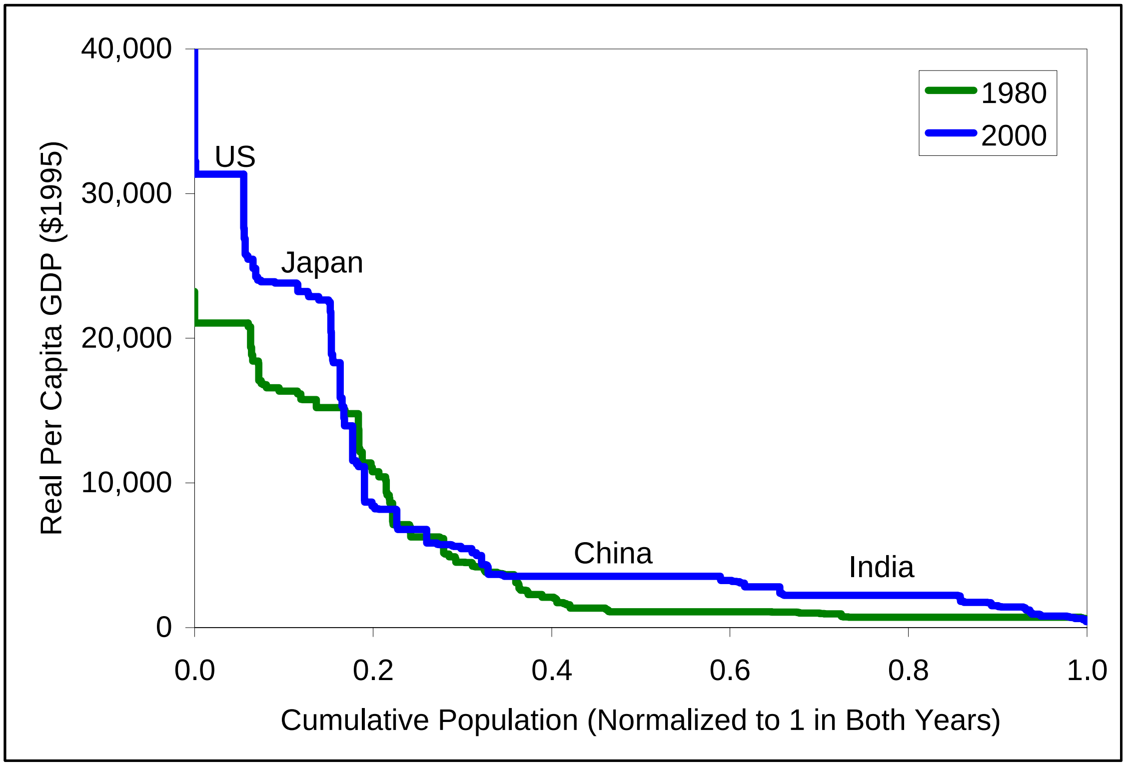
The Rich (and Poor) Keep Getting Richer
by Ed Leamer and Peter K. Schott

Fact: Earnings are rising for the world's poorest and wealthiest countries but remain stagnant for those in between.



This chart compares the per capita gross domestic product (GDP) of the world's countries in 1980 with their per capita GDP in 2000. Each country is represented by a horizontal line segment. The line segment's vertical position indicates the country's per capita GDP, and its length indicates the country's share of the world's population. Thus, the UK (small population, high per capita GDP) appears as a short horizontal line high up while China (large population, low per capita GDP) appears as a long line near the bottom.

In 1980, isolationist barriers in low-wage countries like India and China prevented businesses in high-wage countries from employing the poorer nations' cheap labor. Many believed that eliminating these barriers would unleash a flood of outsourcing that would concentrate GDP growth in low-wage countries and reduce wages in developed countries. That hasn't happened. While the 60% of the world's people living in poorer countries have seen substantial earnings growth since 1980, so have the 20% who live in wealthy countries. It's the globe's middle class—20% of the world's people—whose earnings have stagnated.

Why is this? Media reports notwithstanding, global competition has not been very intense between the poorest and wealthiest countries. Few of the labor-intensive products made in India and China are also made in high-income countries. Consequently, workers in wealthy countries have not felt the force of competition from low-wage producers. Middle-class countries, however, have not escaped direct competition with these poorer nations. This is not likely to change anytime soon. Technological advances will continue to drive growth in the high-income countries, while the middle class and the poor compete for the mundane work. In that competition, large, poorer nations—by virtue of their vast low-paid labor supply—will retain the upper hand. Businesses should weigh this continued dispersion of growth when setting their global strategy.

Send Data Point chart proposals to consulting editor ***Edward E. Leamer*** *(leamer.hbrgraph@anderson.ucla.edu). Leamer is a Professor of Management, Economics, and Statistics at the University of California, Los Angeles, and the director of the* UCLA Anderson Forecast*.* ***Peter K. Schott*** *is an Associate Professor of Economics at the Yale School of Management in New Haven, Connecticut.*