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- November 2018 (16)
- October 2018 (11)
- September 2018 (6)
- August 2018 (5)
- July 2018 (4)
- June 2018 (14)
- May 2018 (16)
- April 2018 (11)
- March 2018 (13)
- February 2018 (9)
- January 2018 (11)

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The Real Winners and Losers of Globalization

SUBMITTED BY BRANKO MILANOVIC ON FRI, 12/14/2012

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It is generally thought that two groups are the big winners of the past two decades of globalization: the very rich, and the middle classes of emerging market economies.

The statistical evidence for this has been cobbled together from a number of disparate sources. The evidence includes high GDP growth in emerging market economies, strong income gains recorded for those at the top of the income pyramid in the United States and other advanced economies, as well as what seems to be the emergence of "a global middle class" and casual observations of the rising affluence of Chinese and Indians.

Until now, there was no single source from which these insights could be checked, confirmed, qualified or rejected.

However, thanks to a database of household surveys put together recently by the World Bank, we can actually find out for the first time, from a single and consistent data source, who the real winners and losers of globalization are. The results give us a much more finely grained picture of the distribution of income gains associated with globalization.

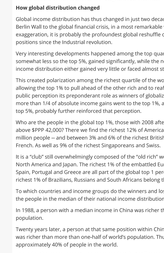
The new data set represents a compilation of household surveys from more than 120 countries for the period 1988-2008, "centered" at five year intervals, at 1988, 1993, 1998, 2003 and most recently, 2008. Household surveys are nationally representative surveys of people's income or consumption.

When household surveys are conducted in a sufficient number of countries, they can be combined to produce a global depiction of global income distribution. Of course, for them to be comparable also requires adjusting prices in countries that are reported in national currencies. This adjustment is done by converting incomes into so-called dollars of equal purchasing power (PPP dollars) such that with $PPP 1 dollar, a person can purchase the same amount of goods and services in any part of the world.

Who gained and who lost?

What parts of the global income distribution registered the largest gains between 1988 and 2008? Its figure below shows, it is indeed among the very top of the income distribution and among the emerging global middle class, which includes more than a third of the world's population, that we find most significant increases in per capita income.

Percentage change in real income, 1988-2008, at various percentiles of global income distribution (calculated in 2005 Purchasing Power Parity (PPP dollars)



Note: based on preliminary calculations.

The top 1% has seen its real income rise by more than 60% over those two decades. (All the amounts are expressed in 2005 international dollars.)

An even greater increase was realized by those parts of the global income distribution that lie around the median: almost 80% real increase at the median itself, and some 70% around it.

It is there, between the 50th and 60th percentile of global income distribution (which in 2008, includes people with annual after-tax per capita incomes in US$ equivalent between 1,100 and 1,600 international dollars) that we find some 270 million Chinese, 40 million Indians, 35 million Indonesians, and about 20 million people each from Brazil, Egypt and Mexico.

The surprise is also that those at the bottom of the global income distribution have also made significant gains, with real incomes rising between more than 40% and up to 60%. The only exception is the poorest 5% of the population whose real incomes have increased by 16% only. These numbers are sufficiently low to taken with a grain of salt because among the very poor, we deal with people whose incomes are less than $PPP 300 and small variations in sample composition and measurement can change the results by amounts of 10 or 20 dollars, per year, which, translated in percentages, may produce large gains or losses. So, the best we can say is probably that the very bottom of the global income pyramid remained about as equally poor in 2008 as twenty years earlier.

But more substantial and thus more certain increases in income among those slightly less poor allowed the proportion of what the World Bank calls the absolute poor (people whose per capita income is less than 1.25 PPP dollars per day) to decrease from 44% to 23% over approximately the same 20 years.

The biggest "non-winner" (other than the very poorest 5%) of globalization were those between the 80th and 90th percentile of the global income distribution whose real income gains were in single digits. These people, who can be called a global upper-middle class, include many from former Communist countries and Latin America, as well as citizens of rich countries with stagnant real incomes.

How global distribution changed

Global income distribution has thus changed in just two decades, from the fall of the Berlin Wall to the global financial crisis, in a most remarkable way. Without exaggeration, it is probably the profoundest global reshuffle of people's economic positions since the Industrial revolution.

Very interesting developments happened among the top quartile: the top 1%, and somewhat less so the top 5%, gained significantly, while the next 20% in the global income distribution either gained very little or faced almost stagnant real incomes.

This created polarization among the richest quartile of the world's population, allowing the top 1% to pull ahead of the other rich and to reaffirm both in fact and in public perception its preponderant role as winners of globalization. The fact that more than 1/4 of absolute income gains went to the top 1%, and more than ½ to the top 5%, probably further reinforced that perception.

Who are the people in the global top 1%, those with 2008 after-tax per capita income above $PPP 42,000? There we find the richest 12% of Americans – more than 30 million people – and between 3% and 6% of the richest British, Japanese, German and French. As well as 9% of the richest Singaporeans and Swiss.

It is a "club" still overwhelmingly composed of the "old rich" world of Western Europe, North America and Japan. The richest 1% of the overall-rich countries of Italy, Spain, Portugal and Greece are all part of the global top 1 percentile. However, the richest 1% of Brazilians, Russians and South Africans belong there too.

To which countries and income groups do the winners and losers belong? Consider the people in the median of their national income distributions in 1988 and 2008.

In 1988, a person with a median income in China was richer than only 10% of world population.

Twenty years later, a person at that same position within Chinese income distribution, was richer than more than one-half of world's population. Thus, she leapfrogged over approximately 40% of people in the world.

For India, the improvement was more modest, but still remarkable. A person with a median income went from being at the 18th percentile globally to the 27th, while a person at the same income position in Indonesia went from the 25th to 39th global percentile.

An average person in Brazil gained, too. She went from being around the 40th percentile of global income distribution to about the 66th.

The position of large European countries and the United States remained about the same, with median income recipients there in the 80s and 90s of global percentiles.

So who lost between 1988 and 2008? Mostly people in Africa, some in Latin America and former Communist countries.

In 1988, an African with the median income of the continent had an income equal to two-thirds of the global median. In 2008, that proportion had declined to less than one-half.

These results show a remarkable change in the underlying global income distribution. We now live in a world with a bulge around the median with significantly rising incomes for the entire second third of global income distribution. That is the new "aspiring" global middle class.

We also see growing wealth and (probably) power of those at the very top and, remarkably, stagnant incomes for both the very poorest and the people just below the richest 1%

If emerging market economies continue to post similar growth rates over the next 20 years, we might see the bulge in the figure moving rightward. In that case, people from those countries would enter the ranks of the global upper middle class. And many of them would make it to the top 1-5 percent.

A longer version of this post appeared on The Globalist. Also, follow the discussion about this on From Poverty to Power.

Tags: Poverty | Poverty | globalization | Global Inequality

Comments

Questions for Dr Milanovic

SUBMITTED BY MATT BERKLEY ON SUN, 12/30/2012 - 11:27

Branko Milanovic wrote: "...thanks to a database of household surveys put together recently by the World Bank, we can actually find out for the first time, from a single and consistent data source, who the real winners and losers of globalization are." Matt Berkley: As a non-economist, perhaps I am failing to understand your thinking. The data BMI: a) analysis of what people need to spend, b) capital gains or losses, c) changes in debt levels, d) non-traded benefits such as health + education services or environmental factors, e) spending on things which may be neutral or harmful such as overuse of drugs (tobacco, alcohol), f) spending on things which may represent partial or total compensation for disbenefits such as in the case of medical expenses; g) demographic influences on population or population-segment statistics, as distinct from influences deriving from trend changes for individuals and/or families - you are trying to aggregate longitudinal trends for individuals from cross-sectional statistics. There may be a reason or reasons why you make that statement in the light of those omissions. Could you please explain what such reasons are? Secondly, could you please say why you are there is a single and consistent data source (see below on survey methods and possible variation)? BMI: Household surveys are nationally representative surveys of people's income or consumption. MM: strictly speaking, the surveys are not of either. They are of answers to questions about income, consumption-expenditure and/or the value imputed by researchers to answers on own produce consumed. My third question = Why do you say they are nationally representative when: a) Martin Ravallion has said that the rich and the destitute are hard to reach; and b) the survey methods may vary across time or across countries in respect of recall periods, questions asked, methods of imputing value to own produce (farm-gate prices versus market prices) and so on? BMI: This adjustment is done by converting incomes into so-called dollars of equal purchasing parity (PPP dollars) such that with $PPP 1 dollar, a person can purchase the same amount of goods and services in any part of the world. BMI: Fourthly I am unable to see what you say about what has been done with these adjustments is true. Why did you say people can purchase the same amount of goods and services in different places with a PPP dollar, and by implication could do so at different times? For all years prior to 2005 the conversions were done wholly from national CPI rates. These were not adjusted for spending or consumption patterns, or prices faced by the people, at any different levels of spending/income/quality-value of own-produce-consumed. In practice, I cannot purchase the same amount (or the equivalent amount) of goods and services in different countries with such a PPP dollar's worth of local currency, because I cannot buy a tiny fraction of an expensive item. Expensive items have disproportionate effects relative to the numbers of people buying them on the CPI. So it is hard for me to see how what you say is true even for purchasing power over the mix of all goods and services that the national CPI measures. Whether it is true for purchasing power over items people actually buy or different levels of spending/income etc - for example at the $PPP $1.25 level - is still unclear. There may be some reason why you infer that the buying power of PPP dollars does not vary across countries or times according to levels of spending etc - if so, perhaps you could explain the reason. Similarly, your references to "real income" are in the context of national PPP rates for all levels of spending/income etc. at least most of the period. BMI: ...the proportion of what the World Bank calls the absolute poor (people whose per capita incomes less than 1.25 PPP dollars per day)... MM: The context (your mention of those slightly less poor than the poorest 5%) does make it to the kind of level you are talking about. But your phrase "what the World Bank calls the absolute poor" is incorrect. They are in fact people the World Bank calls "extremely poor" in the charts and table that what is being measured is absolute poverty. Also, it is not really simply income, as mentioned above. The World Bank Millennium Goal monitoring team of Chen and Ravallion chose the $1.25 line you mention because they see it as representative of the lowest 15 or so national "poverty lines" in the years closest to 2005. They chose the $2 line as representing the median "poverty line" in "developing countries". The mean line would be somewhat higher. Fifthly, why are you using the terms "real income" or "absolute income" gains when it is not really income, and the inflation adjustments are not for prices faced by people at different levels, and there is no mentioned thought about needs for expenditure on rent, food or other things? BMI: In 1988, a person with a median income in China was richer than only 10% of world population. Twenty years later, a person at that same position within Chinese income distribution, was richer than more than one-half of world's population. Thus, she leapfrogged over approximately 40% of people in the world. MM: The sixth question is this: Why are you saying she became richer than that proportion of people? The statistics on countries as a whole are based on answers to questions about what people spend etc, as described above. Spending is, if one assumes for some reason that the answers were accurate and the data adequately comparable in reliability and survey methods, a measure of flow, not acquisition. So is income.

reply

Although people still

SUBMITTED BY SMITH BAKER ON TUE, 09/16/2014 - 04:30

Although people still identify with their local communities and national governments, many increasingly see themselves as part of a global society. However, globalization does not affect all regions in the same way. Individuals and corporations in industrialized countries tend to benefit more than those in developing countries do. Goods and services now move more freely across countries than ever before. Ongoing declines in the cost of long-distance communication and transportation and in national restrictions on international trade and investment have allowed world economies around the world to become increasingly integrated, thereby enhancing productivity growth and expanding consumer choices. In parts of the developing world and especially in East Asia, globalization has been accompanied by an increase in living standard hardly imagined just a generation ago. At the same time, globalization has also become the focus of widespread controversy. In particular, concerns about adverse consequences for income distribution have fueled policy initiatives that threaten to turn back the clock.

Read More:
http://www.researchomatic.com/Are-Globalisations-Benefits-Greater-Than-Its-Costs-63574.html

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