Is Globalization Coming to an End Due to Rise of Income Inequalities?

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IS GLOBALIZATION COMING TO AN END DUE TO RISE OF INCOME INEQUALITIES?

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ABSTRACT

The reversal of the trend towards the decline in income inequalities in the last three decades in most countries created favorable grounds for the rise of nationalist and anti-globalization feelings. Economic failures of countries, groups of people and individuals are among important factors that cause nationalism. The rise of nationalism in many countries in recent decades, as measured by the decline in the "pride in your own country" indicator from the World Values Survey, is statistically significantly related to the growth rates of per capita income and change in income inequality (Gini coefficient) within the country. When globalization is properly managed, it is good for growth and income distribution and does not lead to nationalism. But if it is accompanied by the decline in real incomes for large masses of people, nationalist political forces get additional arguments for instigating anti-globalization and isolationist feelings. The rise in income inequalities within major countries since the 1980s poses a threat not only to social stability, but also to globalization.

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"Patriotism is when love of your own people comes first; nationalism, when hate for people other than your own comes first". This famous statement by Charles de Gaulle may be confusing when trying to distinguish between "good" and "bad" nationalism. Love and hate are emotional categories and do not help to evaluate policy actions and particular measures of authorities providing preferential treatment to a particular group of people – citizens of a country or one of the ethnic groups within the country (affirmative action).

When such policies are justified and when not, when they are regarded as patriotism and when considered nationalism/chauvinism? The logical answer in the first approximation would depend on the relative position of the country/ethnic group versus other countries/groups: if a nation/ethnic group is

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behind the others, and especially if it was disadvantaged in the past, preferential treatment if fully justified. But if this nation/group is ahead of the others, providing preferences to this entity at the expense of the other groups would be seen as unfair. Nationalism is the ideology of expanding the rights of the particular ethnic group or country – if this expansion is intended to overcome the lagging behind and to catch up with the others, more privileged groups or countries, it is perceived as fair. If it is aimed at gaining superiority, it is seen as unfair.

To cite a couple of examples, most Western nations provide economic assistance to all developing countries and give preferential access to their markets (low or no tariffs) to Least Developed Countries (LDCs), whereas many developing countries retain higher trade barriers than developed countries – most economist justify such a policy on the grounds that it helps poor countries to catch up with rich countries. By the same token, special assistance to less developed regions and ethnic groups is a basic principle of most countries and international associations, EU included.

Of course, there are many real and imaginary reasons, why a nation may feel disadvantaged – it may be a victim of aggression or colonialism, may be unhappy with its position in international arena, etc. Here, however, I look only at real (not perceived) economic reasons of nationalism. To be more precise, this paper tries to explain the rise of nationalism in many Western countries and Russia in recent three decades by the interaction of two variables – the dynamics of relative per capita income and the change in income distribution. The hypothesis is that trends in nationalism are explained by both between the countries and within the countries inequalities. If the gains from globalization are distributed evenly, the public is willing to embrace it, but if the gains are appropriated by few, it is easy for nationalist political forces to turn the public against globalization.

Hence, there are several types of globalization models, depending on the trend in inter and intra- country inequalities in recent three decades:

- Great gains from globalization for the country as a whole and relatively small rise in within the country inequalities (Japan, China, SEA, continental Western Europe);
- Small gains from globalization for the country as a whole, but decline in domestic inequalities (some LA countries, including Brazil);
- Large gains from globalization for the country as a whole, but increase in domestic inequalities (Britain);
- Small gains from globalization for the country as a whole and increase in domestic inequalities (US, Russia in the 1990s).

The worst conditions for the rise of nationalism would be in the first group of countries, the best – in the last, fourth group, with the 2nd and 3rd group falling in between.

It is certainly true that the rise in nationalism may be caused by a variety of reasons that are not associated with the change in per capita income and inequalities. A nation may feel humiliated after a lost war or after unfair treatment by other countries and international community, or there may be a propaganda machine at work to create a feeling of superiority over other nationalities – all these reasons are **not** analyzed in the paper. The goal of this paper is quite modest – to show that a considerable portion of the dynamics of nationalist feeling in recent decades is explained by the change in between and within countries inequalities.

Nationalism and inequalities within countries

Conservative politicians all over the world have recently spoken against globalization. As former French Prime Minister Dominique De Villepin put it recently, "globalization, on the one hand, promotes cooperation, on the other hand, brought new mutual exclusion, isolation and radicalization" (news.sina.com.cn/w/zx/2016-07-16/doc-ifxuapvs8591856.shtml). And Donald Trump wants "Americanism, not globalism" (http://www.realclearpolitics.com/video/2016/07/21/trump_nominated_we_will_honor_the_american_people_with_the_truth_and_nothing_else.html).

It would be wrong, however, to blame globalization for all the disasters and misfortunes, from non-growing real incomes to the rise of nationalism. History does not repeat itself, but it rhymes. Those who blame globalization today for economic and social misfortunes are similar to the luddites of the XIX century that believed that the use of machines leads to the rising unemployment and falling wages.

There are cases when globalization works leading to rising incomes of the masses. Theoretically greater international flows of goods, ideas and technology, capital and labor should increase productivity, but in reality this happens only if these flows are carefully managed.

Why in some countries greater economic interaction with the world was accompanied in recent several decades by rising income and its relatively even distribution (China and other East Asian countries[i]), whereas in other countries modest growth of income coupled with rising inequalities left large masses of the population worse off (many Western countries, including the US, Eastern Europe and former Soviet Union)? The answer is that policy matters a great deal and many good policies that allow gaining from globalization are often non-orthodox and counterintuitive (Polterovich, Popov, 2005). If globalization is accompanied by the increase in income and wealth inequalities within countries, so that gains from globalization are appropriated by the few better off, whereas the masses get nothing or very little, it is only too easy for the interested political forces to blame globalization for the negative developments.

The central argument of this paper is that the reversal of the previous trend towards the decline in income inequalities in the last three decades in most countries created favorable grounds for the rise of nationalist and anti-globalization feelings.

Putting the recent dynamics of income and wealth inequalities into the longer term perspective, it is easy to notice that recent 30 years were quite unique. The secular trends suggest increasing inequality from the ancient times before reaching an all-time peak in the early twentieth century (Table 1, Figure 1), and then declining inequlity after the First World War and the 1917 Russian revolution before the new rise since the 1980s.

Table 1. Gini coefficients around particular CE years in some Western countries, %

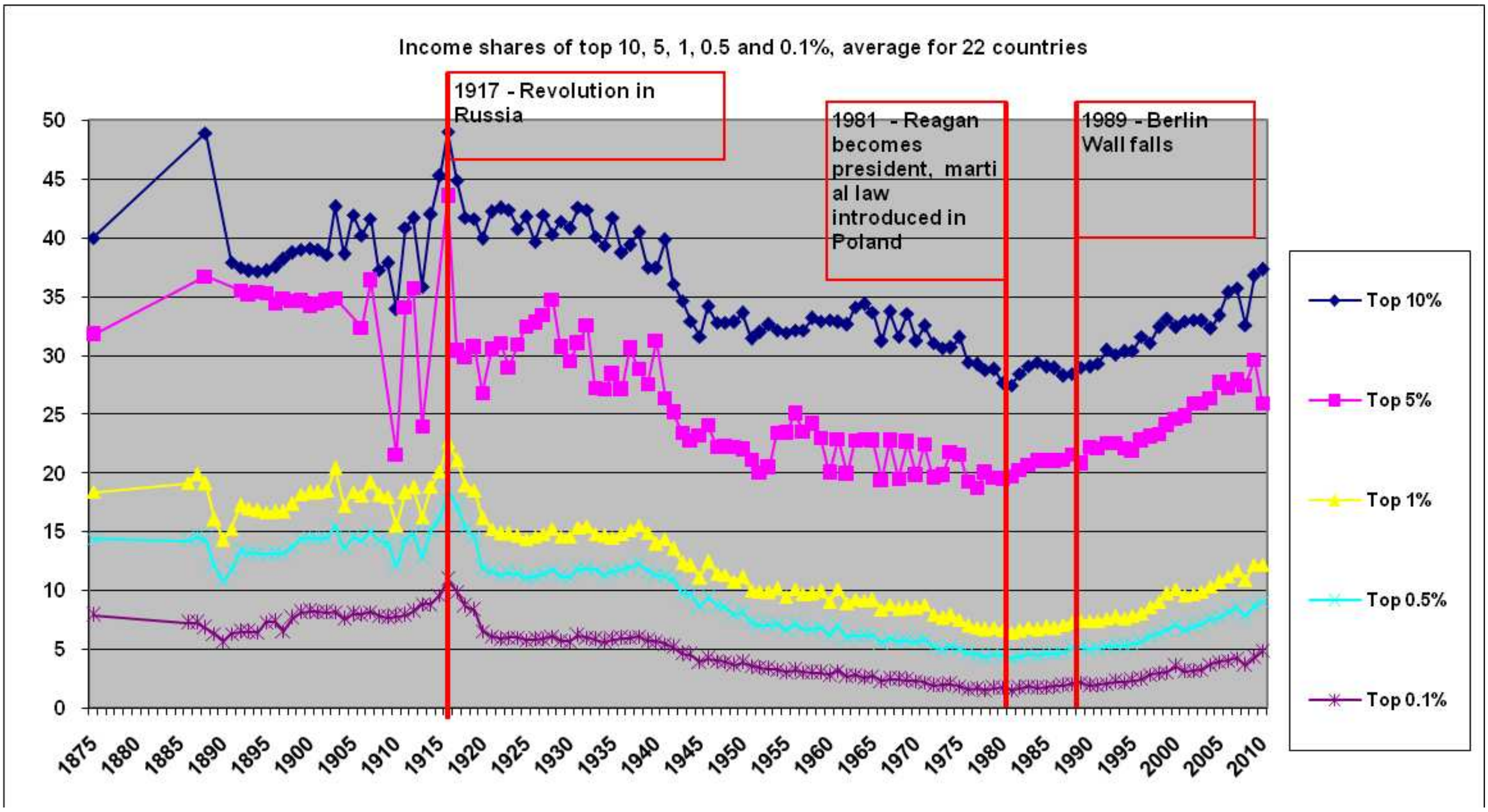
Years	**14**	**1000**	**1290**	**1550**	**1700**	**1750**	**1800**	**2000**
Rome	39							
Byzantine		41						
Holland				56		63	57	30.9
England			36.7		55.6	52.2	59.3	37.4
Old Castille/Spain						52.5		34.7
Kingdom of Naples/Italy							28.1	35.9
France							55	33

Source: Milanovic *et al*. (2007), data for 2000 are sometimes from the World Development Indicators database.

Only during the Hobsbaum's 'short 20th century' was the trend towards increased income and wealth inequalities temporarily interrupted, probably because of the greater egalitarianism of the socialist countries with lower levels of inequalities (with Ginis between 25 percent and 30 percent on average) and the checks to rising inequalities with the growth of socialist and other egalitarian movements (Figure 1).

Inequalities in wealth distribution has followed a similar pattern (Figure 2): they grew before the First World War, declined in the 1920s-70s and started to increase again afterwards.

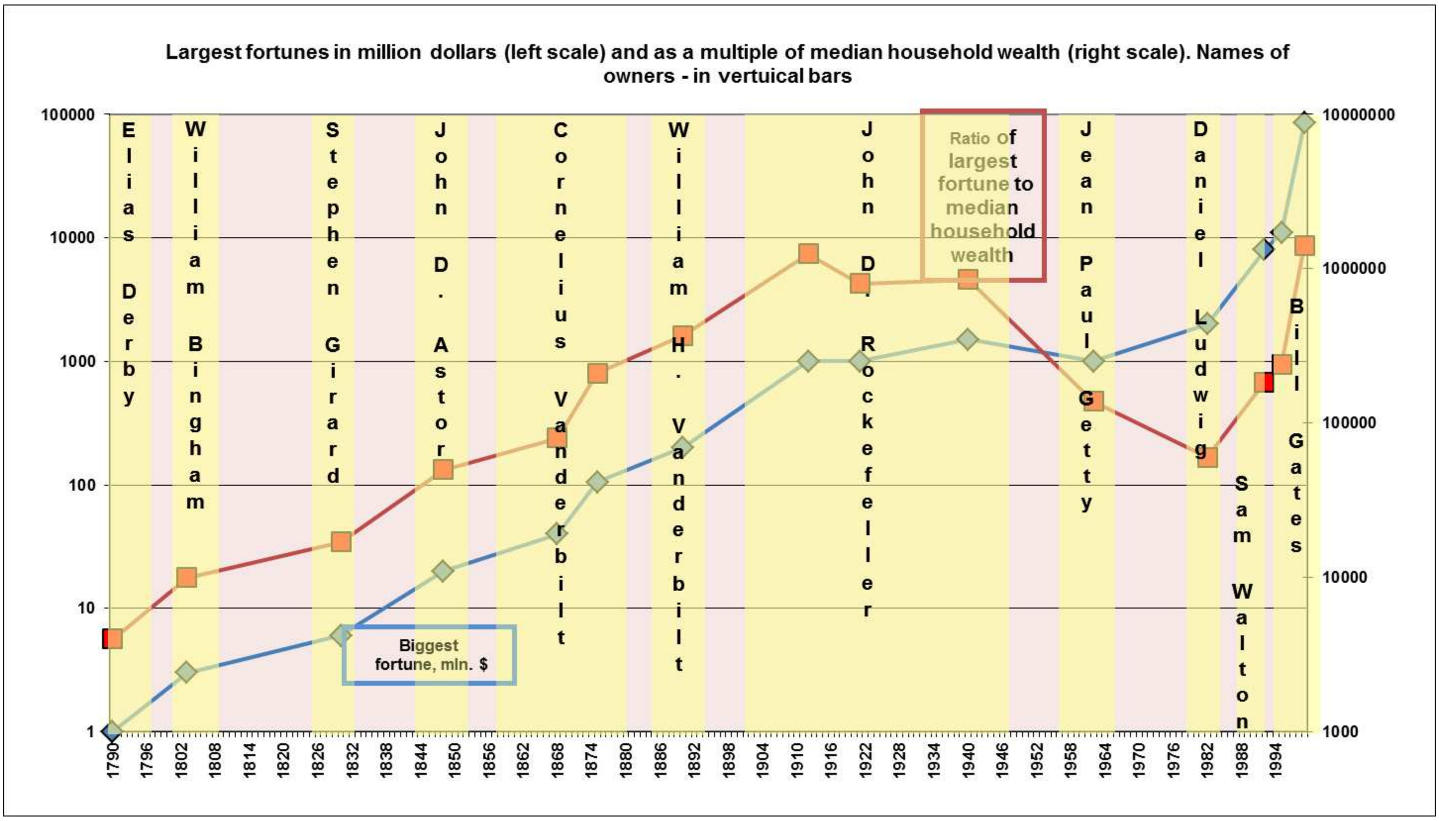
Figure 1. Income shares of top 10, 5, 1, 0.5 and 0.1 percent, un-weighted average for 22 countries



Source: The World Wealth and Incomes Database, http://www.wid.world/#Database. European countries: Denmark, France, Germany, Netherlands, Switzerland, UK, Ireland, Norway, Sweden, Finland, Portugal, Spain, Italy; North America: United States and Canada; Australia and New Zealand; Latin American country - Argentina; Asian countries - Japan, India, China, Singapore, Indonesia; Sub-Sahara Africa - South Africa, Mauritius, Tanzania. Overall – about ½ of the population of the world.

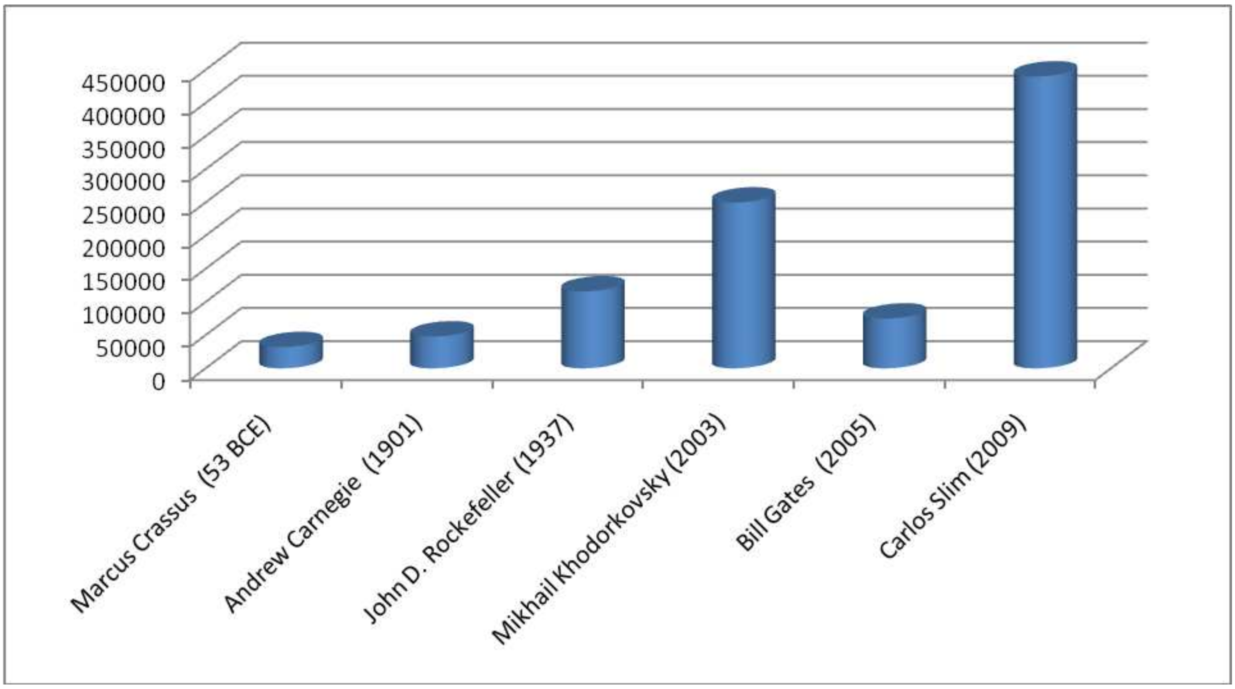
Comparison of the wealth of the richest tycoons in different countries in different epochs (Figure 3) points to a similar conclusion – compared to the average income in the US, Bill Gates was relatively richer than Carnegie and Crassus (though not richer than Rockefeller), whereas Russian tycoon Mikhail Khodorkovsky in 2003 was even richer (compared to the average income in Russia) and Carlos Slim was relatively richer than all of them! The world may not have reached the highest level of inequality yet, but may still be moving to the greatest inequality ever observed in human history.

Figure 2. Largest fortunes in the US in million dollars and as a multiple of the median wealth of households, log scale



Source: Phillips (2002).

Figure 3. Incomes of the richest as a multiple of average national income



Source: Milanovic (2011).

One explanation of these trends is that the reversal of growing inequality followed the 1917 Bolshevik revolution in Russia, the emergence of the USSR and other socialist countries, the strengthening of socialist and populist movements, the growth of the welfare state and other changes associated with Karl Polanyi's *Great Transformation* (Jomo, Popov, 2016). The strength of robust and egalitarian alternatives have constrained and checked economic inequalities, especially as long as socialism was relatively dynamic and seemed to be catching up with the West (Popov, 2014a, Ch. 3; Popov, 2014b).

When socialism lost its dynamism from the 1970s and posed less of a threat, the conservative reaction in the Anglophone West followed, led by Thatcher and Reagan in the 1980s, weakening workers' movements. Government spending, including social spending, stopped growing, many social security programs were curtailed, and unemployment rose to highs not seen since the 1930s, as trade unions were defeated in their industrial actions (coal miners in the UK, air traffic controllers in the US), causing union membership to decline. The top income tax rates, higher than 50 percent in the United States, United Kingdom, Germany and France during 1940-1980, dropped to below 50 percent by 2010. The collapse of the Berlin Wall (1989) and the USSR (1991) were among the high points of this resurgence, reflected in the counter-revolution against welfare state, Keynesian and development economics.

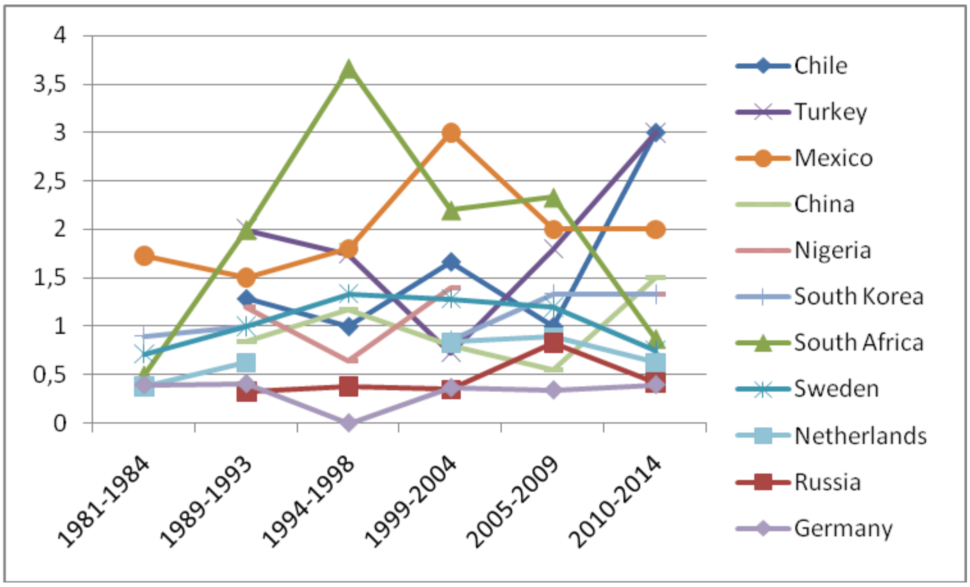
Not surprisingly, income and wealth inequalities have risen in most countries since (Figure 1-3) and this facilitated, if not caused directly, the rise in nationalism in many countries - from Boris Johnson in Britain, to father and daughter Le Pen in France, to the "Alternative" movement in Germany, to Donald Trump in the US, and to Victor Orban in Eastern Europe.

Empirical evidence

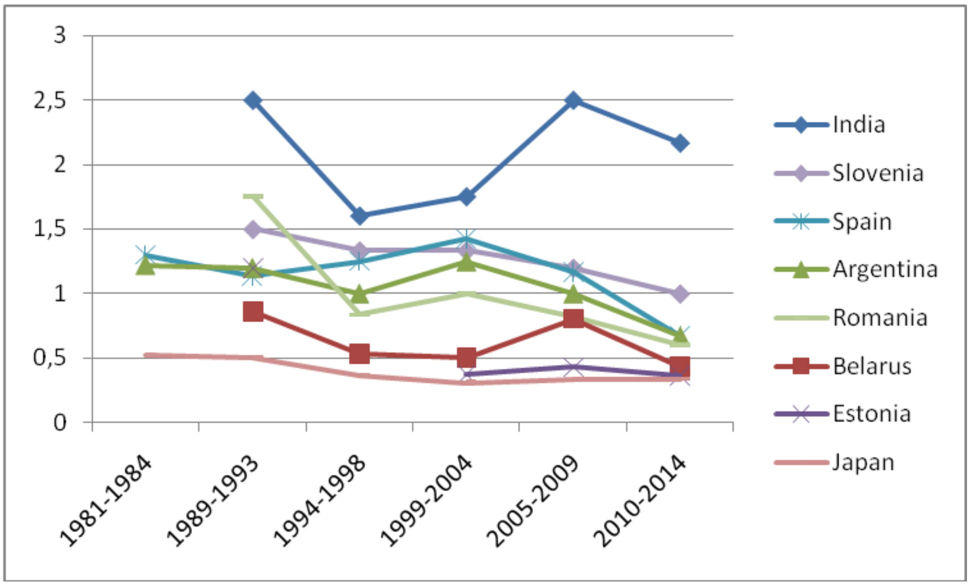
There are different measures of nationalism (public opinion polls, asking questions like "Do you think your country is/should be number 1?", "Do you consider yourself as a world citizen/ citizen of the country?", etc.). The World Values Survey (WVS), however, provides comparable information for 21 countries for the period of 1989-2014 (second to sixth rounds of the WVS). There are data on 12 countries for the first wave of the survey (1981-84) and for over 100 countries for the sixth round (2010-14), but I have chosen a period of 1989-2014 as a compromise between the need for a reasonable number of points and the length of the period in question. The exact question was "How proud are you of your nationality" (possible answers: very proud, quite proud, not very proud, not at all proud, do not know). The pride index used below is equal to the number of answers "very proud" and "quite proud" divided by the number of answers "not very proud" and "not proud at all". The decline in the pride index is taken as a proxy for nationalism variable: if less and less people are proud of the country, they are likely to support nationalist leaders promising "to make the country great again". The rise of the index is symptom of healthy development – the country is on the right track, globalization is perceived to be good and fair by more and more people. The dynamics of this index for all countries on which data are available is shown at figure 4.

Figure 4. The pride index in major countries in 1980-2014 (ratio of the number of answers "very proud" and "quite proud" to the number of answers "not very proud" and "not proud at all")

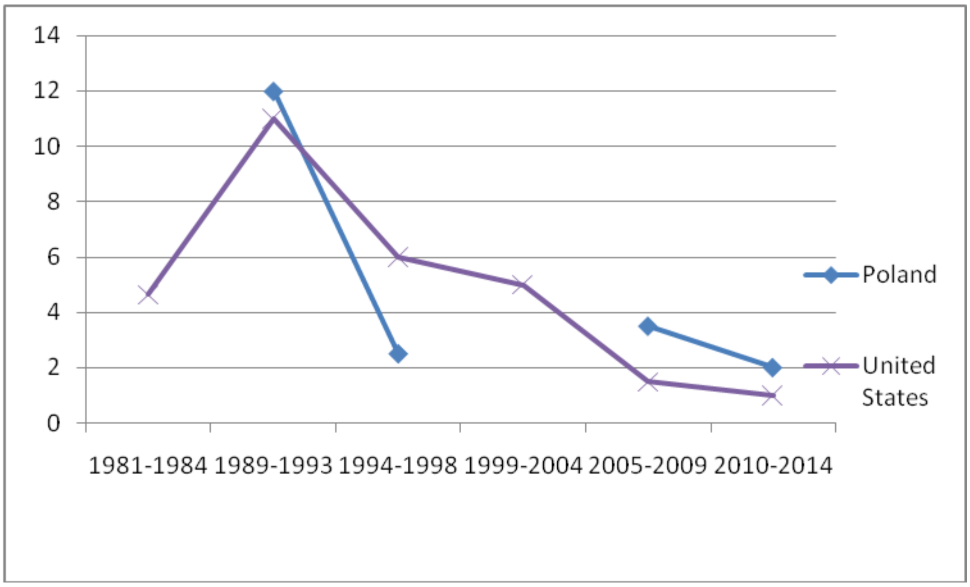
Countries where pride index did not decline



Countries, where pride index declined



Countries, where pride index fell most dramatically



Source: World Values Survey, http://www.worldvaluessurvey.org/wvs.jsp

11 countries (Chile, Turkey, Mexico, China, Nigeria, South Korea, South Africa, Sweden, the Netherlands, Russia, Germany) experienced an increase or no decrease of the index in 1989-2014, whereas 10 countries experienced the decline (Poland, United States, India, Slovenia, Spain, Argentina, Romania, Belarus, Estonia, Japan).

Developing countries generally have a higher pride index – probably because these are more traditional and less globalized societies. But it is the dynamics of the pride index that could be used as an indicator of nationalism – when pride in one's own country declines, it is easier to mobilize support for nationalistic measures.

The increase in pride index appears to be associated with the economic success of the country – the greater was the increase in per capita income in the period in question (1990-2013), the larger was the increase in the pride index (fig. 5). Another factor that influenced the change in pride index was how evenly (fairly) the economic success of a country was distributed – increase in income inequalities had a negative impact on the increase in pride (fig. 6).

The regression equation linking the increase in the pride index (***Ipride***) with the growth of per capita GDP (***GROWTH***) and the increase in inequalities (***GINIincr***) for the period of 1989-2014 is

Ipride = 0.18 ***GROWTH*** – 0.08 ***GINIincr*** + 0.34

(2.08) (1.61) (1.81),

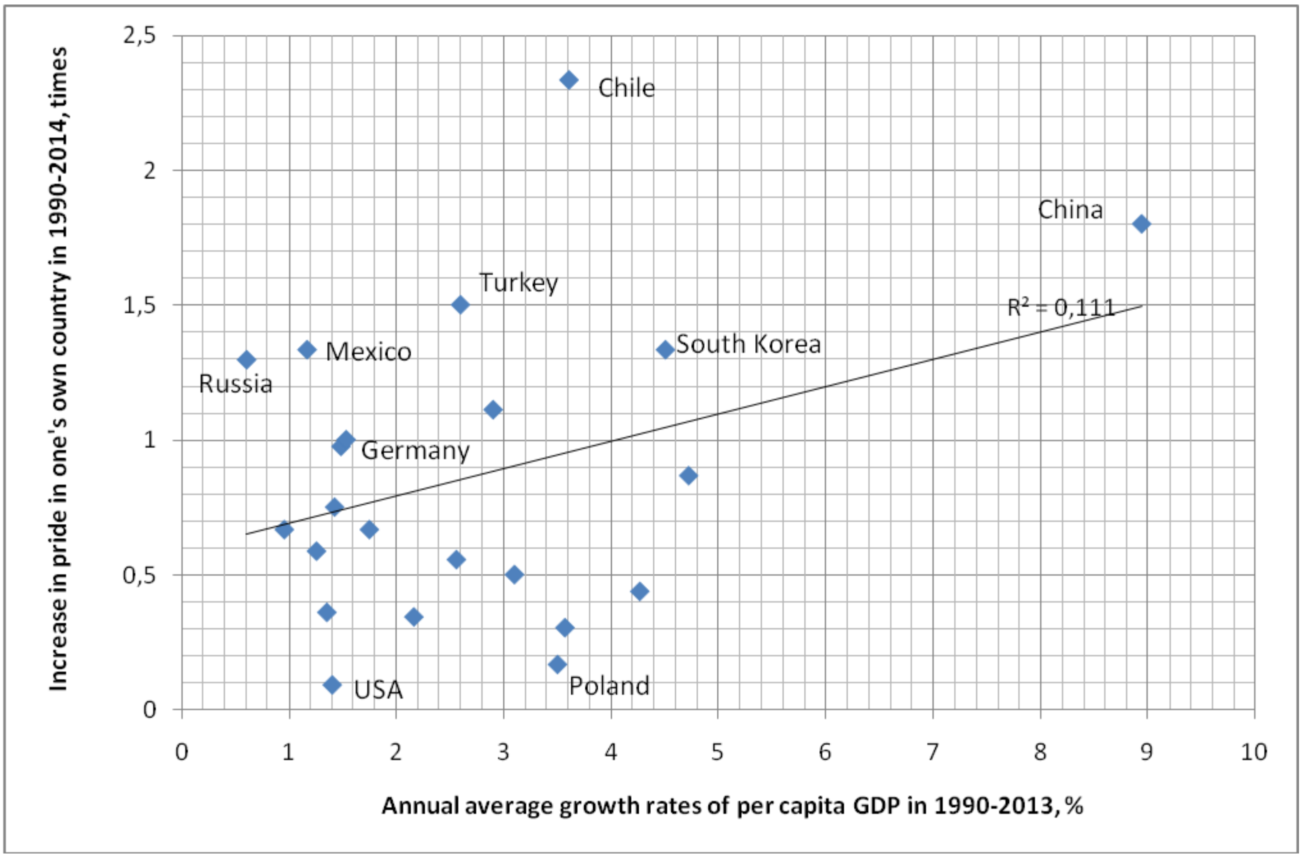
N=20, R-squared = 0.32, robust estimate, T-statistics in brackets below,

Ipride – ratio of positive to negative answers – (very proud + quite proud)/(not very proud + not proud at all) – in 2010-14 divided by the same ratio in 1989-94,

GROWTH – annual average growth of per capita GDP in 1990-2014, %,

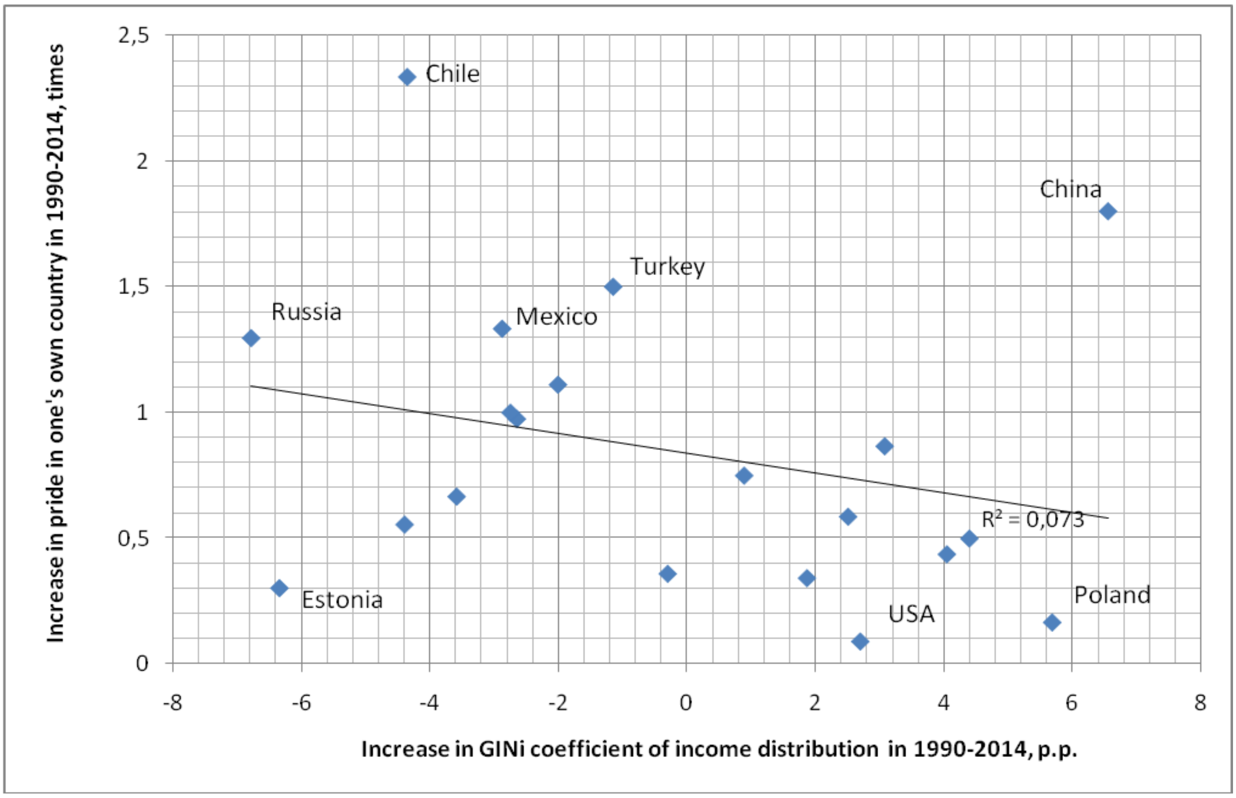
GINIincr – and the increase in Gini index of income inequalities in percentage points from the beginning to the end of the period of 1989-2014, p.p.

Fig. 5. Increase in the pride index, times, and annual average growth rates of per capita GDP, %, in 1989-2014



Source: World Values Survey; World Development Indicators database.

Fig. 6. Increase in the pride index, times, and increase in the Gini coefficient of income distribution, p.p., in 1989-2014



Source: World Values Survey; World Development Indicators database.

Figs. 5-6 allow to see several patterns of change in the pride index. In China pride index increased due to strong growth of per capita income and despite the noticeable increase in inequalities. In Chile, Mexico, Turkey and Russia the growth of per capita income was more modest, but income inequalities did not widen, but even decreased a bit. In Poland economic growth was moderate, but income inequalities widened and the pride index declined, whereas in the US the decline in the pride index was caused by both – weak per capita income growth and widening inequalities.

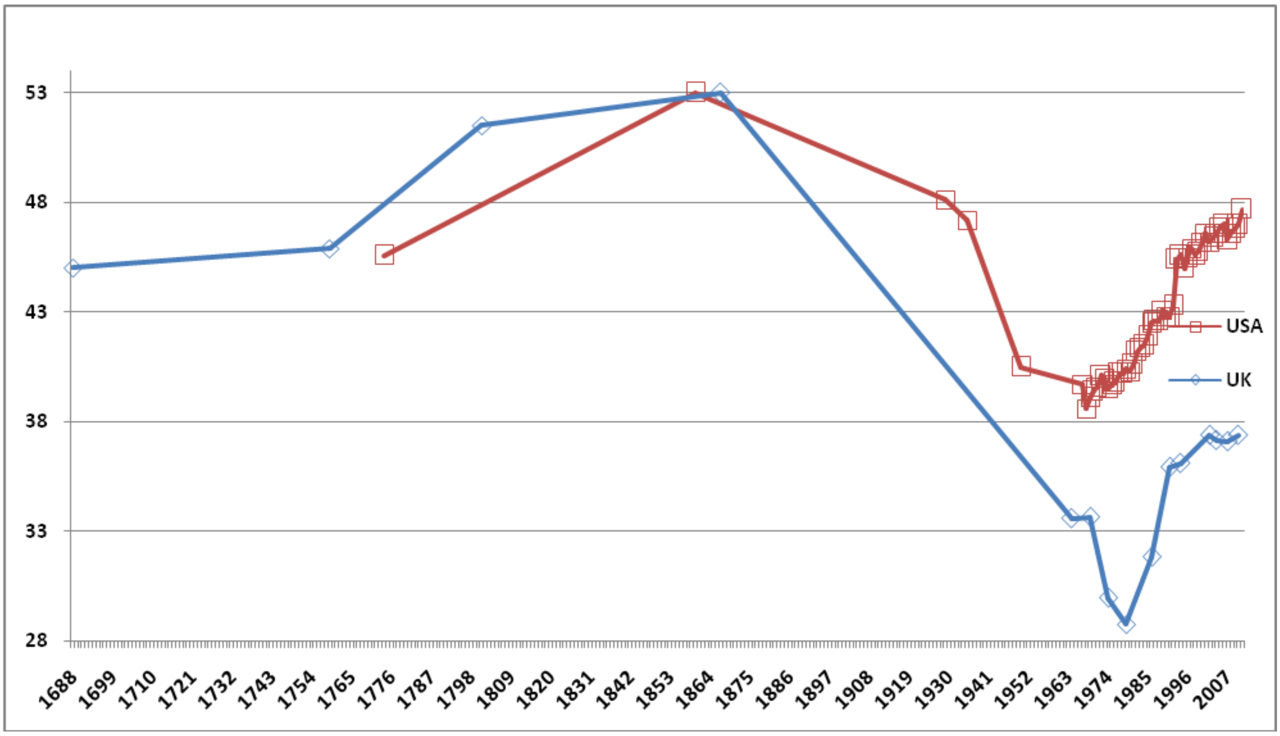
Case studies –US, EU, Russia

US

In the United States in the late eigtheenth century, income and wealth inequalities were initially probably lower than in Europe due to the absence of large accumulated fortunes in the New World and the availability of abundant 'free land'. In the late eighteenth century, the top 10 percent of wealth holders accounted for only 45 percent of total wealth in the US, compared to 64 percent in Scotland and 46-80 percent in Finland, Norway, Sweden and Denmark (Soltow, 1989). But it appears that inequalities increased greatly in the nineteenth century and in the early twentieth century, reaching a peak between the two world wars. Soltow (1989) finds some decrease in income inequality in 1798-1850/60 period in the US, and little or no increase in wealth inequality over the same period. However, the ratio of the largest fortunes to the median wealth of households (Figure 2; Phillips, 2002) suggests a different story. This ratio increased from 1000 in 1790 (Elias Derby's wealth was estimated to be worth $1 million) to 1,250,000 in 1912 (John D. Rockefeller's fortune of $1 billion), falling to 60,000 in 1982 (Daniel Ludwig's fortune of 'only' $2 billion), before increasing again to 1,416,000 in 1999 (Bill Gates' $85 billion fortune)!

In the long run, the recent rise in inequality in the US (and the UK) has not yet brought the Gini coefficients to the level of mid-late 19th century, but the speed of the increase of inequality seems to be unprecedented (fig. 7).

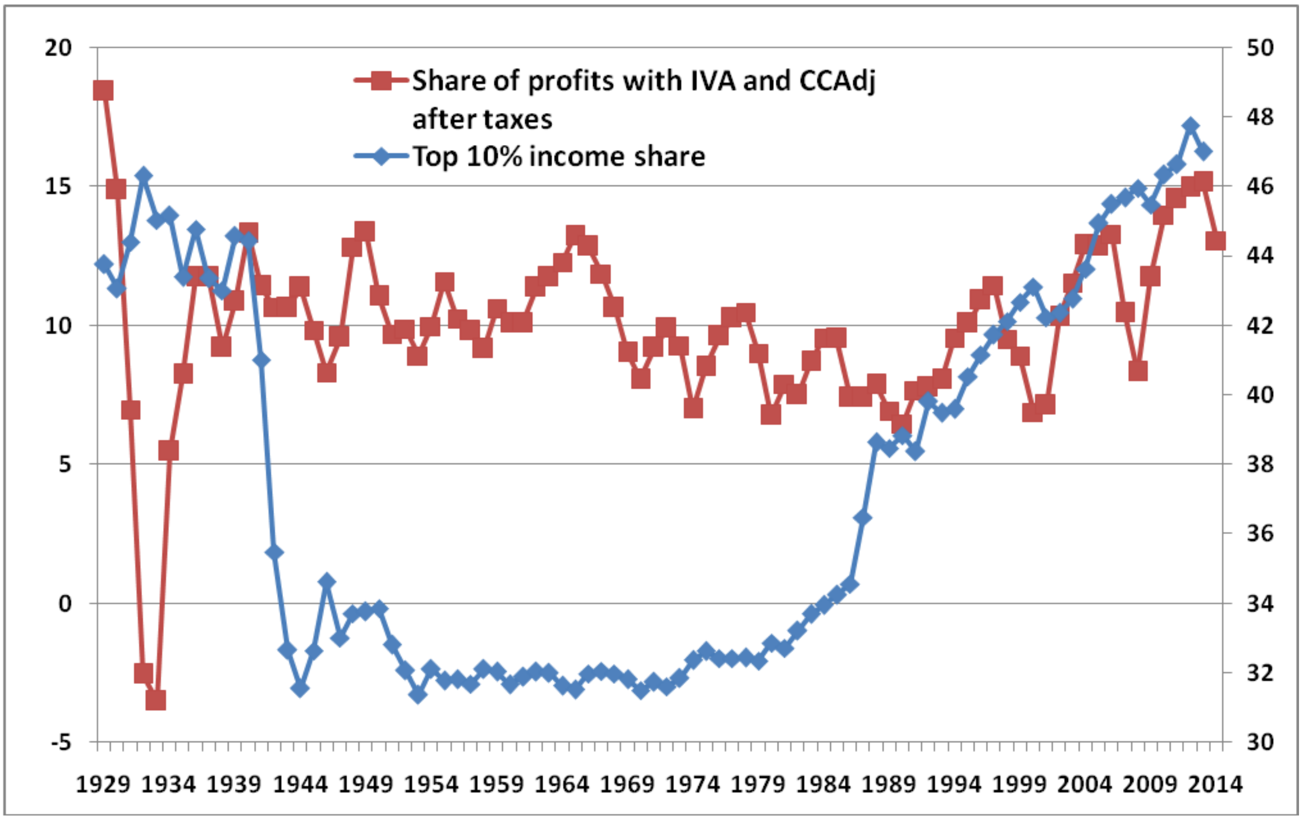
Figure 7. Inequality in the US and UK over the long run, Gini coefficients (%)



Sources: The Gini coefficients were computed by Milanovic from social tables before the twentieth century and from household survey and tax returns afterwards (Milanovic, 2011; Milanovic *et al.,* 2007), and personal correspondence with Milanovic. N.B. Comparable data for the 1867-1929 period are not available.

Also, the very recent trend towards increasing inequality seems to be unique in another respect – it has paralleled an increasing rate of profit. During the post-war Golden Age, typically, when profits were high, capital's success was shared with other social groups. In the 1950s and 1960s, for instance, wages, salaries and social security benefits grew together with rising profit margins. But since the early 1980s, profit margins have increased hand in hand with rising inequalities (fig. 8).

Fig. 8. Share of profit in net corporate income (left scale) and share of top 10% individuals in total income (right scale), %, in the US



Source: The World Wealth and Income Database. NIPA tables.

Adjusted for inflation, the top 10 percent of earners in the United States made, on average, $144,418 in 1979 and $254,449 in 2012. The bottom 90 percent of earners, on the other hand, made $33,526 in 1979 and $30,438 in 2012, i.e. about 9% less (http://www.politifact.com/truth-o-meter/statements/2015/jan/13/elizabeth-warren/warren-average-family-bottom-90-percent-made-more-/.

Economic misfortunes contributed to the increased mortality and morbidity, especially for the poor non-Hispanic whites, whose relative position and status declined the most. Case and Deaton (2015) document a marked increase in the mortality of middle-aged white non-Hispanics in the US after 1998 in all 5-year age groups from 30 to 55. The leading causes for the increased mortality were poisoning, suicide, chronic liver disease, and cirrhosis. Increasing mortality in middle-aged whites was matched by increasing morbidity. When seen side by side with the mortality increase, declines in self-reported health and mental health, increased reports of pain, and greater difficulties with daily living show increasing distress among whites in midlife after the late 1990s.

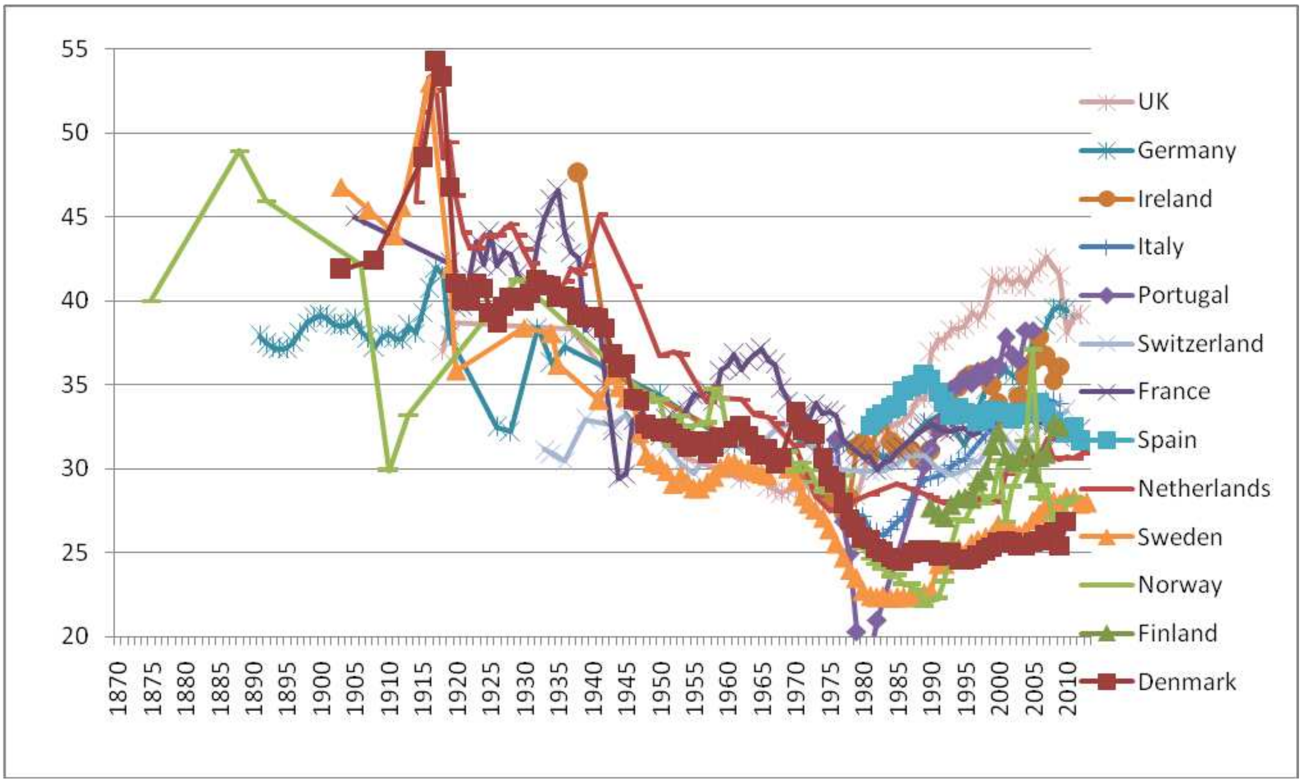
They see some economic reasons for such a mortality rise. "Although the epidemic of pain, suicide, and drug overdoses preceded the financial crisis, ties to economic insecurity are possible. After the productivity slowdown in the early 1970s, and with widening income inequality, many of the baby-boom generation are the first to find, in midlife, that they will not be better off than were their parents. Growth in real median earnings has been slow for this group, especially those with only a high school education. However, the productivity slowdown is common to many rich countries, some of which have seen even slower growth in median earnings than the United States, yet none have had the same mortality experience…. The United States has moved primarily to defined-contribution pension plans with associated stock market risk, whereas, in Europe, defined-benefit pensions are still the norm. Future financial insecurity may weigh more heavily on US workers, if they perceive stock market risk harder to manage than earnings risk, or if they have contributed inadequately to defined-contribution plans" (Case and Deaton, 2015).

This dominant ethnic group of non-Hispanic whites (about 200 million people out of over 300 million), especially men, is exactly the group that gave rise to nationalism in the US. As public opinion polls show, the greatest support for Trump in the US comes from white middle aged men without the college degree and relatively poor (http://politicsthatwork.com/blog/trump-supporters.php).

EU

In most European countries income inequalities increased since the beginning of the 1980s – the reversal of the trend that predominated since early 20th century (fig. 9). This increase in inequalities may be the single most important reason for the rise of nationalism. In Eastern Europe there was a transformational recession of the 1990s associated with the transition to the market economy – output fell by 20-50% in the course of 2-5 years (Popov, 2000), which certainly contributed to the rise of nationalism. But in Western Europe there was no major recession (except for Greece), economic growth was not very strong, but rather stable, recessions of 1993 (per capita GDP fell by 0.4%), 2009 (-4,7%) and 2012-13 (-0.4%) were overcome and average incomes, unlike in the US, by 2016 were way higher than in the 1980s. However, the progressing unevenness in income distribution undermined real incomes and social status of large groups of European population making them an easy target for the nationalist politicians.

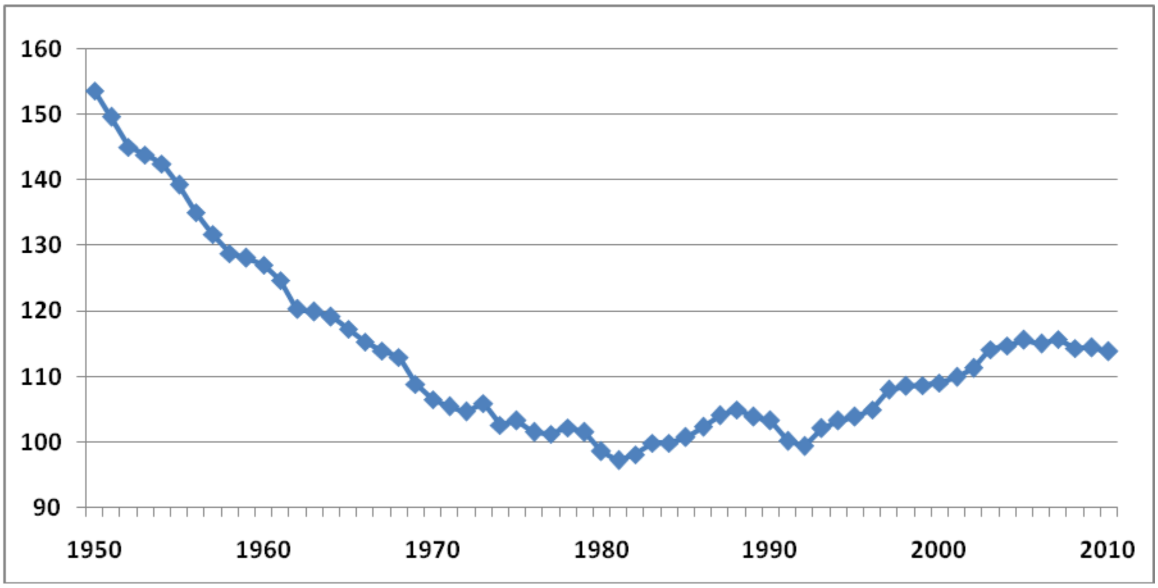
Fig. 9. The share of 10% richest households in total personal income in European countries in 1875-2013, %



Source: The World Wealth and Income Database.

Britain may be the case in point. The rise in nationalism is often explained by unfairness and humiliation experienced by the whole nation (for instance, Germany after the First World War or developing countries where costs of globalization are often higher than benefits). In Britain, however, the recent rise of nationalism did coincide with the relatively successful economic development and with the improvement of its economic positions versus the major competitors. Britain was falling behind continental Western Europe in terms of its per capita income and this trend was reversed only after Britain entered the EU (fig. 10).

Figure 10. PPP GDP per capita in Britain as a % of average level of 30 West European countries



Source: Maddison project, 2013.

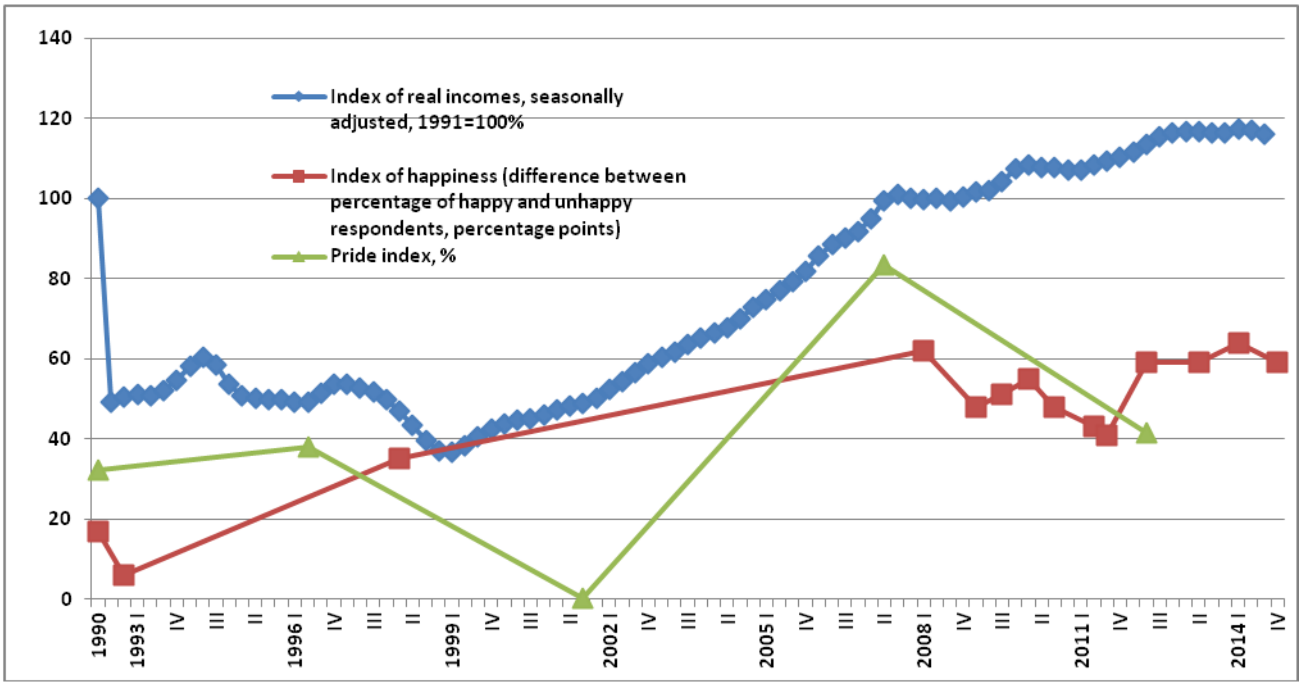
From the point of view of economic efficiency and future growth, Brexit is bad for the EU and especially bad for Britain. 70% of the Dahrendorf working group members and expert believe that Brexit will weaken the UK, but EU will muddle through (Oliver, 2016). But the majority of British voters apparently blamed economic difficulties not on policies that allowed inequalities to increase, but on the European integration and globalization.

Russia

Russia experienced a prolonged and deep transformational recession – output fell by 45% in 1989-98. It nearly recovered to the pre-recession Soviet levels of 1989 by 2008, but in 2009 fell again by a good 8%. In 2010-13 GDP increased by 5%, but fell again by nearly the same amount in 2014-16. The dynamics of real incomes was similar (fig. 11) – they surpassed the 1990 level only after 2008-09 recession.

The Russian population, like any other, wants better living standards and a better social climate. Growing incomes and longer life expectancies, lower unemployment and crime rates in Russia, like in other countries, all other things being equal, lead to greater satisfaction with life, higher evaluation of one's prosperity/happiness and greater feeling of pride in one's own country (Table 2 and Figure 11). The sharp decline of living standards in the 1990s and the steep increase in income inequalities (fig. 12) led to the rise of nationalism as measured by the decline in pride index and decline in the happiness index.

Figure 11. Real income index, Happiness index and Pride index



Source: Goskomstat; Russian economic statistics base, HSE website (http://sophist.hse.ru/exes/tables/HHI_Q_I.htm), VTSIOM. (http://wciom.ru/index.php?id=459&uid=114812); World Values Survey.

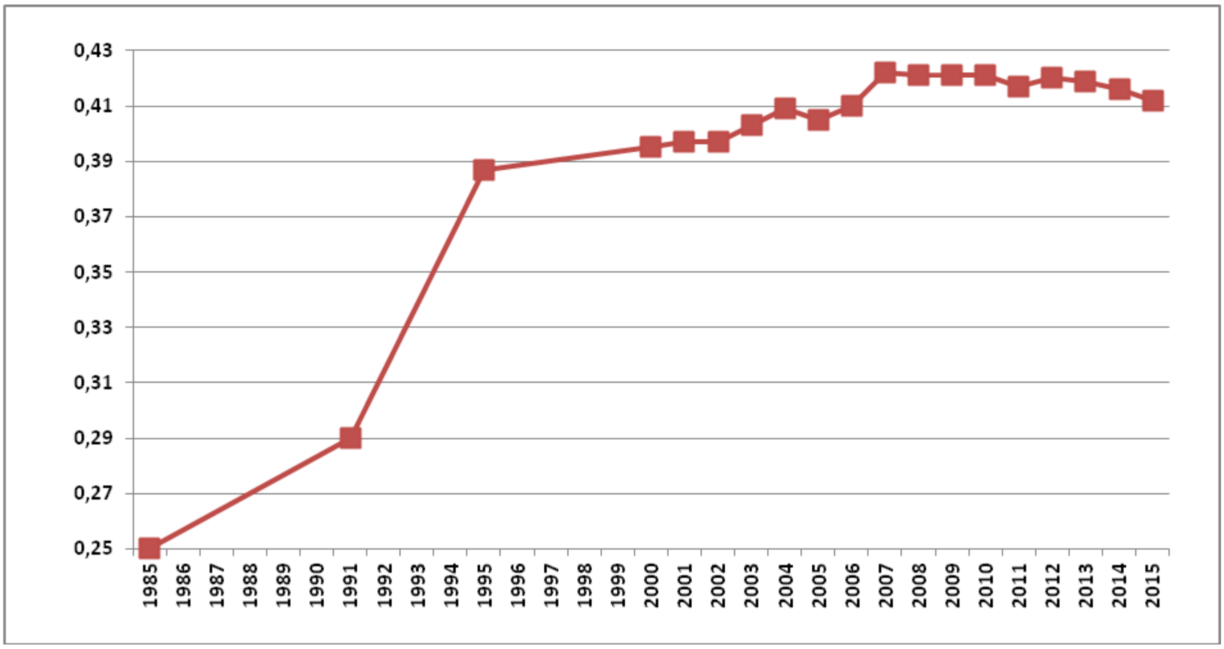
Table 2. Answers to the question "Are you happy?" (% of total respondents) and Happiness Index in Russia, according to VTSIOM polls

Month, year	**6/ 1990**	**5/ 1991**	**2/ 1992**	**2/ 1998**	**3/ 2008**	**3/ 2010**	**9/ 2009**	**3/ 2010**	**9/ 2010**	**4/ 2011**	**9/ 2011**	**4/ 2012**	**4/ 2013**	**4/ 2014**
Definitely yes	5	8	2	16	22	19	19	20	14	19	15	21	23	25
Basically yes	39	52	40	44	55	50	53	52	56	48	51	56	54	53
Basically no	22	24	31	19	12	16	17	14	19	20	21	16	15	22
Definitely no	5	5	5	6	3	5	4	3	3	5	4	2	3	2
Hard to say	29	12	23	15	8	11	7	11	9	8	9	5	6	8
Index	17	31	6	35	62	48	51	55	48	43	41	59	59	64

Note: Happiness Index is the difference between the percentage of respondents who said that they were happy and those who stated that they were unhappy.

Source: Russian Public Opinion Research Center (VTSIOM) (http://wciom.ru/index.php?id=459&uid=114812)

Fig. 12. Income inequalities in Russia, Gini coefficient

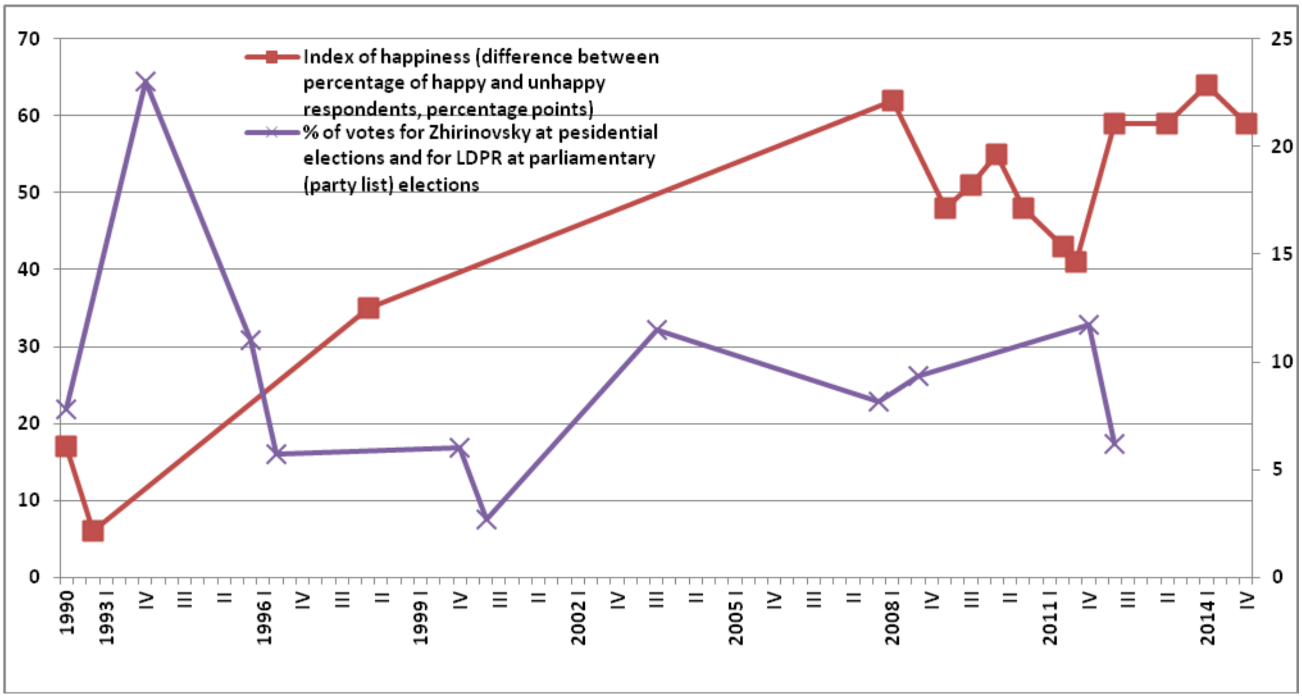


Source: Goskomstat (www.gks.ru).

There were two outbursts of nationalism – in the early 1990s (this wave gradually subsided during the macroeconomic stabilization period of 1995-98) and right after the currency crisis of August 1998 that led to the new drop in real incomes, rise in crime, mortality and inequality. Turning points in the happiness index and pride index shown at the charts do not always tell full story because for some periods the data are lacking. But the correlation of these indicators with real incomes is quite obvious – the reduction of incomes and pride and happiness indices in the 1990s, the increase in the 2000s when oil prices were growing, and stabilization and some decline during and after the recessions of 2008-09 and 2014-16. It is also noteworthy that the percentage of votes casted for nationalist Liberal Democratic Party and its leader Mr. Zhirinovsky was generally high, when happiness index was low (fig. 13) – an additional evidence that nationalism thrives on economic turmoil and the rise in social inequality.

It is also noteworthy that there was no major surge in nationalist feelings in Russia during and after the 2008-09 recession, when the economy was barely growing or not growing at all. The explanation is probably associated with some stabilization of social sphere – income inequalities stopped growing and even declined somewhat (fig. 12), crime rates and murder rates declined markedly.

Fig. 13. Happiness index and percentage of votes casted for LDPR at the presidential and parliamentary elections



Source: World Values Survey; Central Electoral Commission of Russian Federation.

Conclusions

The rise of nationalism in recent decades seems to be associated with the increase in income inequalities. In some countries income inequalities did not increase and nationalist and anti-globalist feelings are more related to the slowdown of growth and other reasons, but in most countries there was an increase in income and wealth inequalities since the 1980s – a reversal of the trend of over 50 years that created a fertile ground for rise of nationalism.

The fall of the Berlin Wall, collapse of the USSR and the conversion of Eastern Europe and former Soviet republics to capitalism, added additional push to the growing income inequalities trend due to both – the disappearance of "socialist counterbalance" for the Western capitalism and the rise in inequalities in the transition countries of Eastern Europe and former Soviet Union themselves.

It may be hypothesised that the continuation of these trends could result in two outcomes. First, there may be social upheavals in some countries, where social tensions due to growing inequalities will become unbearable and produce a social turmoil. And the rise of nationalism may lead to conflicts, if not wars, between countries, with collapse of the international trade and capital flows, like in the 1930s. Then the world goes once again over the familiar 20th century historical track and there may be a pause in or even the reversal of globalization, like during the Great Depression, when the outburst of protectionism led to the decline of the international trade and capital movements. This is the worst scenario: the world degrading into social and national conflicts.

Second, countries that carry out successful policies of limiting inequalities would become more competitive, driving other countries "out of business". Even small countries, if they are successful, may create a counterbalance through the demonstration effect to the tendency of unconstrained capitalism to cut welfare programs and increase inequalities. By limiting inequalities these societies will be drifting in the direction of socialism. They may regulate the functioning of the market mechanisms through direct interventions and high progressive taxation to reduce bubbles and windfall profits. Besides, the crucial way of lowering inequalities is public and collective property, so it could be expected that state enterprises, non-profit institutions, labour managed enterprises and coops, operating not for profits, but for public good would become more common. There may be a rise of the new grass root socialism growing from below that would become more competitive than capitalist societies (Popov, 2014c). Such a more optimistic scenario implies that social upheavals within countries and national conflicts between countries could be largely avoided.

These are only the hypotheses of course, based on the projection of current trends into the future.

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[i] Recent data from the representative nationwide household survey suggest that the Gini index in China may be even higher (47-49% in 2003-12) than previous separate survey in rural and urban areas indicated, but was not really growing in the recent decade. It is important though to take into account the size of the country – in terms of both territory and population. 3 Chinese provinces (Guangdong, Shandong, Henan) have population over 95 million, another 7 – over 50 million, i.e. bigger that most state, so China should be compared with multistate regions, like European Union or ASEAN, rather than with particular states. In EU 27, for instance the coefficient of income inequality around 2005 was about 40% with 23 p.p. coming from between the countries inequalities. In China (29 provinces) it was over 40% with 24 p.p. coming from between the provinces disparities. In the US, the inequality coefficient was similar (over 40%), but only 6 p.p. came from disparities in income between the states (Milanovic, 2012). If China will manage to reduce the income gap between its provinces (and EU – between countries) to the level close to disparities between US states, it general inequality between citizens will fall to quite a low level.