Decreasing income inequality

Economics

Another debate is increasing wages (decreasing income inequality) inside and across countries. This question is very controversial, because different sources argue entirely opposite positions and give utterly different empirical evidences and statistics: globalisation allies insist on rising incomeequality, while critics of globalisation claim rising inequality.

For example, the Treasury of Australian Government referring to the World Bank data declared that a proportion of people living below the internationally acceptedpovertyline has fallen from 28% to 24% between 1987 and 1998 with some particularly successful regions such as East Asia & the Pacific with a decline from 27% to around 15% (Figure 6). Furthermore, the Treasury emphasized that narrowing income inequality in APEC (Asia-Pacific Economic Cooperation) economies (Chart1) was greater than in the world as a whole (Chart2). Proportion of People living on less than 1USD a day.

Chart 1 World Inequity Chart 2 APEC Inequity Another evidence in favour of declining inequity given by the Globalisation Guide Organisation (a child of The Australian APEC Study Centre) is that in 1980s, Americans earned 12. 5 times as much as the Chinese per capita; by 1999, they were only earning 7. 4 times as much. Additionally, The Globalisation Guide refers to the World Bank statistics that China's opening to world trade has brought it growth in income from $1460 a head in 1980 to $4120 by 1999. 28 In contrast, it is also argued that an income gap widens as inside as well as across countries.

As indicated by Bin Xu, the associate professor ; faculty director of Business in Warrington College of Business, University of Florida, between 1995 and

2000 the income of skilled workers in China had grown significantly relatively to the income of unskilled workers, consequently the inequality had increased as well (Chart3). Chart 3 China's Wage Inequality 1995-200029 A very important example here will be a case of Latin America, where since mid-1980s increased openness has widened wage differentials a lot (18 nations are below their per capita incomes of then years ago.

Is it trade itself has to be blamed for such differentials? Or are there some other important causes why " rich get richer and poor get poorer"? Many factors other than trade work against unskilled labour right now, but the most important, as many researched have concluded, is technological change. " Technological change is the dynamic heart of economic growth and development; it is fundamental to the evolution of a global economic system" 31. Thus, with trade or without it, unskilled, poorly educated workers are disadvantaged in the labour market. This is similar to what Adrian Wood claims.

In his work " Openness and Wage Inequality in Developing Countries: The Latin American Challenge to East Asian Conventional Wisdom" (1997) he says: "... the conflict (of evidence) is probably the result of differences between the 1960s and the 1980s, specifically, the entry of China into the world market and, perhaps, the advent of newtechnologybiased against unskilled workers". 32 Thomas A. Pugel (2004) explains two ways in which technological change may be pressuring relative wages: " First, technological progresshas been faster in industries that are more intensive in skilled labour.

As the cost and prices of some skill-intensive products decline, and the quality of these products is improved, demand for the products increases. As demand shifts toward skill-intensive products and their production increases, the demand for skilled labour expands, increasing the relative wage of skilled labour. Second, the technological progress that has occurred within individual industries appears to be biased in favour of using more skilled labour. This bias increase demand for skilled labour even more, reinforcing the pressure for an increase in wage inequality".

Another possible consequence of technological change on labour position in developing countries besides wage differentials and employment level is so-called " brain drain", when skilled, highly qualified workers migrate from developing to technologically advanced countries. According to the International Mobility of the Highly Skilled by the OECD, more and more professionals are moving abroad for jobs, but fears of " brain drain" may be exaggerated given that many of them do eventually return to their country of origin, the reports says.

It also emphasises " clear benefits for the home country, if migrants return with new technological and and entrepreneurial skills obtained abroad, especially if they have capital to invest or have contacts in the internationalscience and technologyfields. The sharp expansion of high-technology industries in Chinese Taipei, South Korea and Ireland owes much to returning migrants".

Thus, " brain drain" will be replaced by " brain circulation" (definition by the Foreign Policy Organisation: a variety of two-way flows of highly skilled workers between the technologically advanced countries where they reside and the less-developed countries where they were born. 35) Nevertheless, the report also suggests that in order to avoid the loss of highly qualified workers " developing countries need to build their own innovation and research facilities" (e. g. China's launch of 100 developing universities into world-class research centres).

In conclusion, it is obvious that globalisation affects trade, drives technological change, thus affect labour markets, its levels of employment, income distribution, etc. However, it has quite different effects in industrialised and developing countries. The principle " poor get poorer, rich get richer" is being discussed globally and very controversial evidences being provided, where quite often theories do not hold in practise. However, it is mostly agreed, that this new era of Globalisation affects each country in a distinctive extent regardless common theory (China) or previous experiences of others (Latin America ; East Asia).

References:

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