Globalization and income inequality: a critical examination of the major economic and political challenges

Introduction

Income inequality can be examined both from a global and national perspective. This paper focuses mostly on the major economic and political issues related to inequality from a global perspective. An attempt will be made to explain how the world has changed over the past several decades due to the progressing globalization which is a set of social processes that appear to transform our present social condition of weakening nationality into one of globality. There is still much controversy over the definition of globalization and driving forces which determine the nature and speed of that process.

The same holds true to various challenges connected with globalization and its impact on the well-being of everyone or just only on the richest people, companies and countries. This paper analyses the diverging incomes of rich and poor countries and the sources of rising inequality between those two groups of countries. It also discusses various approaches to measuring of inequality and income equality adopted in the individual countries. Many internal and external factors have been and will be playing an important role in the growth in inequality. Therefore it is highly unrealistic to expect that inequality will fall without some state intervention. The question remains unresolved what kind of state intervention would be needed in order to mitigate the rising inequality which will in the near future create the biggest challenge for the governments and societies of all countries in the world.
DEFINITION AND ANALYTICAL CHALLENGES

It should be stressed that even though much has been written about globalization there is no commonly accepted definition of that phenomenon or process. In both popular and academic literature globalization has been described as a process, a condition, a system, a force, and an age. Given that these competing labels have very different meanings, their indiscriminate usage is often obscure and invites confusion [Gwiazda, 2006; Hopper, 2007; Bisley, 2007]. If we take the often-repeated definition that globalization (the process) leads to more globalization (the condition), this approach does not enable us to draw meaningful analytical distinctions between causes and effects. Some researchers dealing with globalization suggest the adoption of the term “globality” to describe a social condition characterized by tight global economic, political, cultural, and environmental interconnections and flow that make most of the currently existing borders and boundaries irrelevant [James, 2006; Held and Mc Grew, 2007]. On the other hand we could easily imagine different social manifestations of globality: one might be based primarily on values of individualism, competition, and laissez-faire capitalism, while another might draw on more communal and cooperative norms. These possible alternatives point to the fundamentally indeterminate character of globality. We can also assume that globalization constitutes a set of social processes enveloped by the rising global imaginary and propelling us towards the condition of globality which may eliminate the danger of circular definitions, but this gives us only one defining characteristic of the process: movement towards greater interdependence and integration. Such a general definition of globalization tells us little about its remaining qualities. The fact is that globalization is an uneven process, meaning that people living in various parts of the world are affected very differently by this gigantic transformation of economic and social structures as well as cultural zones. Hence, the social processes that make up globalization is very often analysed and explained by various commentators in different, often contradictory ways [Giddens, 1999].

RESEARCH COMPLICATION

The different analysis and description of globalization stems from the fact that each globalization researcher is partly right by correctly identifying one important dimension of the phenomenon in question. However, their collective mistake lies in their dogmatic attempts to reduce such a complex phenomenon as globalization to a single domain that corresponds to their own expertise. As a result, it is very hard to give univocally answers to questions: What is the driving force of globalization? Is it one cause or a combination of factory? Is globalization a uniform or an uneven process? Is globalization a continuation of modernity or is it a radical break? How does globalization differ from previous economic and social developments? Does globalization create new forms of inequality and hierarchy?
This paper is concerned with that last question. It has been assumed that due to the progressing globalization the income inequality has not been trending upwards in every country and global inequality (between the individual countries) had decreased in recent few decades. It also has been assumed that globalization has produced different outcomes as regards income inequality in the various countries. The fact is that there are, apart from globalization, common forces which affected the distribution of income in most countries, but idiosyncratic factors have amplified their effects in some cases and offset them in others. Country-specificity also holds regarding policies aimed at correcting inequality, even though globalization imposes constraints on some key redistribution tools such as taxation and the regulation of financial markets.

**Globalization benefits everyone?**

Public concern about globalization and its impact on the well-being of everyone or just only on the richest and most entrepreneurial people has grown substantially in recent years. The proponents of markets globalism claim that globalization is about the triumph of markets over governments. Both proponents and opponents of globalization agree that the driving force today is markets, which are suborning the role of government [Bhagwati, 2007; Cohen, 2007]. According to this view one role of government is to remove barriers to the free flow of goods, services, and capital. In practice market globalists must be prepared to utilize the powers of government to weaken and eliminate those social policies and institutions that curtail the market. Since only strong governments are up to this ambitious task of transforming existing social arrangements, the successful liberalization of markets depends upon intervention and interference by centralized state power. Such actions, however, stand in stark contrast to the neoliberal idealization of the limited role of government. Moreover, the claim that globalization is about liberalization and global integration of markets solidifies a ‘fact’ that is actually a contingent political initiative. Globalists have been successful because they have persuaded the public that their neoliberal account of globalization represents an objective, or at least a neutral, diagnosis of the very conditions it purports to analyse. However neoliberals have not been able to offer a strong empirical evidence that liberalization of markets is beneficial to all countries, firms and individuals.

The same holds true to their claim that globalization benefits everyone. Market globalists frequently connect their arguments to the alleged benefits resulting from trade liberalization: rising global living standards, economic efficiency, individual freedom, and unprecedented technological progress. In their opinion globalization’s effects have been overwhelmingly good. Spurred by unprecedented liberalization, world trade continues to expand faster than overall global economic output, inducing a wave of productivity and efficiency and creating millions of jobs [Devashish, 2016]. This is a rather superficial statement with the normative assumption whether
globalization should be considered a “good” or a “bad” thing. In order to prove for whom or for which country globalization has been a “good” thing the following questions should be answered: Where are ‘millions of jobs’ created? Who has benefited from globalization? When the market goes too far in dominating social and political outcomes, the opportunities and rewards of globalization are spread often unequally, concentrating power and wealth amongst a select group of people, regions, and corporations at the expense of the multitude. It is very often assumed that globalization is beneficial for the biggest economies, i.e. the most powerful countries and transnational corporations. Regarding job creation this is not always true as the example of the United States confirm. In that biggest world economy manufacturing jobs had been declining for two decades, but they dropped sharply in the early years of this century: between 2000 and the present, the number of U.S. manufacturing jobs fell by between six million and seven million. As the number of jobs in the so-called tradable sector, which produces goods and services that can be consumed anywhere, barely grew, the non-tradable sector absorbed around 25 million new entrants to the job market, in addition to the displaced manufacturing workers. It was a buyer’s market for medium- and low-skilled labor, and as a result, wages stagnated [Hu and Spence 2017]. Furthermore, although China and India are often referred to as the great ‘winners’ of globalization in the South, their astonishing economic growth and the rise of per capita income derives disproportionately from the top 10 per cent of the population. Indeed, the incomes of the bottom 50 per cent in India and China have in fact stagnated or even declined during to 2000s. Data provided by the World Bank suggest that income disparities between nations are widening at a quicker pace than ever before in recent history [World Bank 2016].

![Figure 1. Diverging incomes of rich and poor countries, 1970-1995](source: [World Bank, World Development Report 1999/2000]).
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According to the data published in the UN Human Development Report before the onset of globalization in 1973, the income ratio between the richest and poorest countries was at about 44 to 1. Twenty-five years later it had climbed to 74 to 1. In the period since the end of the Cold War, the number of persons subsisting below the international poverty line rose from 1.2 billion in 1987 to 1.5 billion in 1999. This means that, at the dawn of the twenty-first century, the bottom 25 per cent of humankind lived on less than $140 a year. Meanwhile, the world’s 200 richest people have doubled their net worth to more than $1 trillion between 1994 and 1998. The assets of the world’s top three billionaires were at the end of twenty century more than the combined GNP of all the least developed countries and their 600 million people [Oxfam Report, 1999].

The same trend towards growing inequality can be observed even in the world’s richest countries. The best example has been the widening income gap in the United States. At the same time, the number of political action committees in America increased from 400 in 1974 to about 9,000 in 2000. Such corporate lobbyists successfully pressure Congress and the President to stay on a neoliberal course. Over one-third of the US workforce, 47 million workers, make less than $10 per hour in 1999 and work 160 hours longer per year than did workers in 1973. The low US unemployment rate in the 1990s, often cited by globalists as evidence for the economic benefits of globalization was masked by low wages and millions of part-time labourers who are registered as employed if they work as few as 21 hours a week and cannot get a full-time job. At the same time, the average salary of a CEO employed in a large corporation has risen dramatically. In 2000, it was 416 times higher than that of an average worker. The financial wealth of the top 1 per cent of American households exceeded in the beginning of XXI century wealth of the bottom 95 per cent of households, reflecting a significant increase in the last twenty years [Lindert and Williamson, 2016].

There is no reliable statistical data confirming the beneficial impact of globalization on the incomes of all people in the world as well as on all inhabitants of the individual countries. On the other hand there is a lot of evidence confirming the even bigger accumulation of wealth in the era of globalization in the hands of 1 per cent richest people in the world. According to Oxfam in the beginning of 2017 there were 42 richest men with the same wealth as world’s, 3.7 billion worst off [Cox, 2018]. Those figures are somewhat biased as they do not take into account the fact that the world’s least wealthy people including over 420 million adults whose debts exceed their assets, leaving them with negative net worth. Most of this net debt is owed by people in high-income countries. For example, there are more than 21 million inhabitants of the United States with a combined wealth of minus 357 billion dollars [Saez and Zucman 2016]. So, if the people with sub-zero wealth are excluded from the comparison presented originally by Oxfam [Oxfam, 2017], the poorest half of the remaining popu-
lation would have a combined wealth equivalent to the richest 98 billionaires [Franzini et al, 2016].

It should be stressed that wealth data also exclude the poor’s biggest asset: their labour and human capital. The returns on that asset such as wages are easy to find in all statistical yearbooks. On the basis of such income statistics and according to both dollar and other currencies market exchange rates as well as currency conversions at “purchasing power parity” (PPP) it is evident that the bottom half of the global population have a negligible share of global wealth (only 0,35% at market exchange rates. However, they have much bigger share of global income (10,6%) at PPP [World Bank, 2016].

There are also numerous other indications confirming that the global hunt for profits actually makes it more difficult for poor people to enjoy the benefits of technology and scientific innovation. For example, there is widespread evidence for the existence of a widening ‘digital divide’ separating countries in the global North and South [Baldwin, 2016]. There has also been a worrying evolution of inequality at the country level. Depending on the inequality concept used, the various patterns are sometimes difficult to reconcile, expect if one realises that different sources may lead to different appraisals.

Overall, the conclusion is that inequality is higher today in many countries than it was some 25 years ago. Unfortunately not all countries produce the evidence, i.e. the statistical data, which illustrate the pattern and dimension of inequality. The United States and some other OECD Countries have the well documented evidence confirming the increasing continuously trend of inequality over more than 30 years [Bourgnignon and Morrison, 2002]. In the case of other countries such an evidence is weak and most researches dealing with income inequality have been using some estimates, which do not illustrate all aspects of that phenomenon.

V ARIous aPProACHES TO MEASURING OF INEQUALITY

There are various methods of measuring income inequality. The most common is based on the concept of “equivalised disposable income”. In this approach each individual in the population is arbitrarily allocated the income of the household where he/she lives, including taxes and cash transfers, divided by the weighted number of people in the household. In some countries the same calculation is made on household consumption expenditures rather than income, depending on which data are the most accessible. The latter concept is probably better to the extent that it corrects income volatility, which may be responsible for some spurious inequality. However, no regular series is readily available for a number of countries, including OECD countries [Bourgnignon, 2015].
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Graph 1. Inequality of equivalized household income, 1985-2012.
Selected OECD countries with a rising inequality trend (Gini coefficient)

Source: OECD.

Graph 1a. Inequality of equivalized household income, 1985-2012.
Selected OECD countries with a one-step rise in inequality (Gini coefficient)

Source: OECD.
Graph 1 shows the evolution of equivalised disposable income inequality in the selected OECD countries, as recorded by the OECD in collaboration with national statistical. Inequality in emerging countries is generally based on household expenditures per capita – i.e. without equivalising correction. In this way, inequality has been measured by the early 2010s. The time series of Gini coefficients for the OECD countries have been organised into three groups.

**Graph 1b. Inequality of equivalized household income, 1985–2012**

BRIICS (*) countries plus Columbia (Gini coefficient)


The first group (Graph 1a) comprises countries with a clear ascending trend over the whole period or at least over the last part of it. The United States is the most documented case of such a rising inequality trend and the same pattern has been present in Japan as well as in Sweden and Denmark (see Graph 1). In all cases, the overall increase in the Gini coefficient between the beginning and the end of the period is greater than 3 percentage points. In the case of other OECD countries inequality also increased between 1985 and 2012 but the increase took place in a single step over a few years. The case of the United Kingdom is illustrative. Inequality increased vigorously – i.e. by 5 percentage points – in the second half of the 1980s but it went down afterwards and then stabilised until the end of the period analysed. The same pattern is observed for Germany or Canada in the first half of the 2000s., or in Finland in the 1990s (see Graph 1a). And the evolution of inequality in the
group of emerging countries known as the BRIICS and Colombia was characterized by an ascending trend in inequality, except in the case of Latin American countries (Brazil and Colombia) and the Russia in the short period where inequality declined after the surge that took place at the time of the break-up of the USSR and the transition to a market economy. The same type of transition is also partly behind the rising trend observed in China and, to a lesser extent, in India after the deregulation that took place around 1993 (see Graph 1b).

Not in all OECD and emerging and developing countries that inequality has increased. On the contrary, it has declined in most Latin American countries since the early 2000s, as in the case of Brazil and Colombia. In other Latin American countries it had substantially increased in the first several years of the twenty-first century [Gwiazda, 2015]. The different picture of income equality can be observed in other countries. For example there has been a rising trend of inequality in Asia, particularly in Bangladesh and Vietnam and a declining trend in Thailand. On the other hand available estimates for the Middle East and North Africa suggest a relative stability of inequality – excluding countries in conflicts, for which no data are available. It cannot be said that in the countries “most affected” by the globalization the income inequality has been lesser that in the countries not taking part in that process, i.e. not open to foreign trade, foreign direct investment, etc. The fact is that inequality has been increasing everywhere in the world over the last three decades. In the OECD countries it is higher today than it was in the mid-1980s in most countries, but a continuously increasing trend is observed only in a handful of countries [OECD, 2016]. In other countries inequality has increased at some point time and then tended to stabilise.

That last phenomenon has been typical for all countries, both developed and developing ones. Some researchers argue that it was due to the nature and potential of globalizing capitalism which cannot deliver equal benefits for all due to uneven geographical development and its destabilizing and disruptive effect [Sheppard, 2016]. There were various reasons of such a disruptive influence of the globalized capitalism in the individual countries. The most important one has been a failure of strategy “income for Me/wealth for We”, which was inefficiently pursued by the governments in the highly developed countries. The basic purpose of that strategy was to find out and realize the realistic measures leading to the “progressive prosperity” with the goals o minimizing extreme inequality and creating greater opportunity for all by bringing financial relief to the poor and middle class [Burgess, 2016]. However the final results of that strategy show that there is no fundamental change – up to now – in the existing inequality within all those countries which have been trying to introduce the so called socially responsible capitalism. Under the present conditions created by the globalizing capitalism there are no effective policy solutions which would make both the highly developed and developing countries less affected by the income inequality.
PERSISTENT INEQUALITY CRISIS

Therefore it can be concluded that the inequality crisis will proceed worldwide in the long run despite the fact that in some countries it may slow down in the short run. The similar conclusion can be made about the influence of globalization and technological change which are the major factors responsible for the fall in the labour share in the creation of GDP in the highly developed countries. Skill-biased technological change (favouring the relatively well educated) and globalisation (disadvantaging the unskilled labour force) will bring about further increase in inequality in the near future [Milanovic, 2016]. On the other hand it is hard to measure the impact of tax and regulatory changes in the individual groups of countries on the future evolution of income inequality. Both internal and external factors have been and will be playing an important role in the growth in inequality and the economic situation especially of lower and middle income groups of people. It is highly unrealistic to expect that inequality will fall without some state intervention.

The question remains here open whether such an intervention is able to efficiently level the impact of globalization on income distribution and income inequality both within the particular countries as well as between the groups of countries. Much easier is to show all benefits from globalization, which are for too many “subjects” (countries, corporations and rich individuals) too great. Thus major business and other both state and non-state actors support and will be supporting the existing status quo and would resist limiting relatively free foreign trade and capital flows. There is no reason to expect that the era of globalization will soon end. Much more certain trend is that the rapid expansion of trade, capital flows and first of all the spread of new technologies will further transform the global economy and the nature of the globalizing capitalism. At present economic globalization is largely driven by technology and the populist surge in some developed countries will not bring that process to a halt. And the permanent growth of automation is likely to increase inequality, as it will affect large numbers of relatively routine jobs, both manual and clerical or even “creative” when the artificial intelligence will be developed and robotization of the economy will progress. Furthermore, the prolonged periods of stagnation and future low productivity growth (as it will be the case mostly in the highly developed countries) will also tend to increase inequality and place greater stress on the legitimacy of how many societies operate. Paradoxically immigration, which has been seen as the main factor leading to the decrease in world inequality, will exacerbate economic inequality in the host countries and may cause – as the recent developments in some West European countries confirm – the “clash of civilizations” as predicted by Samuel Huntington. It should be emphasized that it was globalisation which has been enhancing the international mobility of people, first of all of highly skilled workers and in recent two decades all other people looking for better place to work and live. Also in the future both globalisation and technological change will still be two major forces affecting the international movement of capital
and people as well as two major sources of increasing inequality in most countries in the world. Many other factors will also influence the evolution of inequality in all countries. In some cases those factors (i.e. tax and income distribution policy, immigration and trade policy) have been reinforcing the pressure of globalisation on income inequality and in other cases (and countries) they have mitigated the impact of it on inequality.

**Final remarks**

There is no doubt that the rising inequality will in the near future create the biggest challenge for the governments and societies of all countries in the world. It is not an easy task to predict whether this negative trend of rising concentration of wealth will continue. This trend is not only due to the progressing globalization, but also to many internal factors. The fact is that high growth rates in emerging countries reduce between-country inequality, but this does not guarantee acceptable within-country inequality levels to ensure the social sustainability of globalization. With 42 richest people with the same wealth as world’s 3.7 billion poorest people, the benefits of growth are not being shared in a way that is either economically efficient or politically sustainable. Billionaire wealth rose by an average of 13 per cent each year between 2006 and 2015 – six times faster than wages of average worker [Cox, 2018]. The similar trends had been observed for many decades when the inequality crisis had been building. It accelerated sharply after the global financial meltdown of 2008–2009. Since that time many, it not majority, of disillusioned voters in the OECD countries are challenging established political parties to find solutions or cede power to other parties. At the same time millions of people from developing countries, unable to envision a future at home, are risking their lives by crossing deserts and seas in search of a better place to live and work. This unexpected movement of migrants from poor countries looking for economic opportunity or just social stability in Western countries has been influencing the evolution of income inequality in all countries of the world.

The governments of the OECD countries must respond purposefully and powerfully both to the increasing inflow of migrants from developing countries by addressing the widening divide between rich and poor. That last phenomenon creates a great danger to the future growth, to the world economy and to social cohesion and political stability. Particularly the group of the most powerful countries, G-20, which collectively account for most of the world’s population and resources, should lead, through adjusting their national policies, in the struggle with the inequality crisis. In order to make that struggle more efficient the G-20 should crack down on economic abuses that weaken states and markets, and erode public trust. Tax avoidance by big corporations and wealthy individuals, which by some estimates cost less developed countries 200 billion dollars a year, is the most illustrative source of inequality crisis. Many
politicians and business leaders are aware that the prospects for the both national economies and world economy as well as for all companies depend on reducing poverty, and that this becomes harder to achieve as inequality widens. In order to solve or even only to tackle the inequality crisis of this scale the close cooperation between states and private companies is necessary. Otherwise the inequality crisis, that is not only due to progressing globalization, will accelerate and bring about further slow-down of economic growth and social unrest in many countries of the world.

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Summary

In this paper an attempt was made to present the nature of contemporary globalization and its impact on the income inequalities both between-countries and within selected countries. The analysed statistical data confirm the fact that progressing globalization creates new forms of inequality. Globalization does not benefit everyone. Some countries and social classes (groups of people) are more affected by that process and only a few are less affected. However due to the positive influence of globalization on high-growth rates in emerging countries that process has brought about a visible reduction of between-country inequality. Alas, the inequality dynamics in many countries has increased, where the richest people own much of the wealth and poor and middle-class people are becoming poorer. The rising concentration of wealth will only accelerate the inequality crisis and bring about the slow-down of economic growth with all its negative consequences.

Keywords: globalization, globality, income inequality, growth, inequality crisis.

Globalization and income inequality...


Globalizacja i nierówności dochodowe

Celem niniejszego artykułu było wykazanie czy i w jakim zakresie globalizacja wywiera znaczący wpływ na nierówności dochodowe pomiędzy różnymi grupami krajów jak również w obrębie poszczególnych krajów. Dostępne dane statystyczne potwierdzają pojawianie się nowych form nierówności. Globalizacja nie jest jednak procesem korzystnym dla wszystkich. Wywiera ona także różny wpływ na poszczególne grupy krajów i klasy społeczne. Globalizacja miała i ma nadal pozytywny wpływ na wzrost gospodarczy. Przyczynia się do zmniejszenia nierówności pomiędzy poszczególnymi krajami. Natomiast w ramach poszczególnych krajów nastąpił dalszy wzrost nierówności pomiędzy najbogatszymi i najbiedniejszymi oraz klasą średnią, która w skali globalnej najbardziej straciła na globalizacji. Dalsza koncentracja bogactwa w rękach nielicznej grupy ludzi najbogatszych zwiększy kryzys nierówności i przyczyni się do zahamowania wzrostu gospodarczego.

Słowa kluczowe: globalizacja, globalność, nierówności dochodowe, wzrost, kryzys nierówności.

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