

Globalization, inequality and traditions

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Abstract:

To understand the factors that are raising the income inequality we need to think about the emerging inequality structure is akin to a mosaic featuring distinct intensities and imbalances. Structural and cultural features affect the inequality. For example, in Spain, the age, the position in the market and acquired qualifications are very relevant factors. Due to it, the relevance of cultural features, like age, must be taken into account if an explanation is sought or if we want to find solutions to reduce inequalities.

Text:

Question: Is globalization the only cause of the growth of inequality, or are there other equally relevant factors that may explain the influence of the current economic changes on the rise of inequality?

What is Globalization?

Globalization is a process of expansion of the economic and productive space. This means the expansion of the social space where economic relations between human groups are conducted—in other words, the expansion of markets.

Globalization is, essentially, a process of integration of the social spaces of economy developed through several stages, which can be listed as follows: economic opening of national borders, growing economic interdependence and deepening economic

integration. This model of development has led to a major transformation of economic relations, which can be understood via the analysis of international trading trends, international investments, international finance, growth of economic transactions and organization of economic activities beyond the national borders of modern Nation States.

Said process implies that the area where economic transactions are conducted between social groups tends to obviate the need for national geographic and political boundaries. It also implies that the production of goods and services is targeted at an increasingly global Market —thus increasing competition between economic production groups.

Current Hypothesis

Recent analyses conducted by the FMI have reached the conclusion that Globalization is not the leading cause of the increasing inequality in terms of internal revenue in most countries of the world during the last thirty years. The FMI has classified the factors leading to income inequality into five major groups including: Trade Globalization, Financial Globalization, Foreign Direct Investment and Technological Change. The conclusion is that increasing inequality is essentially caused by Technological Change, Foreign Direct Investment and Financial Globalization —and that Trade Globalization and other factors also contribute by reducing inequality in the world, both between countries and individuals. These conclusions have led researchers to restate the following hypotheses (Subir Lall, Florence Jaumotte, Chris Papageorgiou & Petia Topalova 2007, 46-54):

- Technological progress largely explains the rise of inequality since the early eighties, as new technologies “*increase the reward according to the level of qualification and replaces low-skilled workers (inputs)*“.

However, the relevance of this factor in the rise of inequality in advanced economies is, in relation with all other factors, lesser than in developing and Asian economies.

- Trade globalization fosters the reduction of inequalities, which, in advanced economies, is due to the fact that the increase in imports from developing countries cuts down the costs of basic consumer products that can be accessed by the poorest groups. However, the impact of this factor is, according to the analyses conducted by the FMI, very low for the time being.

- Financial globalization increases inequality because access to credit is easier for those who already have resources than for those who lack them. Therefore, the impact of this variable is as high as the impact of technological progress in advanced economies, where the level of integration of financial markets, as well as the concentration of large capitals, is higher.

And:

- Foreign Direct Investment increases inequality because it leads to increasing demand for skilled workers, which has an effect on the same process affected by technological progress.

These results suggest a first affirmative answer to our question, and imply the need to differentiate between processes that, even though they are part of the same general trend, are analytically distinct and lead to contrasting consequences. The basic contribution of globalization to the rise of inequality in the current situation arises from

the following factors: productive specialization of countries, increased competitiveness and the demand for labour with a higher level of skills in all areas of production (FMI, 2007; Braeuninger, 2008). As a result, the globalizing process increasingly bars access of less skilled workers to economic resources, as they are relegated to roles in the production structure with hardly any financial resources available, such as the unemployed or inactive.

On the basis of said conclusions, a number of government officials, scientific experts and international organizations have suggested the need to focus on education strategies and fostering the introduction of new technologies among the population as the best way to reduce inequality caused by the emerging productive structure. According to the FMI, said course of action will have an impact principally on the reduction of inequality in less developed countries, where the relevance of the technology factor is very high. Furthermore, it would also have a certain impact in more developed countries, where financial globalization is the most important factor leading to inequalities. (FMI, 2007)

What is the logic of the argument that gives rise to this statement? An improvement of education would lead to better preparation of human resources for the purpose of gaining access to jobs within the type of productive structure brought about by current changes. As a result, the productive system would be more capable of integrating human resources, as a larger percentage of the population would be more useful in the workplace. Furthermore, as more individuals have access to work, the productive system would become more equitable, as the system distributes the benefits among those involved in it. Of course, this does not mean that inequalities would disappear as a result, but it would help to offset the effects of Globalization and the impact brought by

the need to use new technologies. In this process' best case scenario, income inequality would be again dependent on the internal imbalances of the labour market —which could then be viewed as necessary for the purpose of providing human resources with an incentive to take on responsibilities and undergo training. Now, everyone would be integrated in the labour market and would be in a position to enjoy its benefits.

This approach does not provide for the existence of non-occupational social structures that bring an imbalance to the access to economic resources. The previous reflection would be correct if the economic resources were distributed among social roles according to the value that employers rate the tasks performed by each role, to the point that each role is attributed a specific status. Therefore, income inequality would be a result of increased income inequality between productive roles or the increase of the most disadvantaged roles such as, for example, the unemployed or inactive.

$$\text{Case: } \Delta D(r) = \Delta D_{rp} * \Delta P_{rp}$$

where: $D(r)$: Income inequality

D_{rp} : Inequality between productive roles

P_{rp} : Most disadvantaged productive role positions

However, what happens if human groups distribute economic resources according to sociodemographic or cultural traits of individuals instead of according to the productive roles they perform?

$$\text{Case II: } \Delta D(r) = \Delta D_s * \Delta P_{sd}$$

where: D_s : Status inequality

P_{sd} : Most disadvantaged status positions

If the latter was the appropriate case for technologically advanced societies, the increase of human resources' skills would have an influence on the tasks that could be attributed to each individual, but would not alter their status, that is, the rights and material resources they were attributed, whichever the tasks. Therefore, even if the entire group of individuals gaining access to jobs increased thanks to improved education, structural imbalances justified according to socio-demographic or cultural traits would remain.

Something else could occur in the latter event: if the number of individuals whose demographic and cultural traits allocate them less rights and economic resources increased in the population, inequalities would then tend to increase independently of the integrating capacity of the productive structure. Furthermore, if, in a human group, such as, for example, a country, it was deemed that a demographically or culturally-defined social sector should have access to fewer economic resources, this would again lead to a rise of income inequalities independently of the integrating capacity of the productive structure.

Finally, let's assume that internal inequality structures arise from distribution processes based on structural criteria (which connect economic resources to roles) and cultural criteria (which limit access to economic resources depending on status). In such case, the rise of income inequality could be the result of increased inequalities in terms of distribution of material resources amongst labour roles, the increase of the most disadvantaged labour roles, as well as the rise of inequalities among social statuses or the increase of most disadvantaged statuses.

$$\text{Case III: } \Delta D(r) = (\Delta D_{rp} * \Delta P_{pd}) + (\Delta D_s * \Delta P_{sd})$$

Therefore, in this latter case, and thanks to the improvement of the population's skills, internal inequalities can be reduced in a scenario in which the most disadvantaged roles either remain level or increase in the inequality structure. However, said policy has a clear boundary: the structuring of society according to cultural criteria.

Of course, besides the debate raised by the FMI, stands the issue of job growth. Job growth is, to start with, a given. The FMI model does not provide for a scenario featuring a drop in jobs within the entire productive system as a result of the introduction of new technologies —which leads us to think that the FMI assumes that economic growth will always generate more jobs.

In conclusion, the analytical and empirical research conducted by the FMI has enabled important conclusions at present. However, their proposals require further reflection before raising specific policies. As said report suggests, the idiosyncrasies of each country and economic area have an influence on the connection established between Globalization and Inequality.

The structure of emerging inequality

Material, income inequality, has been growing worldwide since at least the eighties (FMI, 2007). This arises as part of a broader range of changes leading to the transformation of inequality structures in the world. The process since the 19th century has historically followed the following pattern: first, the leading factor influencing income was class; then, the concept of country of origin became much more relevant

toward mid-20th century; and, currently a further shift has taken place, by which internal inequalities in countries are rising (Milanovic, 2005, 185).

What has happened? A transformation of inequality structures has taken place that has become the central issue of the current situation, and which leads to the rise of inequalities even when economic growth is enjoyed. But, is inequality growing again among occupational classes, or are we actually witnessing the emergence of a new type of structure?

Recent analyses demonstrate that the rise of inequality between homes tend to affect all income levels except the lowest. Thus, the participation in total incomes of the wealthiest quintiles increases gradually while participation of the remaining quintiles decreases —and only the lowest quintile remains level (FMI, 2007, 53-54). In other words, seen solely from the econometric perspective, it is obvious that the process of rising inequality generates different economic classes, widening the inequality gap between the wealthiest quintile and the remaining population which, interestingly enough, tend to converge. However, this does not imply increasing differences between classes arising from the occupational structure.

The latest rise of inequalities has taken place somehow independently from the economic cycle stage. Inequality is no longer defined on the basis of class or any other objectively defined group types —inequality is no longer related to the social origin of individuals. It has been connected with personal biographies, and thus the process and factors leading to an unfavourable situation have been personalized. This has led to increased phenomena of dissolution of social bonds (Torres, 1999; Tezanos, 2001).

Thus, the experience of an unfavourable position, of being excluded, isolated, alienated from social groups, no longer boosts the strengthening of social bonds between equals.

As a result, the current rise of inequality has not led to a dual structure among less skilled workers and all other sectors of society. The image of class-conscious duality may be partially consistent upon specific analysis of ruling class' actions (Faux, 2006), but would hardly stand if we focus our attention on the middle and working classes. The issue is not that these classes do not exist or cannot be distinguished, but that the class structure appears to intertwine with discriminations and exclusions arising from more subjective criteria.

The new structure includes numerous differentiating axes, by distinct dualities that are independent from each other, which segment the population as they either increase or decrease the risk faced by each individual of reaching low-end social positions (Tezanos, 2001).

For instance, in Spain, the emerging inequality structure is akin to a mosaic featuring distinct intensities and imbalances. Its tiles are spread in space according to an opaque order that does not correspond to class-based imbalances formerly developed in Advanced Industrial Societies. But, which are still noticed in the political order. Thus, occupation is a key factor when determining individual income, but its effect interacts with another set of job-unrelated factors. Each individual can also earn other types of income based on factors including: the right to receive State benefits, the level of education reached and Internet skills acquired. And, moreover, age has a strong influence over said factors. An analysis of income inequality variance in Spain shows

that age is indeed a key factor. Upon classification of the population based on said criteria, we observe how each age-based social sector has access to different incomes. This proves that age is a factor that always increases the explanatory capacity for any previous model (Table 1).

Table 1. Explanatory models for individual income variance

Models	R2 (corrected)	Sig.
1. Benefits (Receives State benefits, does not receive benefits)	0.001	0.007
2. Gender (Male, Female)	0.036	0.000
3. Internet skills (1: Advanced level, 2: Intermediate level, 3: Low level, 4: No skills)	0.045	0.000
4. Age groups (1: 0 - 15, 2: 16 - 29, 3: 30 - 39, 4: 40 - 54, 5: 55 - 64, 6: over 65)	0.177	0.000
5. Education (10-level scale)	0.185	0.000
6. Age (99-level scale)	0.258	0.000
1. Individual occupational class (0: Unemployed, 1: non-qualified working class, 2: Qualified working class and similar, 3: Technical and higher occupational classes)	0.356	0.000
2. Education, Internet skills	0.278	0.000
3. Level of qualification (Factor 1 for Education and Internet skills)	0.278	0.000
4. Individual occupational class, education level	0.392	0.000
5. Individual occupational class, benefit	0.436	0.000
6. Market position (Factor 1 for Individual occupational classes and benefit)	0.436	0.000
7. Individual occupational class by age group	0.442	0.000
8. Individual occupational class, benefit and age group	0.484	0.000
9. Individual occupational class, education and age group	0.493	0.000
10. Individual occupational class, education, benefit and age group	0.530	0.000
11. Occupational class and qualification levels	0.533	0.000
12. Individual occupational class by benefit, Internet skills and age group	0.550	0.000
13. Individual occupational class by age	0.558	0.000
14. Market position and Qualification levels	0.587	0.000
15. Market position and Age	0.596	0.000
16. Age and Qualification levels	0.630	0.000
17. Individual occupational class, education, Internet skills and age group	0.664	0.000
18. Individual occupational class by education, Internet skills, age group and benefit	0.683	0.000
19. Occupational class, Age and Qualification levels	0.820	0.000
20. Market position, Age and Qualification levels	0.850	0.000

Source: Prepared by the author drawing from data provided by the 2008 FOESSA survey. Original sample: 3,448 homes, 9,100 cases; Last sample: 7,895 cases removed by reasons of income not stated or cases deemed as lacking quality by interviewers. Nationwide, stratified, multistage, with random routes and affixation by home income levels. 99% reliability level for p=q.

Table 2. Reliability level between factors

Models	R2 (corrected)	Sig.
1. Position in the market by Age and Qualification levels	0.661	0.000
2. Position in the market by Qualification level	0.259	0.000
3. Qualification level by Age	0.371	0.000

Source: Prepared by the author drawing from data provided by the 2008 FOESSA survey. Original sample: 3,448 homes, 9,100 cases; Last sample: 7,895 cases removed by reasons of income not stated or cases deemed as lacking quality by interviewers. Nationwide, stratified, multistage, with random routes and affixation by home income levels. 99% reliability level for p=q.

The effect of income on age originates from the organizational structure of labour. In other words, neither productive roles are established according to age nor the role performed by an individual generates age. Age is an independent feature from the labour market. Jobs do not require a specific age —it may require skills, but not a specific age.

The effect of age on income distribution arises from the culture that governs social groups. The same could be said of gender and ethnicity. Age is a cultural imposition leading to income inequality that originates in the traditions of each society.

Certainly, age does have an effect in terms of the connection between the level of qualification and age. However, the relevance of age in itself must be taken into account if a sound explanation is sought. The position in the market and acquired qualifications only provide part of the explanation. Moreover, qualification is a factor that increases its explanatory capacity when combined with the age factor. This combination is more explanatory of both income and occupation than any other that does not take age into account (Tabla 3).

Table 3. Model 19.

Interaction effect tests

Dependent variable: income per person

Source	Sum of squares Type III	gl	Root mean square	F	Significance
Corrected model	615051712906,629(a)	1292	476046217.420	26.390	.000
Intersection	35264865505.271	1	35264865505.271	1954.936	.000
Position _3	14354530911.074	7	2050647273.011	113.679	.000
Qualification _2	32353791359.321	33	980417919.980	54.350	.000
Age	13736135216.504	89	154338597.938	8.556	.000
Position * Qualification	14616656755.629	83	176104298.261	9.762	.000
Position * Age	38486496792.433	210	183269032.345	10.160	.000
Qualification * Age	84571197160.811	626	135097759.043	7.489	.000
Position * Qualification * Age	15798429427.929	167	94601373.820	5.244	.000
Error	80742047482.872	4476	18038884.603		
Total	1232872240205.000	5769			
Total corrected	695793760389.500	5768			

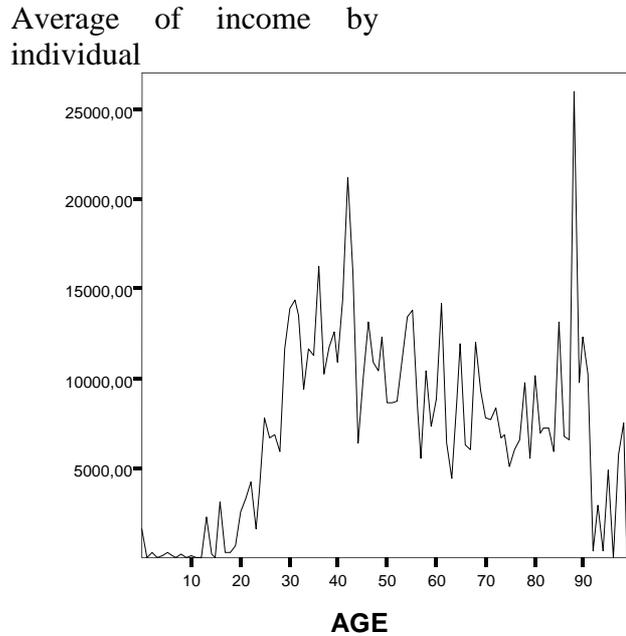
to R square = .884 (corrected R square = .850)

Source: Prepared by the author drawing from data provided by the 2008 FOESSA survey. **Original sample:** 3,448 homes, 9,100 cases; **Last sample:** 7,895 cases removed by reasons of income not stated or cases deemed as lacking quality by interviewers. **Nationwide, stratified, multistage, with random routes and affixation by home income levels. 99% reliability level for p=q.**

The effect of age on income distribution is not linear: income does not increase with age. Instead, both variables keep a curvilinear connection, which is influenced by two factors: one, Generational; and two, Cultural. The generational factor is relevant because age introduces us to individuals with biographical experiences that are very different depending on date of birth. The cultural factor is the factor we mentioned regarding how current social groups give individuals the opportunity to gain access to social resources according to age. Both factors are noted in the analysis of age-based income medians. In said analysis, we can see how the age of insertion in the labour

market is greatly penalized, as are much older ages. Therefore, intermediate ages between thirty and sixty enjoy the most benefits (Chart 1).

Chart 1. Age-based average individual income of people

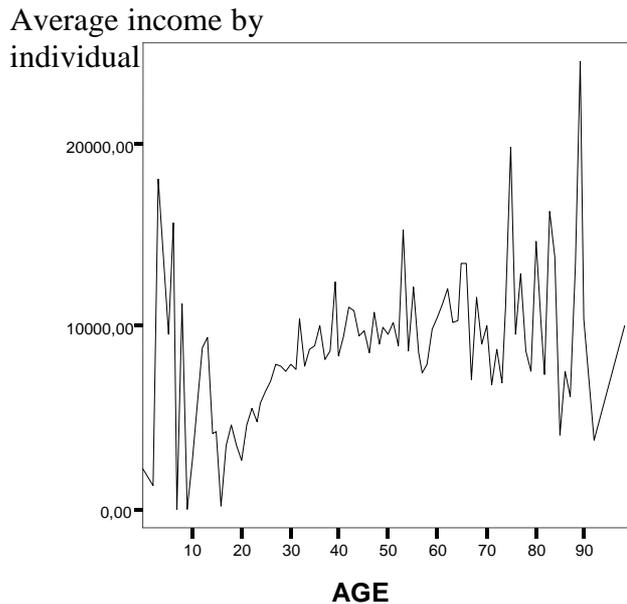


Source: Prepared by the author drawing from data provided by the 2008 FOESSA survey. Original sample: 3,448 homes, 9,100 cases; Last sample: 7,895 cases removed by reasons of income not stated or cases deemed as lacking quality by interviewers. Nationwide, stratified, multistage, with random routes and affixation by home income levels. 99% reliability level for p=q.

Many of these issues are corrected when we take into account only the working population. Then, we can note how, once in the market, income tends to level out amongst different ages. However, the key issue is the relevance of age-related differences between individuals under thirty / over sixteen and all other working population groups. This provides some explanation of the level of age-based inequality within the market (Graph 2).

This issue can also be detected on the highest occupational level, even though differences are not as marked. Differences are wide in intermediate and low-end occupational positions.

Chart 2. Age-based average individual income of workers



Source: Prepared by the author drawing from data provided by the 2008 FOESSA survey. Original sample: 3,448 homes, 9,100 cases; Last sample: 7,895 cases removed by reasons of income not stated or cases deemed as lacking quality by interviewers. Nationwide, stratified, multistage, with random routes and affixation by home income levels. 99% reliability level for $p=q$.

Accordingly, the emerging inequality structure features at least three traits. First: the rise of inequality between the first quintile and the remaining income distribution quintiles. Secondly: a deeper focus on the fragmentation of occupational classes than on divisions arising from the placement of individuals in geographical areas with different levels of economic development or class dualization. And thirdly, the dualization into

different axes that juxtapose to create a sense of fragmentation of the inequality structure according to differences that are not just structural but also cultural —age being currently a key factor.

Specifically, data gathered shows that structural or market inequalities explain 55% of the income inequalities between individuals. It also shows that age provides 25% of the explanation for variance. Therefore, for now, 15% remains without explanation. Furthermore, case III herein appears to be the most plausible and appropriate upon the data available in Spain.

How can age-based inequality be explained?

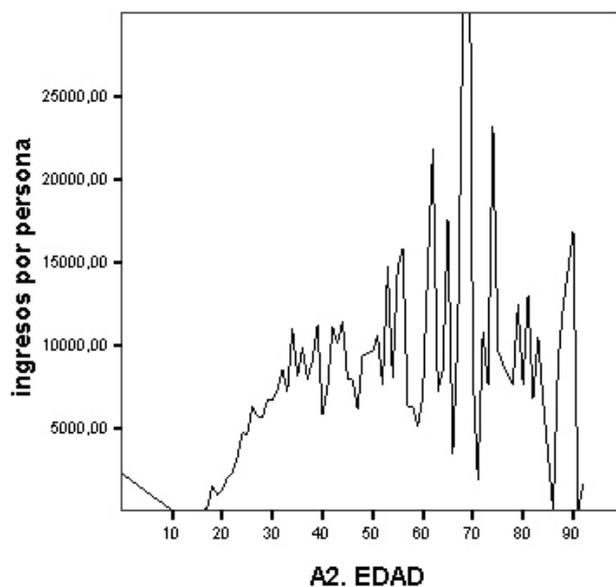
The issues introduced by the growing relevance of age-based differences cannot be tackled from a perspective focused solely on the analysis of the evolution of structural positions defined by the roles performed by individuals.

There are two types of social processes analytically identified by Sociology that lead to inequalities within the productive space: organization processes of productive tasks as well as of any other social resources, whether material or immaterial, among occupations defined by tasks carried out in the economic structure; and the selection processes (human resources) of individuals who take on said positions (Jenkins, 1986).

On the basis of this scientific knowledge, an explanation can be considered for the rise of income inequalities that takes into account the changes that have influenced selection processes.

From this theoretical point of view, a plausible explanation of our initial issue is that increasing numbers of under-30 individuals —as well as of over-60 individuals— may have led to the rise of internal inequalities between social classes. The reason is that said shift of human resources in the labour market has strengthened the relevance of age criteria to make distinctions between individuals who join or are expelled from companies, leading to the subsequent drop to a lower social position. Therefore, this selection criteria used by social groups that have been making up the Spanish society for some time has led to further sever the link between role and wages.

Chart 3. Age-based average individual income of individuals with intermediate and higher education



Source: Prepared by the author drawing from data provided by the 2008 FOESSA survey. Original sample: 3,448 homes, 9,100 cases; Last sample: 7,895 cases removed by reasons of income not

stated or cases deemed as lacking quality by interviewers. Nationwide, stratified, multistage, with random routes and affixation by home income levels. 99% reliability level for p=q.

The consequence arising from this process taking place at the same time of Globalization is that further development of workers' skills is a measure leading to reducing its impact on the inequality structure. If the efforts for reducing inequality are focused on expanding workers' skills, the outcome will not have an impact on the inequality rising process as it would in a context in which the rates of youth and over-75 individuals are maintained. Age is a factor that affects income inequality even among individuals with intermediate and higher education (Chart 3).

Political alternatives for combating internal inequality

How can this problem of age-based inequality be fought? A potential solution is the implementation of political regulations that require employment for individuals on the same terms of all other age groups. Furthermore, it would involve prohibiting organizations from severing unilaterally their relationship with their human resources, where possible. In our specific case, this would currently mean preventing job insecurity affecting youth and fostering measures including the implementation of non-age-based selection processes. And finally, implementing palliative measures, including the protection of the disadvantaged in terms of age by means of social benefits.

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