned companies. Before the reforms of the 1980s, the state set prices for 93% of agricultural products, 100% of industrial products, and 97% of retail commodities; by the mid-1990s, prices were market-determined for 93% of retail commodities, 70% of agricultural products, and 81% of production materials.

An interesting interpretation of the historical role of communism surfaces here, producing unexpected results. Milanovic claims that, in the “Third World,” communism fulfilled the function of triggering a specific transition from feudalism to an indigenous variant of capitalism in countries previously colonized or dominated by the West. The crucial aspect of this type of communist revolution was that it was simultaneously a social and a national revolution, with a twofold objective: transforming the domestic economy by changing the specific

¹¹ Ibidem.

relations of production and overthrowing foreign domination. As a consequence, the revolutionary path of the Third World involved a transition from feudalism to capitalism that took place under the control of an extremely powerful state. The deployment of capitalism in these parts of the world occurred under quite different circumstances with respect to what happened centuries earlier in Europe and North America. Milanovic sees this difference as fundamental in shaping China's political capitalism. The wider role of the state in the transition explains why capitalism in China has an authoritarian edge to it.¹²

Overall, political capitalism exhibits three constituent features, which in turn generate two systemic contradictions. First, a highly efficient bureaucracy is put in charge of the system. Its main duty is to achieve rapid economic growth, since growth is necessary to legitimize the entire system. This bureaucracy needs to be technocratic and, if it is to be successful, the selection of its members has to be merit-based. The second important characteristic of the system is the absence of a binding rule of law; the rule of law has to be applied selectively if the political bureaucratic apparatus is to keep holding the reins of power. In order to maintain the balance between private economic initiatives and political control, China's government does not limit the private sector's size but controls its political role – that is, its ability to impose its preferences on state policy. Consequently, the third feature of Chinese political capitalism is the dual ability of the state to be guided by national interests and to control the private sector. In turn, for the state to be able to act decisively, it has to remain unbound by legal constraints, with arbitrary decision-making by the political élite, not decision-making by law.

This is not to say there are no laws. Laws do exist and in most cases they are applied. However, the rule of law cannot be generalized – applied to all regardless of political connections and affiliation –

¹² Ivi, p. 82.

because that would destroy the configuration of the system and affect its main beneficiaries. The law is used promptly and selectively against targeted politically or economic inconvenient actors. These features lead to the two contradictions of the political capitalist system. The first contradiction is between the need for a skilled impersonal bureaucracy trained to operate within a rational system of rigid rules and the need for arbitrary application of those rules. The second contradiction is between the endemic corruption engendered by the discretionary use of power and the need, for reasons of power legitimacy, to keep inequality in check and produce continual economic growth.

In general, arbitrary application of the law, non-democratic decision-making, precarious property rights, and endemic corruption represent China's homegrown inequality-producing mechanisms. The outcome can be seen in largely structural inequalities, which have been increasing markedly since the 1980s. In this sense, the most important element of Milanovic's discussion appears to be the identification of different paths that lead to similar results. In fact, albeit through different mechanisms, China and the United States are both engaged in the process of increasing the share of income from capital, augmenting the concentration of capital – and power – in the hands of the rich.¹³

Against this backdrop, the question is: what is the future of the capitalist society? Some general problems and contradictions seem to emerge in the constructive part of Milanovic's book. Capitalism "has a side of lightness and a side of darkness,"¹⁴ he says. The incredible material progress of the last century is there for all to see. However, everyday

¹³ The share of capital income – defined as the sum of investment income, rental income, and other property income – in total income is nearly zero for the bottom 95% of the urban population, hovers around 5% for those between the 95th and 99th urban percentile, and reaches approximately one-third for the top 1%. In the first decade of the 2000s, the top 1% in the United States received about 35% of its income from capital, quite similar to the percentage reported for China.

¹⁴ B. Milanovic, *Capitalism, Alone*, p. 176.

reality also shows that hyper-commercialized capitalist society is dominated by amoral greed, individualism and hedonism, and that inequality, precarious jobs and lives, loneliness, mental illness and anxiety prevail. True, we have more material benefits than ever before in history. But happiness is not exclusively a function of the number of smartphones, tablets, cars or fancy restaurants we have access to. Besides, the fact that capitalism is the only feasible system because realized alternatives have proved worse¹⁵ represents a major logical problem in Milanovic's argument. Undeniably, there are no concrete systemic alternatives on the horizon, and the power of capitalism seems inescapable today. But, then, so did the divine right of kings in the middle ages. That the answer cannot be found in the past does not mean that possible alternatives won't arise in the future and that it is useless to look for them. Actually, this critique appears even more ironic since in other parts of the book the author seems to cheer for the advent of new forms of capitalism – labeled as *people's capitalism* or *egalitarian capitalism* – which have never existed. On a similar topic, Milanovic argues that “discarding the competitive and acquisitive spirit that is hardwired into capitalism would lead to a decline in our incomes, increased poverty, deceleration or revision of technological progress, and the loss of other advantages.”¹⁶ Here, another problem emerges, as this is actually an *a priori* argument, a fundamentally unsubstantiated defense of the capitalist system read as a natural product of a humanity inherently composed of self-interested individuals. The old trap of mistaking a historical construction for a natural fact must be avoided at all costs. As Foucault advised us, we need “to historicize to the utmost to leave as little space as possible to the transcendental.”¹⁷

¹⁵ Ivi, p. 185.

¹⁶ Ibidem.

¹⁷ Michel Foucault to Giulio Preti in “A Historian of Culture”, debate with Giulio Preti”, in Michel Foucault, *Foucault Live: Collected Interviews, 1961-1984*, edited by Sylvère Lotringer, New York, Semiotext(e), 1972.

In another controversial passage, Milanovic says that “in a fully globalized and commercialized world, if Italian incomes continued to fall relative to incomes in other countries and regions, the beauty of Italy would no longer be enjoyed by its original inhabitants. And there is no reason why it should be.”¹⁸ That is to say, it is right that money represents the only parameter in deciding how and where people live their lives. In this regard, Milanovic does not bother to address questions that are crucial to our understanding of world inequality, poverty, and disparity of opportunities. If wealth is “the sole marker of success,”¹⁹ in fact, we must perforce comprehend how wealth is concretely achieved in a capitalist system; where money comes from; what are the mechanisms of production and distribution; who produce what, and where production takes place; what are the conditions of labor around the world. And since our past determines our present, all these questions have to be posed historically as well. These questions lie at the heart of the problem of today’s inequality and they can be answered only by exploring, as Marx suggested, “the hidden abode of production,” where we can see how capital produces and how it is produced, revealing “the secret of profit making.”²⁰

As Jason Moore warns us, eventually every civilization must decide what is, and what is not, valuable.²¹ It is true that “the problem is systemic and not individual,”²² and this is precisely why we need strong democratic governments to produce systemic transformations. The answer is not to withdraw from the system, which the author rightly judges unrealistic. The answer is to reform – better, transform –

¹⁸ B. Milanovic, *Capitalism, Alone*, p. 186.

¹⁹ Ivi, p. 185.

²⁰ K. Marx, *Capital. A Critique of Political Economy*, vol. I, book I. *The Process of Production of Capital*, London, 1887, p. 123.

²¹ J. Moore, “The Value of Everything? Work, Capital, and Historical Nature in the Capitalist-World Ecology”, *Review (Fernand Braudel Center)*, World-Ecological Imaginations, 2014 p. 245.

²² B. Milanovic, *Capitalism, Alone*, p. 184.

the system. *Capitalism, Alone* presents several proposals, some more convincing than others. This is a bit puzzling for the reader, as the author proclaims that there is no alternative but also discusses some important reforms. Among the most persuasive are tax advantages for the middle class, increased taxation for the rich, and high taxation on inherited wealth, with the noble objective of reducing the concentration of wealth; more funding for public education; limited and exclusively public funding of political campaigns, in order to reduce rich people's influence on politics. All of these measures are more than welcome. However, they seem to stand in a contradictory relationship with other passages of the book, for they clearly imply the need for a brand new set of social values, different from profit-making and individualistic self-interest, to guide our societies and conduct.

In sum, Milanovic's new book offers a very interesting and innovative analysis of the contemporary capitalist ecosystem. What is missing in the *pars construens* is an in-depth discussion of crucial and increasingly urgent issues for our society and our future. Is there some way to organize production and distribution of basic goods and services so that everybody has enough to eat and decent housing? Is there some way to establish decent working conditions around the world so that everybody can work safely and receive a living wage? Is there some way to build a transparent democratic mechanism of world governance and popular participation? Can we curb pollution and reduce global warming?²³ These are the questions that economists, historians, and social scientists need to ponder, and they are very much missed in a discussion on world inequality.

All that said, Milanovic's book gives us an excellent, original and timely socio-economic and historical investigation of the structural dynamics of increasing inequalities. Notwithstanding the shrinking of

²³ Climate change and environmental issues are the great issues missing in the book, given their enormous impact on the level and distribution of global inequality.

distances between countries in terms of GDP, the world is rapidly becoming a highly unequal and polarized society. Comprehending the nature, origins, and characteristics of world inequality, as well as its political and economic historical determinants, is a necessary step. Ragnar Nurske famously remarked that “a country is poor because is poor,”²⁴ meaning that, in Braudel’s words, “the past always counts [because] the inequality of the world is the result of structural realities at once slow to take shape and slow to fade away.”²⁵

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