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Globalization and Inequality

Melinda Mills

Globalization is increasingly linked to inequality, but with often divergent and polarized findings. Some researchers show that globalization accentuates inequality both within and between countries. Others maintain that these claims are patently incorrect, arguing that globalization has disintegrated national borders and prompted economic integration, lifting millions out of poverty, and closing the inequality gap. This article presents a review of current research that links globalization to inequality. Core problems behind contradictory findings appear to rest in the operationalization of inequality and globalization, availability and quality of data, population-weighted versus unweighted estimates; and, the method of income calibration to a common currency in the study of income inequality. A theoretical model charts the mechanisms linking globalization to inequality, illustrating how it generates increased inequality within industrialized nations and decreased inequality within developing economies. The article concludes with a description of the papers in this special issue and situates them within the broader literature.

Introduction

The rise of globalization has been accompanied by the debate of whether it comes at the cost of growing inequality. Globalization is increasingly linked to inequality, but with often divergent and polarized results. Critics of globalization have argued that it accentuates inequality both within and between countries (Firebaugh, 2003; Wade, 2004). Although globalization may improve both the relative and absolute incomes of individuals around the world, some findings show that there are clear winners and losers. Others maintain that these claims are patently incorrect, arguing that globalization has disintegrated national borders and prompted economic integration, lifting millions out of poverty and closing the inequality gap (Dollar and Kraay, 2002). But which of these findings are correct? Does globalization lead to higher inequality? Why are there so many divergent results?

The aim of this introductory article is to present a review of current research on globalization and inequality. The first section engages in a critical summary of the central findings in this area of research, followed by isolating key conceptual and methodological

problems in the study of inequality. The second section then defines globalization and develops a theoretical model to chart the mechanisms that link it to inequality in industrialized and developing economies. The article concludes with a description of the papers in this special issue and situates them within the broader literature on this topic. Each article is provocative and challenging in its own right, addressing the many sides of this topic from different areas of the world and equally different perspectives within sociology.

Has Inequality Grown? A Critical Examination

A review of the literature on globalization and inequality reveals that evidence is vigorously argued in all directions. Some researchers appear to convincingly argue that there has been a growth in inequality over time (Wade, 2004) whereas others adamantly report stability or even a reverse in the inequality trend over time (Firebaugh and Goesling, 2004; Milanovic, 2005; Sala-i-Martin, 2006). The core problem behind these seemingly contradictory findings appears to be

a methodological one, related to four key issues: (i) the operationalization of inequality, (ii) availability and quality of data, (iii) population-weighted versus unweighted estimates; and, (iv) in the study of income inequality, the technique used in the calibration of incomes into a common currency. These choices result in different predictions about not only the direction of inequality, but also the onset of the timing of changes in inequality trends.

The classic and perhaps most obvious factor related to the divergent inequality findings is both a conceptual and data-related question: How is inequality operationalized or measured? This is interrelated to the central research problem or motivation of the research, but also to the second core issue, which is the availability and/or quality of data. The majority of the globalization and inequality literature has focused on income inequality, often measured as a change in the Gini coefficient (critically discussed in more detail shortly) (Alderson and Nielsen, 2002). Alternative measures such as the mean logarithmic deviation of income (MLD) index of inequality are sometimes used (Sala-i-Martin, 2006), but the Gini coefficient remains the dominant choice.

Classic sociological approaches have characterized inequality as a multidimensional construct based on the stratifying factors of not only income, but also other social and cultural domains (Weber, 1958; Mills, 1963; Dahrendorf, 1979). Studies that deviate or expand upon inequality beyond income are, however, rare. Sen (1999) is an exception, maintaining that we need to examine inequality in personal freedoms. More recently, Goesling and Baker (2008) introduced a multidimensional operationalization of inequality, by examining not only income, but also health and educational inequality across countries. Beyond the actual measure, there is also the question of whether inequality is studied as the unequal distribution of income *within* or *between* countries (Alderson and Nielsen, 2002; Beckfield, 2006), or a combination of both (Milanovic, 2005).

A growing body of literature has focused on trends in within-country income inequality. Here, the Gini index is the most commonly used measure, which summarizes the income distribution within a country (Ravallion, 2003). It illustrates the range between a perfectly equal distribution (a Gini coefficient of 0) to the highest possible condition of inequality of where one person would hold all of the income (a Gini coefficient of 1). Although the Gini measure is widely applied, there are some serious conceptual, methodological, and definitional issues that make it difficult to interpret when engaging in cross-national

comparisons (Ravallion, 2003). The central difference is whether the measures are calculated as household consumption-based Gini indexes or using income-based surveys. The difference is not trivial since consumption-based indices are both more commonly used in developing economies (e.g. Asia, Africa, Central and Eastern Europe) and also produce estimates of lower inequality. The reason that they are often applied in these countries, as opposed to the income-based measures often used in developed economies, is attributed to the fact that the measurement of incomes is often difficult in these contexts, due to higher levels of self-employment in agriculture or business (IMF, 2007). Since consumption is also often self-reported, these measures likewise suffer from typical methodological problems such as differences in definitions of consumption; recall problems and variation in the length of recall period, and other related factors. Income-based measures also suffer from similar data collection problems, including the fact that surveys are often not entirely nationally representative and underreport the income of high-income groups, thereby underestimating inequality. The operationalization of globalization is another related issue, discussed in the next section.

A third culprit of differences in estimates related to globalization and inequality is whether countries are weighted by population size or treated merely as equal units in cross-national comparisons (Firebaugh, 1999). Population-weighted studies report that income inequality has declined, due to the relatively high weight of China and India, where inequality has sharply declined over the past 20 years (Milanovic, 2005; Sala-i-Martin, 2006). These types of results provide a better picture of global inequality as opposed to variations in cross-national differences. Unweighted results that treat each country as equal are more useful to distinguish between cross-national differences related to institutional effects such as national economic policy or growth (Goesling and Baker, 2008).

A final methodological problem that occurs when income is used as the central measure is the calibration of incomes to a common comparative currency. This in turn produces divergent predictions about the timing or onset of changes in inequality trends. Two central techniques used to calibrate incomes into a common currency across the countries are either via the purchasing power parity (PPP) or unadjusted foreign exchange rates. Studies that calibrate incomes using unadjusted foreign exchange rates, such as Korzeniewicz and Moran (2007), find that the decline in inequality did not come about until the 1990s. Whereas those who use the PPP converters show

that population-weighted inequality started to decline almost 10 years earlier in the early 1980s (Goesling and Baker, 2008).

Although these measurement problems exist, there appears to be a general consensus about the trends in inequality. Among researchers using population-weighted inequality measures, results show that there has been a decline in income inequality across countries (Milanovic, 2005; Sala-i-Martin, 2006). Using population-weighted income inequality data from 138 countries from 1979 to 2000, Sala-i-Martin (2006), for example, showed that the level of income inequality across countries declined sharply over time. However, when income shares are examined by quintiles, we see that income inequality has increased mainly in the middle- and high-income countries, and less so in the low-income countries (IMF, 2007).

There is also evidence that income inequality across countries far exceeds that of inequality within countries and that it has grown across time (Korzeniewicz and Moran, 1997; Guillén, 2001). As Goesling and Baker (2008, p. 184) state: 'The world's largest inequalities are not defined by race, class, or gender, but by national borders'. Average incomes in the richest countries in the world far exceed those in the poorest countries, with estimates of incomes that are 40–50 times greater in these countries (Pritchett, 1997). This reflects the increasing divergence between countries produced by globalization, not growing convergence (see also Mills *et al.*, 2008).

An additional area of study is within-country inequality, which is highly dependent upon the nation under study. Examining the Gini coefficient of income inequality, for example, Alderson and Nielsen (2002) demonstrate that globalization explains the longitudinal trend of increasing inequality across 16 OECD countries. By examining the impact of globalization measures such as direct investment outflow, North-South trade and net migration rate over the period from 1967 to 1992, they find rising inequality within countries such as the United States, Australia, and Denmark and declining and then rising inequality in countries such as Germany, Japan, Great Britain, and the Netherlands.

The Impact of Globalization on Inequality

Globalization represents a set of economic, political, and cultural processes that operate simultaneously and has suffered from similar operationalization problems (Held *et al.*, 1999; Guillén, 2001; Raab

et al., 2008). Globalization can be defined as four interrelated structural shifts that roughly occurred since the 1980s of: (i) internationalization of markets and declining importance of borders for economic transactions, (ii) tougher tax competition between countries, (iii) rising worldwide interconnectedness through new Information and Communication Technologies (ICTs), and (iv) the growing relevance and volatility of markets (Mills and Blossfeld, 2005). The mechanisms, which link these aspects of globalization to inequality, are outlined in Figure 1.

A central engine of globalization is the internationalization of markets and subsequent decline in the importance of national borders for all kinds of economic transactions. This includes changes in laws, institutions, or practices that make various transactions (in terms of commodities, labour, services, and capital) easier or less expensive across national borders, including trade. The growth of international regulatory institutions and political agreements that facilitate capital flows have generally operated to liberalize and internationalize financial markets, resulting in more financial openness (Fligstein, 2002). This includes the deregulation of interest rates, privatization of government-owned banks and financial institutions, and the removal of credit controls.

A second interrelated aspect of globalization is the rise in tougher tax competition, often accompanied by 'neoliberal' globalization tendencies. The notion that capital and labour are increasingly mobile works as a powerful threat for competition. Countries have mainly been affected in terms of a modification of the tax structure rather than through retrenchment of the welfare state (Massey, 2009). Central neo-liberal measures to enhance competition include the removal or relaxation of government regulation of economic activities (deregulation), a shift towards the reliance on price mechanisms to coordinate economic activities (liberalization) and the transfer of ownership and control over previously public ownership to private entities (privatization). The core of these transformations has been to enhance efficiency, productivity and profitability while simultaneously allowing firms and nations to be more competitive, flexible and react more rapidly to change (Montanari, 2001).

World trade, trade integration, and financial openness have significantly grown since the early 1980s (IMF, 2007). World trade has, in fact, grown five times from the 1980s to 2005 with trade openness increasing particularly in the former Eastern bloc and developing Asian countries (IMF, 2007, p. 33). Integration and financial openness has also intensified,

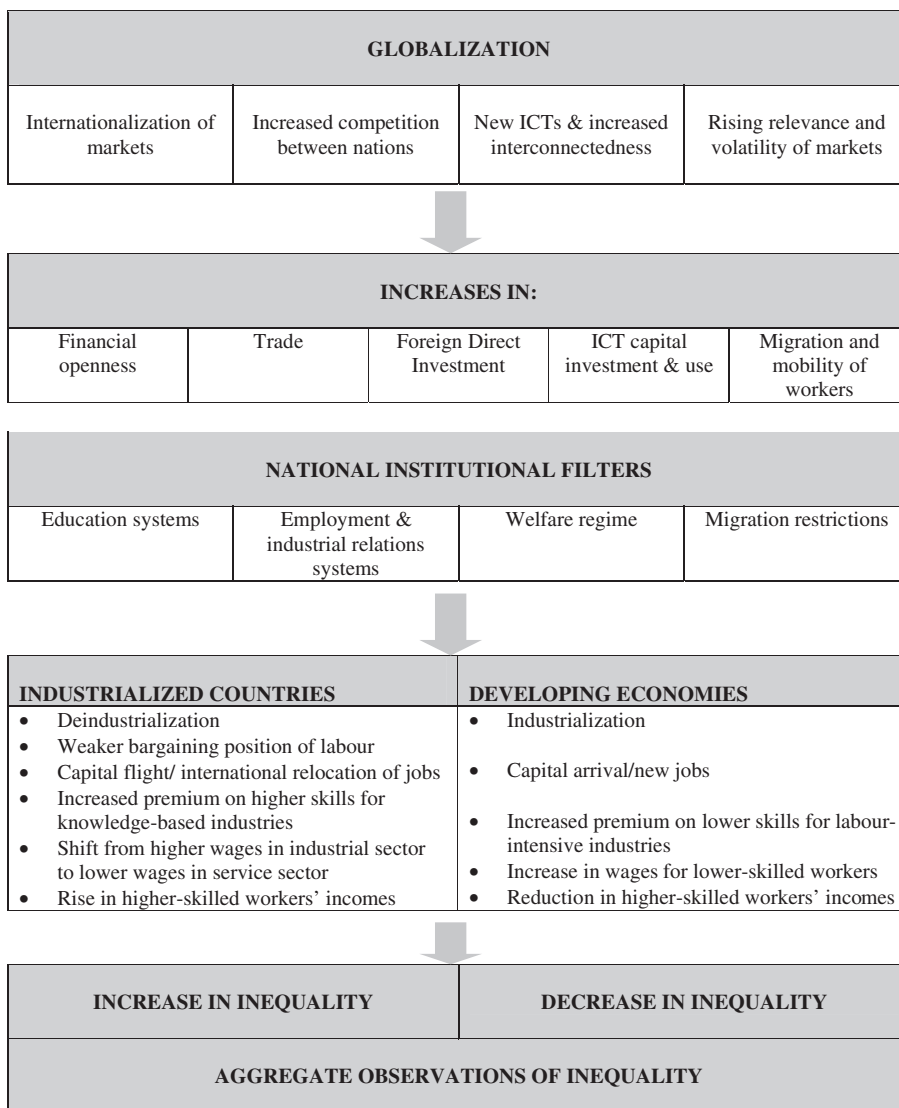


Figure 1 Mechanisms linking globalization to inequality. (Source: Adapted from Mills and Blossfeld, 2005).

particularly between the advanced economies. Trade is often used as a tangible measure of globalization, using measures such as international trade, and specifically 'North-South' trade (Krugman and Lawrence, 1993; Wood, 1994; Burtless, 1995; Alderson and Nielsen, 2002). As Figure 1 illustrates, trade is one factor of globalization that has the potential to increase inequality in industrialized countries due to the fact that it reduces the average wage and enhances inequalities in the relative wages between skilled and unskilled workers. It reduces wages in the North due to the fact that these workers are suddenly

in competition with low-wage workers in the South (Wood, 1994). However, some argue that this does not hold, as the net effect of imports on average wages appears to be minimal (Krugman and Lawrence, 1993).

In addition to trade, another measure often used to capture globalization is the level of foreign direct investment (FDI) and how it in turn impacts the income distribution of countries (Bornschieer, Chase-Dunn and Rubinson, 1978; Firebaugh, 1992). More intensive competition and the softening of trade barriers opens new markets for firms based in industrialized countries. Globalization prompts a 'capital flight'

of firms as they engage in FDI to replace domestic production (Gereffi, 2009). Firms in search of lower labour costs and/or more lenient tax systems or employment regulations invest abroad. As a result, there is a process of deindustrialization in the home country that weakens the bargaining position of workers and produces rising inequality. This deindustrialization entails a shift away from typically higher wages in the manufacturing and industrial sector in more industrialized countries to be replaced by comparatively lower average wages in service sector jobs, thereby resulting in increased inequality (Alderson and Nielson, 2002). Conversely, globalization appears to decrease the level of inequality in many developing economies via the growth in industrialization, new employment possibilities, and increase in wages for lower-skilled labour-intensive workers, accompanied by a subsequent reduction in the wages of higher-skilled workers. These factors operate together to decrease the level of inequality within these countries. The contrasting impacts of inequality are therefore a key reason why results differ according to whether countries are population-weighted or treated as equal units.

It is also not only firms that are mobile. We are witnessing a growing number of migrant workers, particularly in light of more lenient mobility regulations in areas such as the European Union (Feld, 2005). Different countries have diverse levels of migrants, which likewise contribute to the level of inequality within each society. Borjas (2000) points to migration in the United States as a central factor contributing to inequality. Borjas (2000) argues that immigration is related to inequality in this context due to the fact that both rises in immigration and inequality coincide with one another, and that there is not only a bifurcation of low and highly skilled migrants, but also a growth of lower-skilled immigrants. Alderson and Nielson (2002, p. 1256) argue that 'the combination of a high immigration rate with an immigrant population characterized by low average skills and high skills variance has been seen as a certain recipe for increased inequality'. This can be related to Grusky's (2001) work on income disparities as a function of race, class, and gender and Massey's (2009) argument in this volume that the realignment of the U.S. political economy and tax system is traced to racism in this country.

A third aspect of globalization is the rising worldwide interconnectedness through the information and communication technology (ICTs) revolution, such as microcomputers, the Internet, new satellite systems and fiber-optic cables. These accelerate the liberalization of financial transactions and communication

between individuals (Castells, 2001). New ICTs allow people to share information in order to connect and create an instant common worldwide standard of comparison. Although the introduction of technology is not unique in itself, recent ICTs have fundamentally altered the scope (widening reach of networks of social activity and power), intensity (regularized connections), velocity (speeding up of interactions and processes), and impact (local impacts global) of transformations (Held *et al.*, 1999).

New ICTs and technology have sometimes been included within the definition of globalization or as a parallel force. One way to measure the impact of ICTs is by examining the intensification of ICT capital investment within countries, such as higher national expenditures on computer hardware and software, and telecommunications equipment (Jorgenson and Vu, 2005). Others have measured it by examining the level of socio-technical interconnectedness via measures such as the number of Internet hosts and users per capita and other related communication technology availability and usage within a society (Raab *et al.*, 2008). ICTs, together with liberalized and internationalized financial transactions, create a financial 'super-market' for global business-to-business transaction and stock exchanges, cross-border banking, and finance that stretch across the world on a real-time basis (Greenspan, 1997; Castells, 2001). New technology has also prompted a wave of automation, characterized by flexible, and accelerated production processes. It not only increases production, but also results in a shift from the demand for lower-skilled workers to a more highly qualified knowledge-based labour force (Brown and Campbell, 2002).

A final feature of globalization is the rise in both the relevance, but also simultaneously, the volatility of markets. Market prices and their transformations increasingly convey information and set the standard for the global demand of various goods, services and assets, and the relative costs of producing and offering them (Useem, 1996). Yet these markets are becoming ever more dynamic and unpredictable. Competition forces firms to operate in a state of perpetual innovation and flexibility, which in turn heightens the instability of markets (Streeck, 1987). New ICTs likewise accelerate market transactions (Castells, 1996). This in turn makes long-term developments of globalizing markets inherently harder to predict. Global prices are also more liable to fluctuations because worldwide supply, demand, or both are becoming increasingly susceptible to random disruptions caused somewhere on the globe (for example, major scientific discoveries, technical inventions,

new consumer fashions, major political upsets such as wars and revolutions, economic upsets, and so on).

Globalization is often presented as a blanket force impacting all nations in a similar manner. But countries have very different starting points and varying tendencies to accept or resist globalization, thereby influencing the level of within and between country inequalities (Sassen, 1996). National specific institutions, such as employment and industrial relations systems, education systems, the degree of decommodification from the welfare regime and migration restrictions all operate as 'filters' of these globalization pressures (Mills *et al.*, 2008). We know that there are distinct national variations of occupational structures and industries, patterns of labour-capital negotiations, strike frequencies and collective agreements on wages, job security, labour conditions, and work hours (Streeck, 1992; Soskice, 1993). Globalization operates to disperse and fragment these national structures, and via the threat of competition, pose increased demands and flexibility on the domestic labour force (Beck and Beck-Gernsheim, 2009).

Diverse approaches to 'Globalization and Inequality'

The papers in this special issue are intentionally diverse and provocative, covering disparate theoretical and empirical approaches towards the topic of globalization, and inequality in addition to coverage in different areas of world. We start with the extreme example of the within-country inequality of the U.S. (Massey) and then move to a discussion of intergenerational or age-based inequality in Germany (Beck and Beck-Gernsheim). The focus then shifts to between country levels of inequality and diverse interpretations of globalization in Mexico and China (Gereffi). We then conclude with an overarching paper that explores both within and between-country inequality across the life course of individuals in a variety of modern societies (Buchholz *et al.*, 2009).

The seminal contribution by Massey addresses the resurgence of income inequality in the United States. In this study of arguably one of the most unequal societies in the world, Massey demonstrates how globalization has resulted in extreme within-country inequality. He positions these key differences in relation to the unique institutional filter within this country that exposes individuals at the bottom of the socioeconomic hierarchy more overtly to globalization. Massey traces this inequality to America's legacy of racism, where the political system aids the already wealthy to further enhance their position.

Beck and Beck-Gernsheim propose a new theory of the 'global generation'. In comparison to previous generations, they contend that this group departs from 'collective action to engage in individualist reaction'. It is a generation at odds with itself and at its very heart by definition 'unpolitical'. They offer the critique of methodological nationalism and argue that the current global generation of youth is increasingly not limited to the borders of its own nation state. This generation, they argue, takes on a transnational identity, characterized by growing diversity. Here, the authors enter the heated debate of migration and the human right to mobility. They also ponder the fragmented identities of young Germans with an immigrant background and depart from nation-bound generational constructs to build a more transnational generational concept of the 'global generation'.

The contribution by Gereffi is a strong representation of the economic approach within this field of research and highlights the experiences of the emerging economies of China and Mexico. Although both countries engaged in export-oriented development strategies in response to globalization, they experienced very different outcomes. Mexico took on the ultimate neo-liberal globalization model, characterized by FDI, privatization and financial openness. This was in contrast to China who even in the light of high levels of foreign capital inflows and exports, still managed to maintain a strong state-level approach. Gereffi concludes by reflecting on why China has been so successful in the U.S. market in comparison to Mexico, which he largely attributes to supply-chain cities.

The final article by Buchholz and colleagues examines the impact of globalization on life course and employment careers inequalities across industrialized societies. It summarizes the results of a large research project (GLOBALIFE: Life Courses in the Globalization Process) that used micro-level panel and retrospective survey data across a variety of countries to examine inequalities across all phases of the life course. They found that more highly-skilled mid-career men were the most protected groups from the forces of globalization, with young adults being the most 'exposed' and thus encountering the most difficulties. They conclude that globalization does not reduce, but rather strengthens existing social inequality structures, which remains highly controlled by national institutional structures of social inequality.

This brief review of globalization and inequality demonstrated the importance of understanding the operationalization of concepts, choice of data, population-weighted or unweighted analyses, and the method of income calibration in interpreting the seemingly

contrasting results in this area of research. Via a conceptual model, this article also highlighted the potentially divergent inequality outcomes in industrial versus developing economies that emerge because of globalization. Although globalization remains an inherently broad and complex construct, it is possible to partially operationalize and examine the impact of this macro-level force on different nations and the individuals within them. Just as with inequality, however, it is key to transparently express how globalization is measured. Of course, we must also contend that other exogenous factors are present and that direct causality is often difficult to definitively establish. Regardless, there is evidence that large changes in many societies across the world such as internationalization, financial openness, new ICTs and migration are generating specific patterns of inequality in industrialized, and developing economies. The challenge for the future will be handling the consequences of these increases (and decreases) in inequality and striving to create not only a more globally balanced society, but facing the large inequalities within our own countries.

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