

# *A Global Boom, but Only for Some*

MARCH 18, 2014 Eduardo Porter \_NYT ECONOMIC SCENE

Remember when Al Gore took on H. Ross Perot? It was November 1993. Mr. Gore deployed his smoothest scorn to swat down the cantankerous billionaire's argument that the North American Free Trade Agreement would produce a "great sucking sound" of jobs flowing to Mexico. The agreement, Mr. Gore said, would become an engine of American prosperity.

What struck me was not how Mr. Gore won the debate — he did — but rather how his arguments often intertwined the prosperity of the American middle class with the lot of the world's poor.

Twenty years later, it is astonishing how our understanding of globalization has changed. Mexico? American jobs went to China instead.

More important, two decades worth of trade deals, including Nafta and China's entry into the World Trade Organization, did not live up to Mr. Gore's implicit promise that globalization would improve the living standards of most American workers. Instead, globalization is now often perceived as a leading driver of rampant inequality and wage stagnation.

But what globalization did achieve was to greatly improve the lot of hundreds of millions of people in China and other corners of Asia. The lopsided results have opened a rift between the experience of global capitalism between the developed world and many poor countries.

Branko Milanovic, an expert on global development who was formerly at the World Bank and who is now at the City University of New York's Graduate Center, puts it succinctly. From a global perspective, two decades of globalization have produced what "seems like a fairly benign outcome." If you look at the world as a single nation, income inequality has, in fact, declined. Income in the middle has grown faster than at the top.

What's happened is that while income growth stalled for middle-class workers in developed countries and surged for people in the 1 percent, it also grew sharply for hundreds of millions of workers in China, India and other Asian countries. In the late 1980s, for instance, workers in the middle of China's urban income distribution made 56 percent of the median American income, according to Mr. Milanovic's calculations. By 2008, that figure rose to 71 percent.

This is astonishing progress. And although incomes of workers in the developed world didn't rise much as the Asian poor moved up the ladder, they didn't fall either: Globalization lifted all boats.

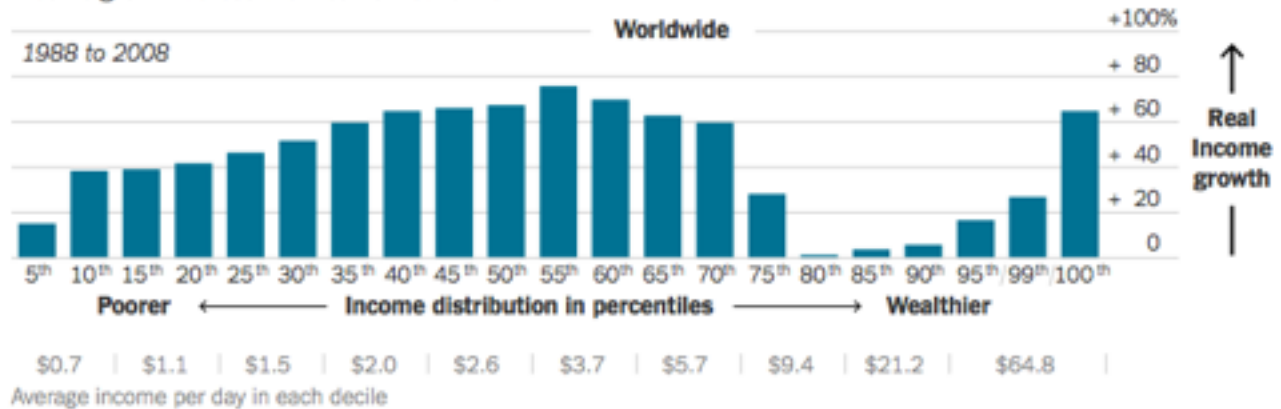
The new pessimism in the developed world is perhaps best captured by the Nobel laureate Joseph Stiglitz, who in 1997, as chief economic adviser to President Bill Clinton, likened workers displaced by trade agreements to blacksmiths displaced by cars, asking, "Are we going to say we're not going to allow the automobile?" By Saturday, his views had changed. The old idea that winners from trade would compensate losers is based on many assumptions "which are simply wrong," he wrote in The New York Times. Most Americans, are "on the wrong side of globalization."

But as Dani Rodrik of the Institute for Advanced Study put it to me: "If you were an ethical cosmopolitan you'd say 'To hell, what do I care?' The world has become less unequal and has experienced a lot of poverty reduction."

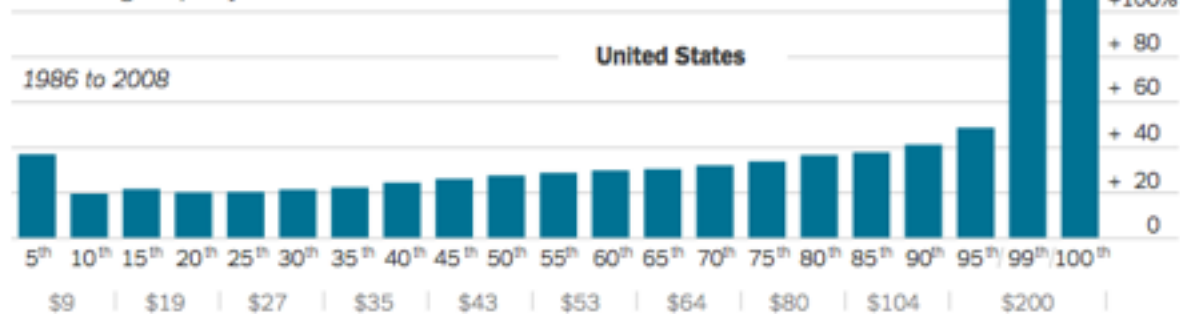
## Inequality at Home and Abroad

Fast growth in China, India and other Asian countries has risen the income of the global middle class, reducing income inequality on a global scale over the last two decades.

### Income growth across the income distribution



The global dynamics bolstering incomes in China are also contributing to widening inequality in the United States and other countries.



Source: Branko Milanovic

Notes: Average incomes are for 2008, measured in constant 2005 dollars. Global incomes are measured at 2005 purchasing power parities.

There are, however, powerful reasons to worry about this pattern of global development. “If there are hundreds of millions of people that were in abject poverty one generation ago and are not anymore, that is an important and positive thing,” said Damon Silvers, policy director at the A.F.L.-C.I.O. “But I don’t think we should accept radical inequality as a necessary corollary of equal development.”

And indeed, the equalization of incomes between countries has been accompanied by growing income inequality within most nations, rich or poor. With [wages growing more slowly than productivity](#), workers from China to Germany have been taking a dwindling share of the economic pie.

China may have lifted hundreds of millions of workers out of poverty. But workers’ share of China’s income fell from nearly two-thirds in the early 1990s to less than one-half in 2008, according to the International Labor Organization.

“On the one hand you have people moving from extreme poverty to a little better than poverty,” said Ben Davis, director of International Affairs for the United Steelworkers union. “But at the same time you have the world’s income distribution becoming more skewed from workers to billionaires.” This pattern of global development is unlikely to be stable.

The economic catch-up by Asia’s developing countries over the last 20 years relied on a wave of global

prosperity that is unlikely to be repeated.

Exporting powerhouses were allowed to build up vast trade surpluses, while consumers in the United States used cheap foreign capital to maintain their standard of living on easy credit. Commodity exporters relied on a commodity boom. Poorer European countries relied on capital inflows set off by the euro.

“There was a lot of unsustainability building into the system, but for two decades everybody was doing relatively well,” Mr. Rodrik said.

Many developing countries probably hope the pattern will continue. “If you see China as the first wave of very cheap labor, after China you have other countries like India, and after that Bangladesh and countries in Africa,” Mr. Milanovic said. “You could have, say, 20 to 50 years of stagnation of the lower middle class in the West.”

But in the new world of lower growth and higher unemployment, the United States and other rich nations are unlikely to tolerate similar imbalances. The question is what will happen as countries push back against export-led growth strategies, as commodity prices fall and capital flows fail to recover to their former scale.

Mr. Rodrik says he believes a relatively benign though less globalized future is attainable, one in which progressive taxes finance more robust safety nets and macroeconomic policies are geared to maximize employment. Trade may not grow as much as it has and capital flows may moderate, but economies will remain relatively open.

History, however, offers other options.

Politics, we know, are mostly local. Whatever happens on the global scale, the concentration of income within nations — and stagnating wages in the developed world — complicates the national politics of maintaining an open, rule-bound global economy. “Inequality in developed and developing countries is politically dangerous,” Mr. Silvers told me. “Over time it is likely to produce political instability and authoritarianism.”

Or we could simply turn our back on globalization. Twenty years ago, in their debate on “Larry King Live,” Mr. Gore gave Mr. Perot a gift: a framed picture of Senator Reed Smoot and Representative Willis Hawley. In 1930, the pair persuaded Congress to pass a bill that essentially ring-fenced the United States with a tariff to protect American workers from predatory imports. “It was one of the principal causes,” Mr. Gore said, “of the Great Depression in this country and around the world.”