

[Consumption Inequality](#) [1]

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These figures relate to the US rather than the UK, but I think it's likely that the effects of Tesco's and China have [been similar](#) [3]:

Inflation differentials between the rich and poor dramatically change our view of the evolution of inequality in America. Inflation of the richest 10 percent of American households has been 6 percentage points higher than that of the poorest 10 percent over the period 1994 ? 2005. This means that real inequality in America, if you measure it correctly, has been roughly unchanged. And the reason is just as dramatic as the result. Why has inflation for the poor been lower than that for the rich? In large part it is because of China and Wal-Mart!

Part of the reasoning is that the richer you are the more of your income is used to purchase services rather than goods: and goods are more likely to be traded internationally and thus to have come down in price as a result of globalisation. There is also another point, [Baumol's](#) [4] one that we would expect services to be rising in price relative to manufactures anyway, given the difference in the way that labour productivity can be increased in each.

These different inflation rates do, as mentioned, have an effect on inequality. This means that once again we should not be measuring inequality as a function of income, rather as a matter of consumption. If we do measure that inequality correctly, it's effects on the actual living standards of real people, then we find that globalisation isn't increasing it at all.

Which leads to an interesting thought about that Joseph Rowntree Foundation [figure](#) [5] on the amount needed to be not poor in the UK. If we really let globalisation rip, if we tore down the remaining trade barriers, we might actually find that the further cheapening of goods would reduce that amount, the income necessary to reach a particular level of consumption.

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