



# Global Competition, Workers and the Gap Between Rich and Poor

## An American Perspective

by

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## Globalization and income inequality

- **Gap between rich and poor countries**
- **Gap between rich and poor --**
  - In poor countries
  - In rich countries
- **My focus: Evidence on gap in the USA**

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## The **poorest** countries: Containing 5% of world population

- **1980:**
  - ETHIOPIA
  - TANZANIA
  - BHUTAN
  - BANGLADESH
  - YEMEN
  - MOZAMBIQUE
  - CHAD
  - MALAWI
  - LAOS
  - VIETNAM
- **2000:**
  - SIERRA LEONE
  - ETHIOPIA
  - TANZANIA
  - CONGO (DEM. REP.)
  - BURUNDI
  - YEMEN
  - MALAWI
  - MALI
  - RWANDA
  - NIGER
  - NIGERIA

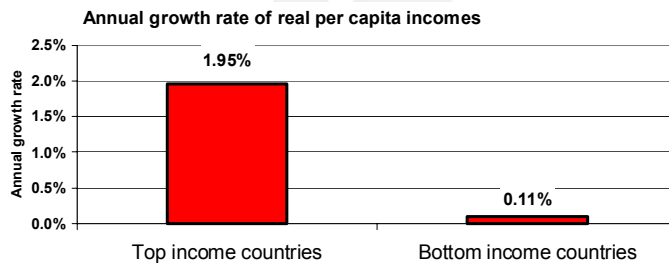
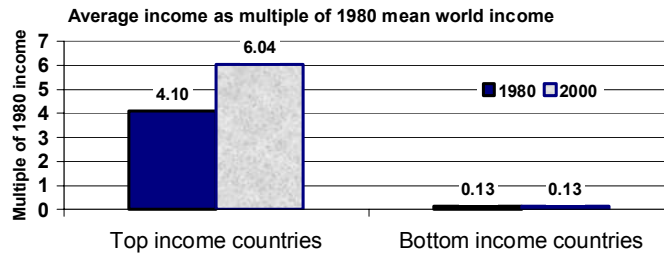


## The **richest** countries: Containing 5% of world population

- **1980:**
  - QATAR
  - UNITED ARAB EMIRATES
  - LIBYA
  - SWITZERLAND
  - UNITED STATES
- **2000:**
  - QATAR
  - LUXEMBOURG
  - UNITED STATES
  - SINGAPORE
  - NORWAY
  - CANADA



## Income trends: Richest & poorest countries, 1980-2000



Source: Author's tabulations of IMF World Economic Outlook data (May 2001).

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## Income trends: Richest & poorest countries, 1980-2000

- The basic trends seem clear:
  - Residents of the highest income countries had real income growth of about 2% per year
  - Residents of poorest countries experienced almost no real income growth (0.11%/yr.)
- Rich countries are getting richer; Poorest countries are hardly growing at all

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## Income trends: Richest & poorest countries, 1980-2000

- The trends seem less clear when we examine real income changes in **all** of the poor countries
- The **biggest** poor countries -- China & India -- are growing faster than the richest countries

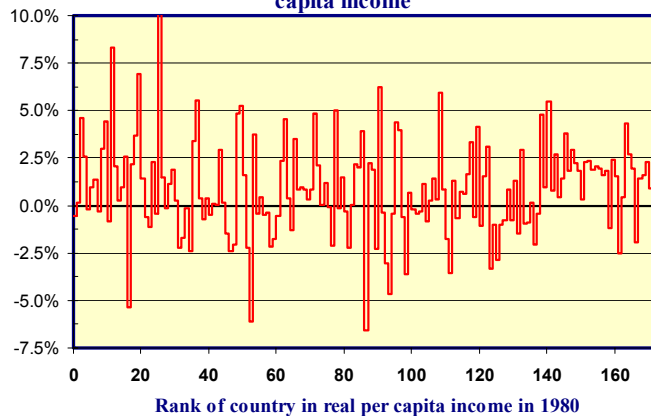
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## Income trends, 1980-2000: Not accounting for country size

Annual rate of growth in real GDP per capita when countries' are ranked from lowest to highest 1980 per capita income

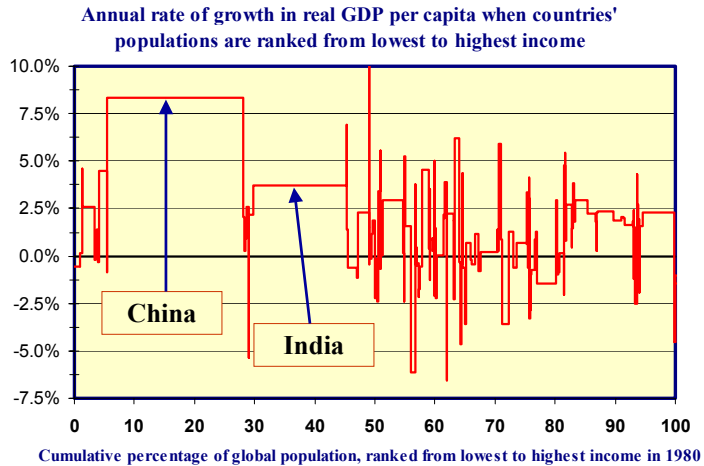


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## Income trends, 1980-2000: Accounting for country size



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## What about rich-poor gap in the industrialized countries?

- Income inequality has increased in most OECD countries since 1980
- It has increased more in a few countries (*U.K. + U.S.A.*) than others (*France, Germany, Italy, Canada*)
- Countries with faster inequality growth have enjoyed faster income growth
- How much of the inequality trend is due to global competition?

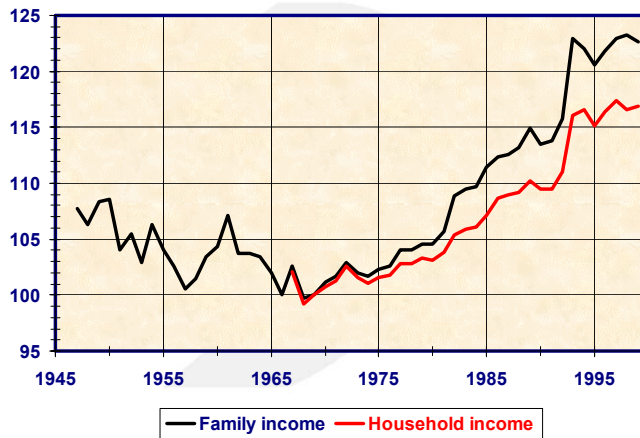
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## Growth of US income inequality

Gini Coefficient of Income Inequality (1969 = 100)



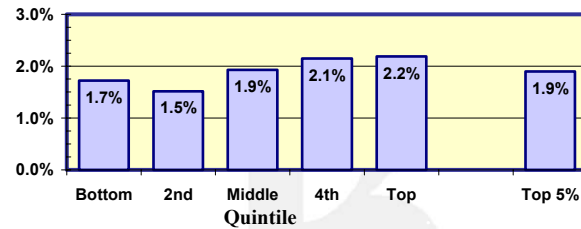
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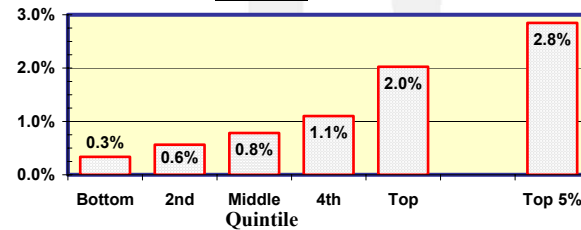


## Growth of US income inequality: Income change in fifths of income distribution

Percent change per year: 1966-1979



Percent change per year: 1979-2000



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## Wage disparities increased after 1979

- From 1979-1995 wages *declined* --
  - For young workers -- especially men
  - Workers with little schooling
  - Workers with few skills
- Wages rose sharply for --
  - Workers with advanced skills
  - Workers at very top of earnings distribution: Top managers, scientists

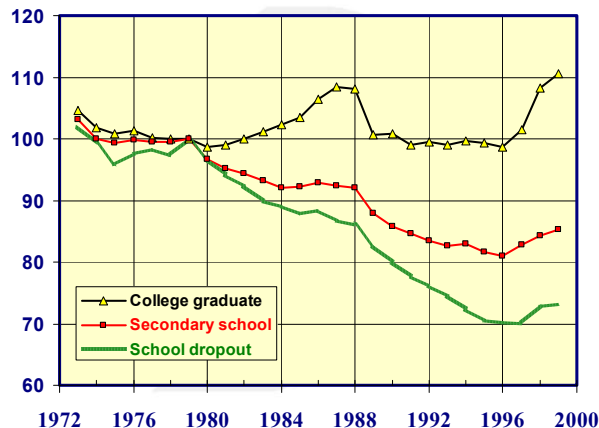
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## Wage trends among American men: By education level

Wage in 1979 = 100



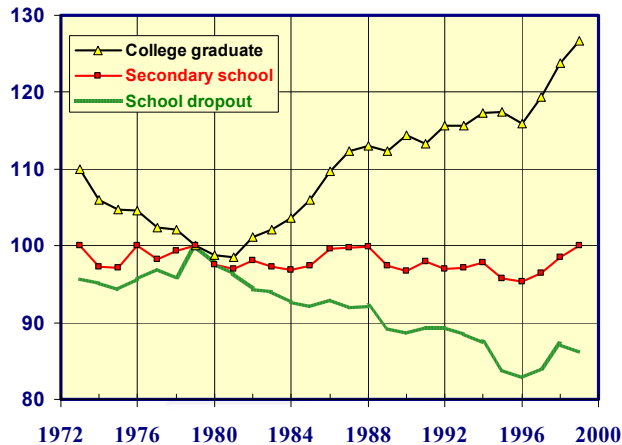
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## Wage trends among women: By education level

Wage in 1979 = 100



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## These wage trends are consistent with impact of global competition

- Goods from poor countries -- where unskilled workers are abundant -- now enter USA easily
- Cheaper prices put pressure on export & import companies that rely on unskilled American workers
- Unskilled-worker industries shrink, displacing workers
- US companies produce old goods with new technology
- US firms ask unskilled workers to accept pay cut

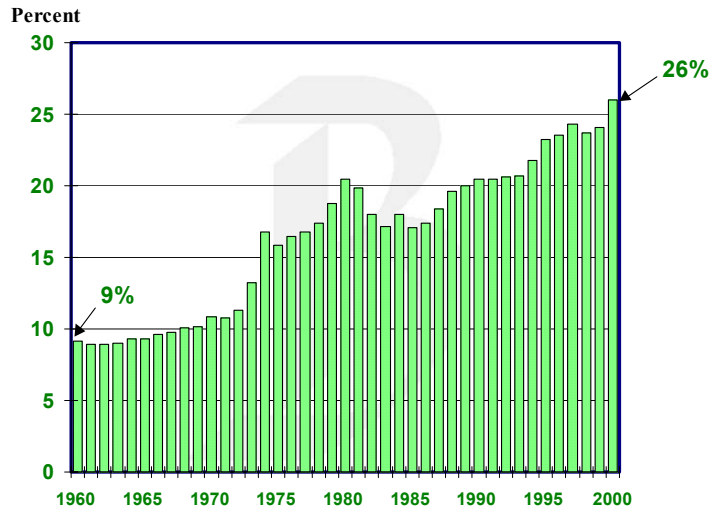
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## Imports + Exports as % of US GDP

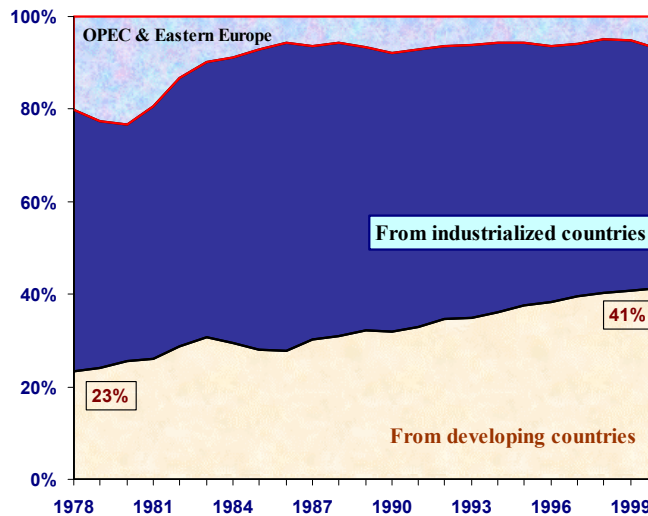


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## Imports from LDCs are growing



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## Global competition has shrunk US manufacturing sector

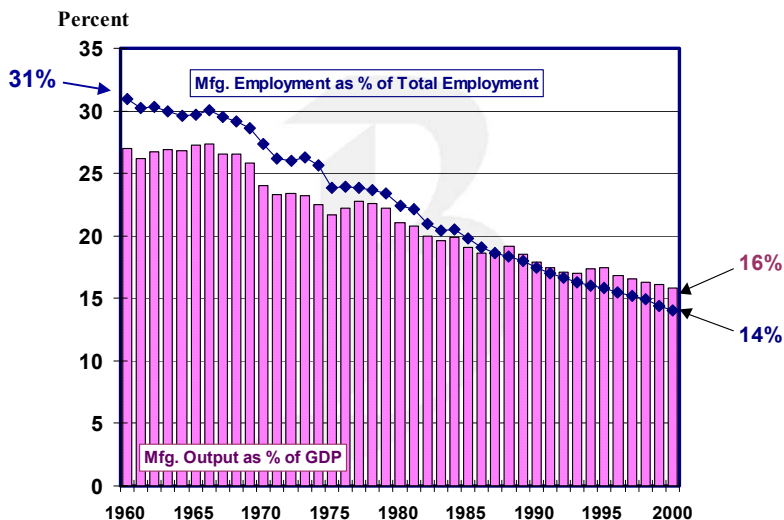
- Global competition with rich countries has forced companies to be lean
- Competition with poor countries has shrunk labor-intensive manufacturing industries
  - Textiles
  - Shoes & apparel

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## Manufacturing as share of US economy



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## It's easy to exaggerate impact of trade & global capital flows ...

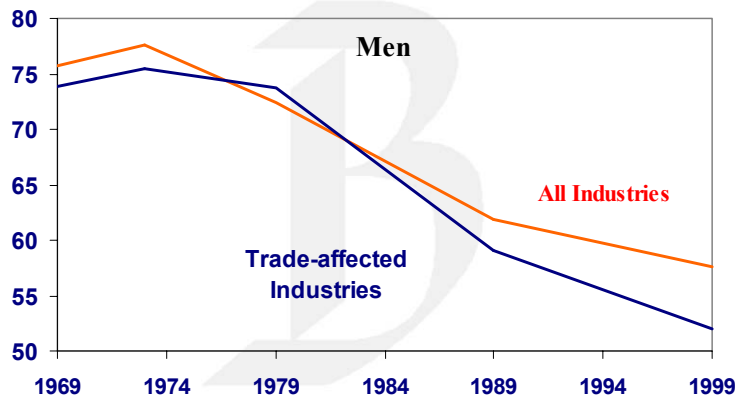
- Wages of less-skilled workers have also plunged in industries that do **not** trade --
  - Health services
  - Construction
  - Communications
  - Retail trade
- Displacement of less-skilled workers is pervasive in the industries that do not have cross-border trade
- **All** industries -- regardless of global trade -- are adopting technologies that reduce demand for less-skilled workers

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## Earnings of workers without high school diploma as % of median earnings: Males

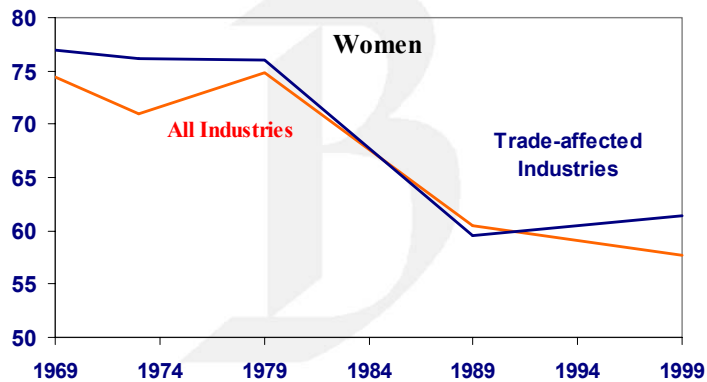


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### Earnings of workers without high school diploma as % of median earnings: Females



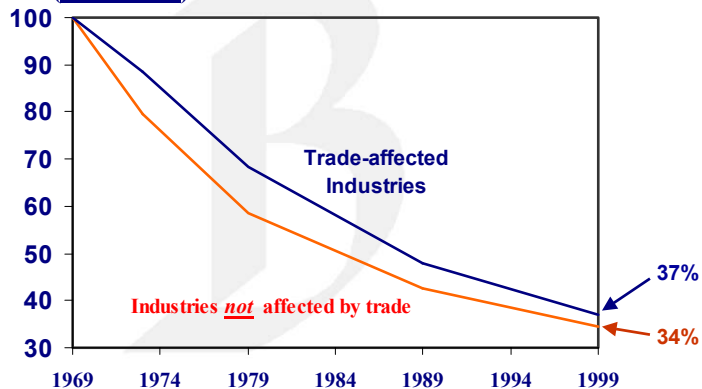
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### Demand for less-skilled workers has fallen even faster outside the traded-goods industries than inside those industries ...

Proportion of labor supplied by least educated workers (1969 = 100)



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## Other factors besides globalization have hurt the wages of least skilled ...

- **New technologies:**
  - Computers
  - Communications
  - Temporary-help firms
- **Changes in corporate governance**
  - Leveraged buyouts allow easier removal of poor management
  - Managers now fear shareholders, not workers
- **Weaker labor unions**
  - Less than 9% of private US workers now in a union
  - Down from 30% in early 1960s
  - About 35% of public-sector workers in a union
- **Lower minimum wage**
- **Higher immigration from low-skill countries**

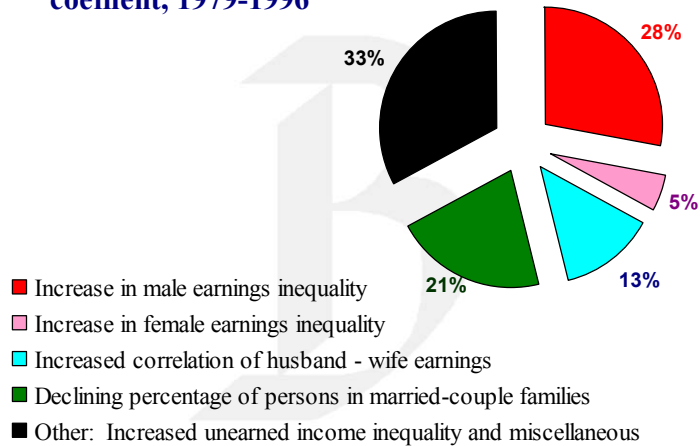


## ... and other factors besides bigger wage disparities have pushed up US income inequality.

- **“Atomization” of American families**
  - Later child-bearing
  - Much later marriage
  - Out-of-wedlock births
- **Fall in fraction of Americans in married-couple families**
  - 75% of Americans in married-couple families in 1980
  - Just 64% in 1997
- **Women have joined the work force; they face less job discrimination**
- **Change in women’s behavior has increased the correlation of husband-wife earned income -- boosting inequality**
- **Lower gov’t transfers to working-age people who do not work**



### Sources of change in U.S. Gini coefficient, 1979-1996



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## Summary

- Globalization has increased the gap between richest and very poorest countries -- because very poorest nations do not participate in global economy
- Contrary to a popular view, the poor countries that *contain most of the developing world's people* are growing faster than the rich countries

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## Summary

- **Global competition has contributed to the woes of rich countries' less-skilled workers -- driving down their wages**
- **In the USA, this impact of global competition is dwarfed by other changes --**
  - **New technology**
  - **Changes in corporate governance**
  - **Weaker unions**
  - **Family "atomization"**
  - **Increased correlation of husband-wife earnings**
  - **Tougher restrictions on government aid to non-working, non-disabled adults**