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4/4/2020

WP#3

Globalization and Economic Inequality

As the global market place becomes increasingly fast-changing, complex, and interconnected, the income gap within and beyond domestic economies begins to widen. Globalization is the tendency for international economies to converge as information, jobs, technology, and products transcend cultural and national borders. As the demand for skilled workers skyrockets to accommodate technical advancements, increasing numbers of unskilled laborers are rendered nonessential. Furthermore, international entities possess the robust tools necessary to maintain their health amidst intercontinental influence, but these tools are coupled with a system in which political forces fail to benefit all actors. Disparate income distribution is unfortunately fueled by the ever expanding trade networks, the burgeoning transcontinental need for technologically-competent and skilled workers, as well as the developing systems of political cooperation.

International trade generates unfair competition, leading to income inequality. Globalization enables developed and developing nations to conduct trade with each other in order to obtain a mutually beneficial exchange of products and services. When wealthy countries form trade agreements with their less prosperous counterparts, low-skilled workers in the more affluent state often suffer from wage cuts as a result of extended competition with laborers beyond their national borders. The increase of competitors is a direct result of foreign workers' willingness to fulfil the same tasks for a lower salary, attracting companies to move their manufacturing processes abroad in the pursuit of low production costs. Paul Krugman, an esteemed Nobel laureate for his contributions to the New Trade Theory, has concluded that the rising wage inequality in the United States stems from trade liberalization. More specifically, he focuses on the growing competition amongst workers whose skills are becoming increasingly fluid due to countries opening their ports to the goods from emerging markets. A country participates in international trade in hopes of stimulating its economy to achieve growth and increase its per capita income. However, a potential downside of trade is “the liquidation of domestic jobs, hollowing a country’s industrial base, and fostering the rise of inequality” (Poliquin, 533). One sector experiencing job outsourcing is America's automotive industry, which accounts for around “3.5% of America’s overall GDP” (Gumbel, 5). The automotive industry is relying on Mexico’s cheaper labor, as a direct result of the NAFTA trade agreement. Enticed by low cost production processes and reluctant to be “subjected to the tariffs that NAFTA entails for domestic producers”, U.S. automobile plants are relocating abroad in the pursuit of cheaper foreign labor, resulting in a contraction in domestic supply, leading to a rise in unemployment and a decrease in real income associated with the production of automobiles for American workers (8). For the United States as a whole, the national pay rate attributed to the “top 1% has experienced a 9% increase from 1980 to 2014, while the entire lower half of the population experienced a meager 2% growth” in the same time period (Barusman 42). Due to the competitive labor markets associated with globalization, the employment structure is shifting to one of heightened structural unemployment, influencing the wage gap.

While trade is a contributor of an unbalanced income distribution, the transcontinental convergence of markets is a major factor in economic growth. Countries that engage in international trade have detected increases in growth, innovation, and productivity, which are all correlated with income growth and wellbeing. The prosperity generated from the economic integration into the multinational market system through trade can be reflected through the success of the World Bank Group (WBG). In recent years, the WBG is continuously connecting developing countries to global value chains (GVC), which are powerful tools in "increasing productivity, raising living standards, and creating jobs" (Costinot, 129). The 'East Asia Miracle' is attributed to the WBG's efforts to integrate developing countries into GVCs. Taiwan, South Korea, Singapore, and Hong Kong, otherwise known as "the 'Four Asian Tigers', underwent rapid industrialization", resulting in a rapid surge of income (Jaumotee, 303). The expeditious advancement of developing economies, as catalyzed by global partnerships sponsored by the WBG, proves that globalization is a significant factor that promotes economic growth as well as income accretion. While open markets promote economic prosperity, this economic structure focuses more on mitigating imbalance on an international scale. Domestically, income rates across the socioeconomic pyramid exhibit rapid divergence, resulting in an enlargement of the wage gap. To accommodate for increasing demand associated with increasing numbers of consumers in a globalized system, and to match the rapid development of economies in the free market, domestic economies pay the price of income being unequally distributed between members of its workforce. Free trade encourages high production standards, thereby increasing the sales of superior goods and services over their inferior counterparts. The partiality of open economies for high quality goods and services suggests that "the GDP of countries results from the innovative and creative contributions of skilled workers," who are generally the top-earners or the privileged stratum of the society (Mills, 3). Consequently, a rising preference for educated, highly-skilled employees in the job market decreases the eligibility of unqualified laborers. All in all, free trade provokes an upward pressure on the income of skilled workers, simultaneously slashing the wage rate of the blue collared work-force, triggering the development of dramatic discrepancies in income distribution.

The biased income development towards increasing numbers of educated and skilled workers is facilitated by global technological expansion. The technology revolution, spurred by globalization to enable “convenient, long-distance communication, the cross-border mobility of goods and services, and innovation to satisfy consumer demands,” is associated with an abundance of external consequences (Jaumotee, 281). Technology is a force that dismantles traditional employment structures, resulting in unprecedented job losses and shifts in income distribution. Workers with common jobs are more susceptible to losing their incomes to machines that can easily out-pace them. In his research studying the effects technology has on wages, UCLA Anderson faculty member and Harvard graduate Poliquin determines that “technology coincides with an increase in wages across the labor market but the average employee saw wages rise by just 2.3%, whereas those in managerial positions saw a 9% rise, and those in the boardroom saw an even more impressive 19% boost to the income” (Poliquin, 533) The overall boost in income throughout the economy suggests that technology yields a positive impact to supply. However, discrepancies in the increased rate of salaries across the workforce hierarchy propose the idea that “new technology allows more productive workers to be even more productive, thus widening the income gap between them [and low-skilled workers]” (536). Consequently, technology caters to skilled jobholders by allowing them to focus more on unique, non-routine tasks that set them apart from unqualified workers, further distinguishing gaps across the workforce spectrum. Inequality in the economy arises through the intensifying of cyclical and structural unemployment following the rise of automation and the ever widening wage gap.

Globalization drives political integration, exacerbating income inequity through its impact on the welfare state. The welfare state is intended to promote social and economic wellbeing of the people based on the principles of equality. Some of the government's strategies in attaining prosperity amongst its citizens involve beneficial social programs, financial assistance, and income redistribution. The political integration of the European Union focuses on achieving economic expansion and security of its members as a whole rather than focusing on social policies that prioritize economic equality of all actors in the system. Before European countries can pledge themselves to the Economic and Monetary Union (EMU), they must meet a lengthy "list of requirements that include a specific inflation rate, government budget deficit, exchange rate, and interest rate levels" (Mills, 7). Since the establishment of the European Union, the Stability and Growth Pact (SGP) among many other surveillance agreements was initiated to ensure compliance with the fiscal rules of political integration. The need to ensure political compliance and the actions undertaken to achieve this goal has instead led to an accumulation of debt and high deficit spending, which raises questions concerning the legitimacy of the union's success in preserving the wellbeing of its members. EU countries, bound by contract, must adhere to strict budgetary regulations, hindering the distribution of government expenditures that are meant to benefit the public. The "convergence criteria" stated in the 1992 Maastricht treaty, set by the EMU, set the "state budget deficit to be less than 3% of the country's GDP, which in turn led to proposed cuts in the welfare state" (Beckfield, 988). In his study on the relationship between regional integration and wage imbalance, Beckfield of the University of Chicago determines that political globalization, which motivated the establishment of the European Union, is a major cause that propels the upwards trajectory of an unfair income distribution within EU members. The gini coefficient, an economic graph indicator of wage or wealth distribution of a nation's citizens, has "progressively widened during the past 20 years", indicating the growing inequality in the welfare state retrenchment period among members of the EU (Blanchet, 4). To maintain regional integration, sacrifices of liberal government spendings are made among individual EU states, implying that political globalization factors into the overall rise of income disproportion.

The heightening income disparity, made possible by several aspects of globalization, threatens a country's economy as well as its citizens' welfare. Economic inequality, the unbalanced allocation of stipends in particular, is caused by trade, the proliferation of technology, and political integration. Trade, while enabling domestic markets to expand, can be a harmful prospect facing workers, especially unskilled laborers, by enlarging the labor market and increasing competition. Similarly, technology is an obstacle for workers because automation is a desirable source of efficient labor for businesses attracted to low production costs. Lastly, regional integration as seen in the European Union has initiated a rise in income inequality across the wealth stratums, disclosing the substantial effect of political convergence on state budgetary spendings indirectly affecting income. In general, globalization is encapsulated by a variety of positive effects. However, global cooperation has a significant impact on the rise of income inequality as a whole.

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