The impact of globalisation

Winners and losers in the EU and the USA

IN-DEPTH ANALYSIS

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Understanding who the winners and losers of globalisation are, is no longer purely a matter for economists, it has become a political campaign theme.
In an attempt to assess what is at stake economically, socially and politically, this paper will analyse current developments in order to determine the impact of globalisation on the economy and society in the USA and the EU.
Given that there are a vast number of sources, and that they are extremely difficult to compare, a selection of data and reports will be presented in order to give an overview of the state of play on both sides of the Atlantic.

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EXECUTIVE SUMMARY

Globalisation is the name given to the gradual spread of the market economy around the world. A long-standing phenomenon, it has been gaining momentum since the early 1980s as the volume of transactions involving the movement of goods, services and capital has increased.

Proponents and critics of globalisation have been arguing over its benefits and drawbacks since the 18th century. The debate has become increasingly heated recently, however, on account of the increased pace of globalisation and the ubiquity of the topic in US and European political discourse. On the one hand, by highlighting the trade benefits, classical economic analysis supports the argument put forward by proponents of globalisation in favour of ever greater market liberalisation. Globalisation thus acts as a catalyst for technical, economic and, ultimately, social progress. On the other hand, however, many criticise the high adjustment costs and the financial instability globalisation generates.

The current debate around globalisation centres on a key social and economic issue: inequality, and the creation of winners and losers. The opening-up of markets has led to the restructuring of manufacturing in the developed economies and a redistribution of jobs and wealth. The countries of the West are facing not only adjustment costs but also a significant redistribution of wealth. The incomes of the richest 10 % of households are increasing at a much faster pace than those of the poorest 10 %, and in the USA the divide is now a yawning one. In the USA and in the EU, the rich are getting richer and the middle classes are getting poorer, while a new form of poverty is hitting unskilled workers.

Is globalisation the cause of this inequality? Although global wealth distribution has altered significantly since the start of the 1980s, the correlation does not necessarily imply a causal link. Nevertheless, globalisation has become the new hobby horse of the American and European political classes.

There is no doubt that the impact of globalisation has generated the major political challenge of transforming potential benefits into tangible improvements while keeping social costs to a minimum. Effective employment and training policies, targeted management of new migration flows, coordinated handling of financial risk and strengthened global or regional governance could all play their part.

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1. Introduction

Globalisation is hugely controversial. Some present it as a miracle cure for world growth, while others decry it as a threat to nations' economic and social order. Some believe that globalisation contributes to the 'wealth of nations'. It boosts efficiency by encouraging competition and the division of labour. It improves access to capital and technological resources, brings down the cost of imports and creates export markets. Others maintain that it benefits only the privileged elite at the expense of an impoverished majority. Globalisation has been accused of a multitude of sins: financial deregulation, an upsurge in inequality, company relocations, the disappearance of borders, the decline of culture and the collapse of democratic states. According to the Nobel Prize-winning economist Joseph Stiglitz,[1] in the early 1990s many people believed that globalisation would bring greater prosperity for everyone, but in fact today only the most advanced or developing countries are reaping its benefits.

There is a lot at stake in globalisation: equality between countries, preservation of national sovereignty, the distribution of wealth between nations, the distribution of wealth within nations, and so on. But talking about what is 'at stake' means that there are winners and losers. The link between globalisation and the gains and losses it entails is nothing new. The question of establishing who will win and lose in this competition has become more pressing in Europe and the USA, however. The 2016 US presidential election campaign has rekindled the debate about whether the American business model, based on strong growth – but with the potential for generating inequality — is still viable. Meanwhile, rising poverty in Europe – hitting children, workers and families in particular – has become a cause célèbre for right-wing political parties at a time when the EU's ability to bring prosperity to all its nations and citizens is being called increasingly into question.

To shed light on this debate, it is first necessary to define globalisation and assess its current characteristics, before identifying the benefits and drawbacks of the process in its current form. Then it must be ascertained whether globalisation is a source of inequality, in order to pinpoint the winners and losers of globalisation in the EU and the USA today. Finally, the study will identify which social and economic policies are most likely to be successful in offsetting the massive distortions generated by globalisation.

2. Globalisation today

Globalisation is the process by which almost all the countries in the world are becoming increasingly interconnected and interdependent within a single market as a result of massively increased and intensive economic, financial and cultural exchange at global level.

2.1. Globalisation: an ongoing process

Globalisation is the name given to the gradual spread of the market economy throughout the world. It began in the 16th century during the Age of Discovery when the Old and New Worlds first came into contact.[2] Spain and Portugal built vast empires and the

[1] Stiglitz on globalization, why globalization fails?, J. Stiglitz, video, Picovax, January 2013.

[2] Globalisation has long-established roots. In La dynamique du capitalisme, the Historian Fernand Braudel coined the term 'world economy' to define the international economic system behind the Spanish and British empires and the development of large-scale trade .

Atlantic Ocean replaced the Mediterranean as the world's leading theatre of trade.[3] This first form of globalisation was mercantile capitalism: trade took place at a global instead of regional level from that point on.

The 19th century saw the start of the second stage of globalisation: industrial capitalism. London and the UK become the heart of a new 'world economy'.[4] Trade expanded and the first international division of labour emerged: colonised countries provided raw materials, and industrialised countries processed them into manufactured goods, which were then sold throughout the world.

After 1945 a third stage began: financial globalisation. The centre of the world shifted to the USA,[5] which became the new 'world economy'. In the 1980s, the pace of financial globalisation picked up in a recently digitalised 'world economy'.[6]

Transport and communication revolutions sparked each of the three stages of globalisation: the caravel in the 15th century, steam navigation in the 19th, the container vessel and air transport in the 20th. The world 'became one single, global society'.[7] The invention of the telegraph in the 19th century, the landline in the 20th, the internet and the mobile phone in the 21st democratised access to telecommunications, and made almost constant, simultaneous communication possible. The phenomenon of globalisation is now 'linked to powerful technological innovation, cemented by the communication revolution'.[8]

The spread of free-market policies encouraging the free movement of goods, services, capital and workers also fostered globalisation. In the late 1970s and the next two decades, the liberalisation of domestic markets, the opening-up of international trade and the relaxation of exchange controls became global phenomena. It was against this backdrop[9] that: the 'Four Modernisations'[10] were enacted by Deng Xiaoping; Margaret Thatcher became UK Prime Minister in 1979; Ronald Reagan was elected US President in 1980; the single market was introduced by Jacques Delors in 1985;[11] the Uruguay Round of multilateral trade negotiations[12] took place; the Cold War ended; the Soviet Union collapsed between 1989 and 1991; European Monetary Union was launched in 1992; the World Trade Organisation[13] (WTO) was founded in 1995; and international treaties such as the GATT (General Agreement on Tariffs and Trade[14]) were concluded. Multilateral organisations such as the International Monetary Fund[15] and the World Trade

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3 *La Méditerranée et le monde méditerranéen à l'époque de Philippe II*, F. Braudel, 1949.

4 'D'une mondialisation à l'autre', J. Fayolle, *Revue de l'OFCE,* n° 69, April 1999, pp.164- 177.

5 'D'une mondialisation à l'autre', J. Fayolle, op.cit., p. 184 onwards.

6 'Digital globalization: The new era of global flows', J. Manyika, S. Lund, J. Bughin, J. Woetzel, K. Stamenov and D. Dhingra, Report – McKinsey Global Institute, February 2016.

7 'Quels espaces pour une société-monde', J. Levy, Conference organised by l'Université de tous les savoirs, 2003.

8 Un monde de souffrances: Ambivalence de la mondialisation, B. Badie, 2015, p. 55.

9 Politics and trade: lessons from past globalisations, K. O'Rourke, 2009, p. 22.

10 'La construction de l'économie socialiste de marché', S. Kuno, *Le Monde*, 21 January 2004.

11 'La mise en place progressive du marché intérieur', Toutel'Europe.eu.

12 The Uruguay Round, World Trade Organisation.

13 'What is the WTO?', World Trade Organisation.

14 'GATT and the Goods Council' , World Trade Organisation.

15 'The IMF at a Glance', International Monetary Fund, 23 March 2016.

Organisation have fostered globalisation and the development of financial markets that, in spite of a slow start, have become seamless global networks.[16]

2.2. A dominant market economy

It was through globalisation in the 20th century that interaction between trade in goods and cross-border capital flows became closer and more complex. According to the McKinsey Global Institute (2016),[17] trade flows have soared since the mid-1980s.

Between 1985 and 2007, world trade in goods grew roughly twice as fast as global GDP, reflecting the expansion of major multinationals to emerging economies, where the cost of labour was considerably lower. World trade's share of global GDP thus rose from 13.8 % of in 1985 to 26.6 % on the eve of the Great Recession. Since then growth in trade in goods has flattened out (24.6 % of world GDP – 2 % lower than in 2007).

Over the 25 years leading up to the 2007-2008 financial crisis, the volume of financial flows grew more quickly than world GDP, from USD 0.5 trillion in 1980 to USD 11.9 trillion in 2007. In the wake of the financial crisis, however, financial flows have contracted sharply, dropping from 21 % of world GDP in 2007 to just 7 % in 2014.

These two types of trade were hit particularly hard by the financial crisis and the Great Recession, although they still form a significant part of the today's world economy.

Although the volume of global trade in services is much smaller than the volume of trade in goods, it has slowly but surely continued to grow, its share of world GDP rising from 3.4 % to 6.3 %.

In the years ahead, the continued expansion of digital technologies, the internet and global online marketplaces for freelance services could lead to a substantial increase in the trade in services.

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16 La régulation financière et monétaire internationale, P. Marini, Senate Information Report, No 284, 2000.

17 Digital globalization: The new era of global flows, op.cit., p.24 onwards.

Measuring globalisation – no easy task

Globalisation[18] is an undeniable phenomenon, yet it is difficult to estimate its extent. There is no single way of measuring globalisation.[19]

The KOF index of globalisation, published since 2002 by the Federal Institute of Technology in Zurich, is often used. It measures the economic, social and political dimensions of globalisation and makes it possible to observe the impact of globalisation in a number of countries over an extended period of time. The index covers 207 countries and the period from 1970 to 2013; it includes 23 variables.[20]

What is more, in an attempt to meet the ever increasing demand for better ways of measuring globalisation trends, the OECD developed a conceptual and methodological framework in order to compile statistics and generate indicators. The result was a handbook[21] on economic globalisation indicators, which was last published in 2010.

The EU has also drawn up a list of indicators designed to provide an overview of all the main globalisation trends in the EU.[22]

The KOF index measures globalisation on a scale of 1 to 100, and measures its economic, social and political dimensions (see box). The KOF's economic component measures actual trade flows, trade investment and trade restrictions. The social component reflects the spread of information and ideas (measured by variables such as the proportion of non-nationals in the population or the number of internet users). The political component measures the degree of political cooperation between countries (how many embassies there are in a given country, whether it is a member of international organisations, etc.). The three dimensions have grown rapidly since 1980.

Surprisingly, the economic dimension is lagging behind the other dimensions of globalisation, on account of trade restrictions. It is worth noting, too, that the USA is not at the top of the index.

Table 1 – Economic dimension of globalisation

	Germany	United Kingdom	France	Italy	Sweden	USA
1980	47.10	63.28	47.93	42.85	51.40	52.30
1990	57.63	67.21	59.13	54.04	76.70	57.55
2000	70.80	76.12	70.70	75.85	88.65	64.59
2010	65.40	72.79	69.10	70.50	87.12	59.32
2013	61.08	67.62	66.53	67.02	80.56	59.40

Source: KOF Index of Globalization (http://globalization.kof.ethz.ch/).

On a scale of 1 to 100, some countries score very highly for the social dimension of globalisation. Once again, the USA is some way behind Europe.

18 'Mondialisation économique et financière : de quelques poncifs, idées fausses et vérités', J. Le Cacheux, *Revue de l'OFCE*, Special edition, March 2002, p. 24.

19 'Peut-on mesurer la mondialisation ?', A. Dreher and A. Fuchs, *La vie économique*, 2010.

20 KOF index.

21 Measuring Globalisation: OECD Economic Globalisation Indicators 2010, OECD, September 2010.

22 Global Value Chains and Economic Globalization: Towards a new measurement framework, T. J. Sturgeon, Report to Eurostat, May 2013.

Table 2 – Social dimension of globalisation

	Germany	United Kingdom	France	Italy	Sweden	USA
1980	68.90	60.19	55.55	35.14	75.43	56.65
1990	69.38	74.42	72.18	77.72	77.04	72.91
2000	83.94	86.74	83.57	78.04	85.21	78.56
2010	84.88	86.63	87.46	78.63	85.33	79.48
2013	84.53	86.03	87.14	78.40	84.63	79.15

Source: KOF Index of Globalization.

The scores for the political dimension of globalisation are particularly striking. Here, the USA is on a par with EU countries.

Table 3 – Political dimension of globalisation

	Germany	United Kingdom	France	Italy	Sweden	USA
1980	51.80	95.50	65.56	90.84	95.30	87.06
1990	47.11	88.18	96.20	84.63	85.94	83.14
2000	87.93	95.82	96.37	94.47	94.74	92.42
2010	91.90	94.68	97.74	97.92	94.63	91.70
2013	91.94	94.95	97.29	97.53	94.65	92.19

Source: KOF Index of Globalization.

3. The benefits and drawbacks of globalisation

3.1. The benefits

By highlighting the trade benefits, classical economic analysis backs up the argument in favour of greater market liberalisation expounded by the proponents of globalisation, who regard it as a process that facilitates technological and economic progress and as *inherently* beneficial for everyone. It is through globalisation that the global economy, in its ideal form, can usher in an era of shared prosperity.

3.1.1. Economic theory

The argument in favour of globalisation is rooted in the classical economic theory of international trade developed by David Ricardo in his 1817 work *On the Principles of Political Economy and Taxation*. The British economist believed that when a country specialises in a form of production in which it is a world leader (or in which it is at least not lagging behind), it will increase its wealth, provided it can operate in a context of free trade. It therefore maintains a 'comparative advantage' for that form of production.[23] As a corollary, it will have to purchase the goods that it no longer produces. It is thus in each country's interest to specialise in sectors in which it maintains the highest comparative advantage, or at least in which its comparative disadvantage is smallest.[24]

[23] Qu'est-ce qu'un avantage comparatif ?, *Dessine-moi l'éco*, 2014.

[24] Ricardo uses the famous example of cloth and wine production in England and Portugal: 'England may be so circumstanced, that to produce cloth may require the labour of 100 men for one year; and if she attempted to make the wine, it might require the labour of 120 men for the same time. England would

Consumers will also benefit as they will enjoy lower prices, on account of lower production costs for domestic industries and imported products, and gain access to a wider range of goods and services.

Economic theory on international trade clearly demonstrates its overarching benefits. Given that trade liberalisation paves the way for international specialisation in production, it also generally results in increases in real earnings and improved well-being at global level. Such trade also leads to a range of additional efficiency gains, such as greater competition on product markets,[25] economies of scale and a diversification of supply,[26] technological benefits and more intensive research and development.[27]

3.1.2. Empirical analysis

While it is difficult to put a figure on the benefits of trade,[28] empirical analysis tends to bear out the theory that it boosts global productivity and well-being. According to a US study on trade between 63 countries, a trade increase equivalent to one GDP point translates into a per capita revenue increase of between 0.5 % and 2 %.[29] An OECD study featuring data from 21 countries found that between 1988 and 1998 a 10 % increase in trade resulted in a 4 % increase in output for every person in gainful employment.[30]

There is no hard and fast rule however. One of the most significant periods of growth, both in the USA and Europe, was the post-war boom (1945-75), but this actually coincided with slow trade expansion. A number of researchers[31] have established a long-

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therefore find it her interest to import wine, and to purchase it by the exportation of cloth. To produce the wine in Portugal, might require only the labour of 80 men for one year, and to produce the cloth in the same country, might require the labour of 90 men for the same time. It would therefore be advantageous for her to export wine in exchange for cloth. This exchange might even take place, notwithstanding that the commodity imported by Portugal could be produced there with less labour than in England. Though she could make the cloth with the labour of 90 men, she would import it from a country where it required the labour of 100 men to produce it, because it would be advantageous to her rather to employ her capital in the production of wine, for which she would obtain more cloth from England, than she could produce by diverting a portion of her capital from the cultivation of vines to the manufacture of cloth. Thus England would give the produce of the labour of 100 men, for the produce of the labour of 80. Such an exchange could not take place between the individuals of the same country. The labour of 100 Englishmen cannot be given for that of 80 Englishmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians, or 120 East Indians. The difference in this respect, between a single country and many, is easily accounted for, by considering the difficulty with which capital moves from one country to another, to seek a more profitable employment, and the activity with which it invariably passes from one province to another in the same country'. *On the Principles of Political Economy and Taxation,* 1817, Chap. VII, 'On Foreign Trade', accessed online via: http://www.econlib.org/library/Ricardo/ricP2a.html.

25 'Expansion of trade at the extensive margin: A general gains-from-trade result and illustrative examples', J.R. Markusen, *Journal of International Economics*, 2012.

26 'Increasing Returns, Monopolistic Competition, and International Trade', P. Krugman, *Journal of International Economics*, 1979, pp. 469-479.

27 'Economic Integration and Endogenous Growth', L.A. Rivera-Batiz and P. Romer, *The Quarterly Journal of Economics*, 1991, pp. 531-555.

28 'L'avantage comparatif notion fondamentale et controversée', B. Lassudrie-Duchêne and D. Ünal-Kesenci, *L'économie mondiale 2002*, La découverte, 2003, pp. 90-104.

29 'Does Trade Cause Growth?', J. Frankel and D. Romer, *American Economic Review*, 1999, pp. 379-399.

30 'The driving forces of economic growth: panel data evidence for the OECD countries', A. Bassanini and S. Scarpetta, OECD Economic Studies, 2001, pp. 9-56.

31 'Les échanges internationaux comme dynamisme de la croissance', R. Barre, op.cit.; International Trade: Free, Fair and Open?, P. Love and R. Lattimore, op.cit.; 'The World Economy: a millennial

term correlation between economic and financial openness and growth, although it is not clear which comes first.

3.2. Drawbacks of globalisation

Not everyone shares this positive view of global economic liberalisation. The opponents of globalisation cite a whole host of drawbacks, such as high adjustment costs and increased financial instability.

3.2.1. High adjustment costs

Whether directly or indirectly, globalisation by its very nature forces companies to restructure; directly, when they relocate to countries with lower production costs; indirectly, when increased imports crowd out local production. Given the time required to retrain staff and retool, relocating entails additional, albeit short-term, costs.

When trade barriers are removed, the real wages of some groups of workers, particularly low-skilled workers or those employed in highly competitive sectors, are liable to fall. Of course, in an ideal economy, the workers who gain from liberalisation should pay for the losers, at a net gain for the economy as a whole. In practice, however, there are no worldwide compensation schemes based on the principles of equity, and working conditions have deteriorated quite significantly (consider the increase in atypical employment, for example).

Adjustment costs often affect specific activities, regions and categories of worker, and make much bigger headlines than the benefits for consumers. What makes adjustment costs so socially divisive is the lack of adequate compensation for the losers who, at least in the short term, forfeit their jobs or investments as a result of global competition. It is for this reason, therefore, that the EU decided to set up the Globalisation Adjustment Fund in an attempt to lessen the impact of social dumping (see box below).

The European Globalisation Adjustment Fund

Set up in 2007, the European Globalisation Adjustment Fund (EGF) supports people who lose their jobs as a result of major structural changes brought about by globalisation or the global financial and economic crisis. The maximum annual budget for the EGF for the period 2014-2020 is EUR 150 million. The fund can meet up to 60 % of the cost of projects designed to help people get back into work or start their own business. As a general rule, funding can only be made available when more than 500 workers are made redundant by a single company (including its suppliers and downstream producers), or when a substantial number of workers have been laid off in a particular sector in one or several neighbouring regions. It is generally national or regional bodies that are responsible for running EGF projects. Each project lasts two years. The EGF can co-finance projects and initiatives that support job seekers, job creation and entrepreneurship, offer guidance on careers and education and provide training and conversion courses. It can also help to fund training, mobility and resettlement allowances, sick pay and other related support measures. Workers who have lost their jobs are among the key beneficiaries of EGF projects. Over the period 2014-2020, self-employed, part-time and fixed-term workers can also benefit. Until late 2017, the EGF will target NEETs (Young people not in education, employment or training) in particular: for every worker that receives funding in a region with a high rate of unemployment, one NEET in that region will also be eligible for support. The EGF cannot be used to keep businesses afloat or to help them modernise or restructure.

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perspective', A. Maddison, op.cit.; 'La mondialisation, source de croissance économique', C. Sax and R. Weder, op.cit.

3.2.2. Extreme financial instability

Financial instability, such as that we are currently experiencing, is cited as one of the main drawbacks of financial globalisation and is often seen as being incompatible with lasting economic growth, which, as was the case with the US and European economies during the post-war boom,[32] is typically characterised by low inflation and full employment. The contrast is indeed striking. Two IMF experts[33] identified 147 banking crises between 1970 and 2011, including some that were global in scope, such as the Asian financial crisis of 1997-1998 and the 2008 recession, which was triggered by the crisis in the euro area.[34] Over the same 41-year period, there were also 218 monetary crises and 66 sovereign debt crises.

The integration of financial markets and the globalisation of production lead to parallel developments in different countries and, over time, synchronised fluctuations in the prices of financial assets (interest rates and market prices) and in economic circumstances, amplifying the cyclical trends of the global economy. In 2008, movements on the US stock market sent European markets tumbling and the US recession shook the world, leaving the EU reeling in its wake.[35] The opening-up of national economies to trade in goods, services and capital also makes them more susceptible to external shocks.

In addition to the contagion effects and the loss of national economic sovereignty, these crises still generate huge economic and budgetary costs. A study carried out by the US Government Accountability Office provides evidence for this, suggesting that the cost of the 2008 financial crisis could rise to more than US$ 10 000 billion,[36] although the precise figure is difficult to calculate. Between 2008 and 2011, in an attempt to stave off the collapse of the entire banking system, EU countries both inside and outside the euro area pumped around €1 600 billion (around 13 % of EU GDP) into their banks in the form of guarantees and direct investment. As a result, existing debts and deficits increased. A number of the most vulnerable economies in the euro area, such as Greece, Ireland and Portugal, were no longer able to rein in their debts and were powerless to deal with the effects of the financial crisis. This state of affairs gave rise to the sovereign debt crisis.[37]

4. Globalisation: the source of inequality?

Does globalisation level up living standards or widen existing inequalities? Economists have long debated the impact of free trade: who stands to gain, and who loses out.

By opening up markets, globalisation strengthens competition, reduces the number of monopolies and exposes positions previously sheltered from the pressure of

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[32] It is important to note at this juncture that the steady and dynamic economic progress of this period may be attributed to the particular way in which European economies were rebuilt and equipped, with the result that they eventually caught up with the USA.

[33] Systemic Banking Crises Database: An Update, L. Laeven and F. Valencia, 2012, *IMF Working Paper* 12/163.

[34] De la crise financière à la crise économique, Banque de France, *Documents et Débats* n°3, 2010.

[35] 'Contagion et crise de la dette européenne', V. Constancio, *Revue de la stabilité financière*, 2012, pp. 121-134.

[36] Financial Crisis Losses and Potential Impacts of the Dodd-Frank Act, United States Government Accountability Office, January 2013.

[37] Responding to the debt crisis, European Commission, last updated on 9 April 2014.

competition. What is more, consumers reap the benefits of the opening-up of markets and stiffer competition.

At the same time, globalisation also creates many losers or, at least, relative losers, and results in greater economic inequality.

4.1. The winners and losers of globalisation

4.1.1. Redistribution of jobs and incomes

Skilled workers in the most developed countries and holders of capital alike have prospered greatly since their economies were opened up to trade with less affluent countries with less skilled workforces.

In addition to adjustment costs in western countries, we are also witnessing a long-term redistribution of incomes. As regards recent developments, which may be linked to the current wave of globalisation, most researchers agree on the following:

- In the two decades prior to the recession, real disposable incomes in the OECD countries rose by an average of 1.7 %. Widening inequality has blighted the vast majority of these countries, however, with the incomes of the 10 % wealthiest households increasing faster than those of the poorest 10 %.[38] It is broadly acknowledged that the benefits of economic growth have not been enjoyed by all and that the economic crisis has widened the gap between rich and poor.[39] In the OECD countries today, the wealthiest 10 % earn 9.6 times more than the poorest 10 %. This ratio has been steadily increasing: from 7:1 in the 1980s, to 8:1 in the 1990s, and 9:1 in the 2000s[40] (even if transfers continue to offset market trends to a considerable extent[41]). Income inequality has risen in two-thirds of EU Member States since 2006. Of the euro area countries, inequality has increased in 10 Member States: (in ascending order) Luxembourg, Slovenia, Greece, France, Italy, Estonia, Austria, Slovakia, Cyprus and Spain. After initially narrowing, inequality in euro area countries has returned to 2004 levels.[42]
- Income inequality is far from the perfect bellwether however. If the growing sense of a deeply unfair increase in inequality (see below), as reflected by recent studies and political debates, is to be acknowledged fully, a number of other factors should also be considered, such as unequal access to jobs, job insecurity and diminished social mobility.

4.1.2. The rich get richer

In all developed countries, rising inequality is largely due to the rapid increase in the incomes of a minority of super-rich individuals. This is most dramatically demonstrated in the USA, where the richest 10 % have seen huge increases in their incomes, while those on the lower half of the income ladder have seen their incomes stagnate, or even

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38 'An overview of growing income inequalities in OECD countries: main findings', OECD, 2011.

39 'Record inequality between rich and poor', OECD, *YouTube*, uploaded on 5 December 2011; *Global Inequality: A New Approach for the Age of Globalization*, B. Milanovic, 2016; 'Europe's Societal Challenges: An analysis of global societal trends to 2030 and their impact on the EU', Rand Europe, 2013.

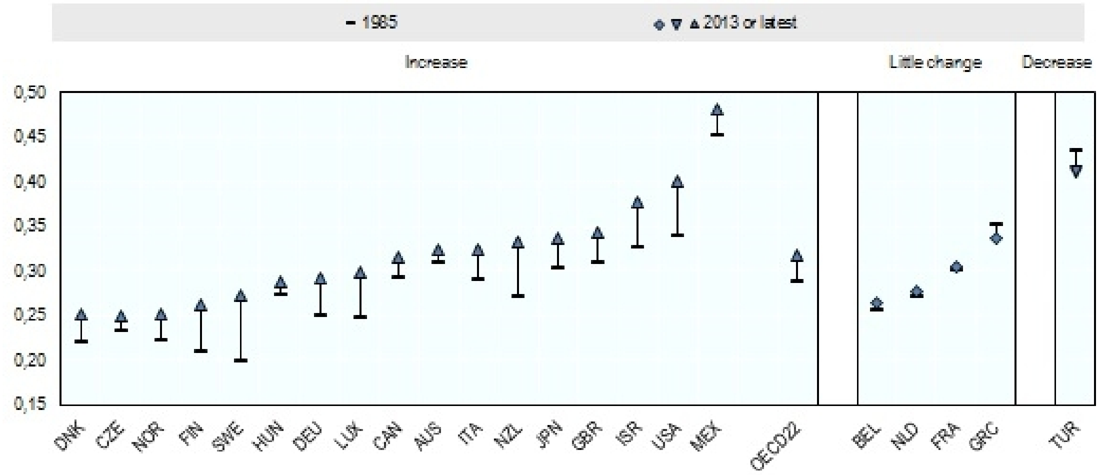
40 *In in together: why less inequality benefits all*, OECD, 2015.

41 'Income inequality and growth: the role of taxes and transfers', OECD, 2012.

42 Wage developments in the euro area: Increasingly unequal?, A. Stuchlik, EPRS, European Parliament, July 2015.

go down. More specifically, recent debate on inequality has tended to focus on the richest 1 %, or even 0.1 %, since it is these groups who have profited most outrageously from the growth in incomes (see below) and whose extravagant lifestyles cannot fail to attract attention.

Graph 1 – Income inequality in OECD countries – Gini coefficients (see box) for income inequality (1985 and 2013)



Source: [OECD](). 'Weak variation' in inequality indicates a variation of less than 1.5 % Data for the year 2013 (or the most recent year).

According to the economists Thomas Piketty and Emmanuel Saez,[43] after huge fluctuations followed by a sharp drop in the first half of the 20th century, the share of national wealth accounted for by the richest percentile in the USA remained remarkably stable for nearly three decades, before shooting up again around 1980. Since then, according to the *Survey of Consumer Finances* published every three years by the Federal Reserve (FED),[44] inequality has continued to increase. The richest 10 % saw their incomes increase by 10 % between 2010 and 2013, to an average of 397 500 dollars per year. Owners of an investment portfolio or multiple properties have experienced a substantial surge in wealth over the past few years. The Standard & Poor's 500 Index (based on the 500 major companies listed on the American stock markets) rose by 62.8 % over this period,[45] while Standard and Poor's Case-Shiller Index, which measures the value of real estate, rose by 9.9 %.[46]

Conversely, the incomes of the bottom 20 percentiles of the ladder, have dropped by 8 %, to an average of USD 15 200 dollars per year. While the average global income has risen by 4 % over the last three years, the median income has dropped by 5 %, a trend that, according to the FED, 'corresponds to an increase in the concentration of income over this period'.

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43 'Income inequality in the United-States 1913-1998', T. Piketty and E. Saez, *The Quarterly Journal of Economics*, 2003.

44 2013 Survey of Consumer Finances, FED, *Federal Reserve Bulletin*, 2013.

45 Standard & Poor 500.

46 Standard & Poor Case Shiller.

Thomas Piketty: '*Inequality in America*'

Inequality is, once again, at the heart of political and economic debate in Europe and the USA. The enthusiastic response across the Atlantic to the English translation of French economist Thomas Piketty's[47] *Capital in the Twenty-First Century* reflects this. In late April 2016, a month after its release in the USA, this nearly 1 000-page book – devoted to the subject of rising inequality around the world – was topping American bestseller lists.

Piketty's theory is built on past statistics on incomes in the main capitalist countries over the last hundred years (and over the last two hundred in the case of France and the UK). He argues that in most countries the rate of return on capital (r) – income from investments and property – has been greater than the rate of economic growth (g) as a whole, with a long hiatus from 1914 to the mid-1970s. Over the past 40 years, wealth has accumulated and become concentrated much more quickly than economic growth. (r>g). This return to unfettered, free market capitalism has been facilitated by the disappearance of inflation.

Over the course of the 20th century, income distribution has become more unequal in the USA than in Europe. If, for some, the income explosion of the super-rich means that individuals can generate wealth, rather than just inherit it, this supposedly hyper-meritocratic model is perhaps the worst of all worlds for those who are neither the super-rich nor super-inheritors. They are poor and, more often than not, branded as undeserving and unproductive. According to Thomas Piketty, merit and productivity have not, in fact, played a particularly important role. The stronger bargaining position of the ruling classes and reductions in the upper rates of tax seem to have been the key factors.

Thomas Piketty's research has attracted plenty of media attention and plenty of criticism.[48]

The question of the richest 1 % has also sparked controversy around Europe. The issue of people with very high incomes is particularly salient in the Anglo-Saxon countries, where their share of overall wealth has increased most.[49] Although the rise in wealth inequality in the UK has not followed quite the same pattern as in the USA, it has nevertheless been significant since the 1970s, as Anthony Atkinson demonstrates in his latest work.[50]

As was borne out by the Occupy Wall Street movement and its supporters' chants of 'We are the 99 %' (who will no longer tolerate the greed and corruption of the remaining 1 %) in 2011, it is also the subject of heated debate in Europe. From New York, the movement spread to Europe, and most notably to Germany, Spain and France. The rise in inequality has, however, been moderated by the welfare transfers that reduce the gap between primary incomes in those countries with a social-democratic tradition.

Who are the 1 % in Europe?

The OECD paints a picture of those earning the highest salaries in Europe today by analysing the profile of the top 1 % of earners in 18 countries. The characteristics highlighted are much the same from one country to the next. The highest earning 1 % are overwhelmingly in the 40-60 age group, male, educated to degree level, and working in executive positions in finance or industry.[51]

47 'De l'inégalité en Amérique', T. Piketty, Thomas Piketty's blog, 18 February 2016.

48 'Quand un étudiant de 26 ans ébranle Thomas Piketty', M. Vignaud, *Le Point*, 26 March 2014 ; 'Summary of Piketty: Criticisms', R. Kirkby, 2015.

49 See, for example, 'Economic inequality in the United Kingdom'.

50 'Inégalités', A. Atkinson, 2016, p. 47.

51 *Who are the top 1% earners in Europe?*, O. Denk, OECD Economics Department Working Papers No. 1274, 2015.

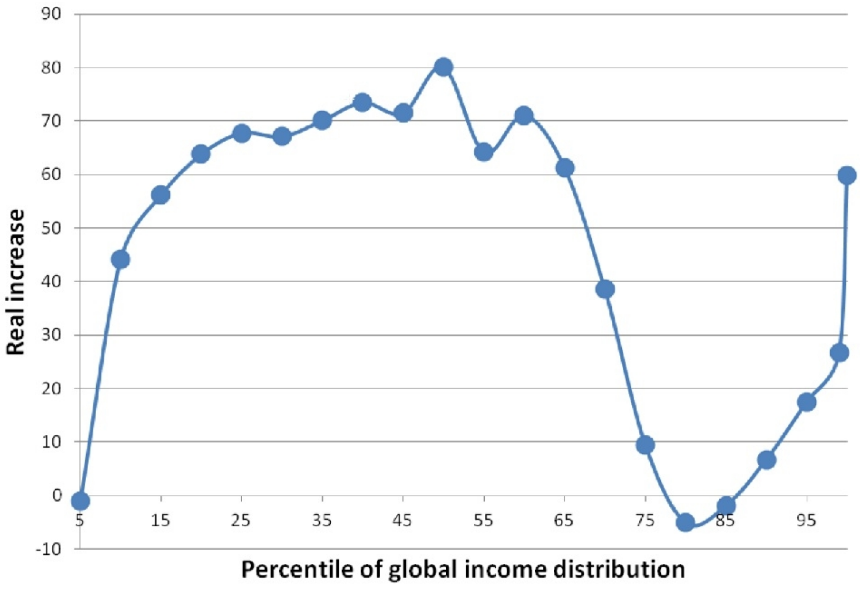
4.1.3. Towards the impoverishment of the middle classes?

Looking at the complex changes in income redistribution which have occurred alongside globalisation, the economist Branko Milanovic wonders who have been the winners and who have been the losers at a global level since the fall of the Berlin Wall in 1989. The former head economist of the World Bank shows that the big losers of globalisation are the poorest 5 % (whose incomes have stagnated) and, above all, the middle classes in the industrialised economies (whose incomes have fallen slightly). Conversely, it is the very rich and the middle classes in the emerging economies (in particular in Asia and India) who have benefited the most from global economic growth during this period.

The graph below illustrates this phenomenon. By dividing total global wealth into percentiles, we can chart the evolution of real incomes (y-axis) for each demographic (x-axis), between those who earn the least (the poorest 5 %) and those who earn the most (the richest 5 %). The poorest 5 % are represented on the far left of the graph, while the biggest losers of globalisation are those between the 75th and 90th percentiles of global wealth distribution. As we can see from the graph, gains in real incomes were essentially nil.[52] These biggest losers are the American and European middle classes.

On the other hand, the biggest increase in income per person is among those in the very top percentiles (on the far left of the graph) and those belonging to an emerging new global middle class (in the middle of the graph).

Graph 2 – Change in real incomes between 1988 and 2008 at various percentiles of global income distribution (calculated in 2005 international dollars)



Source: The World Bank.

A recent comparative French/US study illustrates this marked trend involving the decline of the middle classes in the USA and the more recent erosion of their position in France.[53] Today, the middle classes account for 67.4 % of households in France, and 50.6 % in the USA. Over time, these percentages have tended to go down. In the USA, the middle classes shrank by 3.6 % between 1996 and 2012, with people moving up to the higher income group (+ 2.2 points). In France, meanwhile, the erosion of the middle classes

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52 'Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession', C. Lakner and B. Milanovic, The World Bank, Policy Research Working Paper, December 2013.

53 'Classe moyenne: un Américain sur deux, deux Français sur trois', D. Marguerit, *La Note d'Analyse*, February 2016, No 41.

(-1.5 points over the same period) has generally involved people moving to the lower income group (+0.9 points), which might offer a partial explanation as to why some members felt they had been 'demoted' in society. According to the study, wealth inequality in the USA came about quickly some time ago, whilst in France, according to the study, it has been a more recent and more moderate development.

According to a study by the Economic Policy Institute,[54] the average salary among American middle classes was US$76 443 in 2007, just before the crash. It would have been US$94 310 (some 20 %, or 18 000 dollars, more) if inequality had not become so marked since 1979. The relative drop in the highest incomes brought about by the 2008 crisis has had barely any effect on inequality.

4.1.4. The difficulties facing unskilled workers

Numerous studies have investigated the effects of trade developments – in particular, the expansion of trade with emerging, low-wage economies – on increased inequality in the labour market in most OECD countries.[55] One of the causes of wider inequality, it seems, is the worsening situation of unskilled workers in the labour market. Increased trade between the OECD countries and the emerging economies whose unskilled workers give them a comparative advantage in the manufacture of goods has led to a drop in wages and/or rates of employment for workers with lower qualifications in the OECD zone. Unskilled workers in developed countries have lost out, or have at least seen the lowest net increase in their wages. There is less and less demand for unskilled labour in the most advanced economies, which is leading to a relative drop in wages. This is what is giving rise to the phenomenon of the[56] *working poor*,[57] a group whose exact composition varies according to the social protections and labour rights in force in the country in question. Moreover, as in the USA from 1973 to 2013, the rise in workers' wages (+9 %) has not matched the rise in productivity (74 %), and has contributed to the drop in relative standards of living.[58]

4.1.5. Inequality between nations

Given that there are winners and losers in national economies, would it not make sense to find a similar divide on a global level, between countries set to benefit from globalisation, on the one hand, and those likely to suffer, on the other?

As shown by Angus Maddison[59] in his study of growth and the global population since the year 1000, inequality has been a fact of life for a very long time. Over this period, the population of the planet has multiplied by 22, per capita GDP by 13 and global GDP by nearly 300. The highest levels of growth have occurred in modern developed economies (Western Europe, North America, Australasia and Japan). Standards of living in the wealthiest countries (with the USA in the lead) are now 60 times higher than in the

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54 'Wage stagnation in nine charts', L. Mishel, E. Gould and J. Bivens, *Economic Policy Institute*, January 2016.

55 *Perspectives de l'emploi*, OECD, 1997.

56 According to the 2015 OECD report *In it together: Why less inequality benefits everyone*, the increase in the number of people working part time, on a fixed term contract or self-employed, is in an important factor in deepening inequality. Unskilled workers on temporary contracts in particular have much lower and more unstable incomes than workers on permanent contracts.

57 In-work poverty in the EU, V. Kern, EPRS, European Parliament, 2014.

58 'Wage stagnation in nine charts', op. cit.

59 *The World Economy: A Millennial Perspective*, A. Maddison, 2001.

poorest countries; the gap was only between one and five three centuries ago, and almost non-existent a millennium ago.

Unweighted international inequality (see annex) is on the increase, in line with a trend that first appeared at the beginning of the 19th century.[60] This means that the gap between the poorest and the richest countries is continuing to widen. According to data from the World Bank,[61] the country with the highest per capita GDP in 1990 (in terms of PPP in 2011) was 210 times richer than the poorest country (United Arab Emirates versus Malawi). In 2014, this multiplier coefficient was 235 (Luxemburg versus Central African Republic). Of those countries that were already among the richest in 1990, the USA and the EU have seen their per capita GDP rise respectively by 40.6 % in 24 years. These two regions are still the richest in the world. In Europe, the biggest increases in this area have occurred in the least well-off countries. Between 1990 and 2014, Poland and Bulgaria both saw their per capita GDP soar (by 136 % and 76 % respectively).

Population-weighted international inequality, on the other hand (see annex), is decreasing, essentially owing to the emergence and rapid growth of the Chinese (1.33 billion inhabitants) and Indian (1.17 billion inhabitants) economies.

It should be noted, however, that global statistics on international inequality are of limited use, since they vary hugely according to the method of calculation (be it exchange rate or weighting, for example). In each case, results show significant variation, even if trends can be identified. What is clear is that while some kinds of international inequality are on the increase, others are on the decrease.

4.2. Is globalisation the cause of growing inequality?

Inequality has increased in a number of countries, often after several decades of stability that seemed to coincide with globalisation. Although there has been a significant redistribution of income and wealth globally since the start of the 1980s, this correlation does not necessarily indicate a causal link. The American and European political classes have nonetheless made the issue their new hobby horse.

4.2.1. Globalisation and inequality: correlation without causation?

In 1995, the economist Richard Freeman asked the question: 'Are your wages set in Beijing?'[62] He came to the conclusion that they were not, reflecting the most widely held view at the end of the 1990s. Similarly, in 1996 the Nobel Prize-winning economist Paul Krugman maintained that globalisation was not to blame in his polemical work *Pop Internationalism.*[63] The undeniable growth of inequality in developed countries, and particularly in the USA, in recent decades may have had more to do with technological progress, which benefits the most highly skilled workers, than with globalisation. The solution seemed simple: retrain the workforce in rich countries.

However, many researchers believe that globalisation has contributed significantly to increasing inequality. Economists François Bourguignon and Joseph Stiglitz emphasise the key role globalisation plays in widening inequality within a country. Another

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60 'Inequality among world citizen: 1820-1992', F. Bourguignon and C. Morisson, *American Economic Review*, 2002, pp. 727-244.

61 World Bank, Data, per capita GDP (as regards PPP in dollars in 2011)

62 'Are Your Wages Set in Beijing?', R.B. Freeman, *Journal of Economic Perspectives,* 1995.

63 *Pop Internationalism*, P. Krugman, 1996.

economist, Pierre-Noël Giraud, in his work *L'inégalité du monde*[64] (*The Inequality of the World*), shows how commercial, financial and digital globalisation – a much more widespread phenomenon than mere competition with low-wage countries – is both the reason why emerging economies are catching up, and therefore why international inequality is going down, and the reason why internal inequality in rich and emerging economies is rising.

There is no simple answer and the opinion of many economists, including that of Paul Krugman,[65] has changed. In the light of the growing influence of China and India, Krugman now acknowledges the role that commercial globalisation has in increasing inequality and job losses, particularly in manufacturing, in the USA and Europe.[66] At the same time, the majority of researchers conclude that trade has been only a minor factor in the deteriorating situation that unskilled workers face in the labour market. They believe that technological change, which favours certain types of skill, has made a more significant contribution.[67]

4.2.2. Globalisation, the new cause of all our ills

Although there is no one way of looking at the role globalisation plays in creating winners and losers, it is still widely regarded by the public as having many drawbacks and bringing few benefits. The general public often associates globalisation with job losses, lower wages and deteriorating working conditions. This view stems from the fear that increased competition from low-wage countries will put local workers and manufacturers under greater pressure and force domestic businesses to close and relocate. These fears, which are not new, seem to have grown with the sudden emergence of China and India on to the global trading scene.

The recent rise of populism, on both sides of the Atlantic, can be linked to a rebellion among 'globalisation's losers'.[68] Against the backdrop of successive cycles of trade liberalisation, declining availability of unskilled jobs and the relative impoverishment of the middle classes, workers are rejecting the 'establishment' parties in protest at their role in this 'project in favour of the elite'. Complaints about the supposed economic impacts of economic globalisation have more than just an economic dimension, however. Globalisation has become a topic of political debate. Right-wing populist parties like the Austrian Freedom Party (FPÖ), the Finns Party (*Perussuomalaiset*, PS), Alternative for Germany (*Alternative für Deutschland*) and the *Front National* in France[69] are pursuing identity-based policies that play on people's fears and frustrations. The debate is being fuelled by arguments about a homogenising globalisation that is destroying jobs and identities by opening up borders to rampant, dangerous immigration and leading to a loss of sovereignty, either on the part of the Member States or of the EU.

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64 *L'inégalité du monde*, P.-N. Giraud, 1996.

65 *'Trade and inequality revisited'*, P. Krugman, 2007.

66 'It's no longer safe to assert that trade's impact on the income distribution in wealthy countries is fairly minor. There's a good case that it is big, and getting bigger. I'm not endorsing protectionism, but free-traders need better answers to the anxieties of globalisation's losers', *'Trade and inequality revisited'*, P. Krugman, 2007.

67 *OECD Employment Outlook*, OECD, 2005, pp. 29-72.

68 Is globalisation really fuelling populism?, D. Gros, CEPS Commentary, CEPS, May 2016.

69 'La mondialisation, nouveau bouc émissaire de l'extrême droite française', S. Madaule, *Le Monde*, 14 January 2011.

The European populist parties base their arguments on a concept of identity that combines authoritarian values with an emphasis on the need to preserve a culturally homogenous community. Issues linked to immigration reinforce a political approach to identity defined by exclusion of the 'outsider' (cf. policies opposing immigration and 'cultural liberalism'). These parties' political agendas also draw on the renewed trend towards increasing income inequality and the re-emergence of the working poor (see above) in an attempt to attract the least skilled members of society, who feel threatened by globalisation.[70]

Brexit and globalisation

'Brexit' is an abbreviation for 'British Exit', referring to the UK leaving the European Union. After months of negotiations, a compromise on the UK's 'special status' in the EU was reached by the European Council on 18 and 19 February 2016. The following day, Prime Minister David Cameron announced that a referendum on the issue would be held on 23 June 2016 and that he would be campaigning for the country to remain in the EU under the negotiated terms. The announcement sparked fierce debate between those for and against the UK remaining in the EU. The arguments put forward went well beyond the original question of whether to remain in the EU or not, raising the issue of the British Government forfeiting sovereignty to the EU, but also asking questions about globalisation, cultural integration, foreign workers, migration, border control, British autonomy in negotiating trade agreements, an independent foreign policy and the impoverishment of the working class, among others. On 23 June 2016, the British public voted in favour of the UK leaving the EU. with51.9 % voting to leave.

On the other side of the Atlantic, the arguments being used in the US presidential election campaign by Donald Trump[71] play on the same themes, whether they concern the building of a wall to keep out immigrants, fighting for the middle classes 'crushed' by globalisation, increasing inequality or developing a defence strategy against a 'global' threat. According to the economist Dani Rodrik,[72] globalisation has profoundly changed America's national narrative. He believes that globalisation has done away with the myth of a united nation, an inclusive society and a common polity.[73]

5. Looking ahead

Finding the right response to the effects of globalisation is part of a broader challenge for the world's economies, namely that of dealing with structural economic change.

The political challenge thrown down by globalisation is to turn its potential benefits into real benefits, whilst limiting the social costs and countering the populist discourse that currently surrounds the issue. Member States need to introduce appropriate social protection measures that can cope with the social shocks that come with the changes brought about by globalisation. At the same time, targeted initiatives, like the EU's European Globalisation Adjustment Fund, are required to help workers in difficulty.[74]

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70 United in opposition to globalization? An analysis of the programmatic convergence of European right-wing populist parties, S. Bornschier, 2004.

71 'Trump & Anti-Globalization', I. Bagchi, *The Statesman*, May 2016.

72 *The Globalization Paradox: Democracy and the Future of the World Economy*, D. Rodrik, 2011.

73 'The economic losers are in revolt against the elites', M. Wolf, *Financial Times*, January 2016; 'Why Trump and Sanders Were Inevitable', M. Hirsh, *Politico Magazine*, February 2016.

74 See box (Section 3.2 Drawbacks of globalisation).

Countries need to implement effective employment and training policies to stimulate the job market and tackle unemployment if they want to reap the full benefits of globalisation and secure public support for trade liberalisation. This is the approach that has been advocated since 2005 by the OECD, which recommends that the governments of its member countries do the following: guarantee people made redundant an adequate income, help workers to acquire new skills, offer training, and help them get back into the job market.

The recent upsurge in migration also calls for tailored integration measures so that those arriving in the USA or Europe[75] are seen not as a potential threat, but as an addition to the labour force, an answer to the problem of ageing populations and an economic shot in the arm.[76] It is an important issue.[77] For European citizens, for example, one of the biggest challenges facing the EU is immigration(47 %), with only employment (49 %) seen as slightly more pressing.[78]

Globalisation also calls for stricter international regulation to manage the heightened financial risks that come with it. After the global financial crisis in 2008, the G20 declaration that followed demonstrated the developed countries' commitment to this approach: 'We are determined to enhance our cooperation and work together to restore global growth and achieve needed reforms in the world's financial systems'.[79]

Both supporters and opponents of globalisation often see the emergence of some form of global or regional governance as a way of enhancing the benefits and minimising the drawbacks of globalisation. By virtue of its own experience, Europe has much to contribute to this new approach to economic regulation.[80]

To conclude, globalisation is undeniably the cause of some of the ills for which its critics hold it responsible, including increasing inequality. Nonetheless, it brings many advantages in terms of growth and technological progress. Institutions and mechanisms for the effective regulation of the economy and global finance, combined with national intervention and correction measures, should make the question of 'who are the losers and winners in globalisation?' a less pressing one.

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75 Economic challenges and prospects of the refugee influx, C. Karakas, EPRS, European Parliament, December 2015.

76 Europe's Societal Challenges: An analysis of global societal trends to 2030 and their impact on the EU, Rand Europe, 2013.

77 EU demographic indicators. Situation, trends and potential challenges, A. Delivorias and G. Sabbati, EPRS, European Parliament, March 2015.

78 2015 Parlemeter: Main findings on migration, European Parliament, March 2016.

79 G20 Declaration on Financial Markets and the World Economy, G20 Summit, Washington, 15 November 2008.

80 Economic governance, European Commission.

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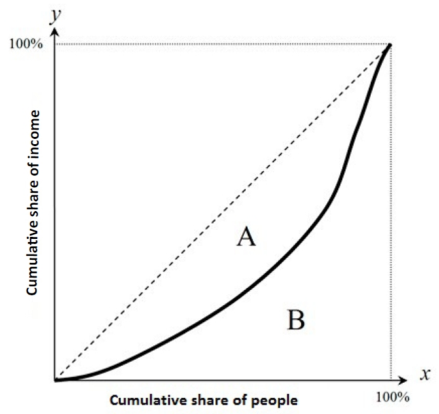
7. Annex – Measuring inequality

Economic inequality is measured using a curve developed by Max O. Lorenz (1876-1959), which is designed to provide a graphic representation of income inequality. It is a graph of a function that maps the cumulative share of income earned along the x-axis with the cumulative share of people from lowest to highest incomes along the y-axis. Three conclusions can be drawn from this curve:

- the total income earned by the richest 10 %;
- the ratio between the income of the richest 10 % and that of the poorest 10 % of the population;
- the Gini index of income distribution, which measures the inequality of distribution. Generally, the Gini index is calculated to measure 'internal inequality' in each country, but also for the global population taken as a whole.

Lorenz Curve



The dotted line represents a perfect line of equality. The Gini coefficient is: A / (A+B).

According to World Bank calculations,[81] the Gini coefficient of income inequality within each country ranges from 25 for the most equal countries (Ukraine, Slovenia and Norway) to 50-60, or even 65, for the most unequal (Latin America and South Africa). Another measure is 'international inequality', between countries. For this we calculate the per capita GDP of each country in dollars, using the principle of 'Purchasing Power Parity' (PPP). We can then classify countries by their per capita GDP growth and calculate the Gini coefficient of that distribution. This measure, for example, means we are able to calculate whether the per capita GDP gap between the world's 20 poorest and 20 richest countries is growing or shrinking, without taking the countries' populations into account.

A further way of measuring international inequality is to weight each country by considering its population, otherwise known as 'weighted international inequality', similar to 'international inequality', which is what is commonly used when considering the global population as a whole. It is measured using a global Gini coefficient, which is hard to calculate accurately since it compares individual and household incomes in starkly different countries. It combines the 'weighted international inequality' and 'internal inequality' in each country.

In a report published in 2015, the Commission compared and contrasted the different ways of measuring inequality.[82]

81 The Gini index, Data: World Bank, 31 May 2016.

82 'Towards a better measurement of welfare and inequalities', European Commission, *Quarterly review*, September 2015.

Does globalisation level up living standards or increase inequality? Economists have long been debating the role free trade plays in creating winners and losers.

By opening up markets, globalisation reduces the number of monopolies, while consumers benefit from the resulting increase in competition. But globalisation also leads to losses, or at least smaller net gains, for some and it can also increase economic inequality.

Once a purely economic and social issue, the question of who wins and who loses in globalisation has become a topic for heated political debate in Europe and the USA.

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