Economic Globalization and Welfare: Experience from India and U.S

KV Velayudhan *

Economic globalization is a neo-liberal economic system that emerged after the collapse of the Soviet Union in 1990s, which has been developed on the foundation of international institutions with the help of digital networking. The digital revolution provided an unprecedented favorable condition for globalization, which enabled them in integrating production, distribution, and marketing without direct intervention in local or regional government. In other words, the wide application of networking differentiates current globalization from the earlier hegemonies including the Eurocentric imperialism (Layne 1993, Nagao et. al 2000:12). The globalization provided unprecedented favorable situation to the capitalist world. Although the impact of globalization on economic, social, political, cultural and ideological processes of the society has been a subject matter of discussion for the last two decades, researchers presented different views in this regard. While a group of researchers, (Levitt 1983, Ohmae 1990, Antonio and Bonanno 2000, Harrison and Bluestone 1988, Rifkin 1996, Brohman 1996, Brenner 1998 and Gray 1998), support the globalization on the assumption that the new system increases overall welfare of the society, another group (Held 1995, Shiva 2000, Cox 1996, and Kennedy 1993), oppose it on the assumption that globalization is the product of global capitalism. The opponents argue the globalization raises the gap between the global rich and the poor in one or the other way (Amin 2004). According to them gap between high-income group and low-income group increased even in developed countries including the United States of America after the commencement of globalization. It is also argued that globalization is not for the entire society but for an elite minority of the world specifically in the developed world. This paper is a modest attempt to verify the above proposition empirically analyzing the impact of globalization on income distribution in India and the United States of America.

---

* Department of Economics and Finance, School of Business, Montclair State University, New Jersey, USA.

The rest of the paper is organized in the following format: the first section examines the historical background of the evolution of globalization. While the second section deals with concept of economic globalization, the third presents theoretical foundation. The fourth interprets empirical analysis and the last section recapitulates major observations.

1. Concepts of Economic Globalization

Globalization is used to describe variety of phenomena such as flows of goods and services across borders, reductions in policy and transport barriers to trade, international capital flows, multinational activity, foreign direct investment, outsourcing, increased exposure to exchange rate volatility, and immigration that reflect increased economic interdependence of countries. These movements of goods, services, capital, firms, and people are believed to contribute to the spread of technology, knowledge, culture and information across borders (Goldberg and Pavcnik 2007). Studies on globalization right from 1970s drew the attention of researchers on the globalized economy involving new systems of production, cultural patterns, political processes, multidirectional movement of peoples around the world involving new patterns of transnational migration, social hierarchies and the global system as a whole (Robinson 2008). Although the term 'globalization' used popularly right from 1970s in research there was no single universally accepted definition for this concept. Globalization, Economic globalization, global capitalism and transnationalism are used as synonyms in these studies (Held and McGrew 2000, Modelski 2008). Some of the popular definitions are presented here so as to make further discussion easier.

Globalization is defined as the geographic extension of competitive markets, a process dependent on the removal of state barriers to the free market, and the overcoming of distance through technology (Gindin and Panitch 2012). It refers to the interconnectedness of economies, cultures, politics, environmental policies, and military capabilities (Al-Rodhan 2006). 'Globalization can be defined as the intensification of worldwide social relations which link distant localities in such a way the local happenings are shaped by event occurring many miles away and *vice versa*' (Giddens 1990: 64). Globalization is the intensification of international economic exchange and the label for the contemporary era of international economic integration (Brady and Beckfield 2005), which is also defined as compression of the world and intensification of consciousness of the world as a whole (Robertson 1992: 8, Stefanović 2008).

Economic globalization is defined as a globally integrated production and financial circuits driven by information technology and organizational innovations in capitalist production have modified how value is created, circulated, and appropriated (Robinson 2005). It is characterized by the integration of financial and labor markets via trade, foreign investment and capital transfers (Shariff, 2003) and commonly referred to as "the increasing internationalization of the production, distribution, and marketing of goods and services" (Harris 1993:755).

When globalization is interpreted as internationalization, the term refers to a growth of transactions and interdependence between countries. From this perspective, a more global world is one where more messages, ideas, merchandise, money, investments, pollutants and people cross borders between national-state-territorial units. For certain authors (Hirst and Thompson 1996) globalization is an especially intense form of internationalization, so that the global is a particular subset of the international. Globalization simply entails the global spread of free markets. Openness to trade, foreign direct investment (FDI), foreign port-folio investment (FPI), and Internet use enables allocation of production factors to their most efficient uses, promoting development, which strengthens the government, providing it with more revenues as the tax base is larger (Babieri and Reuveny 2005).

2. Evolution of Global State

Globalization, global state, is widely discussed in 1990s after the collapse of the communist system on the assumption that it is a new phenomenon. Unipolar power system, which is currently known as the global state, has been created in the history in different periods. France achieved hegemonic standing by developing the means to mobilize its assets and convert them into effective diplomatic, military, and economic power in 1660. French hegemony lasted from 1660 to 1714 caused by the rise of Britain. In 1860, Britain was in a position of apparently unequaled dominance in an international system that has been characterized as unipolar. The fall of the British hegemony caused by the rise of Germany, Japan, Soviet Union and US (Layne 1993, Nagao et al 2000:12). Among these, two phases of globalization or global states, the Middle Age globalization and post-Cold War globalization, are historically important. The first phase globalization, formed under the leadership of European imperialism, was the outcome of an attempt to reduce transportation costs of the European trade after the industrial revolution, which collapsed with the First World War. The second phase globalization has been developed after the collapse of the erstwhile Soviet Union under the leadership of modern capitalism (UN 2002:19).

The European imperialism was successful in controlling almost all overseas territories directly with the help of their colonies until the early decades of the 20th century (Al-Rodhan 2006, Bonfatti 2012). Europeans established their rule in Africa, the Middles East, Russia, South Asia, Central Asia, East Asia and other various other parts of the world, which led them to bring vast majority of the world under their political control. The world was linked with global trade; the British banks and capitalist markets provided the monetary framework for the rapidly growing international commerce (Sachs 1999:

93). European imperialism was at its peak by the late 19^{th} century and it was so organized socially and economically by the early decades of the twentieth century (Frieden 2006, Keynes 1919). Eventually, the first phase globalization, the European imperialism, was devastated with the First World War.

The collapse of the European hegemony was instrumental in evolution of the Bolshevik government in Russia under the leadership of Vladimir Ilyich Lenin. The communist economic system became a reality, hitherto not practiced. The "great depression" of the 1930s was another consequence of the World War. The economic crisis after the War haunted the world, which led to the world to a great economic turmoil. However, several scientific and technological inventions were carried out during this period (Frieden 2006). Within two decades the Second World War started in 1939, another milestone in the formation of second phase globalization. The entire world was divided into two blocks after the War, which ended in 1945- one under the leadership of the United States of America and the other under the leadership of the Soviet Union. Postwar Soviet influence increased in both Europe and the colonial world, subsequently to the defeat of Nazism; the Soviet Union supported the national liberation movements and became a role model of non-capitalist development. However, the United States took on the responsibility for producing political and economic order of capitalism by extending its responsibilities beyond its own territory (Anderson 2002, Xing and Hersh 2006). Precisely, the transition from bipolar world to unipolar initiated right after the Second World War.

Several international institutions and global agencies developed during and after the War were used in integrating all capitalist powers into an effective system of coordination under its aegis, which Britain had been unable to achieve in the nineteenth century (Panitch, Gindin 2012). Most of these regulatory agencies were committed to the promotion of competition and these institutions were instrumental in implementing globalization policy aimed at promoting development oriented, authoritarian and anti-communist agenda around the world (Blum 2003, Xing and Hersh 2006, Levi-Faur 2005). The "Bretton Wood system" established in New Hampshire City in 1944 and institutions like the international Bank for reconstruction and Development (IDRD) (loosely referred to as World Bank) and IMF played an important role in this direction. Precisely, the global economic integration was initiated in the form of globalization soon after the collapse the USSR. The establishment of the General Agreement on Tariffs and Trade (GATT, which later became the World Trade Organization, WTO), the European Economic Community (EEC), the Organisation for Economic Co-operation and Development (OECD), as well as other organizations, have promoted strong economic relations in the international system. As trade dependencies expanded, the traditional political borders of the past seemed to melt away and new, stronger economic boundaries took their place (Al-Rodhan 2006, Panitch and Gindin 2012, Xing and Hersh 2006, Stephey 2008). The digital revolution, introduction of Internet and other information networks that followed further simplified the process.

Information technology, especially Internet was used effectively in organizing and managing these institutions. The wide use of networks and institutional linkages is a novelty of the second phase globalization and was unknown in the first phase, which enabled modern capitalism to control the entire world without their direct intervention in regional or local government. The world became an unprecedented favorable strategic position of the capitalist imperialism, which enabled them in destabilizing communist system without any direct war, which had been perceived for long as successful social and economic practice in fighting the capitalist imperialism (Wang 2010). The success over the Cold War enabled US race ahead of other industrial nations in spreading and disseminating American culture and technology in every nook and corner of the world, which in turn accelerated the process of the second phase globalization (Cameron 2005:3). Precisely, second phase globalization has several similarities with first phase. In other words, the contemporary process of globalization is the extension of the European capitalist imperialism and capitalism became global as it was in the decades before 1914 (Frieden 2006, UN 2002).

3. Theoretical Foundation of the Globalization

The studies on globalization are now emerging across disciplines and attempt has been made to analyze the theoretical relevance of each discipline in the changing world scenario. Significance of global economy, global system theory, global cultural theory, global political theory, and transnational migration theory are some of the areas in which researchers have focused their attention (Appelbaum and Robinson, 2005, Robinson 2008). Studies on globalized economic theory, involve new system of production, finance and consumption, and worldwide economic integration. World-systems theory explains globalization as an expansionary system that has come to encompass the entire world over the past 500 years (Wallerstein 1974). This section mainly examines theoretical foundations of global economic theory.

According to the world system theory, there are different social systems such as “mini systems”, “world empire” and “world economies” in the society. It is stated that the modern nation state exists within a broad economic, political, and legal framework.

Modern nation states are all part of the world system of capitalism and world economy is based on the extraction of surplus from outlying districts to those who rule at the center. In other words, the modern world is neither class, nor state/society, or country, but the larger historical system, in which these categories are located. It is argued that the capitalist world economy is a mechanism of surplus appropriation that is both subtle and efficient (Wallerstein 1974). The proponents of capitalist theories tend to see globalization as a novel stage in the evolving system of world capitalism with qualitatively new features that distinguish it from earlier epochs (Robinson 2008:130). However, Marx and Engels predicted evolution of globalization while Europe was passing through the industrial revolution and the growth of Eurocentric capitalism was its peak (Blaut 1992).

According to Marx and Engels, '*The need of a constantly expanding market for its products chases the bourgeoisie over the entire surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere'* (Marx 1848: 6). The prediction of Marx and Engel became a reality and local or regional market is irrelevant and the entire globe is connected with digital network. The Manifesto continues: , '*The bourgeoisie keeps more and more doing away with the scattered state of the population, of the means of production, and of property. It has agglomerated population, centralized the means of production, and has concentrated property in a few hands. The necessary consequence of this was political centralization. Independent, or but loosely connected provinces, with separate interests, laws, governments, and systems of taxation, became lumped together into one nation, with one government, one code of laws, one national class interest, one frontier, and one customs tariff* '(Marx: 1848: 6). It is evident that the international institutions are protecting the interest of global capitalists and the capitalist use this system to exploit the underdeveloped economies for their benefits. The Manifesto continues, '*The bourgeoisie has, through its exploitation of the world market, given a cosmopolitan character to production and consumption in every country* (Marx 1848: 6).

The propositions of neo-liberalists in favor of globalization would be examined in the light of the aforesaid observation. The neo-liberalists advocate globalization on the ground that it increases growth dynamics of the countries developed and developing, instrumental in economic growth and welfare of the entire society. The proponents of the globalization claim that it increases competition, offers major opportunities for exports and growth to developing countries, promotes the convergence of the living standards of poor countries with those of the advanced countries and reduces the incidence of poverty worldwide. They also claim that the within-country distributive impact of these policies is, on the whole, neutral, that the long-term income distribution is broadly stable and that there is no clear association between inequality and growth**.** However, globalization advocates often admit that the process has increased economic inequality (Gilpin 1999, Antonio and Bonanno 2000).

According to proponents of anti-globalization, a *laissez-faire* world economy produces greater poverty, inequality, social conflict, cultural destruction, ecological damage and democratic deficits (Fiss and Hirsch 2005). Current phase of the globalization is nothing but the extension of the capitalism, which was developed on the foundation of the capital accumulation. Digital revolution of the period accelerated the process (Rennen and Martens, 2003). The earlier "economic individualism' is replaced with a "planned economy", which is the agenda of the leading capitalist powers since they need a balance mass production with mass consumption to avert economic crises (Gramsci 1971, Antonio and Bonanno 2000). According to Marxian thinkers globalization is an agenda introduced by the capitalist countries to expand domestic market to the global level and it was instrumental in increasing income inequality even in developed countries like the United States of America. Precisely, globalization is not beneficial to the entire capitalist world but beneficial to top elites of the countries like United States (Alvaredo et al. 2013). The argument is tested empirically in the next section.

4. Empirical Analysis

It obvious from the above discussion that the second phase of the globalization has been developed on the foundations international institutions with the help of digital network. The digital revolution enabled capitalists to control the entire world without direct intervention. The neo-liberal policies of the globalization created conducive climate for concentration of wealth, which led to increase world inequality. An empirical investigation on distribution of income for the last two centuries enables us to understand intensity of income gap among the people during first phase and second phase of the globalization. The global income inequality from 1820 onwards is presented in Table 1.

Table 1. Global Inequality from 1882 to 2001

Year	1820	1850	1870	1890	1910	1929	1950	1960	1970	1980	1992	2001
Gini index	43	53.2	56.0	58.8	61.0	61.6	64.0	63.5	65.0	65.7	65.7	69.9

Source: Chilosi 2010: 476, Milanovic 2009, Ortiz 2011:25,
Atkinson, Piketty, and Saez 2011.

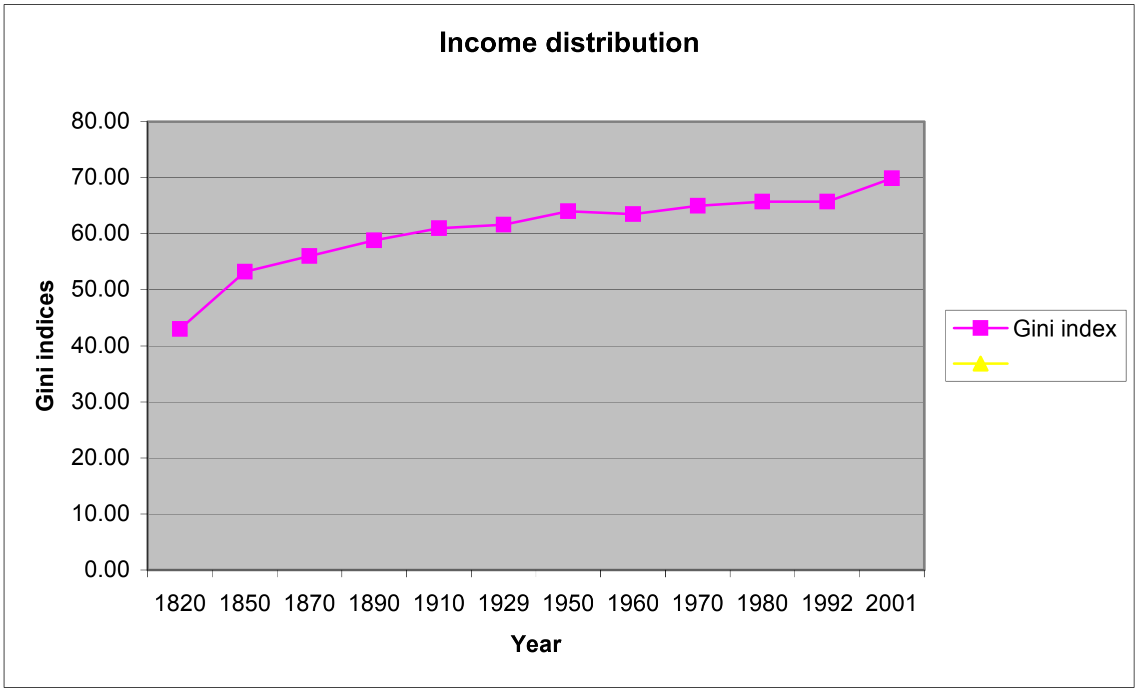

Figure 1 Income distribution and population living under conditions of poverty

The Gini coefficient ranges between 0 to 1 indicates complete equality to complete inequality. The global Gini indices increased from 43 in 1820 to 69.9 in 2001, depicting 62.56 percent increase. During the first phase of the globalization, from 1820 to 1910, Gini indices increased by 18 points. However, Gini indices depicted a nominal increase of 4.7 points from 1910 to 1992. The increase in Gini indices was very fast during the second phase of the globalization, from 65.7 in 1992 to 69.9 in 2001, indicating an increase of 4.2 points within a period of nine years (see Figure 1). It is apparent that the increase in income gap was wider in second phase of the globalization than the first phase. Now it is significant to know the world economic growth performance, which is given in Table 2.

Table 2 Annual per capita GDP growth rate and average annual compound growth rate of selected countries (1990 international dollars)

No	Countries	Annual growth rate in percentage				ACGR 1990-2003
		1981	1991	2001	2003	
1	France	0.51	0.64	1.58	0.37	1.70
2	Germany	0.24	4.52	1.13	-0.24	1.45
3	Italy	0.38	1.38	1.54	0.15	1.42
4	United Kingdom	-1.42	-1.66	1.96	2.20	2.38
5	Canada	1.83	-3.27	0.75	1.02	2.09
6	United States	1.50	-1.52	-0.20	1.76	2.08
7	Poland	-6.18	-7.34	1.04	3.87	4.11
8	Russian Federation	NA	-5.21	5.61	7.80	-1.61
9	Brazil	-6.65	-0.60	0.05	-0.63	1.22
10	Mexico	6.27	2.33	-1.34	0.23	1.39
11	Cuba	7.67	-12.41	2.52	2.57	0.48
12	China	4.63	5.14	9.88	14.43	6.76
13	India	4.08	-0.71	4.14	7.37	4.14
14	Japan	2.43	3.01	0.05	1.19	0.90
15	World	0.29	-0.29	1.62	3.58	1.89

Source: Maddison 2006

The growth performance of the world economy was not remarkable in the beginning of the second phase. The world GDP per capita decreased from 0.29 percent in 1981 to (-) 0.29 percent in 1991, which increased to 3.58 percent in 2003. The average annual compound growth rate over the period from 1990 to 2003 was 1.89 percent. The impact of globalization on economic development of the selected countries is also examined subsequently. In 1991, GDP per capita growth rates of almost all countries especially rich G7 countries were nominal or negative; France 0.64, United Kingdom (-) 1.66, Canada (-) 3.27, United States (-) 1.52. But Germany and Japan presented a better economic performance in this year. However, almost all these countries depicted positive GDP per capita growth in 2003. The growth performance of China, Poland and India are found to be significant after the implementation of the globalization. While UK, US and Canada gained more than two percent average annual compound growth rate during this period, China, Poland and India achieved more than four percent average annual compound growth rate. It is apparent that the globalization influenced economic performance of almost all countries but not sure about its impact on the society. Now it is important to know details of income and wealth distribution in these countries, which is observed from Table 3 and Figure 3.

Table 3 Wealth inequality and income inequality of the selected counties.

No	Country	Year	Wealth Gini	Income Gini
1	France	2000	73.0	27.8
2	Germany	2004	67.1	31.1
3	Italy	2000	60.9	33.3
4	United Kingdom	2000	69.7	34.5
5	Canada	2000	66.3	31.5
6	United States of America	2004	80.1	46.4
7	Poland	2005	65.6	31.3
8	Russian Federation	2000	69.9	43.4
9	Brazil	2004	78.3	56.6
10	Mexico	2004	74.8	49.9
11	China	2003	55.0	44.9
12	India	1997	66.9	36.5
13	Japan	1998	54.7	31.9
14	World	2000	89.2	69.9

Source: Davies et al., 2008: 9; 2007, Oriz and Cumins 2011: 25, World Bank, 2008.

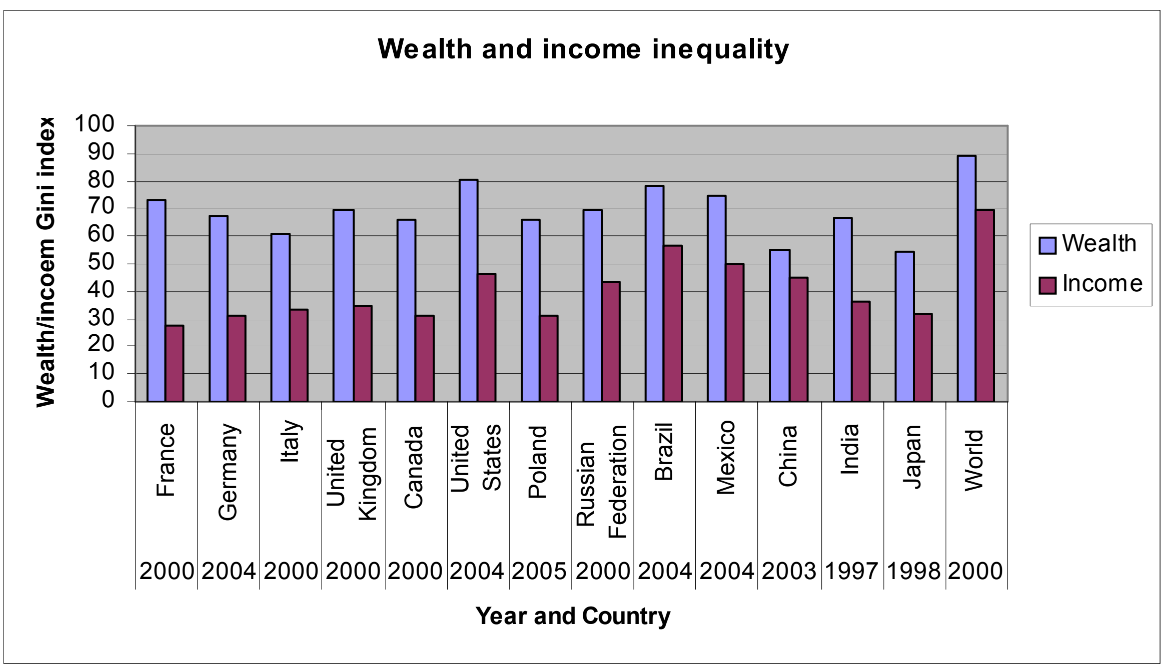

Figure 2

The differences in wealth and income Gini indices of the selected countries indicate that (Table 3) wealth is distributed more unequally than income during the second phase of globalization. In 2000, world income Gini index was 69.9 where wealth Gini index was 89.2, which indicates a high degree of wealth inequality. China is the only country that shows least difference between wealth and income Gini indices. Countries where wealth Gini indices appear to be highest are France (73), United States (80.1), Brazil (78.3) and Mexico (74.8). Wealth is distributed unequally not only in rich G7 Countries (France, Germany, Italy, Japan, UK, US and Canada) but also in former Soviet Union and developing economies like India during the second phase of globalization. Further details on income distribution is given in Table.4

Tables 4 Income share of the bottom and top twenty percent of the selected countries

No	Country	Year	Bottom 20 % income share	Top 20 % income share
1	France	1990	7.3	40.2
		2008	9.3	36.2
2	Germany	1990	8.5	38.3
		2008	7.8	38.5
3	Italy	1990	7.7	39.1
		2008	7.2	39.5
4	United Kingdom	1990	7.6	40.7
		2008	7.5	40.4
5	Canada	1990	7.7	34.8
		2000	7.2	39.9
6	United States	1990	3.7	46.6
		2008	2.4	50.0
7	Poland	1990	9.2	35.9
		2008	7.6	42.2
8	Russian Federation	1990	7.8	41.5
		2008	5.6	50.2
9	Brazil	1990	2.19	64.5
		2008	2.87	58.7
10	Mexico	1990	3.7	56.9
		2008	4.2	54.9
11	China	1990	8.04	40.7
		2008	4.78	47.9
12	India	1990	9.1	39.1
		2010	8.54	42.8
13	Japan	1990	10.6	28
		2005	NA	NA

Source: Ortiz and Cummins 2011: 49; Levin 2012 : 7; US World Bank 2008; Chilosi 2010: 485.

Income share of top and bottom twenty percent population of the selected countries

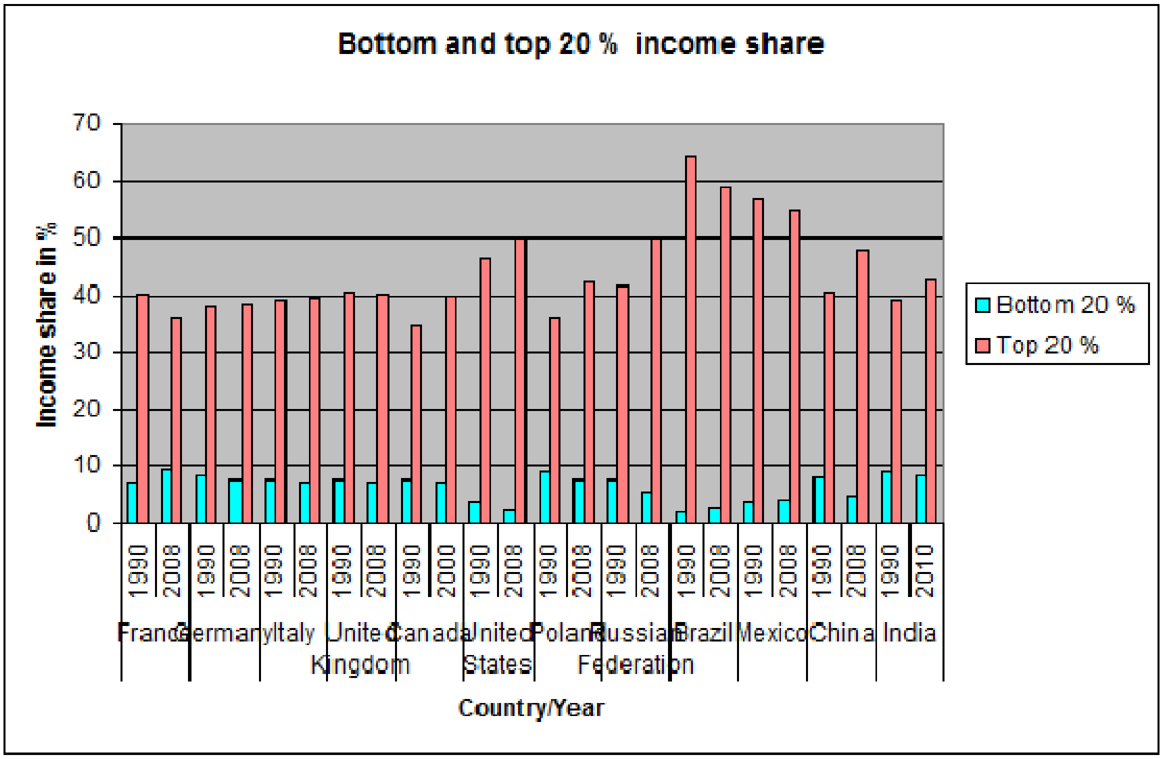

Figure 3

The income share of the top twenty percent and bottom twenty percent of the selected countries from 1990 to 2008 (or the latest available year) are presented in Table 4 and Figure 3. The income share of the bottom twenty percent of almost all countries especially rich countries like Germany, Italy, Japan, U.K, U.S and Canada decreased during the second phase of globalization. France is the only G7 country in which income share of the bottom twenty percent increased (The latest statistics of Japan is not available). Brazil and Mexico are other countries in which income share of the bottom 20 percent depicted a marginal increase. In contrast, income share of the top 20 percent of the five rich countries increased significantly during this period. However, income share of the top 20 percent in France and UK depicted a decrease during this period. While the income share of bottom 20 percent in Brazil and Mexico increased in the study period that of top 20 percent of these countries decreased during this period. In fact, the income share of the top 20 percent in several developing countries and developed countries grow faster than that of the bottom 20 percent leading to wide income inequality. The intensity of this problem in the United States of America and India is examined in detail in the following section.

4. 1 Economic growth and income distribution of the United States

While the first phase of globalization was under the leadership of Britain, the second phase is under the leadership of the United States. The United States took the responsibility of reorganizing capitalist world after the Second World War with the help of several international institutions and agencies that was developed during and after the Second World War. The technological leadership of the United States played a significant role in destabilizing the communist system, which enabled them to play a key role in formulating the second phase of the globalization. Globalization influenced economic growth of the United States of America during the last two decades, which is observed from Table 5 and Figure 4.

Table 5. Annual GDP growth rate of the United States from 1990-2012

Year	1990	1995	2005	2007	2009	2010	2011	2012
Annual GDP growth	1.86	2.55	3.08	1.91	-3.11	2.38	1.80	2.21

Source: World Bank 2008

Although the U.S economy faced different business cycles from 1990 to 2002 the economic growth of the country depicted a significant progress during this period. GDP growth in 1990 was at the rate 1.86 percent which increased to 3.08 percent in 2005. The annual growth reached the trough (-) 3.11 in 2009, which recovered and reached another peak (2.21 percent) in 2012 indicating a good economic growth for a developed country like the United States. However, it is important to know how this economic growth is distributed among the people, which can be observed from Table 6.

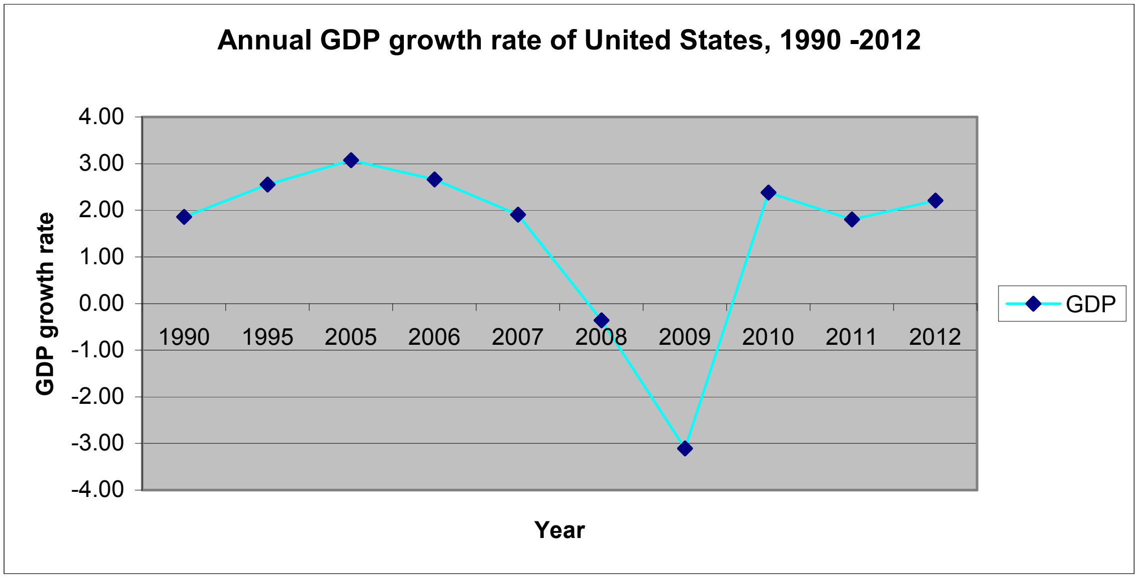

Figure 4

Table 6. Growth of U.S. household income shares in different quintile, Selected Years

Year	Percentages of total household income				
	1st quintile	2 quintile	3 quintile	4 quintile	5 quintile
1990	3.9	9.6	15.9	24.0	46.6
1995	3.7	9.1	15.2	23.3	48.7
2000	3.6	8.9	14.9	23.0	49.6
2005	3.4	8.7	14.7	23.2	50.1
2006	3.4	8.6	14.5	22.9	50.5
2007	3.4	8.7	14.8	23.4	49.7
2008	3.4	8.6	14.7	23.3	50.0
2009	3.4	8.6	14.6	23.2	50.3
2010	3.3	8.5	14.6	23.4	50.3
2011	3.2	8.4	14.3	23.0	51.1

Sources: Ortiz and Cumins 2011: 49; Levin 2012

The household income distribution given in Table 6 reveals that income share of the first quintile decreased from 3.9 percent in 1990 to 3.2 percent in 2011. During the same period income share of the top twenty percent households decreased from 46.6 percent to 51.1 percent (Figure 5). Although the income gap between the rich and poor was wide in the beginning and end of the periods (42.7 % and 47.9 %), the gap in 2011 is wider than beginning, which indicates that income is concentrated highly in top 20 percent of the society. Detailed income distribution of the top 10 percent is given in Table 7.

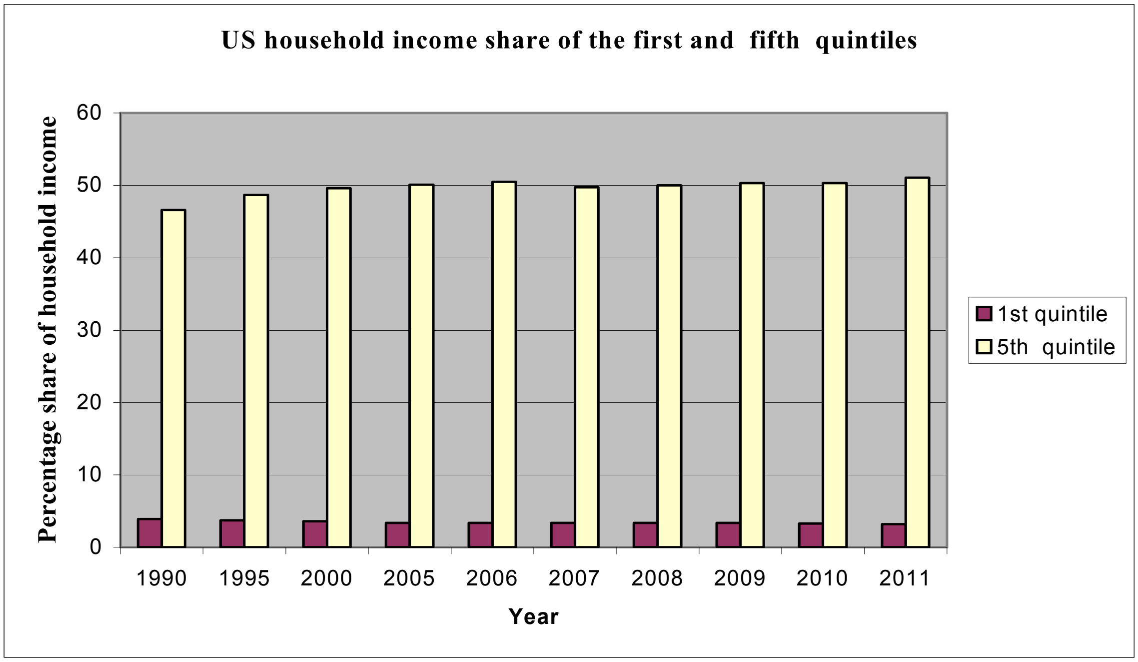

Figure 5

Table 7: Growth of top fractiles income shares (including capital gains) in the U.S., 1990-2006

Year	P90-100	P95-100	P99-100	P99.5-100	P99.9-100	P99.99-100
1990	39.98	28.41	14.33	10.94	5.82	2.33
1995	42.11	30.22	15.23	11.57	6.21	2.46
2000	47.61	36.61	21.52	17.46	10.88	5.07
2001	44.82	33.35	18.22	14.32	8.37	3.70
2002	43.82	32.07	16.87	13.04	7.34	3.14
2003	44.53	32.77	17.53	13.67	7.87	3.49
2004	46.40	34.95	19.75	15.74	9.47	4.34
2005	48.33	37.16	21.92	17.77	10.98	5.13
2006	49.32	38.08	22.82	18.62	11.59	5.46

Source: Piketty and Saez 2006

The income share of the top one percent increased from 14.33 percent in 1990 to 22.82 percent in 2006. During the same period the income share of the top 0.1 percent increased from 5.82 percent to 11.59 percent and top 0.01 percent increased from 2.33 percent to 5.46, which indicates that the income share of the top two groups increased more than a two fold. Figure 6 depicts the income shares accruing to the top 10 percent, 1 percent, 0.1 percent, and 0.01 percent households between 1990 and 2006.

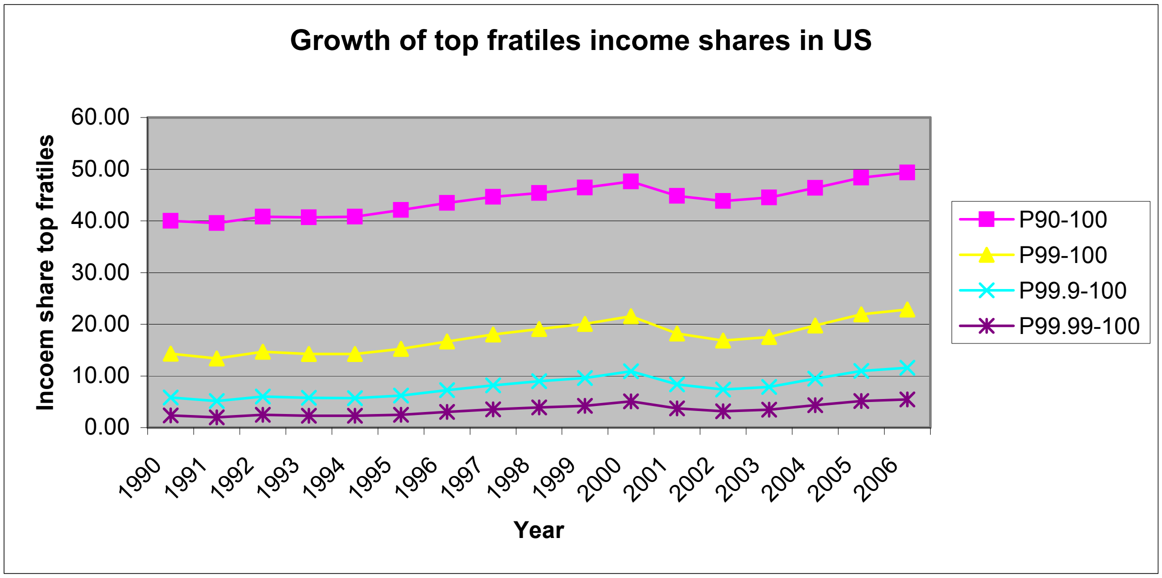

Figure 6

Table 8: Growth of wealth share held by the Bottom 99% and Top 1% in the United States.

Year	Wealth Share of bottom 99 percent (%)	Wealth share of top 1 percent (%)
1981	75.2	24.
1983	69.1	30.9
1986	68.1	31.9
1989	64.3	35.7
1992	62.8	37.2
1995	61.5	38.5
1998	61.9	38.1
2001	66.6	33.4
2004	65.7	34.3
2007	65.4	34.6
2010	64.6	35.4

Sources: Wolff 2012

The wealth gap between top and bottom strata is wider than income gap, which is presented in Table 8 and Figure 7. The wealth share of a top one percent increased from 24 percent to 35.4 percent within the period from 1981 to 2010. However, the wealth share of the bottom 99 percent decreased from 75.2 percent to 64.6 percent during the same period.

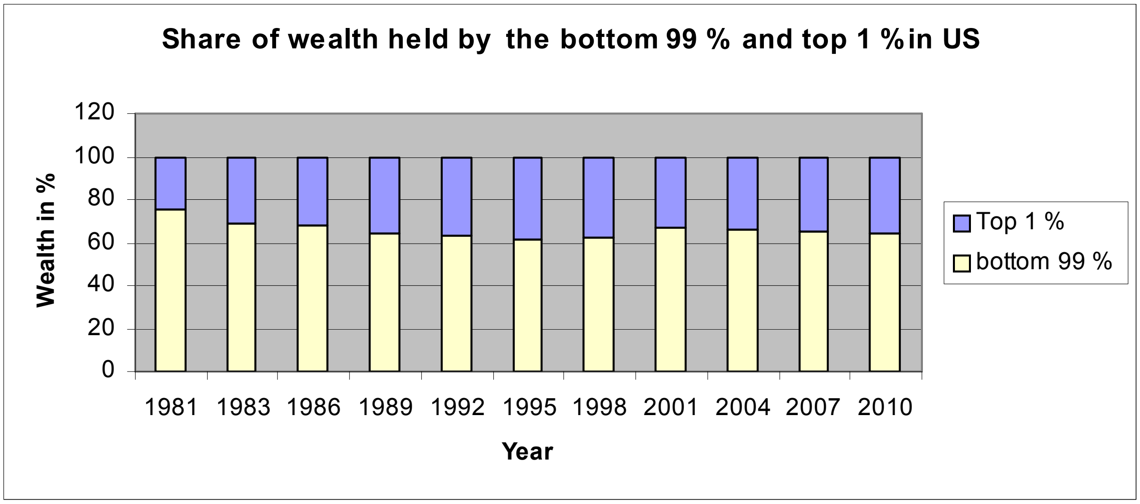

Figure 7

It is evident from the above discussion that income and wealth of the country has been concentrated to top one or 5 percent of the people during the second phase of the globalization. While the income share of the top ten percent increased from 39.98 percent in 1990 to 49.32 percent in 2006, the wealth share of the top one percent increased from 24 percent in 1981 to 35.4 percent in 2010. While income and wealth share of the top one percent and ten percent increase significantly during this period that of the bottom strata decreases. In fact, globalization has wide impact on economic development of the United States of America, which is more beneficial to the top strata rather than the entire population.

4. 2 Economic Growth and Income Distribution of India

India followed the mixed economic system right from the days of independence in 1947. However, Indian development policies had a great inclination to the Soviet perspective planning, which continued until the collapse of the Soviet Union. Indian economy was struggling to survive in 1990s, which forced to introduce the neo-liberal market economy after 1990s. The deviation from the traditional development path to the neo-liberal market economy created a wide impact on economic growth of India, which observed from Table 9 and Figure 8.

Table 9. Annual GDP growth rate of India from 1990-2012 in %

Year	1990	1995	2000	2005	2010	2011	2012
GDP growth rate	3.78	2.76	1.17	5.92	10.55	6.33	7.5

Source: World Bank, ADB (2012)

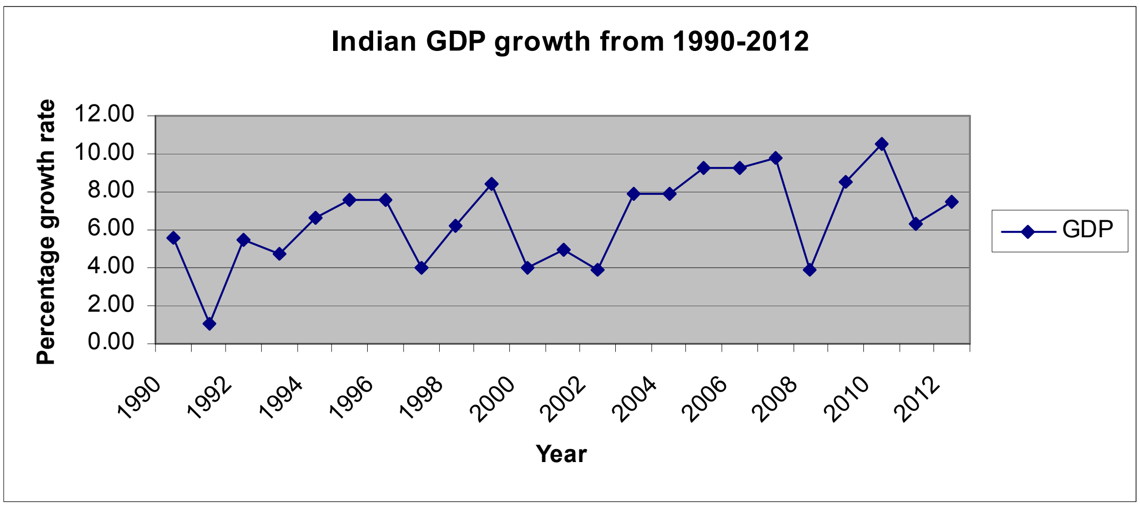

Figure 8

In fact, the Indian economy depicted a significant economic growth after the implementation of the neo-liberal economic policy in 1990s. Annual GDP growth rate of India was 3.78 percent in 1990, which increased to 7.5 percent in 2012. The annual GDP growth rate reached its peak (10.55 percent) in 2010, which decreased to 6.33 percent in 2011. The next attempt is to know how the growth is distributed among different stratum of the people, which is seen from Table 10.

Table 10. Income shares of the households in different quintiles in India for selected years

Year	Q1	Q2	Q3	Q4	Q5
1990	9.1	13.1	16.9	21.8	39.1
1995	8.3	12.0	15.8	21.4	42.5
2000	7.7	11.4	15.2	21.5	44.3
2005	8.1	11.3	14.9	20.4	45.3

Source: Ortiz and Cumins 2011:49

The income share of the bottom quintile decreased from 9.1 percent in 1990 to 8.1 percent in 2005 but that of the top quintile increased from 39.1 percent to 45.3 percent during the same period. It is evident from the table that the income share of all quintiles except the top one decreased during the study period. The difference in income distribution of top and bottom quintiles of the selected years is given in Figure 9.

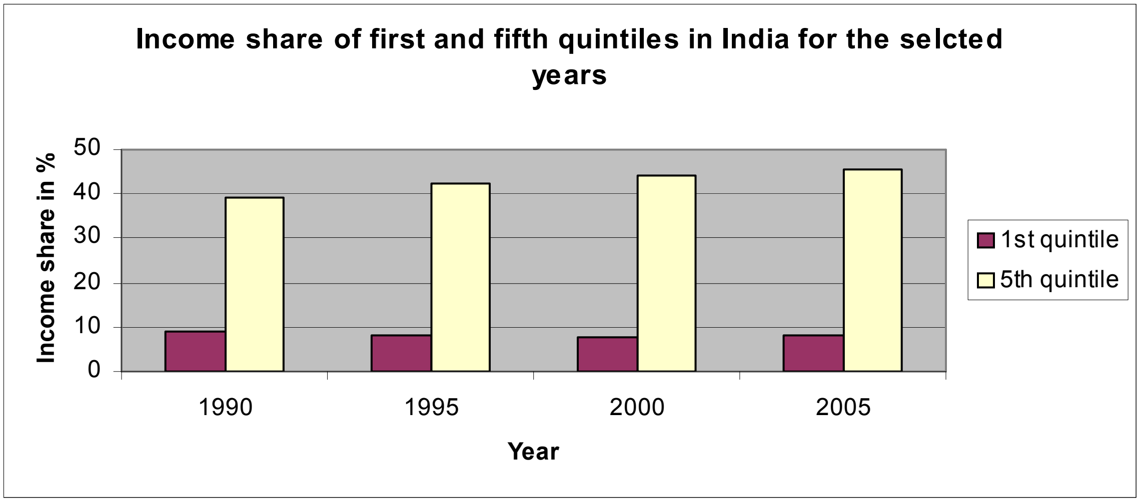

Figure 9

The impact of the globalization on economic development and income distribution is evident from the above empirical analysis. In fact, annual GDP increased after the implementation of the neo-liberal economic policy. As in the case of the United States of America, income in concentrated to the top strata of the country. The economic growth has not been reflected in income level of the lay men. India has the largest concentration of poor people in the world, with nearly 300 million people living in absolute poverty (Dhongde 2007). While income is concentrated to the top millions are living in absolute poverty, which forced several researchers to examine impact of globalization in India. Consequently, the impact of globalization on economic growth of India is the central point of discussion in different national and international forums. A debate between Sen and Bhagwati (2011) is significant in this context.

The debate is the outcome of two different perspectives on development. In their debate Bhagwati cited Gujarat as the development model but Sen disagree with Bhagwati. According to Bhagwati 'growth would pull the poor into gainful employment, thereby helping to lift them out of poverty. Higher incomes would enable them to increase their personal spending on education and health. Bhawathi argues that '*In impoverished countries where the poor exceed the rich by a huge margin, redistribution would increase the consumption of the poor only minimally and the increase would not be sustainable in* *a context of low income and high population growth.'* Sen shielded this argument with the example of Kerala. According to Sen Kerala emphasis high social spending which leads to increased growth. The high social spending of Kerala leads to achieve high human development index (HDI) even during the period of globalization, which is observed in Table 11.

Table 11 India, Human Development Index by State

	State/Union Territory	1991		2001	
		Value	Rank	Value	Rank
1	Andhra Pradesh	0.377	9	0.416	10
2	Assam	0.348	10	0.386	14
3	Bihar	0.308	15	0.367	15
4	Gujarat	0.431	6	0.479	6
5	Haryana	0.443	5	0.509	5
6	Karnataka	0.412	7	0.478	7
7	Kerala	0.500	1	0.638	1
8	Madhya Pradesh	0.328	13	0.394	12
9	Maharashtra	0.452	4	0.523	4
10	Orissa	0.345	12	0.404	11
11	Punjab	0.475	2	0.537	2
12	Rajastha	0.347	11	0.347	9
13	Tamil Nadu	0.466	3	0.531	3
14	Uttar Pradesh	0.314	14	0.388	13
15	West Bengal	0.404	8	0.472	8
16	All India	**0.381**	-	**0.472**	-

Source: Government of India (2001).

There was no change in HDI rank of Gujarat (sixth rank) from 1990 to 2001. However, Kerala appears on the top HDI rank in 1990 and 2001, which indicates overall better development performance of Kerala during this period. Bhagwati has different proposition on overall development achievement of Kerala. According to Bhagwati '*Kerala's high social indicators have much less to do with the so-called Kerala model, and more to do with global trade, growth-oriented policies and private-sector participation'*. Kerala model is "human development-led growth". Bhagwati and Panagariya (2013) described the Gujarat model as a metaphor for a primarily growth and private entrepreneurship driven development and the Kerala model for a primarily redistribution and state-driven development.

The discourse between Sen and Bhagawati would be examined in the context of globalization. Bhagwati's proposition of redistribution has been developed on the foundation of market economy, which emphasis accumulation of income and wealth but ignore optimumization of welfare. Legitimate distribution of income and wealth is a prerequisite condition to ensure optimum welfare, which is the foundation of Kerala model. However, Gujarat model has been developed on the foundation of the neo-liberal economic policy of the central government.

5. Conclusion

The impact of economic globalization on income distribution and welfare is examined in the paper. Unipolar power system or global state has created in the history in different periods. However, Eurocentric global state and the US centric post-Cold War global state are historically significant. The Eurocentric global state was the outcome of the attempt of European imperialism to reduce transportation costs of the European trade after the industrial revolution, which collapsed with the First World War. The polarization of the communist block under the leadership of the erstwhile Soviet Union and the capitalist block under the leadership of the United States of America after the Second World War was the origin of the second phase of globalization, which became a reality by the 1990s with the collapse of the Soviet Union. The capitalist powers celebrated the collapse of the communist system as an opportunity to fill the gap of the European imperialism. However, two decades experience of globalization is not good enough to celebrate majority of the world since income gap between the poorest and the richest increased significantly during this period.

The investigation regarding global income distribution reveals that income gap between the richest and the poorest increased during the second phase of globalization (1990 onwards) faster than the first phase. While the Gini indices increased by 18 points within the 90 years period of the Eurocentric globalized period, Gini indices marked 4.2 points increase within 9 years period of US centric globalized period. In fact, globalization influenced economic growth of rich countries like U.S and the developing countries like India. However, income shares of the bottom twenty percent of these countries decreased significantly during this period. In contrast, the income share of the top 20 percent of the G7 countries increased significantly. Furthermore, the income share of the top 20 percent of several developing countries grow faster than that of the bottom 20 percent, which indicates dearth of legitimate distribution of income. Country specific investigation of the United States and India reinforces this observation. The United States presented a significant economic growth during the second phase of globalization with different business cycles. However, this growth is concentrated at the top ten percent and their household income increased significantly during this period. Furthermore, the income share of the top one percent increased dramatically during this period. While those at the top enjoy the best health care, education, and benefits of wealth, they fail to realize that their fate is bound up with how the other 99 percent live (Stiglitz 2012).

India also achieved significant economic growth with the implantation of neo-liberal economic policy. However, India was not able to ensure legitimate distribution of economic growth. It is apparent that the income share of the quintile made a significant increase and the bottom quintile decreased remarkably during the period of the second phase of the globalization. Income share of the top quintile increased 9.1 percent in 1990 to 8.1 percent in 2005. However, states like Kerala achieved a tremendous progress in maintaining distributional balance in income leading to a great achievement in Human Development. However, there has been a deliberate attempt to suppress this achievement through direct and indirect intervention. Several researchers cite Gujarat as one of the best development model in India.

In sum, globalization leads to increasing integration of national economy to the global, which leads to the economic growth of both developed and developing countries. According to neo-liberalists, global integration accelerates economic growth, which in turn beneficial to the entire world. However, empirical evidences are not good enough to support this proposition since income is concentrated increasingly at the top and that of the bottom shrank both in U.S and India. While the income shares of the top one percent in U.S. increased dramatically during this period that of the bottom 99 percent decreased significantly. The increased income gap is of course a challenge to the optimum welfare of the society. India is also facing almost same degree of challenges to welfare optimization. Precisely, Globalization is an agenda of the top elites of capitalist world, whose goal is to maximize their benefit rather than optimize welfare of the entire society. However, State like Kerala could maintain human development almost on par with developed countries like US during this period. Precisely, Globalization is an agenda of the top elites of capitalist world, whose goal is to maximize their benefit rather than optimize welfare of the entire society.

Reference

ADB (2012) Asian Development Outlook 2012: Confronting Rising Inequality in Asia (Manila). Available at: www.iadb.org/intal/intalcdi/PE/2012/11032.pdf.

Ai-Kahtani, S.A.H. (2000) Globalization or Americanization? A Comparative Analysis of Portrayals of Globalization In United States and Arab Mainstream Newspapers During the 1990s, Unpublished Ph. D Thesis, Howard University, Washington, DC.

Alderson, A.S. and Nielsen, F. (1999) Income Inequality, Development, and Dependence: A Reconsideration, American Sociological Review, 64 (4): 606-631.

Al-Rodhan, N.R.F. (2006) Historical Milestones of Globalization, GCSP, Geneva.

Alvaredo, F.; Atkinson, A.B.; Piketty, T. and Saez, E. (2013) The Top 1 Percent in International and Historical Perspective, Journal of Economic Perspectives, 27(3): 3–20.

Amin, A. (2004) Regulating economic globalization, Transactions of the Institute of British Geographers, New Series, 29(2): 217-233.

Anderson, P. (2002) "Force and consent." New Left Review, 17: 5-30.

Antonio, R.J. and Bonanno, A. (2000) A New Global Capitalism? From "Americanism and Fordism" to "Americanization-Globalization", American Studies, 41(2/3): 33-77.

Appelbaum, R. and Robinson, W.I. (2005) Critical Globalization Studies. New York: Routledge.

Arif, D. (2000) Globalization as the end and beginning of history: The contradictory implications of a new paradigm, Rethinking Marxism, 12, 4.

Barbieri, K. and Reuveny, R. (2005) Economic Globalization and Civil War, The Journal of Politics, 67(4):1228-1247.

Bhagwati , J. and Panagariya, A. (2013) Why Growth Matters: How Economic Growth in India Reduces Poverty and the Lessons for Other Developing Countries,

Bhagwati, J. (2011) Does Redistributing Income Reduce Poverty? Retrieved from http://indianeconomy.columbia.edu/content/jagdish-bhagwati-does-redistributing-income-reduce-poverty#sthash.qJmLwXJ8.dpuf.

Blaut, J.M. (1992) 1492 The Debate on colonialism, Eurocentrism, and History, African World Press Inc., New Jersey.

Blum, W. (2003) Killing Hope: U.S. Military and CIA Interventions Since World War II. London: Zed Books.

Bonfatti, R. (2012) Trade and the Pattern of European Imperialism, 1492-2000, Oxford University.

Brady, D.; Beckfield, J. and Seeleib-Kaiser , M. (2005) Economic Globalization and the Welfare State in Affluent Democracies, 1975–2001, American Sociological Review, Vol. 70: : 921–948.

Brenner, R. (1998) The Economics of Global Turbulence, New Left Review (A Special Report on the World Economy) 229.

Brohman, J. (1996) Popular Development: Rethinking the Theory and Practice of Development.

Cameron (2005) US Foreign Policy After the Cold War, (2nd Ed.) Rutledge, New York.

Carlos, R.J. (2005) Mark Twain's Critique of Globalization (Old and New) in Following the equator, A journey around the world (1897), The Arizona Quarterly, 61(1) 109-135.

Chilosi,A. (2010) Poverty, Population, Inequality, and Development: the Historical Perspective, The European Journal of Comparative Economics, 7(2): 469-501

Cox, R.W. (1996) A Perspective on Globalization, in Globalization: Critical Reflections, Ed. James H. Mittelman. Boulder, CO: Lynne Rienner.

Davies, J.B; Sandström, S.; Shorrocks, A. and Wolff, E.N. (2008) The World Distribution of Household Wealth, Discussion Paper No.03, UNU-WIDER.

Dhongde, S. (2007) Measuring the Impact of Growth and Income Distribution on Poverty in India, Journal of Income Distribution, 16(2).

Dirlik, A. (2000) Globalization as the End and the Beginning of History: The Contradictory Implications of a New Paradigm, Rethinking Marxism, 12(4): 2 22.

Doremus, P.N. (1998) The Myth of the Global Corporation. Princeton, N.J.: Princeton University Press.

EIU (2007) World economy: Globalisation and the rise of inequality, Views wire.

EIU (The Economist Intelligence Unit) (2007), The Economist, Retrieved from http://www.economist.com/node/8554819/print.

Ernst, E and Escudero, V. (2008) The role of financial globalization, in World of Work Report 2008, ILO.

Etemad, B. (2007) Possessing the World - Taking the Measurement of Colonization from the Eighteenth to the Twentieth Century, Berghahn Books, New York and Oxford.

Fiss, P.C. and Hirsch, P.M. (2005) The Discourse of Globalization: Framing and Sense making of an Emerging Concept, American Sociology Review, Vol. 70: 29–52.

Fosu, A. K. (2010) Growth, Inequality, and Poverty Reduction in Developing Countries: Recent Global Evidence, OECD.

Frank, A.G. (2003) World System History and the World after September 11, 2001, retrieved from http://rrojasdatabank.info/agfrank/after_9_11.html.

Frieden, J. (2006) Will global capitalism fall again, Retrieved from http://www.bruegel.org/publications/publication-detail/publication/16-will-global-capitalism-fall-again/

Friedman, T. L. (2000) The Lexus and the Olive Tree, revised edition. New York.

Fujimura, M. (2000) The Welfare State, the Middle Class, and the Welfare Society, Review of Population and Social Policy, No. 9, P: 1–23.

Giddens, A. (1990). The consequences of modernity. Stanford, CA: Stanford University Press.

Giddens A. (1990) The Consequences of Modernity. Stanford University Press: Stanford, CT.

Gilpin, R. (2000) The Challenge of Global Capitalism: The World Economy in the 21s' Century. Princeton, New Jersey

Panitch, L. and Gindin, S. (2012) The Making of Global Capitalism: The Political Economy Of American Empire , Verso, New York.

Goldberg, P. and N. Pavcnik (2007) Distributional Effects of Globalization in Developing Countries, NBER Working Paper Series, Retrieved from http://www.nber.org/papers/w12885.

Gramsci, A. (1971) Selections from the Prison Notebooks of Antonio Gramsci, Q. Hoare and G. Nowell Smith (eds., trans.), London: Lawrence & Wishart.

Gray J. (1998) False Dawn: The Delusions of Global Capitalism, The New Press, New York.

Ha, E. and Tsebelis, G. (2011) Globalization and Welfare: Which Causes Which? invited talk at Korea University, Seoul, Korea, June 1, 2011.

Hardt, M. and Negri, A. (2000) Empire. Cambridge, MA: Harvard University Press.

Harrison, B. and Bluestone, B. (1988) The Great U-Turn: Corporate Restructuring and the Polarizing of America. New York.

Held, D. (1995) Democracy and the Global Order: From the Modern State to Cosmopolitan Governance, Stanford, CA: Stanford University Press.

Held, D.; McGrew, A.; Goldblatt,D.; and Perraton, J. (1999) Global Transformations: Politics, Economics and Culture. Stanford, CA: Stanford University Press.

Held, D. and A. McGrew (2000) The global transformations reader: an introduction to the globalization debate. Cambridge: Polity Press.

Hirst, P.Q. and Thompson, G. (1996) Globalization in Question. Cambridge, MA: Blackwell.

Holm, A.R. (2010) The consequences of globalization for welfare states, Political Science.

Jeong (2010) Globalization and the Politics of the Welfare State, Doctoral Dissertations. University of Kentucky.

Kennedy, P.M. (1993) Preparing for the Twenty first Century. New York: Random House.

Kentucky, L. (2010) Globalization and The politics of the Welfare State, Ph. D Thesis, University of Kentucky, Retrieved from http://uknowledge.uky.edu/gradschool_diss/27

Keynes (1919) The Economic Consequences of the Peace, New York: Harcourt, Brace, and Howe, Inc.

Kuznets, S. (1955), 'Economic growth and income inequality', The American Economic Review, XLV, 1-28.

Layne (1993) The Unipolar Illusion: Why New Great Powers Will Rise, International Security, 17(4): 5-51.

Levi-Faur, D. (2005) The Global Diffusion of Regulatory Capitalism, Annals of the American Academy of Political and Social Science, Vol. 598, pp. 12-32.

Levitt, P. (2001) The Transnational Village. Berkeley, CA: University of California Press.

Levitt, T. (1983) The Globalization of Markets, Harvard Business Review, 61 :92–102.

Ma, S. (2008) Sustainability of India's Welfare System in the Context of Globalization: A Comparative Study of Maharashtra and Tamil Nadu, Southeast Review of Asian Studies, 30: 67–83.

Maddison, A. (2013) Historical Statistics for the World Economy: 1-2003 AD, Retrieved from http://www.ggdc.net/maddison/maddison-project/home.htm

Marx, K.   (1973b) Grundrisse, Harmondsworth: Penguin.

Marx, K. (1848) Manifesto of the Communist Party, Internet Archive (marxists.org), 2000.

Milanovic, B. (2009) Global Inequality and the Global Inequality Extraction Ratio, The Story of the Past Two Centuries, WB.

Modelski, G. (2008) Globalization as evolutionary process In Modelski, G., Devezas, T; and Thompson, W.R. (Ed.) Globalization as Evolutionary Process Modeling global change, (Pp 11-29) Routledge, New York.

Nagao, Y; Yoshizaki, T.; Sato,H.; Okagaki, T. (2000) Post-Cold War International Society and U.S.-China Relationship NIDS Security Reports, No.1

Ohmae, K. (1990) The Borderless World: Power and Strategy in the Interlinked Economy, New York: Harper Business.

Ortiz, I. and Cummins, M. (2011) Global Inequality: Beyond the Bottom Billion – A Rapid Review of Income Distribution in 141 Countries, UNICEF, New York.

O'Sullivan, M. (2000)"Corporate Governance and Globalization" The Annals of the American Academy of Political and Social Science 570.

Portes, A., Guarnizo, L.E. and Landolt, P. (1999) 'The study of transnationalism: Pitfalls and promise of an emergent research fi eld', Ethnic and Racial Studies, 22 (2), 217–37.

Rennen, W. and Martens, P. (2003) The Globalisation Timeline, Integrated Assessment, 4(3): 137–144.

Rennstich, J.K. (2003) Globalization and the Evolution of the Information Network Economy: Past, Present and Future technological Change, Doctoral Dissertation, Indiana University.

Rieger, E., & Leibfried, S. (2003) Limits to Globalization: Welfare States and the World Economy. Malden, MA: Polity Press.

Rifkin, J. (1996) The End of Work: The Decline of the Global Labor Force and the Dawn of the Post-Market Era. New York.

Robertson, R. (1992) Globalization, Social Theory and Global Culture, London: Sage.

Robinson, W. I. (2008) Theories of Globalization, in The Blackwell Companion to Globalization Ed. G. Ritzer, Blackwell Publishing Ltd, Oxford, UK.

Robinson, W.I. (2004) A Theory of Global Capitalism: Production, Class and State in a Transnational World. Baltimore, MD: The Johns Hopkins University Press.

Rosenberg, J. (2005) Globalization Theory: A Post Mortem, International Politics, 2005, 42, (2–74)

Rudra, N. (2002) Globalization and the Decline of the Welfare State in Less-Developed Countries, International Organization, 56(2) : 411-445.

Sachs, J. D. (1999) Twentieth Century Political Economy: A brief History of Global Capitalism, Oxford Review of Economic Policy, 15(4): 90-101.

Sachs, W. (1999a) Planet Dialectics: Explorations in Environment and Development, Zed Books Ltd, New York.

Scholte, J.A. (2004) Defining Globalization, Venice International University, San Servolo, http://www.cesifo.de

Sen A., (1997) Radical Needs and Moderate Reforms. In J. Dreze and A. Sen (eds.) Indian Development: Selected Regional Perspectives. New Delhi: Oxford University Press, pp. 1–32.

Shiva, V. (2000) Stolen Harvest: The Hijacking of the Global Food Supply. Cambridge, MA: South End.

Sklair, L. (2002) Globalization: Capitalism and Its Alternatives. New York: Oxford.

Stefanović, Z. (2008) Globalization: Theoretical Perspectives, Impacts and Institutional Response of the Economy, Economics and Organization, 5(3): 263 – 272.

Stiglitz, J.E. (2012) The Price of inequality, W. W. Norton & Company, New York.

Stohl, C. (2004) Globalization Theory, 10-Mumby.qxd

UN (2002) Globalization and development, Brazil.

Wade, R. (1996) Globalization and Its Limits: Reports of the Death of the National Economy Are Greatly Exaggerated, in National Diversity and Global Capitalism, Ed. Suzanne Berger and Ronald Dore, Ithaca, NY: Cornell University Press.

Wallerstein, I. (1974) The Modern World System, vol. I. New York: Academic Press.

Wallerstein, I. (2000) 'Globalization or the age of transition?' International Sociology, 15(2), 249–65.

Wang, Q. (2010) The Trend of Global Capitalism, Retrieved from http://math.arizona.edu/~dwang/

WB (2008) Work Report 2008: Income Inequalities in the Age of Financial Globalization.

Xing, L. and Hersh, J.(2006) Understanding Global Capitalism: Passive Revolution and Double Movement In the Era of Globalization, American Review of Political Economy, 4(1/2): 36-55.