Iosr Journal Of Economics And Finance (Iosr-Jef)
E-Issn: 2321-5933,P-Issn: 2321-5925.Volume 14, Issue 4 Ser. V (July. – August. 2023),Pp 26-37
Www.Iosrjournals.Org

"GlobalisationAndIncome Inequality: Unraveling The Complex Relationship"

Aryaa Trivedi

Date of Submission: 21-08-2023 Date of Acceptance: 31-08-2023

I. Introduction: Globalisation and its effects

Globalisation refers to the increasing interconnectedness and integration of economies, societies, and cultures worldwide. It encompasses the flow of goods, services, capital, technology, and information between countries, facilitated by advancements in transportation, communication, and trade liberalisation. Globalisation has profoundly impacted global income and living standards, shaping economies, societies, and individual lives in various ways.

One of the critical effects of globalisation on global income is the expansion of international trade. Through initiatives such as the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO), trade liberalisationhas reduced trade barriers, including tariffs and quotas. This has facilitated the movement of goods and services across borders, enabling countries to specialise in producing and exporting goods and services in which they have a comparative advantage. This specialisation has led to increased efficiency and productivity as countries can focus on producing goods and services that they are most efficient at, leading to higher incomes.

When considering income inequality, we first consider it within a country's borders. This is quite understandable for a world where the nation-state is very important in determining one’s income level and access to several benefits, from pensions to free health care, and where by far, the dominant way political life is organised is at the level of a country. However, in the era of globalisation, we have to look at inequality within and between nation-states. Once we do, we arrive at a more rounded perspective of the issue; it is like going from a two-dimensional world to a three-dimensional one.

The increased interaction between countries has resulted in higher trade and capital flows, including Foreign direct investment (FDI).FDI has been a critical driver of globalisation and has increased global income. FDI involves establishing operations or acquiring assets in a foreign country by a multinational corporation. This influx of capital brings in new technology, expertise, and management practices that can enhance productivity and promote economic growth. FDI has been crucial in fostering industrialisation and economic development in many countries, particularly East Asia. For example, the rapid growth of the Asian Tigers (South Korea, Taiwan, Singapore, and Hong Kong) can be attributed, in part, to the significant inflows of FDI they received.

Globalisation has led to the diffusion of technology and knowledge across borders, contributing to increased productivity and living standards. Advances in transportation and communication technologies have made it easier for ideas, innovations, and best practices to be shared globally. This has led to technological advancements in various sectors, leading to productivity gains and rapid economic growth.

Globalisation has created new employment and income generation opportunities through all of this. The expansion of global supply chains and the growth of multinational corporations have created jobs in developed and developing countries. According to the International Labour Organization (ILO), globalisation has created new jobs in sectors such as manufacturing, services, and agriculture, particularly in developing countries. These jobs have provided opportunities for individuals to improve their incomes and living standards, contributing to poverty reduction and social mobility.

And the results of this have been tangible. According to a report by the World Bank, the expansion of trade brought about by globalisation has contributed significantly to global income growth. It estimates that between 1990 and 2015, global trade in goods and services grew at an annual rate of 7.2%, outpacing global GDP growth. This increased trade has been beneficial for both developed and developing countries. Developing countries, in particular, have experienced a significant increase in their share of global trade, leading to higher incomes and improved living standards for many people.

But while globalisation has brought numerous benefits for increasing global income and living standards, it is essential to acknowledge that its effects have not been uniformly positive for all individuals and countries. There have been winners and losers inglobalisation, and the distributional impacts have varied across different regions and social groups. Some industries and workers in developed countries have faced challenges due to increased competition from lower-cost imports or outsourcing. Moreover, in some cases, globalisation has exacerbated income inequality within countries, particularly in countries with weak social safety nets and labour market institutions. And this paper aims to establish the effects of globalisation - both good and bad, especially on inequality and explore what solutions policymakers can take to mitigate the ill effects.

II. Globalisation Overview: The Positives

Income

Globalisation has had varying impacts on global income, with both developed and developing nations experiencing changes in their income levels. To illustrate this, below are real-world examples of how globalisation has contributed to increased global income, with one each from a developed and a developing nation:

Developed Nation: United States of America

The United States has been a significant beneficiary of globalisation, mainly its dominant position in the global financial and technological sectors. Globalisation has allowed American companies to expand their operations internationally, tapping into new markets and benefiting from global supply chains. This has increased trade and investment flows, resulting in higher income levels for many Americans. For instance, multinational corporations based in the U.S., such as Apple, Microsoft, and Amazon, have experienced significant growth due to their global reach, leading to increased profits and higher incomes for their employees and shareholders.

Developing Nation: China

China's rapid economic growth and poverty reduction over the past few decades have been closely associated with globalisation. The country embraced market-oriented reforms and opened its economy to global trade and investment. This enabled China to become a central manufacturing hub and attract foreign direct investment. As a result, millions of Chinese workers were lifted out of poverty, and income levels improved significantly. Globalisation played a crucial role in integrating China into global value chains, leading to export-led growth and a substantial increase in income for many Chinese citizens.

It is important to note that while globalisation has contributed to increased global income, as we will explore later, its impacts on income distribution within countries can vary. In some cases, globalisation has exacerbated income inequality, mainly when the benefits are concentrated among a small population segment or certain industries. Addressing the distributional impacts of globalisation remains an essential challenge for policymakers to ensure that the benefits are shared more widely and inclusively.

The Standard of Living

Globalisation has impacted living standards in both developed and developing nations. Picking up on our examples from before, by using the same countries as case studies, we can see how globalisation has contributed to an improved standard of living in a developed nation and a developing nation:

United States of America: Globalisation has brought several benefits to the standard of living in the United States, including:

- **Increased consumer choices:**Globalisation has facilitated the availability of a wide range of products and services worldwide. American consumers can access various goods, including affordable imported consumer electronics, clothing, and food products. This increased consumer choice has contributed to an improved standard of living by providing access to a broader range of affordable and high-quality products.
- **Technological advancements and innovation:**Globalisation has fostered the exchange of knowledge, ideas, and technology across borders. The United States has been at the forefront of technological innovation and has benefited from the ability to collaborate with international partners. Technological advancements from globalisation, such as the internet and communication technologies, have improved productivity, efficiency, and living standards.
- **Access to global markets:**Globalisation has opened up opportunities for American businesses to expand their markets globally. This has increased export opportunities for American companies, leading to economic growth, job creation, and higher wages. Access to larger markets has allowed businesses to achieve economies of scale and attract foreign investment, stimulating economic development and improving living standards.

China: Globalisation has had a transformative impact on China's standard of living, contributing to its remarkable economic growth and poverty reduction:

- **Economic growth and poverty reduction:** China's integration into the global economy through trade and foreign investment has fueled its economic growth. This growth has reduced poverty and improved living standards for millions of Chinese citizens. Globalisation has created employment opportunities, particularly in the manufacturing and export sectors, lifting millions out of poverty and providing access to better income and living conditions.
- **Infrastructure development:**Globalisation has facilitated foreign investment and technology transfers, enabling China to develop its infrastructure rapidly. Investments in transportation, communication networks, and urban development have enhanced connectivity, improved access to markets, and increased living standards for many Chinese citizens.
- **Improved access to education and healthcare:**Globalisation has contributed to increased investments in education and healthcare in China. Foreign collaborations, exchange programs, and investments in research and development have enhanced educational institutions and improved the quality of education. Additionally, globalisation has facilitated the transfer of medical knowledge, improved access to healthcare technologies, and enhanced the quality of healthcare services, leading to better health outcomes and an improved standard of living.

III. Globalisation Overview: The Negatives

But the story isn't all good when it comes to Globalisation. There are some significant drawbacks for both Developed and Developing Nations.

Negative Impact On A Developed Nation:

In developed nations like the United States, globalisation has contributed to job displacement and wage stagnation for specific population segments. Manufacturing jobs, for example, have been outsourced to countries with lower labour costs. This has resulted in job losses and reduced employment opportunities for workers in industries affected by global competition. Additionally, the increased availability of low-cost labour from labour-loping nations has put downward pressure on specific sectors, leading to wage stagnation. These effects have negatively impacted some workers' living standards in developed nations.

Negative Impact On A Developing Nation:

Globalisation has led to economic dependence on foreign markets and multinational corporations in many developing nations. Developing nations often specialise in producing and exporting raw materials or low-value-added products, which can create vulnerabilities in their economies. Fluctuations in global commodity prices or changes in demand from developed nations can have severe negative consequences for these countries, leading to economic instability and reduced living standards.

Moreover, globalisation can exacerbate income inequality within developing nations. The influx of multinational corporations and foreign direct investment can lead to the concentration of wealth and resources in the hands of a few individuals or companies, further widening the income gap. This can result in unequal access to education, healthcare, and other essential services, limiting opportunities for social mobility and negatively impacting the standard of living for large segments of the population.

Globalisation and Income Inequality

Income inequality refers to the unequal income distribution among individuals or households within a society. It is often measured using indicators such as the Gini coefficient, which ranges from 0 to 1, with higher values indicating greater inequality. Over the past few decades, income inequality has been a growing concern in many countries worldwide. Globalisation has been shown to give rise to many benefits. Globalisation has brought hundreds of million people out of poverty. It is, however, not guaranteed that everyone within each country is better off when globalisation is proceeding rapidly. Income inequality has been on the rise in many countries, and there is evidence of a correlation between this trend and globalisation. While globalisation is not the sole driver of rising income inequality, it has significantly shaped its trajectory.

Since the 1980s, many developed and developing countries have experienced increases in within-country inequality now accounts for a much larger part of global inequality (about two-thirds in 2020, up from less than half in 1980). The growing income gap has coincided with the period of increasing countries' exposure to globalisation through increased flows of goods, services, capital, and labour across international borders.

1. **Trade liberalisation**: Globalisation often involves the removal of trade barriers, such as tariffs and quotas, which allows for increased international trade. This can lead to changes in the domestic economy, where globally competitive industries may thrive while others struggle to compete. This can result in job losses and wage stagnation in specific sectors, leading to income inequality.
2. **Technological advancements**: Globalisation is often accompanied by rapid technological advancements, which can increase productivity and efficiency. However, these advancements can also lead to automation

and the displacement of workers in specific industries. Workers with lower skills or those in industries vulnerable to automation may experience job losses or wage stagnation, further contributing to income inequality.

3. **Capital mobility**: Globalisation facilitates the movement of capital across borders, allowing for investments in different countries. However, this can also result in a concentration of wealth and capital in the hands of a few individuals or corporations. This concentration of wealth can exacerbate income inequality within countries.
4. **Unequal access to opportunities**: Globalisation can create winners and losers within countries. Those with access to education, skills, and resources may be better positioned to take advantage of new economic opportunities arising from globalisation. On the other hand, individuals with limited access to education or resources may face barriers in adapting to the changing economic landscape, leading to income disparities.
5. **Labour market dynamics**: Globalisation can lead to increased competition in the labour market, as workers from different countries can compete for jobs. This can put downward pressure on wages, particularly for low-skilled workers. At the same time, highly skilled workers in specific sectors may benefit from globalisation through increased demand and higher wages, further contributing to income inequality. Globalisation has facilitated production movement to countries with lower labour costs, leading to job losses and wage stagnation in developed countries. According to a study by Milanovic (2016), the decline in manufacturing jobs in developed countries, particularly in industries with higher wages, has contributed to rising income inequality.
6. Another aspect of globalisation that has influenced income inequality is the financialisation of the economy. Financialisation refers to the increasing dominance of the financial sector in the economy, characterised by the expansion of financial markets, the rise of speculative activities, and the growing influence of financial institutions. Studies have shown that financialisation can lead to increased income inequality by favouring those who own financial assets and have access to credit while leaving others behind. According to Krippner (2012), financialisation has contributed to the growth of income inequality by redistributing income from wages to profits and exacerbating the concentration of wealth.
7. Moreover, globalisation has influenced income inequality through its impact on social policies and labour standards. In pursuing competitiveness, some countries have implemented policies prioritising attracting foreign investment and promoting export-oriented industries. These policies often involve deregulation, reductions in labour protections, and weakened welfare systems, which can lead to increased income inequality. A study by Cornia et al. (2017) found that countries with higher exposure to globalisation tend to have lower levels of social spending and weaker labour market institutions, contributing to higher income inequality.

It's important to note that the relationship between globalisation and within-country inequality is complex and can vary across countries and contexts. While globalisation can contribute to income inequality, it can also bring benefits such as increased economic growth and access to new markets. Effective policies and measures that address the negative distributional impacts of globalisation can help mitigate inequality and ensure more inclusive outcomes. All of this has resulted in the concentration of wealth among a few individuals. Transnational corporations and high-income individuals can take advantage of global markets and exploit tax havens, accumulating wealth in the hands of a small segment of society.

Globalisation also makes low-income individuals dependent on global supply chains vulnerable to disruptions. According to Oxfam (2020), the world's billionaires saw their wealth increase by $3.9 trillion between March and December 2020, while millions of people faced unemployment and poverty due to the disruption of global trade during the COVID-19 pandemic. This clearly indicates the disparate effects of globalisation on different income groups.

Political and social globalisation is likely to influence income inequality as well. Political globalisation may lead countries to set common minimum standards and, therefore, actually enhance equality within countries (Dreher 2006b). International migration may affect income distribution in sending and destination countries. Standard models of immigration suggest, for example, that factors for which immigration is a good substitute will lose relatively to complementary aspects. For example, suppose immigration increases the labour supply of unskilled workers. In that case, the wage gap between high-skilled and low-skilled labour and income inequality is expected to increase (see Borjas et al. 1997). Changing social norms, which result from more interaction and integration around the world, may also change the social acceptance of income inequality and therefore affect people's behaviour, for example, the wage bargaining of unions (Atkinson 1997).

However, net income inequality in highly globalised countries is lower than in less globalised countries. The correlation coefficient between the KOF globalisation index and the Gini market index is -0.24, indicating that more developed countries have larger welfare states. EU member states and other similar advanced economies belong to the most globalised countries and have the lowest levels of income inequality because of their taxation and redistribution policies.

This also highlights why it is so difficult to isolate the effects of globalisation on inequality. Countries with higher income and globalisation are also likely those with better institutions, structures, and policies. It is for this reason that such a simplistic view might be misleading. The effect between developed countries of different kinds and developing countries might also be different. Take, for example, the case study of China we explore below, where market-oriented reforms hurt inequality.

IV. Inequality in Developing Nations:

Case Study: China (Xiaobo Zhang & Kevin H. Zhang (2003))

In the late 1970s, China implemented market-oriented reforms and opened its economy to global trade and investment. This led to a surge in exports, foreign direct investment, and economic growth. China's integration into the global economy facilitated by globalisation played a significant role in this transformation. It is also a compelling example of how globalisation can be linked to rising national income inequality.

1. **Urban-Rural Income Gap:** One consequence of China's globalisation-driven growth has been a widening income gap between urban and rural areas. The urban centres, particularly coastal regions, experienced rapid industrialisation, foreign investment, and job creation, resulting in higher wages and increased opportunities. Meanwhile, rural areas faced slower development, agricultural challenges, and limited access to the benefits of globalisation, leading to lower incomes and reduced opportunities.
2. **Regional Disparities:**Globalisation and China's economic reforms also exacerbated regional income disparities. Coastal regions, with their export-oriented industries, attracted more foreign investment and technology transfer and benefited from infrastructure development. In contrast, inland and rural areas lagged regarding infrastructure, investment, and job opportunities. These regional disparities contributed to growing income inequality within China.
3. **Skill-Based Wage Gap:**Globalisation and technological advancements have significantly increased the demand for skilled workers in China's manufacturing and service sectors. Those with higher education and technical skills have been better positioned to benefit from these opportunities, commanding higher wages and experiencing income growth. However, workers with lower skills or in traditional industries faced challenges and stagnating wages, contributing to income disparities.
4. **Wealth Concentration and Social Stratification:**Globalisation has also facilitated wealth accumulation among a small elite in China. As foreign investment and economic growth accelerated, a new class of wealthy entrepreneurs and investors emerged. This concentration of wealth, combined with limited social mobility, has contributed to social stratification and income inequality.

It's important to note that while globalisation has played a role in China's rising income inequality, other factors such as domestic policies, government interventions, and social dynamics also influence income distribution.

V. Case Study: Mexico and NAFTA (ESQUIVEL, G., & Cruces, G. (2011))

Another example of how globalisation has contributed to within-country income inequality is the case of Mexico and the North American Free Trade Agreement (NAFTA). When NAFTA was implemented in 1994, it aimed to promote trade liberalisation between Mexico, the United States, and Canada. While NAFTA brought economic benefits to Mexico, it also increased income inequality. Here's how globalisation through NAFTA contributed to this inequality:

- **Displacement of agricultural workers:** Under NAFTA, Mexico's agricultural sector faced intense competition from subsidized American agricultural products. This competition led to a decline in the profitability of small-scale farmers in Mexico, forcing many of them out of business or into lower-paid jobs. This displacement of agricultural workers resulted in increased rural-urban migration and contributed to income inequality.
- **Wage stagnation in the manufacturing sector:** NAFTA also led to the growth of the manufacturing industry in Mexico, as multinational corporations established operations there to take advantage of lower labour costs. While this generated job opportunities, wages in the manufacturing sector remained relatively low due to global competition. As a result, income inequality persisted or even increased within the manufacturing sector.
- **Informal sector expansion:**Globalisation can also lead to the development of the informal sector, consisting of low-wage, unregulated, and often precarious jobs. In Mexico, the informal sector expanded as a response to the challenges faced by workers in the formal sector due to globalisation. Informal employment tends to offer lower wages and limited access to social protections, contributing to income inequality within the country.

- **Skilled vs unskilled labour disparities:**Globalisation and NAFTA resulted in a greater demand for skilled labour in sectors such as manufacturing and services, where workers with higher education and technical skills were in demand. However, those with access to education or skills were left behind, facing limited employment opportunities and lower wages. This created disparities in income between skilled and unskilled workers, further contributing to income inequality.

The Cases of Mexico and China are good ones to illustrate how developing nations are affected by inequality, as presented in the points below:

Overall, rising income inequality due to globalisation can harm a developing nation. It can hinder social mobility, exacerbate poverty rates, and create social and political unrest. High levels of income inequality can undermine social cohesion, leading to decreased trust, increased crime rates, and a more divided society. It can also hinder sustainable economic growth and development by limiting domestic demand and creating volatile economic conditions.

Let us consider India, a developing country that has experienced significant globalisation. Liberalising its economy in the 1990s led to an influx of foreign companies and increased competition. While sectors like IT services flourished, other industries, such as traditional handicrafts or small-scale manufacturing, faced challenges due to cheaper imports. This led to job losses and lower wages for workers in those sectors, contributing to income inequality. Another example is Brazil, another developing country that has undergone globalisation. Brazil experienced significant economic growth in the early 2000s, fueled by the export of commodities and increased foreign investments. However, the benefits of this growth were distributed unevenly. The wealthier population segments, including large landowners and corporate elites, captured a significant share of the gains. In contrast, many low-skilled workers and rural populations were left behind, increasing income inequality.

Inequality in Developed Nations: Harjes, Thomas, Globalization and Income Inequality: A European Perspective (July 2007).

On the other hand, even developed countries might see differing results based on their approach to social welfare, as seen in the case of EU nationsvs the US & UK.

VI. Case Study: EU vs US & UK

Economic Structure and Policies: The financial structure and policies pursued by nations can significantly impact inequality. The EU tends to have a more comprehensive social welfare system than the US/UK, with higher public spending on healthcare, education, and social protection. According to the world economic forum, the top 5 spenders on social welfare are from the EU nations, which backs up our claim. This social-democratic model aims to reduce inequality by redistributing wealth and providing a safety net for vulnerable populations. In contrast, the US/UK adopts a more market-oriented approach, emphasising individualism and free-market principles. This approach often leads to higher income disparities, as there is less government intervention to mitigate inequality.

Taxation Systems: Tax policies play a crucial role in shaping inequality. In the EU, progressive taxation systems are commonly implemented, where higher-income individuals are taxed at higher rates. This progressive taxation helps redistribute wealth and reduce income disparities. On the other hand, the US/UK tends to have relatively lower tax rates for high-income earners, which can exacerbate income inequality.

Labour Market Structure: Differences in labour market structures can contribute to inequality variations. The EU generally places a stronger emphasis on workers' rights, collective bargaining, and social protection. This can lead to more equitable distribution of wages and benefits, reducing income inequality. In the US/UK, labour market policies and regulations are often more business-friendly, which can result in lower levels of worker protection and weaker wage growth for low- and middle-income individuals, leading to higher inequality.

Trade Patterns: Globalisation, through increased trade and outsourcing, can affect employment and wage dynamics. In the EU, trade integration has occurred within a framework that supports worker rights and social protection, helping to maintain a balance. In the US/UK, globalisation has been accompanied by the decline of specific industries and the rise of low-wage jobs, contributing to income inequality.

Education and Skill Development: Education systems and access to skill development opportunities also influence inequality. The EU prioritises affordable or accessible higher education and vocational training, enabling individuals from diverse backgrounds to acquire skills and better job opportunities. This focus on education and skill development helps reduce income disparities. In the US/UK, the cost of education, notably higher education, can be significantly higher, potentially limiting access for lower-income individuals and perpetuating inequality.

Financialisation and Capital Ownership: The financial sector's expansion and the concentration of capital ownership can contribute to inequality. The US/UK have seen significant financialisation, resulting in a greater concentration of wealth and income among the top earners. In the EU, stricter regulations and a more pronounced social welfare system have partially mitigated such effects.

Social Mobility: Social mobility, or the ability for individuals to move up the socioeconomic ladder, can impact inequality trends. Higher levels of social mobility contribute to a more equal society, as individuals have opportunities to improve their economic circumstances. The EU generally exhibits more elevated levels of social mobility than the US/UK, which can be attributed to factors such as education accessibility, labour market policies, and social welfare systems.

As income inequality is a complex and multifaceted issue, its relationship with globalisation in developed nations has been a subject of extensive research and debate. We can summarise the primary pathways through which globalisation can perpetuate income inequality in developed countries.

Jaumotte and Tytell (2007, Spring WEO) find that globalisation has been one factor that has negatively affected the share of income accruing to labour in advanced economies—the labour share. Income inequality can be affected by workforce composition, which has changed in many countries due to increased women's labour force participation and immigration.

Labour Market Effects: One of the primary channels through which globalisation impacts income inequality is the labourmarket. Globalisation has led to outsourcing manufacturing and service jobs to countries with lower labour costs. This can result in declining demand for specific jobs in developed nations, leading to job displacement or wage stagnation for lower-skilled workers. At the same time, highly skilled workers and those in particular industries can benefit from increased opportunities and higher wages, exacerbating income disparities. Factor content models of trade predicted a small impact of trade on wages in advanced countries because imports of manufactured goods from developed countries amounted to less than 2 per cent of the combined GDP of the OECD in the 1980s. Leamer (1996), however, argued that prices rather than quantities mattered, and economic liberalisations in Asia, Eastern Europe, and Latin America affected the United States and European labour markets by declines in the prices of labour-intensivetrades. Krugman (2000) strongly contested this view and showed that, in a two-country general equilibrium model, prices and wages were predominantly determined by developments in the large country (i.e., the OECD).

Technological Advancements: Globalisation has been closely intertwined with rapid technological advancements. While these technologies have increased productivity and efficiency, they have also resulted in automation and replacing specific jobs with machines or software. This tends to favour high-skilled workers who can operate and manage these technologies, further widening the income gap between high and low-skilled workers.

Capital Mobility: Globalisation has made investing and moving capital across borders easier for companies and individuals. This allows the wealthy to access global markets and invest in assets that generate higher returns, leading to wealth accumulation. On the other hand, those with limited resources might have different opportunities to invest globally, limiting their ability to accumulate wealth and increasing income inequality.

Trade Imbalances: Globalisation can lead to trade imbalances between countries, where some nations have trade surpluses, and others have deficits. Trade deficits in developed nations can lead to job losses in certain industries, contributing to income inequality as specific sectors are affected more than others.

Weakening Bargaining Power of Labor: As globalisation increases competition in the global market, companies may face pressure to cut costs, including labour costs. This can weaken workers' bargaining power, leading to less bargaining power to negotiate for higher wages and better working conditions.

In summary, while globalisation has brought about many positive changes, it has also contributed to rising income inequality in developed nations.

For example, the manufacturing sector in the United States has experienced significant job losses over the past few decades due to outsourcing and competition from lower-wage countries. Between 1990 and 2016, the U.S. lost around 5.7 million manufacturing jobs. The decline of manufacturing jobs, which traditionally provided relatively high wages and benefits, has contributed to income inequality in the country. In the United States, the increasing demand for workers with advanced technical skills, such as those in information technology, has created a significant wage gap between skilled and unskilled workers. The median earnings of workers in computer and mathematical occupations are substantially higher than those requiring lower skills or manual labour. The growth of the financial sector and the rise of income earned from capital, such as dividends and capital gains, have contributed to income inequality. In the United States, the top 1% of earners have seen their share of total income rise significantly over the past few decades, mainly due to their ability to accumulate wealth through investments and financial assets. U.S. BUREAU OF LABOR STATISTICS (2018) According to Autor, Katz, and Kearney (2005). First, much of the rise in United States earnings inequality during the 1980s appears explained by shifts in the labour supply and demands for skills combined with the erosion of labour market institutions—including labour unions and the minimum wage—that protected the earnings of the low and middle-wage workers. Second, the surge of inequality evident in the 1980s also reflected a secular rise in the demand for skill, possibly linked to the computer revolution and other technological advances. Autor, Katz, and Kearney (2006) conclude that the changing distribution of job task demands, spurred directly by advancing information technology and indirectly by its impact on outsourcing, goes some distance toward interpreting the recent polarisation of the wage structure in the US. Lemieux (2006) also argues that the fall in the minimum wage explains most of the surge in inequality in the 1980s but finds that the changing composition of the U.S. labour force during the 1990s (rising education and experience) has added to some further disparities.

For instance, the garment industry in Bangladesh employs an estimated four million people, but the average worker earns less in a month than a U.S. worker earns in a day. In 2013, a textile factory collapsed, killing over 1,100 workers. Critics also suggest that employment opportunities for children in poor countries may increase the negative impacts of child labour and lure children of low-income families away from school. In general, critics blame the pressures of globalisation for encouraging an environment that exploits workers in countries that do not offer sufficient protection. Globalisation may contribute to income disparity and inequality between the more educated and less educated. This means that unskilled workers may be affected by declining wages, which are under constant pressure from globalisation. (National Geographic Society, 2023)

VII. Curbing Inequality: Why it Matters

Beyond just the moral implications of rising income inequality, within-country income inequality can have several adverse long-term consequences for countries as a whole:

- **Socioeconomic stability:** High levels of income inequality can contribute to social and political unrest within a country. When a significant portion of the population feels marginalised or left behind, it can lead to social tensions, protests, and political instability. This can adversely affect overall socioeconomic stability, hampering economic growth and development.
- **Human capital development:** Income inequality can impact access to education, healthcare, and other social services. Unequal distribution of resources and opportunities can help human capital development, as individuals from lower-income backgrounds may need help to acquire the necessary skills and education. This can lead to a less productive workforce and hinder a country's long-term economic growth potential.
- **Poverty and social welfare:** High levels of income inequality can result in a larger population living in poverty or experiencing relative deprivation. This strains social welfare systems as the government may need to allocate more resources towards poverty alleviation programs, social safety nets, and healthcare services. Income inequality can also perpetuate intergenerational poverty, as limited opportunities and resources are passed down through generations.
- **Economic growth and productivity:** Excessive income inequality can hinder overall economic growth and productivity. When a large portion of the population has limited purchasing power, it can dampen consumer demand and reduce market opportunities. Moreover, unequal access to resources and opportunities can lead to a suboptimal allocation of talent and skills, impeding innovation and productivity growth.
- **Social cohesion and trust:** Income inequality can erode social cohesion and trust. A stark divide between the rich and the poor can lead to a breakdown in social bonds and a sense of injustice. This can affect community cooperation, collaboration, and social capital, potentially hampering collective efforts to address societal challenges and pursue inclusive development.

Governments and policymakers increasingly recognise the importance of addressing income inequality to foster sustainable and inclusive development. Implementing policies promoting equitable access to education, healthcare, and economic opportunities and progressive taxation and social protection measures can help mitigate the adverse effects of within-country income inequality from globalisation.

Policies & Solutions

Just because globalisation has perpetuated inequality doesn’t make it wrong. It can increase the size of the pie. The distribution of the pie has proved to be a problem to address. And based on the issues identified above, governments can implement quite a few policy solutions to fight inequality. Many arise from countries where inequality has remained low despite increasing globalisation.

Educational Solutions

Education is a potent weapon for reducing income inequality since it provides people with the knowledge and skills necessary to succeed in the contemporary economy. A comprehensive education improves employability, opening doors to better-paying professions and career growth prospects. People from underprivileged backgrounds are given the tools they need to end the cycle of poverty and close the income gap. Additionally, education encourages creativity, critical thinking, and problem-solving skills necessary for entrepreneurship and innovation. Societies can guarantee that all members have an equal opportunity to improve their socioeconomic level, resulting in a more equitable income distribution, by supporting equal access to high-quality education. Investing in education benefits individuals and economies by creating a competent and productive workforce that can promote sustainable growth and narrow income gaps.

Universal Access to Quality Education Ensures that all children have access to quality, accessible, and compulsory education, regardless of their socioeconomic background. This includes investing in infrastructure, reducing barriers to enrollment, and providing transportation facilities for students in remote areas.

Vocational and Technical Education: Promote vocational and technical education programs to provide alternative pathways for students and workers who may not choose or be able to pursue traditional academic routes, such that they can opt for them at any point in their careers. These programs should align with the needs of industries and provide practical skills that can lead to employment opportunities.

Scholarships and Financial Assistance: Implement policies that provide scholarships and financial assistance to students from low-income backgrounds, ensuring that financial constraints do not hinder their access to education. This can include grants, tuition waivers, and student loan programs with favourable repayment terms.

Technology and Digital Literacy: Promote digital literacy skills among students, as technological advancements play a significant role in the global economy. Providing access to computers, internet connectivity, and training in digital skills can empower individuals to compete in the digital age.

Collaboration with Industries: Foster partnerships between educational institutions and industries to ensure that the curriculum reflects the skills needed in the job market. This collaboration can include internships, apprenticeships, and work-study programs, providing students real-world experience and enhancing their employability.

Addressing Gender Inequality: Implement policies that address gender disparities in education, ensuring equal opportunities and eliminating gender-based stereotypes. This can include initiatives to increase the enrollment and retention of girls in schools and promote gender-responsive teaching methods. As almost half of the population is women, addressing inequality amongst that demographic can be highly impactful in tackling income inequality.

Monitoring and Evaluation: Regularly assess the effectiveness of educational policies in reducing income inequality. This involves tracking key indicators such as enrollment rates, graduation rates, and employment outcomes to identify gaps and make necessary adjustments to policy implementation.

Technical Solutions

Invest in digital infrastructure: Governments can prioritise investment in digital infrastructure, such as broadband networks, to ensure widespread access to high-speed internet. This enables individuals and businesses in marginalised communities to participate in the digital economy, access online education and training, and create entrepreneurial opportunities.

Support entrepreneurship and innovation: Governments can foster an environment conducive to entrepreneurship and innovation by offering tax incentives, grants, and loans for startups and small businesses. Encouraging the development of technology-based firms can create new jobs and economic opportunities.

Enhance access to technology in education: Ensure all students have access to technology in schools by providing devices, internet connectivity, and software. Integrating technology into education equips students with relevant skills and knowledge, narrowing the digital divide and promoting social mobility.

Encourage research and development (R&D): Governments should incentivise private sector investment in research and development. This can be done through tax credits, grants, and subsidies. Promoting R&D activities fosters technological advancements, which can lead to increased productivity and economic growth.

Strengthen data protection and privacy regulations: Implement robust data protection and privacy regulations to safeguard individuals' personal information and prevent exploitation by tech companies. These regulations can help mitigate the concentration of power and wealth in the hands of a few technology giants.

Foster collaboration between academia and industry: Encourage collaboration between universities, research institutions, and the private sector. This collaboration can lead to the developing of innovative technologies and knowledge transfer, creating more job and economic growth opportunities.

Promote digital inclusion for vulnerable populations: Implement programs targeting vulnerable people, such as low-income individuals, women, and minority groups, to ensure their inclusion in the digital economy. This can involve providing subsidies for internet access, offering tailored training programs, and supporting initiatives that promote digital literacy.

Financial Solutions

More robust Progressive Taxation: Implementing a progressive tax system where higher income earners are taxed at even higher rates can help redistribute wealth more equitably. This means that higher-income people contribute more of their earnings to taxes. For example, in Denmark, the top income tax rate can reach around 55%, while in the United States, the highest federal tax rate for individuals can be over 37%.

Social Welfare Programs: Expanding and strengthening social welfare programs can help provide a safety net for vulnerable populations. These programs can include unemployment benefits, healthcare subsidies, housing assistance, and food aid. For instance, in Sweden, a generous social safety net helps reduce income inequality by providing comprehensive welfare benefits to its citizens.

Minimum Wage Policies: Setting a fair and adequate minimum wage can lift the incomes of low-wage workers and reduce income disparities. For example, Australia has a relatively high minimum wage that is regularly adjusted to keep pace with inflation and the cost of living.

Universal Basic Income (UBI): Introducing a universal basic income, where every citizen receives a regular payment from the government, can significantly alleviate poverty and reduce income inequality. Some pilot projects have been conducted in countries like Finland and Kenya to test the effectiveness of UBI. The research found that rural Kenyans who received a daily universal basic income equivalent to USD 0.75 were less likely to go hungry and even recorded improvements in their physical and mental health.

Wealth Taxes: Implementing taxes on accumulated wealth can help reduce the concentration of wealth among the wealthiest individuals. For example, France applied a wealth tax on net assets exceeding a certain threshold.

Access to Financing: Ensuring access to affordable financial services for disadvantaged communities can promote economic inclusion and reduce income inequality. Microfinance initiatives in countries like Bangladesh, through organisations like Grameen Bank, have helped lift people out of poverty.

Labour Market Reforms: Implementing labour market reforms to protect workers' rights and promote collective bargaining can lead to fairer wages and working conditions. Countries like Germany have strong labor unions that negotiate for workers to ensure better pay and benefits.

Regional Development Policies: Investing in infrastructure and development projects in economically deprived regions can help reduce regional income disparities. China's policies to develop its western parts exemplify this approach.

Corporate Social Responsibility (CSR): Encouraging companies to adopt responsible business practices, including fair wages and worker welfare, can reduce income inequality. Various countries have introduced guidelines and incentives for companies to prioritise CSR initiatives.

While these policy solutions have nearly universal application, since all countries will have unique needs, each country's policy will need to be individually crafted to tackle the region's specific problems. Ultimately, there is no one size fits all solution.

VIII. Conclusion

Globalisation has dominated defining the world economy and cultures during the last few decades. Several advantages, including economic growth and eradicating poverty in some areas, have unquestionably been brought about by the rapid integration of markets, technological improvements, and increasing international commerce and investment. But one of the most enduring and divisive problems globalisation brings is how it affects economic disparity.

This paper highlights how complex the connection between income disparity and globalisation is. The research shows that the reality is far more complicated than the initial theory, which claimed that globalisation inevitably worsens income inequality. The degree of development, governmental policies, educational systems, labour markets, and social safeguards are a few variables that impact how globalisation and income disparity interact.

On the one hand, proponents of globalisation contend that expanding cross-border trade in commodities, services, and capital will boost productivity, spur economic development, and generate new jobs that ultimately benefit every segment of society. Foreign direct investment can also boost local economies in developing nations and give residents access to cutting-edge knowledge and technology, allowing them to close the income gap. Global supply networks can also increase productivity and open job opportunities in these nations, raising many people's living standards.

On the other side, detractors claim that the advantages of globalisation are unfairly dispersed, with most earnings going to multinational firms and the wealthiest individuals. In less developed places where labour standards may be low, this can worsen income inequality within and across nations, leading to exploitation and unequal distribution of wealth. Additionally, as labour and environmental standards become more lax, income inequities and social conflicts may worsen due to globalisation.

Labour markets have changed due to the rise of automation and digitalisation, which has resulted in skill-biased technological transformation. While workers with less education and training experience increased job insecurity and income stagnation, those with advanced skills and education are better positioned to take advantage of the new opportunities provided by globalisation. Due to the growing wage gap between skilled and unskilled workers, socioeconomic inequities among nations result. Furthermore, this study has emphasised how crucial government policies are in determining how globalisation would affect income disparity. Strong social safety nets, progressive taxation, and investments in workforce development enable nations to counteract the detrimental effects of globalisation on income inequality more effectively. These measures can make society more inclusive, offer possibilities for career advancement, and act as a cushion against economic shocks.

By implementing the recommended policy solutions to deal with the complicated interaction between globalisation and income disparity, we can counter many of the adverse effects of globalisation. To ensure that employees are prepared to adapt to the shifting needs of the global economy, authorities must put inclusive growth first by funding education and skill development. People can increase their employability and participate more actively in the workforce, leading to a more equal income distribution through enhancing access to high-quality education and training. Furthermore, governments must develop and implement progressive taxation regimes to lessen wealth concentration and finance social welfare programmes. Countries may reduce the income gap and ensure that the advantages of globalisation are distributed more fairly by transferring money and offering assistance to the most disadvantaged facets of society. To guarantee that employees are treated fairly across global supply chains, policymakers should support fair labour practices and enforce strict environmental and social norms. This can promote a more equitable distribution of the benefits of globalisation and protect the rights and well-being of employees in both developed and developing nations.

In conclusion, Globalisation can increase economic growth and decrease poverty, but it can also widen income gaps within and between nations. The complicated nature of this relationship results from the intricate interactions among numerous variables, including technology, governmental regulations, and labour market conditions. Societies may take advantage of the opportunities provided by globalisation while minimising its adverse impacts on income inequality by putting in place a combination of tailored policies that prioritise education, equitable taxation, and fair labour practices. Finding the appropriate balance is crucial to fostering sustainable and inclusive economic growth in a world that is becoming more linked.

References

[1]. Dorn, Florian, Et Al. "Globalization AndIncome Inequality Revisited." SSRN Electronic Journal, 2018, Https://Doi.Org/10.2139/Ssrn.3143398.

[2]. Economic Globalization And Income Inequality: Cross-Country ... - ISEC, Www.Isec.Ac.In/WP%20391%20-%20Sovna%20Mohanty%20-%20Final.Pdf. Accessed July 2023.

[3]. Esquivel, Gerardo. "The Dynamics OfIncome Inequality In Mexico Since NAFTA." Economía, Vol. 12, No. 1, 2011, Pp. 155–179, Https://Doi.Org/10.1353/Eco.2011.0009.

[4]. "Globalization And The Forces Behind The Rise In Inequality." The Globalization Of Inequality, 2017, Pp. 74–116, Https://Doi.Org/10.2307/J.Ctvc77hcm.8.

[5]. "Globalization Boosting Income Inequality InUS." Financial Tribune, 9 May 2017, Financialtribune.Com/Articles/World-Economy/64126/Globalization-Boosting-Income-Inequality-In-Us.

[6]. Goldberg, PinelopiKoujianou, AndNina Pavcnik. Distributional Effects OfGlobalization In Developing Countries, 2007, Https://Doi.Org/10.3386/W12885.

[7]. Harjes, Thomas. "Globalization AndIncome Inequality: A European Perspective." SSRN Electronic Journal, 2007, Https://Doi.Org/10.2139/Ssrn.1007918.

[8]. Hauk, William R. "Globalization AndInequality: Sharing Wealth One Of Greatest Challenges." The Globe Post, 30 Jan. 2019, Theglobepost.Com/2019/01/30/Globalization-Inequality/.

[9]. Heimberger, Philipp. "How Economic Globalisation Affects Income Inequality (News Article)." Wiiw.Ac.At, 6 Apr. 2020,

Wiiw.Ac.At/How-Economic-Globalisation-Affects-Income-Inequality-N-431.Html.
[10]. Milanovic, Branko. "Global Income Inequality InNumbers: In History And Now." Global Policy, Vol. 4, No. 2, 2013, Pp. 198–208, Https://Doi.Org/10.1111/1758-5899.12032.
[11]. Pavcnik, Nina. "Globalization AndWithin-Country Income Inequality." Making Globalization Socially Sustainable, 2011, Pp. 233–259, Https://Doi.Org/10.30875/1a6ce41f-En.
[12]. Pavcnik, Nina. "Globalization AndWithin-Country Income Inequality." Making Globalization Socially Sustainable, 2011, Pp. 233–259, Https://Doi.Org/10.30875/1a6ce41f-En.
[13]. Tavares, Marina M., And Valentin Lang. "How Income Gains From Globalisation Are Distributed." CEPR, 27 Apr. 2018, Cepr.Org/Voxeu/Columns/How-Income-Gains-Globalisation-Are-Distributed.
[14]. "Theorist Eric Maskin: Globalization Is Increasing Inequality." World Bank, 25 June 2014, Www.Worldbank.Org/En/News/Feature/2014/06/23/Theorist-Eric-Maskin-Globalization-Is-Increasing-Inequality.
[15]. "The Unequal Effects OfGlobalisation." Inequality: The IFS Deaton Review, Ifs.Org.Uk/Inequality/The-Unequal-Effects-Of-Globalisation/. Accessed July 2023.
[16]. Zhang, Xiaobo, AndKevin H. Zhang. "How Does Globalisation Affect Regional Inequality Within A Developing Country? Evidence FromChina." Journal OfDevelopment Studies, Vol. 39, No. 4, 2003, Pp. 47–67, Https://Doi.Org/10.1080/713869425.