2020

36th IARIW General Conference

Paper Prepared for the 36th IARIW General Conference, Oslo, Norway, August 24-28, 2020

How does Globalization affect Inequality within and across Countries?

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It is true that we live in the age of globalization which has led to the liberalization of trade, investment, finance and cross border movement of technology, migration of labor force. This wave of globalization which has gathered momentum since 1990 has had a far reaching implications not only on the wellbeing of the people, production structure, consumption pattern, political ambiance but also on the income distribution both within as well as across the countries. The common perception about the impact of globalization has been that this accelerating process of globalization has led to engender tremendous impact on the global as well as national inequalities i.e. on the inequality in income vis-à-vis standard of living both within and across the countries. It is often claimed that the globalization is responsible for unprecedented rise in inequality in the globe. It is also claimed that it has led to the generation of the economic crisis, destruction of environment, importance of finance and financial sector, deindustrialization, the standardization of culture and many other vices of contemporary society including the explosive increase in inequality. Further there is a common belief that globalization has led to the concentration of income and wealth in the richest class of people.

On the basis of the observed movement in the gini coefficients of income distributions across the countries which is the most widely used summary measure of inequality, it is found that inequality has risen in all countries but the low income country aggregates over the past two decades albeit there are significant regional and cross-country differences. However, the World Bank (2006) on the basis of the consumption based gini coefficient reveals less inequality because of different government workfare programmes. In fact, there is controversy on the issue of relationship between globalization and global inequality, inequality between and within countries. In a study (Bourguignon,2015) on the relation between globalization and global inequality as well as inequality within countries for a sample of 106 countries containing around 92.3% of global population and 94.3 % of global income for the period from 1992-2010 it has been found that the global inequality both in terms of gini and Theil index has shown a declining trend which is also accompanied by a declining trend in between countries inequality and within countries inequality. In fact, with the publication of the book written by Branko Milanovic (2005), Stiglitz (2012), Thomas Piketty (2013) there has actually been a growing interest on the part of the economists, social scientists, politicians to find out the impact of globalization on the inequality in the distribution of income. The literature in this area has also been mounted up (Chen and Ravallion,2004; Chinn and Ito, 2006;Goldgerg et al.,2005,2007; Gordon,2007, Jorgenson and Vu,2005; Kumar and Misra, 2008; Wei and Wu,2007; Prasad et al.,2007; Topalova,2007). Interestingly, most of these studies are done without making any classifications of the countries on the basis of the income. Theoretically, the famous Stolper-Samuelson theorem gives clear exposition of long term effect of trade and trade tax on the factor intensity as well as resource reallocation through the change in relative prices of the goods as well as factors such that there is sectoral reallocation of resources and consequently the production structure as well as trade pattern of the country concern also changes. This brings about changes in the factor share in the national output there by bringing about changes in the income distributions. Therefore, it is quite likely that liberalization of trade and factor movement as an outcome of globalization will bring about changes in the overall income distribution of each country which is globally integrated.

Under this backdrop we propose to study the impact of globalization on inequality in the distribution of income by taking four sets of sample countries as per latest classification of World Bank (2018) viz; a few countries from low income, lower-middle income group, upper-middle income group and finally the high income group of countries on the basis of the availability of data. The logic behind the choosing of sample countries on income based classification is the fact that not all types of countries have equally participated in the process of globalization and have faced equal impact of globalization on their domestic production structure and income distribution. The sample countries will be chosen on the basis of the intensity of the globalization which will be based on KOF comprehensive globalization index and our own computation of globalization index such that our index of globalization of the countries will be the weighted sum of trade share in GDP and net inflow of FDI in the respective countries, weights being the 0.8 for the first components and 0.2 for the second components. The period of our study ranges from 1990 to 2017.We will use gini coefficient, the ratio of share of top 10% to bottom 10% of population in the national income of the respective countries as measures of inequality in the distribution of income. We will also compute the Theil's inequality coefficient for measuring overall inequality and decompose the Theil's coefficient of inequality for finding out the inequality between countries and within countries. Finally, we will examine the nature of correlation between the inequalities (measured by different methods) and the globalizations using dynamic panel technique for the four sets of sample countries by fitting a log-linear relationship between the inequality coefficients and the globalization index which will give us a clear insight about the nature of relationship between inequality and globalization. Our study will be complemented by some concluding remarks also.

Key Words : Globalisation, Inequality, Gini Coefficient, Theil's inequality coefficient, Dynamic Panel