Increasing Income Inequality

What is the issue?

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- Income of labourers is decreasing & that of capitalists is increasing.
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- Generally globalisation and automation is blamed for this.
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Can globalisation and automation be blamed?

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- **Globalisaation -** Rich countries tend have a lot of capital and poor countries tend have a lot of labor.
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- When rich & poor countries trade, labor's income share should go down in the rich countries due to increased supply of labour.
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- At the same time income of labors should rise in the poor countries due to increased demand.
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- But the labor share has been falling not just in rich nations, but in developing countries as well.
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- If globalization is purely to be blamed, this anamoly wouldn't be happening.
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- **Automation -** If automation is the only reason then, developing countries shouldn't be experiencing the fall in labor share because in technological terms they're far behind the rich countries.
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- Investment goods like machines, vehicles, computers haven't really become cheap enough in poor countries.
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What is the real reason?

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- **Poor Counties -** When poor countries are isolated from the global economy, they tend to specialize in things that rely on a lot of cheap labor -- farming, labor-intensive manufacturing & low-end services.
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- Capital owners do well, but can’t get truly rich, because of lack of high-end investments and incure considerable labour costs.
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- But when trade opens up, the rich countries start offshoring manufacturing jobs to the poor countries.
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- These jobs offer better opportunities for workers, but much better opportunities for capitalists.
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- This reduces the labour share of income in relative terms.
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- **Rich Countries -** Companies in rich countries can ship labor-intensive manufacturing jobs in electronics assembly, toys and clothing to China and Bangladesh,.
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- At the same time they buy advanced machine tools and robots to do more high-end manufacturing.
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- As a result, workers in rich countries were hit harder by both free trade and the advent of cheap automation.
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- Labor wage decline can thus be linked to a combination of increased automation, globalization & development of large monopolies.
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Source: Businessline

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