

Branko Milanovic. *Capitalism, Alone: The Future of the System That Rules the World*, Belknap/Harvard University Press, Cambridge, 2019. 287 pp.

The debate on various institutional modalities or varieties of capitalism has existed since the mid-1960s, and picked up considerable pace in the early 2000s. However, the best efforts of the comparative capitalisms agenda have left some issues unresolved or at least severely underexplored. One such issue is the systematic inclusion of China in a functional typological comparative perspective, with the traditional focus sticking to the developed West. Another issue is the role that capitalism itself plays in institutions, with its tenets largely being taken for granted. Branko Milanović contends with both issues by applying his considerable expertise on the study of inequality with *Capitalism, Alone*. This by itself is refreshing as it provides a book written by an economist steeped in theory. Where others remain descriptive, Milanović provides an attempt at a more comprehensive treatment of inequality. I will return to the book's shortfalls at the end of this review, but it is clear that this study is important and well worth the read for all students of inequality, globalization, economic history or capitalism itself.

Milanović makes two general theses in his first chapter, and they set the tone for the rest of his book. Firstly, capitalism is the only socio-economic system today. For the first time in a very long history of capitalism, the entire planet operates according to the same economic principles (profit oriented production, wage labor, mostly private ownership and decentralized coordination). However, capitalism comes in two important varieties. One is the western *liberal meritocratic capitalism* that developed incrementally over 200 years and is exemplified by USA. The other is the state-led *political capitalism* that is exemplified by China. Secondly, the world is being rebalanced by the economic resurgence of Asia, led largely by the unconstrained success of China. This novel situation is effectively ending two centuries of Western dominance as well as the soundness of the claim that capitalism and democracy are necessarily intertwined. In fact, two capitalism types now find themselves in competition.

In Chapter 2, Milanović describes *liberal meritocratic capitalism*, which is an ideal type that is intended to describe the US economy of the early 21st century. It stands in

contrast to both *classical capitalism* (exemplified by UK before 1914) and *social-democratic capitalism* (exemplified by USA and Europe after WW2). Its general propositions are a combination of two Rawlsian concepts: meritocratic equality has careers open to talent and accepts free inheritance of property, while liberal equality corrects for inheritance of property (12-14). Milanović describes this ideal-type through six aspects - all of which are tied to inequality. Firstly, the relationship of the share of capital and the share of labor in net income is shifting in favor of capital. This trend implies that the owners of capital are gaining economic and political power - which has been a fact of life in *classical* and *liberal meritocratic capitalism*, but not *social-democratic capitalism*. This trend also translates into larger income inequality as owners of capital tend to be rich and as capital ownership tends to be concentrated (15). Secondly, capital ownership is always very concentrated and capital income is received mostly by the rich. Capital income is far more unequally distributed than income from labor. The increase in capital income inequality has been less steep than the increase in labor income inequality, as it was already extremely unequal (GINI is now at around 0.9 in USA and between 0.85 and 0.9 in Germany with similar numbers in all Western countries). All of this suggests a "curse of wealth" with development leading to greater wealth, and greater wealth translating into higher levels of inequality (31). Thirdly, assets of the rich are of a higher quality, are less leveraged, less taxed, more diversified and yield larger returns. This is due to the fact of middle class wealth being tied mostly in housing (which tends to be burdened by mortgages) and lower class net wealth being largely non-existent (as debts are as high or higher in value than assets). The share of capital related wealth in the rich also tends to rise with the countries becoming richer which once more translates into increasing inequality (31-34). The fourth aspect distinguished *liberal meritocratic capitalism* from *classical capitalism*. Whereas capital and labor income used to be sharply distinguished (capital owners as the upper class, laborers as middle and lower class) - the highest labor income now tends also to be the purview of the richest (e.g. managers). Milanović coins the term *homoploutia* to describe this association of high labor and capital income in the same person or household (34). The fifth aspect is the tendency towards homogamy or assortative mating (rich marrying the rich and poor marrying the poor) - which distinguishes *liberal meritocratic capitalism* from its *social democratic* iteration. This tendency also tends to increase inequality among households as income is increasingly concentrated and polarized (35-40). Finally, there is a rising correlation of income between parents and children since 1980, which suggest a weaker intergenerational mobility - or in other words an increasingly demonstrable fallacy of the *American Dream* (40-42). All six aspects increase income inequality, although *liberal meritocratic capitalism* inherited some redistribution from its *social democratic* predecessor - making it less unequal than *classical capitalism*. These trends have created stressed the old social policies of

developed societies, which relied on 4 pillars - strong unions, mass education, high taxes and large transfers. These are inadequate in 21st century (42), as unions are increasingly weakened and transfers are a strenuous political issue. New policies would have aim for various ways to influence the dispersion of capital ownership (47) - taxes to encourage small owners and discourage large ones, worker-ownership stock plans, improvements to inheritance taxation, access to the same quality of education.

In a worthwhile addition to the comparative capitalism agenda, Milanović devotes the sizeable Chapter 3 to *political capitalism*, exemplified by China. A particularly appealing insight pertaining to Chinese capitalism is the role attributed to communist revolutions in introducing capitalism. In general, a number of colonized societies have undertaken national revolutions (overthrowing of foreign domination) and social revolutions (overthrowing feudal-like arrangements) at the same time. Often, communist parties have taken an active role in such nationally-minded modernization, and in China and Vietnam it resulted in capitalism. In initiating this process, communist revolutions are comparable to bourgeois ones in the West (78) - with the key difference that the Western capitalism was guided by a powerful *bourgeois* political class, and the Chinese version only had an enormously powerful state to oversee it - with the *bourgeoisie* failing to create a class. The key aspects of the *political capitalism* are the need for high economic growth in order to legitimize bureaucratic leadership, the inbuilt absence of a binding rule of law and a strict control of the private sector. It generates serious contradictions: firstly, there is a need for technocratic and highly skilled elite, but also the selective application of the rule of law (which limits the effectiveness of the technocracy). Secondly, the inbuilt corruption enhances inequality but continued legitimacy of the Party requires that inequality be kept in check (91-96). There are two possible solutions to the latter issue: the rule of law could be strengthened (which can be extremely dangerous as seen in the Russian experience), or the inherent tools of the system can be used, as China is currently doing through the anti-corruption campaigns (108). This will determine the overall success of Political capitalism, as it rests on 1) the ability to insulate politics from economics and 2) the ability to maintain a relatively uncorrupt centralized “backbone” (128).

In Chapter 4, Milanović analyzes the interactions of globalization and capitalism. While globalization has been largely synonymous with free movement of capital across borders (129), labor has also become increasingly mobile. Its mobility is a result of citizenship premiums and penalties (enormous differences in returns to the labor of similar quality across the globe). In economic terms, citizenship in a developed country is a “joint monopoly” that “gives rise to the citizenship rent” (133). Such discrepancies between the rich and poor countries provide a natural motivation for migration, which may result in a political backlash in the recipient country. Milanović proposes that the likelihood of migrants retaining full citizens rights contributes to the adverse

reception by natives. All of this is relevant to the survival of the welfare state. There are some economic advantages from citizenship that predate the welfare state (better and more interesting jobs, nonfinancial rights linked to existing institutions), but the claim over the stream of social benefits is linked to its existence (155). This creates a “clear conflict” between the existence of the welfare state and a “full-scale globalization” which includes a free movement of labor (156).

In Chapter 5, Milanović deals with the future of capitalism. He looks at the various salient changes: atomization with families losing their economic advantage, commodification of all assets, including free time through the gig economy, robotization and technological fears and possibilities of Universal Basic Income. However, the most important aspect of futures of capitalism is the changes in economic geography. The last two centuries have been marked by the vast economic disparity between the industrialized/developed West and the underdeveloped rest of the planet, largely ripe for colonization. However, we are witnessing an incredible rise of Asia in recent decades. In less than a quarter of a century China will be at the GDP per capita levels of Europe. This suggests that the long-term economic effects of the Industrial Revolution will have been undone (with only Africa truly remaining in the underdeveloped club). Finally, Milanović ends by briefly looking at the possible futures of more equal *people's capitalism* or *egalitarian capitalism* (216-17) - and the reforms that it would entail.

Overall, *Capitalism, Alone* is a delightful read. Milanović continually mixes philosophical and historical tidbits with economic analysis and the result is a playfully discordant but brilliant survey of assorted themes surrounding modern capitalism. His main ideas are very precisely laid out and convincingly argued, but the book suffers from some structural issues. There is very little in the way of introduction or conclusion and certain parts of it seem like digressions. This makes the book read like fragments of a larger whole. This study can be understood as an addition to comparative capitalism, even if it would be one extremely focused on inequality. However, its usefulness in this regard is reduced through the focus on two ideal-types with little regard given to locating variables across which these could be compared. *Liberal meritocratic* and *political capitalisms* seem to be conceived mainly as two images unto themselves. The book is therefore better understood as a statement of complexity of capitalism; a valuable window into its changing nature which is simultaneously historical, political, economic and social. A playful discordant approach to it must surely be appropriate.

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