

The Impact of Globalisation on Rising Earnings Inequality: Empirical Evidence from OECD Countries

Wen-Hao Chen^{*}, Michael Förster^{**} and Ana Llana-Nozal^{***}

OECD Social Policy Division

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Abstract

This paper examines the distributive consequences of economic globalisation in 23 OECD countries over the past quarter century, taking into account the multi-faceted dimensions of globalisation and controlling for influence from other concurrent trends, in particular technological progress and changes in labour market institutions. The paper also identifies the relevant pathways between globalisation and earning inequality among the whole working-age population by accounting for both rising wage dispersion among workers and widening earnings gaps between employed and non-employed. The results show that financial deepening (through increased foreign investment) is a key driver behind the upward trend of income inequality; it transmitted inequality through both raising wage dispersion and reducing employment rates. Trade integration in general exerted little distributional effect. Technical advancement also contributed to widening the earnings distribution among the whole working-age population, while the growth in the supply of skilled workers provided a sizable counterweight to increasing inequality. Moreover, the declining strength of labour market institutions tended to be distributional neutral overall, as the (increasing) employment effect largely offset the (increasing) wage inequality effect.

Keywords: globalisation, innovation, labour market institutions, inequality

JEL classifications: F16, O30, J50, O15

* Wen-Hao.CHEN@oecd.org; voice: +33 01 45 24 89 59.

** Michael.FORSTER@oecd.org; voice: +33 01 45 24 92 80.

*** Ana.LLENANOZAL@oecd.org; voice: +33 01 45 24 85 27.

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