

Globalization, growth and inequality

1. Introduction

International division of labor is an outcome of globalization. Ricardo (1817) developed the comparative advantage model to explain that a country can increase its overall consumption by exporting the good for which it has a comparative advantage while importing the other good. While Heckscher-Ohlin model focuses on endowment-determined comparative advantage. Based on global value chain and new international division theories, multinational enterprises relocate labor intensive production processes to developing countries where labor is abundant and cheap, but keep technology-intensive sectors in developed countries where their comparative advantages lie in. But there is also opposition towards globalization. Recently, creeping protectionism has intensified into a trade war between US and China. As declining share of manufacturing in both employment and production, wage stagnation and income polarization in developed countries have coincided with an expansion of trade between the North and the South as well as rapid growth of manufacturing in the developing world, particularly in China and the rest of East Asia, many people, from researchers to protesters, blame international trade for these problems.

What are the benefits of globalization and who bear the costs? This essay investigates the impacts of globalization on developing and developed countries by reviewing and integrating the related literature.

2. Benefits from globalization

For developed countries, globalization can: (1) Lower costs by offshoring less efficient parts of their production processor or importing products that they are less efficiently to produce. Feenstra and Hanson (1999) state that offshoring can explain between 11% and 15% of the observed decline in the cost share of production labor in US manufacturing between 1979 and 1990. (2) Increase variety. According to Broda and Weinstein's (2005) estimation of the impact of new varieties on the US import price index, the real cost of imports was almost 30 percent lower than the conventional price index would suggest. This drop in import prices, as they contend, has raised U.S. welfare by \$260 billion, or about 3 percent of 2001 GDP. (3) Allow countries to specialize in sectors where they have a comparative advantage since resources freed up from offshoring less efficient activities can be used to enhance productivity. In contrast, protection can be costly. Under a hypothetical trade war in a world that is split onto three trading regions and each region restricts trade with the other regions by one-half Krugman (1990) suggests that the global efficiency losses from this dramatic reduction in trade may be 2.5 percent of world GNP. While Feenstra (1992) argues that the global losses can easily be

several times larger than Krugman's estimate since reducing range of product varieties should be considered as welfare losses.

For developing nations, some Asian countries have benefited from relocation of labor-intensive sectors from the advanced world, achieving rapid economic growth, while many other developing countries still lag behind.

As W. A. Lewis (1954) indicated, a dualistic economy includes a subsistence sector and a modern sector. And the supply of labour is “unlimited” as rural surplus moved out of agricultural sector (subsistence sector) where the marginal productivity of labour is negligible, zero, or even negative. In this process, capital formation and technical progress result not in rising wages, but in raising the share of profits in national income. Thus, of all the conditions low money wages were considered a major competitive asset of developing countries. And a country can use this comparative advantage to occupy a niche in global division of labor and hence facilitate industrialization. Krueger (1978) suggested that the labour abundant developing countries probably to specialise in labour –intensive products and that altering trade strategies toward a greater export orientation will certainly be consistent with the objectives of finding more employment opportunities. Export orientation industrialization (EOI) is characterised as an “outward –looking” development strategy which carries the meaning of priority to exports in the policy of the country. Keesing (1967) listed the reasons to follow the outward-looking strategy as follows: (1) Learning effects and improvement of human resources; (2) The value of competition and close communication with advanced countries, in view of dependence on technology and ideas from abroad. (3) Increasing returns connected with economies of scale and market size. (4) Authorities’ limited knowledge of when and how to intervene. (5) The inapplicability of terms of trade and underemployed labour arguments for protection in relation to less-developed countries. (6) Foreign exchange and import constraints in development.

Heckscher and Ohlin’s refinements emphasized relative domestic scarcities of labor and capital that were themselves products of development rather than inherent features of a given territory. The idea of constructing comparative advantage brings in social and institutional factors that are even more clearly consequences of developmental process. Michael Porter’s work makes the point more explicitly. Specializations might be traced back to historical differences in endowments, but the emergence of advantage depends on a complex evolution of competitive and cooperative ties among local firms, of government policies and of a host of other social and political institutions.

Since comparative advantage can be forged, a country can upgrade its technology and move up the global value chain. As a country improves productivity and quality of products it produces, it moves into the production of higher-ranked goods, and its equilibrium wage (and GDP per capita) rises (Sutton and Trefler, 2016). A country's output and global market share both exhibit an inverted-U relationship with quality, and so with GDP per capita. As quality rises, market share rises, and wages rise also, but when the country advances into the production of higher-ranked products, the rise in wage causes its effective cost level to rise and its global market share in this industry to fall (Sutton and Trefler, 2016).

Therefore, as the economy develops, salaries increase and the advantage of low wage labour is exhausted, countries that go ahead usually consider moving low-technology sectors to other areas. Japanese scholar Akamatsu described this shift as the 'flying geese' model: countries tend to be leaders or followers in particular parts of global value chains depending on their level of costs and skills; and the leading country relocate process of industries to developing countries during the latter's catching-up process, while the high value activities stay at home (Akamatsu, 1962). The development process of Asian NICs and China moving up the global value chain are consistent with these arguments.

Faced with the impending exhaustion of primary ISI in the late 1950s and early 1960s, the governments of both South Korea and Taiwan first sought unsuccessfully to deepen ISI (Cheng, 1990). Further, the subsequent dramatic success of manufactured exports was largely unanticipated, particularly in South Korea. South Korean economic development planners in the early 1960s focused almost exclusively on expanded exports of primary products, and they clearly lacked an understanding of the sectors in which South Korea enjoyed an unexpected comparative advantage in international system. In the Taiwan case, on the other hand, government planning documents from the early 1960s clearly identified a number of specific industrial sectors worthy of government involvement and promotion (Wade, 1990).

By the early 1970s, Tigers confronted difficulties that grew out of the inherent constraints of primary EOI. Taiwan and South Korea were facing a three dimensional challenge: from below, by emerging NECs who were competing in many of the same low-wage manufacturing industries that they successfully exploited during the previous decade; from above, creeping protectionism in the major markets for their industrial exports (the U.S. and the nations of Western Europe); and from within, the shrinking labour pool and hence rising wage levels, especially in Taiwan. South Korea also faced growing political unrest. Thus, Taiwan and South Korea sought to develop heavy industries-especially steel, petrochemicals, and heavy machinery to develop national production capability in these sectors, and to lay ground for more

diversified export in the future (Ellison and Gereffi, 1990). The Singapore government also set up a “Growth Triangle” to move labour intensive sectors to Malaysia and Indonesia, while retaining higher wage activities in Singapore (Hobday, 1994).

According to Snodgrass (1998), in the early 1970s, the government in Malaysia had begun promoting export-oriented assembly industries to soak up unemployed labour and draw on the labour reserves of low-productivity rural labour and women. The main policy instrument was export processing zones, established first in Penang and then elsewhere. The growth of the electronic component and garment industries in particular employed thousands of people, utilizing basic educational skills and benefiting from widespread knowledge of English. By the late 1970s, the available labour supply was beginning to dry up and immigrant workers began to appear. By 1990 there was essentially full employment and more than one million workers emigrated from Indonesia, the Philippines, and even Burma and Bangladesh. Wages began to rise rapidly in the early 1990s. Thailand shifted from natural resource-based exports in the period from 1955 to 1970, to primary ISI in 1970s, and to EOI since 1980s (World Bank, 1993). Indonesia adopted an outward-oriented policy in the period from 1967 to 1973 and experienced the oil and commodity boom from 1974 to 1981, and the external shocks in 1982-85. Since 1985-86, manufacturing exports and the private (domestic) sector, for the first time, became the major engine of economic growth in Indonesia (Hill, 1996).

The development of export industries in China since mid-1980s provides large number of employment opportunities that attract rural surplus labor moved out of agricultural sector. According to Liang and Ma (2004), the floating population is on a continuous rise. In 1982, the floating population was estimated at around 7 million. By 1990, it had reached nearly 22 million. The abundant rural surplus labor contributed to China becoming the ‘world factory’. In 2015, there were 277.5 million migrant workers in China, accounting for about 40% of the urban labor force (National Bureau of Statistics of China, 2010).

Data on poverty reduction are straightforward in demonstrating how many people benefit from economic growth and globalization. In 1978, China was still one of the poorest countries in the world, with an average GDP per capita of RMB423.2, or approximately US\$184.0 based on the official exchange rate. Based on the World Bank’s definition of the poverty line of US\$1.90 (2011 purchasing power parity-adjusted), 88.3 percent of Chinese citizens were in poverty in 1981(Wan et al., 2018). According to World Bank Data, the poverty headcount ratio at \$1.9 a day (2011 PPP) decreased from 66.2% in 1990 to 11.2% in 2010 and 0.7% in 2015.¹ China has

¹ World Bank Data. <https://data.worldbank.org/indicator/SI.POV.NAHC?view=chart>

lifted the majority of its population (more than one billion people) out of poverty during four decades of the reform era.

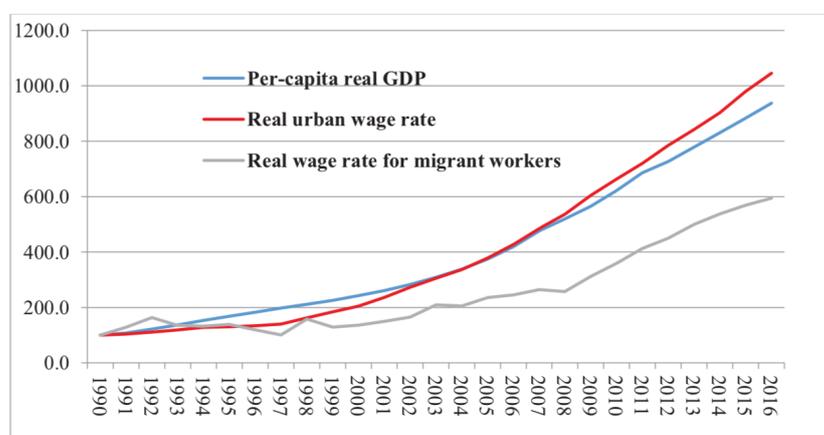
In the process of industrialization China has gradually developed a comparative advantage that not only based on cheap labor. Within the manufacturing goods, the light manufacturing goods such as textiles and garments dropped constantly whereas the electronics and machinery, as well as high-technology goods, increased continuously up until 2006 (Wang, 2014). According to Lo et al. (2011), mechanical and electronic products accounted for 61 percent of the total of China's manufacturing exports (and electronic products alone accounted for 40 percent) in 2007. The machinery sector cannot be classified as labor-intensive while the electronics industry can only be classified as capital-intensive. Furthermore, the proportion of high-tech products in manufacturing exports was 30 percent for China in 2006, which is higher than Brazil (12 percent), Russia (9 percent) and the average of all middle-income economies (20 percent), and is close to South Korea (32 percent). Compared with China, these economies have higher levels of per capita income, and hence lower degrees of "labor abundance" or "capital shortage." It is thus seriously flawed to explain the expansion of Chinese exports in terms of cheap labor, i.e., its "given" comparative advantage (Lo and Zhang, 2011).

China's changing comparative advantage and climbing up the global value chain result from a complex evolution of competitive and cooperative ties among Chinese enterprises, of government policies and of a host of social changes. Workers who have moved out from subsistence sectors improve skills in the process of learning by doing. Compulsory nine-year education and investment into tertiary education train a young generation of working class and further improve human capital. New high-quality of human resources will be created through industrial experience that could not be obtained under heavy protection (Keesing, 1967). Tournament-like GDP competition among regions incentivize subnational governments to launch investment projects, facilitating economic growth. In the period of 2000-2012, along with rapid investment growth, was the famous phenomenon known as 'guo jin min tui' (the state sector advances, whilst the private sector retreats). The SOEs embodied the advancement are large-scale, capital-intensive firms (Lo, 2018).

These growth strategies contribute to productivity growth and real wage growth in China. Indeed, the per-capita GDP growth was basically on a par with urban wage growth, whilst the wage growth of migrant workers lagged seriously behind – the average annual growth rate of the three indicators being 8.99%, 9.45%, and 7.10%, respectively, for the period of 1990-2016. They all exhibited a substantial slowdown in growth, though (Lo, 2018). While Li et al. (2012) show that the average salary of Chinese urban workers increased 0.1% per year from 1978

through 1997, but this growth rate increased to 13.8% from 1998 to 2010. Cai et al. (2011) also indicated an increasing trend of ordinary workers' wages as well as wage convergence between local and migrant workers and across regions.

Figure 1. Indices of per-capita real GDP, real urban wage rate, and real wage rate for migrant workers



Source: Lo (2018). Data originally collected from Chinese National Bureau of Statistics, China Statistical Yearbook 2016, and China Statistical Yearbook 2017.

With rising production costs, overcapacity, and a saturated market in China, some Chinese manufacturing firms are moving overseas. For example, Brautigam et al. (2018) investigated four countries of Africa (Nigeria, Ethiopia, Ghana, Tanzania) where Chinese firms are a significant and growing presence. Although most are targeting local markets, substituting for imports, and hoping that reduced transportation costs and local knowledge will allow them a higher profit margin, a small but significant group could, perhaps, be seen as the vanguard of the flying geese – relocating to Africa to take advantage of lower costs and integrating African producers into global value chains. But so far, these firms are few and far between.

3. The costs of globalization

Globalization has been blamed for problems in advanced world, such as declining share of manufacturing in both employment and production, which have been termed as “deindustrialization” (Tregenna, 2009), and a following change in the bargaining power of labor.

Theoretically, when capital-rich countries in the North concentrate on capital-intensive production and labour-rich countries in the South concentrate on labour-intensive production, the result is that labour in the South wins relative to capital owners, while capital in the North

benefits more than labour in the North and, therefore, the wage share of countries in the North decreases. Extended versions of the original model discriminate the differences in the effect of openness on skilled and unskilled labour rather than on capital and labour. According to these models, in countries where highly skilled labour is the abundant factor, in the long run, wages of unskilled workers will fall, whereas wages of skilled workers will rise (Wood, 1994). The decline in the wage share is especially strong for low-skilled workers.

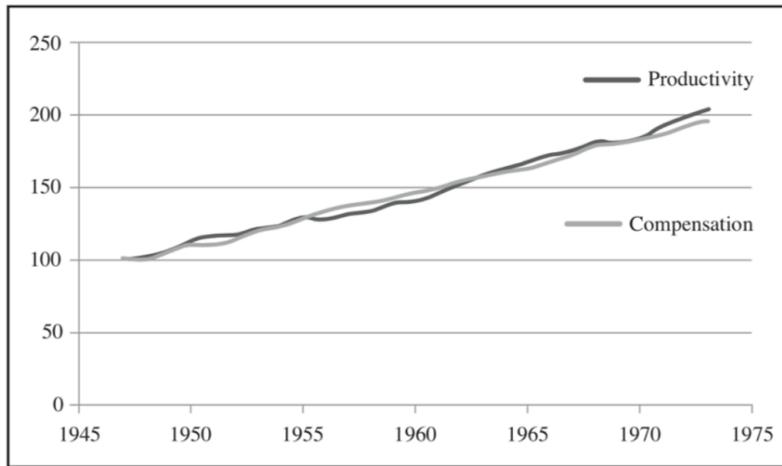
(1) Job loss and wage stagnation-downward convergence in the low- and middle-skill sector? Take the United States as an example, the labor market in such a big country cannot be a single, fluid labor market, but consisted of numerous small-scale labor markets with differing characteristics. As Carlton et al. (2018) note, besides some labor markets that existed in large, economically diverse cities or located in innovative regions such as Silicon Valley, there are many labor markets that were rural and small-town based and took the brunt of the “China shock.” Lacking cultures of innovation, dependent on industries with either low skill requirements or overspecialized requirements, they found it difficult to replace lost jobs. A neoclassicist would expect workers in such places to simply migrate out; but Autor et al. (2013; 2016) found that little such outmigration occurred. Rather, the response of those left unemployed by trade was all too often simply to depart from the labor force altogether.

The case of Fuyao Glass

Produced by former US President Barack Obama and his wife Michelle Obama, *American Factory* tells the story of Chinese company Fuyao Glass’s venture in Ohio, a state that’s part of the “Rust Belt” that has seen the decline in US manufacturing. Fuyao Glass took over GM’s factory in Dayton in 2013, which had closed in 2008. A glass inspector who was formerly at the GM factory, remembers making nearly \$30 an hour- at Fuyao she makes \$12.84 (Huang, 2019). Beyond the culture clashes between the American workforce and Chinese management, Fuyao Glass shows the trend of downward wage convergence for workers in a developed country: lower salary and no protection from a union. But Fuyao brings in employment. It is noteworthy that transportation costs are high for a glass manufacturer so that Fuyao moves glass production closer to its foreign consumers. For labor-intensive manufacturing sectors that labor costs constitute the highest expenditure onshoring is not an easy task.

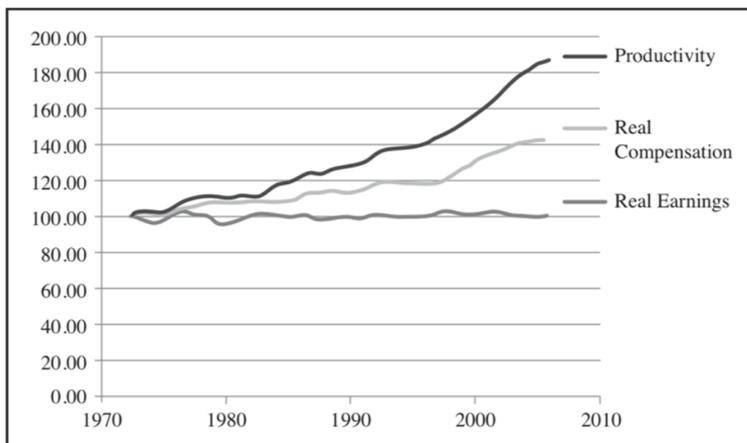
Another phenomenon is the growing wedge between productivity and real wages, although prior to 1973 there was a strong positive correlation between rising labor productivity and rising real wages for the US. The process of factor price equalization that comes with an open economy may break the link between earnings and productivity (Weiher and Beladi, 2011).

Figure 2. Productivity and Compensation, 1947-1973 (1947=100)



Source: Weiher and Beladi (2011). Data originally collected from *Bureau of Labor Statistics*

Figure 3. Productivity, Real Compensation, and Real Wages, 1973-2005 (1973=100)



Source: Weiher and Beladi (2011). Data originally collected from *Bureau of Labor Statistics*

The growing wedge between productivity and real compensation in US is in contrast with the correspondence between the ascents in both productivity and wage in China. Perhaps it is because that there is no cheaper labor that can substitute Chinese workers with comparable skills in short term. Lo (2018) suggests that China is converging with the Golden age model with symptoms of investment growth, productivity growth and real wages. Over the long run, as the growing trends of wages continues, China would face problems such as exhaustion of cheap labor as well as rising production costs, overcapacity, and a saturated market that have already shown signs. When capital seeks their next destination, would China follow the

footsteps of Japan that had experienced the lost decade? To answer these questions is beyond the scope of this paper, and further research is required.

Dani Rodrik (1997) gives reasons for these problems as consequences of globalization. Trade liberalization benefits the more mobile factor that can cross international borders (either directly or indirectly, say through outsourcing) and those that cannot. In the first category are owners of capital, highly skilled workers, and many professionals, who are free to take their resources where they are most in demand. Unskilled and semiskilled workers and most middle managers belong in the second category. Globalization therefore fundamentally transforms the employment relationship. "Workers" can be more easily substituted for each other across national boundaries undermines what many conceive to be a postwar social bargain between workers and employers, under which the former would receive a steady increase in wages and benefits in return for labor peace. Their bargaining power erodes, so they receive lower wages and benefits whenever bargaining is an element in setting the terms of employment.

At the same time, unconditional convergence occurs in labor productivity in manufacturing activities, regardless of geography, policies, or other country-level influences (Rodrik, 2013). He estimates that the coefficient of unconditional convergence (beta) is 2.9% a year, implying that industries that a tenth of the way to the technology frontier (roughly the bottom 20% of the industries in the sample) experience a convergence boost in their labor productivity growth of 6.7 percentage points per annum (Rodrik, 2013).

But Rodrik (2016) also indicates that convergence only occurs for high-income countries that are already industrialized and low-income countries that with a strong comparative advantage (or head start) in manufacturing. He argues that a sharp decline in manufacturing employment will occur in the high-income region, with the impact on manufacturing output (at constant prices) depending on the balance between technology (positive) and trade (negative) shocks; and an increase in output and (possibly) employment in the low-income region with the comparative advantage (or head start) in manufactures. For other low-income countries without a comparative advantage in manufacturing, a decline in both output and employment will occur. These consequences broadly capture the trends we have seen in the advanced economies, Asian manufactures exporters, and other developing economies, respectively.

(2) Offshoring R&D sectors -upward wage convergence in high-skill sector?

In the traditional neoclassical model, countries with relatively abundant labor supplies specialize in labor-intensive sectors and adopt labor-intensive technologies while countries with abundant capital can specialize in capital-intensive sectors. But Arora and Gambardella

(2005) suggest that developing countries could leverage their abundant labor endowments to target human capital-intensive service sectors for exports and growth, without having to invest the large amounts of capital that manufacturing requires. For high tech industries such as software, particularly software services, do allow a country to participate in the high-tech sector with only a limited physical infrastructure. However, even a successful software industry is likely to account for at best 2 to 3 percent of GDP and even smaller fraction of employment, its impact on the whole economy is small.

Although most international investment in R&D is still confined to developed countries, both as host and as home countries, the importance of emerging countries is rising, especially due to the growing relevance of China and India in global innovation networks (Bruche, 2009; Kroll and Schiller, 2010). Cost reduction is a major motivation for offshoring R&D. According to Fuller et al. (2017), it would not cause the loss of IC design expertise in the home countries, since even the multinational companies with greatest portion of patenting from India and China under study, still had less than 10% of their lead patenting activity from India and China. The real issue is that rising salaries for Indian and Chinese engineers would make offshoring R&D no longer profitable. Whereas in both India and China, IC designers were averaging 10% of the compensation of their US peers in 2002, interviews reported that in India, compensation was by now 20% to 25% of that of US peers for early to somewhat experienced engineers and was nearly equal for senior technical staff with gaps of 1:1.15 or 1.2. For China the compensation by 2014 was between one third and a quarter of US peer salaries for early career engineers and had reached near parity with US for senior technical staff.

This case shows upward wage convergence for high-skill workforce with low substitutability. Globalization may not weaken the bargaining power of high skill workforce in the advanced world but lead to engineers with comparable skills in developing countries rapidly converging with their western peers.

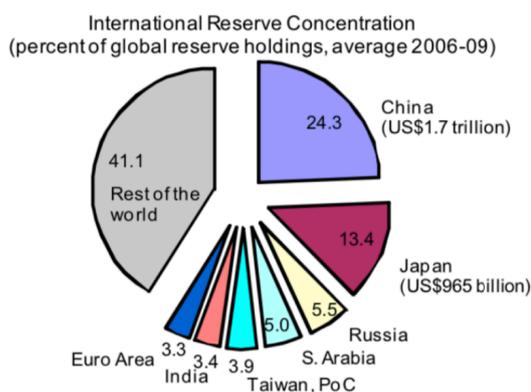
While globalization has made substantial contribution to the above discussed problems, scholars argue that financialization, overlooked by the existing literature, should also be blamed (Stockhammer, 2017; ILO, 2011; Dunhaupt, 2017). Stockhammer (2017) investigates the relative impact of financialization, globalization, welfare state retrenchment and technological change on functional income distribution based on a dataset covering up to 71 countries from 1970 to 2007 and finds that financialization has made the largest contribution to the decline of the wage share for both OECD countries and developing countries. Moreover, in a panel regression controlling for competing factors, the wage share is negatively correlated with financial globalization and is stable and consistent across different specifications (ILO, 2011).

Technological change has become capital augmenting rather than labour augmenting. Consequently, wage shares have fallen (IMF, 2007a). This hypothesis was used to explain the sharp increase in personal income inequality in USA (Autor *et al.* 1999; Card and Di Nardo 2002).

The decline of wage share is a global trend. Since 1980s wage shares have declined substantially in all OECD countries and most developing economies. In fact, the fall of wage share in advanced countries has occurred at a much more moderate pace than among emerging and developing economies – falling roughly 9 percentage points since 1980. In contrast, the wage share in Asia has declined by roughly 20 percentage points since 1994. And the pace of the decline accelerated in the past decade recent years, with the wage share falling more than 11 percentage points between 2002 and 2006. Even China has experienced the decline of wage share-the wage share declined by close to 10 percentage points since 2000. In African countries, the wage share has declined by 15 percentage points since 1990, while in Latin America the wage share has only fallen 10 percentage points since 1993 with a modest upturn in the past few years (ILO, 2011).

If China is sucking employment from developed countries and leading to a decline of wage share, how to explain declining wage share in China? A possible explanation is that both globalization and financialization play a role. But for developing countries like China, globalization have positive effect on employment that resist the negative impact of financialization. The tendency of financialization, interrupting China converging with the Golden Age Model. Put another way, there is a rivalry between the consolidation of a production-oriented model, on one side, and the transition to a speculation- oriented model, on the other side (Lo, 2018). While for advanced countries, both globalization and financialization would contribute to declining wage share. For advanced countries, globalization allows multinational companies to draw profits from offshoring locations other than home countries, which leads to insufficient reinvestment in high-income countries, especially when maximization of shareholder value become the corporate governance norm. In another words, globalization facilitates disconnection of capital from production in advanced countries. Private capital has flown into developing countries earning high returns, but it has been more than matched by reverse flows aimed at accumulating reserves by developing countries, which earn little. In the absence of a genuine anchor, the US dollar has gradually emerged as quasi-world-money. For developing countries, these anarchic capital-flows that have benefited primarily the USA as issuer of the international means of payment, force them to accumulate enormous dollar-reserves in recent years (Lapavitsas, 2009).

Figure 4. International Reserve Concentration



Source: IMF (2010), data originally collected from COFER, IFS, WEO.

In the Marxian analysis of financialization, capitalism has an inherent tendency of producing far more than can be absorbed by consumption, and overaccumulation and under-consumption leads to declines in profits which, in turn, hinder accumulation and growth. Profits drawn from ‘fictitious’ economy and declining wage share shows disconnection of capital from established institutions and systems of business. While in the post-Keynesians analysis, financialization refers to stagnating, or declining, production and booming finance. Arguing that globalization can be held accountable for the decline in labour’s share of income complements the Marxian analysis of financialization that profitability decline causes financialization.

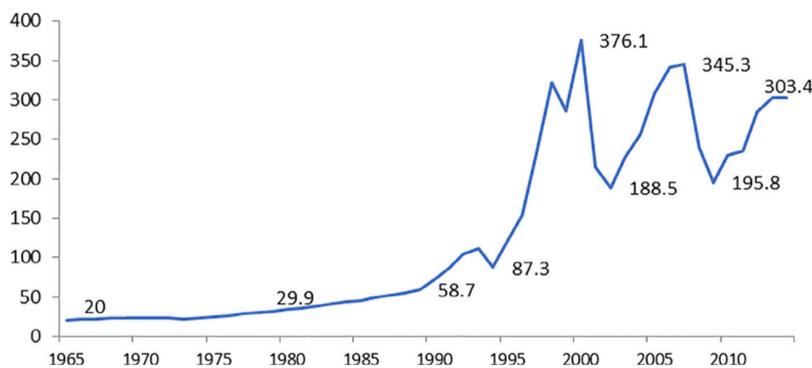
As to other channels through which financialization impacts the wage share, corporate governance has also been widely discussed as it adds upward pressure on firms distributing dividends to shareholders. Emphasis on the rise of shareholder value has worsened the condition of labor at work, as employers have not kept their side of the employment bargain (Thompson 2003; 2013). Daguerre (2014) has noted that financialization has weakened labor by making employment more insecure. Cushen and Thompson (2016) have returned to the ideology of shareholder value and have explicitly considered the intensification of value extraction from labour as corporations have become financialized. According to Lazonick and O’Sullivan (2000), U.S. business corporations transitioned from a resource-allocation regime of “retain-and-reinvest” to one that is best described as “downsize-and-distribute”. Profits from offshoring is a windfall of income and wealth, neither from innovation nor through investment in human capital in home countries, accruing to shareholders of multinational companies. The bargaining power of working class in high-income countries erodes. And corporations failed to reinvest their profits in new, higher-value-added capabilities on a sufficient scale to create middle-class employment opportunities that could provide a new foundation for stable and equitable growth in the U.S. economy. Intent on avoiding taxes to boost corporate profits, the leaders of these financialized companies made little attempt to encourage federal, state, and

local governments to upgrade the U.S. labor force for the new world of global competition (Lazonick, 2017).

Moreover, increasing profits have been harvested in the financial sector. Since the 1980s there was a growing share of rentier income (the ratio of net interest and dividend payments to total profits) (Onaran et al., 2011). Whereas financial sector profits had generally constituted about 10–15 percent of corporate profit, which jumped to 40 percent in 2007 (Stiglitz, 2008).

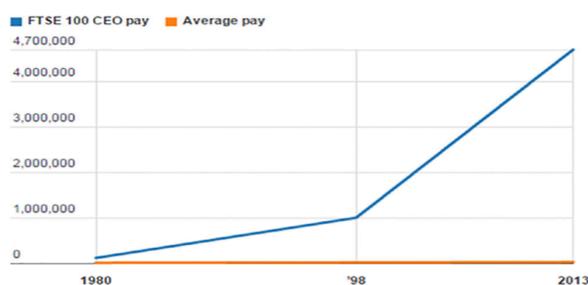
Rapidly growing executive pay has also aroused concern. In their study of the United States, Piketty and Saez (2006) found that the 'rise in top incomes is due not to the revival of top capital incomes, but rather to the very large increases in top wages (especially top executive compensation). As a consequence, top executives (the "working rich") replaced top capital owners (the "rentiers") at the top of the income hierarchy during the twentieth century.

Figure 5. Ratio of CEO-to-worker compensation in the United States 1965-2014



Source: Clarke et al. (2018). Data originally collected from Economic Policy Institute 2014, Compustat's ExecuComp database, Current Employment Statistics program, and the Bureau of Economic Analysis NIPA tables.

Figure 6. Change in CEO pay and average worker pay in the UK 1980–2013 (UK £)



Source: High Pay Centre, Reform Agenda: how to Make Top Pay Fairer, Final Report, 2014 http://highpaycentre.org/files/Reform_Agenda_Final_Report.pdf.

However, scholars note that the evolution of wage distributions in euro-area countries has not followed the trend of polarization in the US and the UK; and there is currently no consensus on why inequality increased in some industrialized countries, but not in others (Harjes, 2007).

4. Discussion

My theory framework is as follows: 1. Developing countries, being integrated into the global production value chain, see their workers who have moved out from subsistence sectors improve skills in the process of learning by doing. Some ambitious governments invest a lot in education and infrastructure to further improve human capital and competitiveness when they have capital accumulation, aiming at climbing up the value ladder. Real wage growth occurs in some developing countries, e.g. China. 2. Freed from labor intensive work but faced with wage competition from developing countries, the ordinary working class in developed countries are experiencing wage stagnation. Globalization is a contributor to global wage leveling. 3. The profits from lowering manufacturing costs by relocation of labor-intensive sectors go to the capitalists, contributing to enlarging income inequalities in developed countries. (Financialization) 4. The concept of living standard includes not only income, but also the number of products and services a person can consume. Even with wage stagnation, as a whole people in developed countries can improve their standard of living by consuming an increased variety of products at low price. 5. The labor market is not a single, fluid market. It is low- and middle- skill workers who take the brunt of globalization. Therefore, more targeted welfare policies are needed to assist people in plight. Even industrial policies can be used to boost economic development and employment in certain region.

For a long time, globalization has been considered the major reason behind the changing the employment relationship between working class and employers in advanced world since capital can easily migrate across borders and hence erodes the bargaining power of the working class and leads to downward wage convergence for low- and middle skill workers. However, in recent years some scholars contend that both financialization and globalization contribute to wage stagnation and income polarization in advanced world. Maximization of shareholder value, growing rentier income and increasing executive income should also be hold accountable for these economic problems. In contrast, for developing countries such as China where the wage and productivity grow at a par, perhaps because there is no lower wage labor that can substitute Chinese workers with comparable skills in the short term. The production-oriented model in China that the working class can share the fruits of growth partially offset the negative effects of the global trend of financialization. But in the long run, especially when the advantage of cheap labor is exhausted the future of China is still not clear.

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