

*[Note: The COVID-19 pandemic will undoubtedly impact the conversation about global governance and US-China relations in the short term. But the underlying problems of the current order will continue to produce an unstable economic and political equilibrium. This note is meant to contribute to discussion of how to change the narrative around core socioeconomic issues in order to build support for a more equitable and sustainable global system.]*

## **Changing the narrative on jobs and income distribution**

**Market-led globalization created social cleavages.**

**Global coordination can help to repair them.**

*Sandra Polaski<sup>1</sup>*

The now well-known “elephant curve” elaborated by Christoph Lakner and Branko Milanovic showed that over the rapid globalization decades from 1988 to 2008 the biggest income gains at the global level accrued to people in the 10<sup>th</sup> to 70<sup>th</sup> income deciles (Figure 1). These were the poor, working and middle classes in emerging economies, particularly China. Part of their improved lot stemmed from domestic investment and reforms but a significant driver was the search by foreign corporations for cheap labor. The relative—and sometimes absolute—losers were in the 80<sup>th</sup> to 90<sup>th</sup> deciles—the working and middle classes in the developed world, including the US. This was the other side of market-led, profit-maximizing globalization. Jobs were shifted to the lowest labor cost locations and for jobs that remained the bargaining power over wages shifted to employers. The global top 1 per cent enjoyed huge increases to their already high incomes. While various critics have disputed details of Lakner and Milanovic’s methodology, the basic graphical pattern has proven to be irrefutable. An update to 2016 from the World Inequality Lab includes extensive additional data sources and covers the post-financial crisis period. It shows even higher gains for the top 1 percent, more moderate gains for emerging economy working classes and continuing income stagnation for working and middle classes in the US and western Europe (Figure 2, Alvaredo et al 2018).

The indisputable good news for many workers in China and some other parts of the developing world coexists with the increasingly well documented employment losses or income stagnation for large sections of the US and European working classes. In the US, a widely replicated study that examined the effect of Chinese import competition on US local labor markets found that rising imports caused higher unemployment, lower labor force participation and reduced wages in local labor markets with import-competing industries (Autor, Dorn and Hanson, 2013). A study that looked at the effects of NAFTA by measuring each industry’s vulnerability to Mexican imports and each locality’s dependence on vulnerable industries found that wage growth was dramatically lower for blue collar workers

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in the most affected industries and localities, with negative spillover effects on service-sector workers in those localities as well (McLaren and Hakobyan, 2016).

These patterns, now well-established in the data, have been weaponized in US politics as an anti-China narrative. But that narrative fails to take into account more recent developments. Perhaps most notably, China embarked on an ambitious and persistent policy to wage raises beginning in 2003. After fifteen years of double-digit wage increases, labor costs in China are now higher than those in Mexico and comparable to those in some eastern European countries. Figure 3 shows the evolution of real wages in G20 emerging economies over ten of those years. What is striking is not only the dramatic increase in Chinese wages but the decline of wages in Mexico. Mexico pursued a policy of wage repression from the 1980s until 2018. As a result, Chinese manufacturing wages, which were about half the level of Mexican wages in 2003, were about 40 per cent higher by 2018.

In addition to raising wages, China has also been building out its social protection system of pensions and health insurance, although much remains to be done. It pursued these policies in order to raise its citizens' living standards and to expand domestic demand. The results of this determined and aggressive policy shift are evident in the fact that domestic consumption has been the greatest source of the country's overall GDP growth for the last several years. This gives the country greater resilience to external demand and policy shifts and increased space for domestic policy choice. It has also created space for other emerging and developing countries to raise wages without sacrificing their competitiveness. In Mexico the new government of Andrés Manuel López Obrador raised the minimum wage dramatically as one of its first acts, increased it again by 20 per cent in January 2020 and has vowed to continue with aggressive wage increases throughout the six-year term of his presidency. China's actions also opened policy space for lower-income countries and some chose to exploit it. For example in the apparel sector, Cambodia and Vietnam followed China's example to raise minimum wages aggressively, while Bangladesh continues to pursue a low-wage policy (Table 1). Even in a tightly integrated global economy there is obvious room for domestic policy choice on labor and social issues.

It is undeniable that low wages in China, Mexico and other countries in the 1990s and early 2000's contributed to job and wage loss in the US and Europe, giving rise to legitimate grievances that are now manipulated politically. However the determined change of policy in China has pointed a way forward with regard to jobs and incomes. By raising wages and incomes in a country with such a huge population China has not only increased domestic demand but global demand as well, which can contribute to global economic stability and export opportunities for other countries, both those richer and poorer than China. It also creates space for other countries to wage raises and strengthen their own social protection systems. Until now such policy decisions have been reserved to the governments of individual countries. However the new European Commission has proposed an EU-wide minimum wage, which is long overdue. A coordinated effort by the G20 to raise wages across those enormous economies could build on the Chinese and other efforts.

It is essential to acknowledge the real distributional consequences of globalization and China's role given its enormous weight. The happy talk of globalization cheerleaders—lower prices, efficiency, etc.—was based on neoclassical economic models and neoliberal market

values, ignoring social spillovers and leaving the losers of globalization to fend for themselves. A convincing new narrative about global coordination in general and cooperation between China and the West in particular must be based on a sound social and economic analysis and concrete programmatic ideas that can help to construct a more socially inclusive global order. It must include a frank recognition that the prioritization in the US and Europe of the interests of shareholder capitalism and employers over those of working households has magnified the negative distributional impacts of globalization. At a time when many western countries were breaking down the post-war social contract with their people, the Chinese were beginning to construct a new social contract.

While all countries are temporarily focused on confronting the novel coronavirus pandemic, the period of reconstruction afterwards should be used to reopen discussion of needed and fundamental corrections to economic and social policy. The steps China has taken to raise wages and incomes provide a good example of the solutions that can emerge in different countries with different systems. The wage policy choices discussed above are only one example. It is not difficult to think of useful examples from China and elsewhere of industrial policy, tax policy and certainly now public health policy that can serve as new templates or elements for more balanced and equitable national economies and through international coordination of a more equitable, balanced and sustainable global economy going forward.

## References

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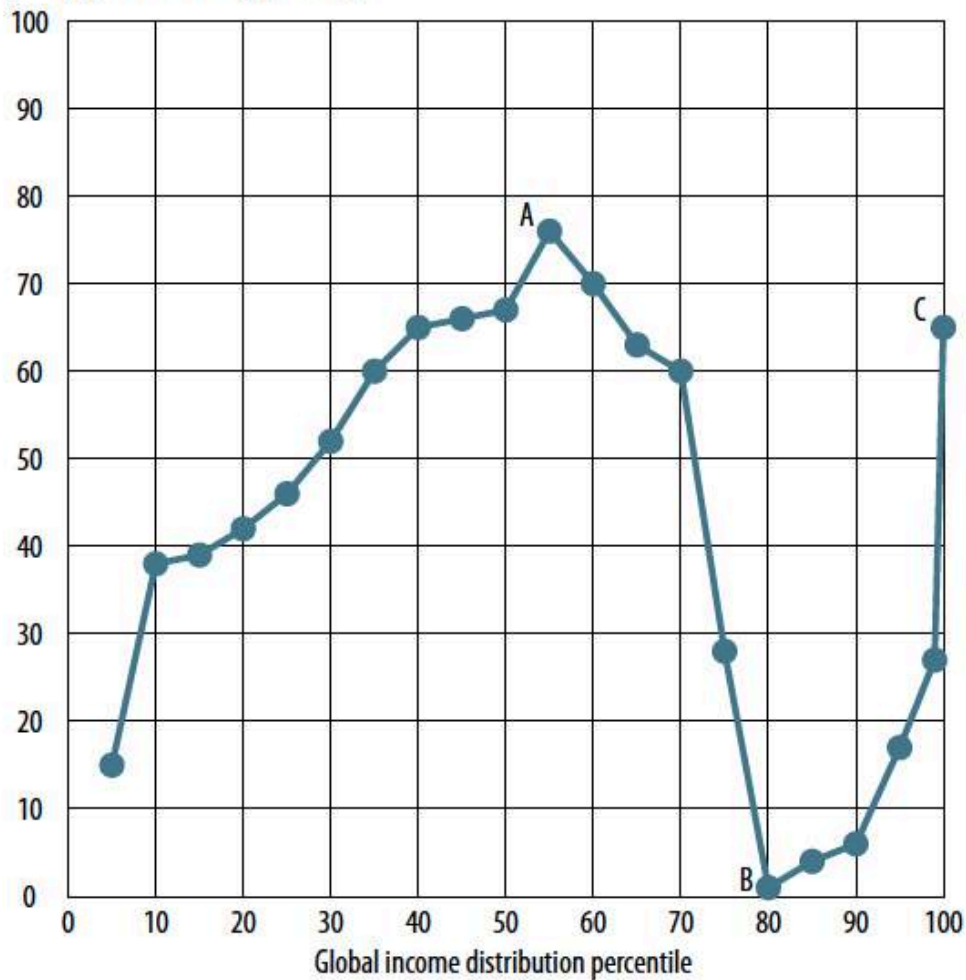


Figure 1. Milanovic “elephant curve”

### Unequal distribution

From 1988 to 2008, income gains were greatest for people around the 50th percentile of the global distribution (point A) and among the richest 1 percent (point C). Gains were lowest among people around the 80th percentile globally (point B), most of whom are in the lower middle class of developed economies.

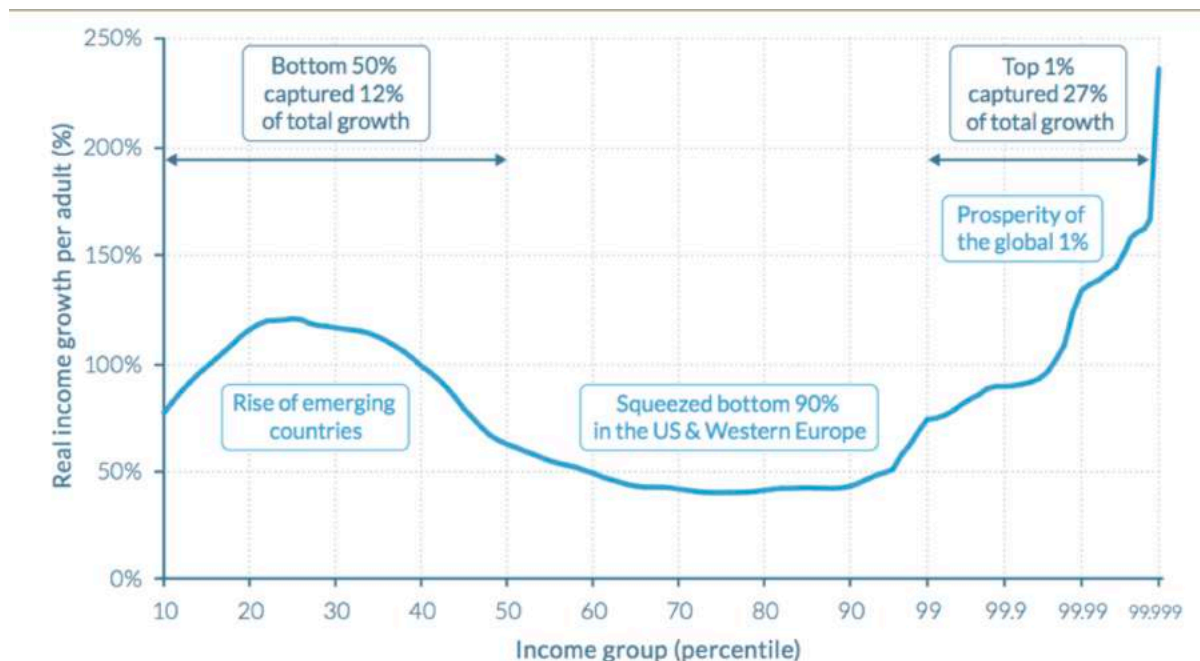
(real ppp income change, percent)



Source: Branko Milanovic.

Note: ppp = purchasing power parity.

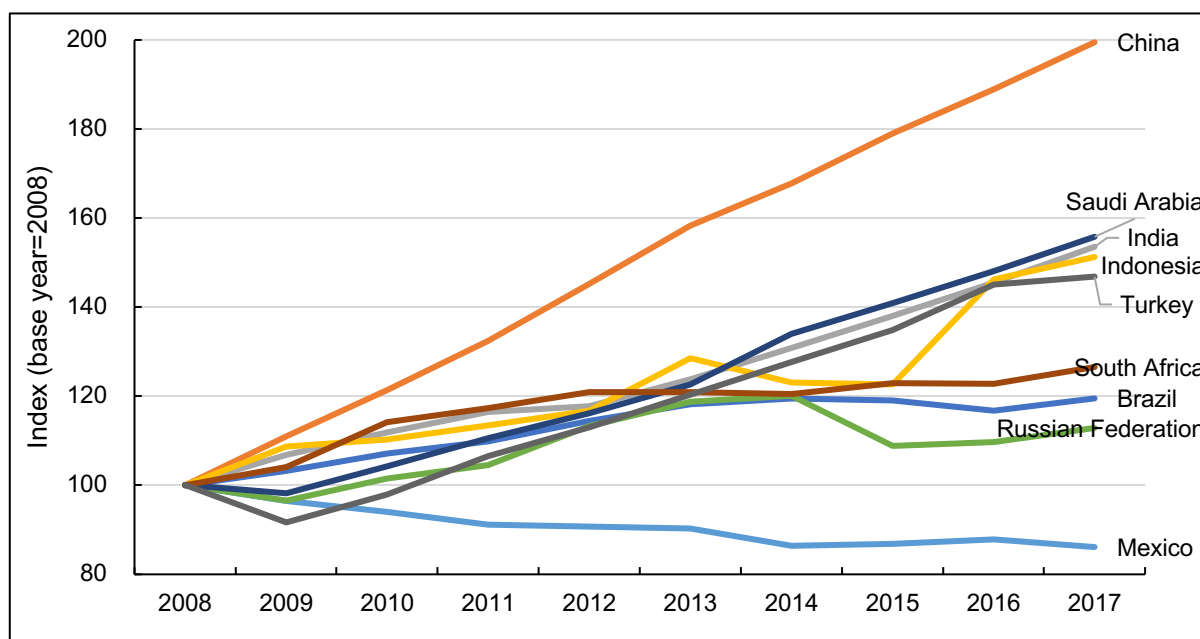
**Figure 2. World Inequality Database (WID) Curve**



Source: WID.world (2017). See wir2018.wid.world for more details.

On the horizontal axis, the world population is divided into a hundred groups of equal population size and sorted in ascending order from left to right, according to each group's income level. The Top 1% group is divided into ten groups, the richest of these groups is also divided into ten groups, and the very top group is again divided into ten groups of equal population size. The vertical axis shows the total income growth of an average individual in each group between 1980 and 2016. For percentile group p99p99.1 (the poorest 10% among the world's richest 1%), growth was 74% between 1980 and 2016. The Top 1% captured 27% of total growth over this period. Income estimates account for differences in the cost of living between countries. Values are net of inflation.

**Figure 3. Average real wage index for emerging G20 countries 2008-17**



Source: ILO Global Wage Report 2018/19

**Table 1. Monthly minimum wages for apparel workers in US dollars, January 2020**

<b>Country</b>	<b>Type of minimum wage</b>	<b>2020 wage in US dollars</b>
Vietnam	varies by region, highest is shown	<b>US \$190</b>
Cambodia	national apparel minimum wage	<b>US \$190</b>
Mexico	national minimum wage	<b>US \$140</b>
Bangladesh	apparel minimum wage	<b>US \$94</b>

Author's calculations.