Forum: Globalization may increase income inequality

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Income inequality around the globe was the topic of Monday's International Forum, held at noon in Farber Hall on the University of South Dakota campus.

"Income inequality is the unequal distribution of household or individual income across the various participants in an economy," said Dr. Lucy Wenqian Dai, assistant professor of sociology at USD. "It can be described as the percentage of income owned by a percentage of people."

For example, she noted that in 2008, the richest 20 percent of the population in the United States, earning at least $113,000 annually, received 47.7 percent of all U.S. income.

"So, there is an unequal distribution of income," Dai said. "With a perfect equal distribution of income in our country, they should have received 20 percent of all income, but they received much more than that."

Dai noted that technological advances first increases but then moderates the intensity of social inequality. Industrialization tends to push inequality downward, as industrial productivity raises the overall standard of living in industrialized countries.

"If we compare developing nations to the developed countries, we can tell that the developed countries have, generally speaking, a lower degree of income inequality than the developing countries," she said. "That is the impact of technological advances and industrialization on income inequality."

Dai projected a multi-colored map for all to see; the various colors illustrated the amount of income inequality in each country. The inequality is greater in the United States than in Canada. Russia, and several countries in Asia and Africa, she noted, have severe income inequality, while many European countries and India have moderate income inequality.

"Northern European countries have very low income inequality," Dai said. "Generally speaking, the wealthier developed countries have a lower level of income inequality than those of poorer, developing nations. Economic development has a relationship with income inequality. The better an economy develops, the lower income inequality we expect to have."

She said the research agrees that globalization has been accompanied by an increasing rate in income inequality in developed and developing nations.

One significant cause of this is the moving of manufacturing jobs away from developed countries. "Then, those displaced manufacturing workers experience a downward mobility from middle class to lower class," Dai said. "They had no jobs … they had to either turn to low-skill and low-pay service jobs, or they turned to get help from social welfare programs.

"In developing nations, globalization unfortunately increases the level of income inequality. Some research argues that due to the new money, new foreign direct investments in those countries, and new technology, people there get help from the developed countries and also they experience an increase in the standard of living," she said.

Some researchers, however, have expressed contradictory opinions.

"They argue that the jobs moving into the developing nations push up the way for those highly-skilled workers in those countries," Dai said. "Those highly-skilled workers receive huge bonuses and wages from those new jobs from multi-national countries. Low-skilled workers who do not have an advanced education will experience a decline in their social status.

"Because of this, the income inequality increases in developing nations from globalization," she said. "The impact of globalization on income inequality in developing nations is controversial."

Dr. Meghann Jarchow, a biology professor and director of the sustainability program at USD, talked about income inequality and the bearing it has on people's happiness.

"Generally, what I've heard is that if you increase the income inequality, so there is more difference between folks who are really rich and folks who are really poor, you have more unhappiness," she said.

She, too, projected a map that illustrates the results of subjective surveys of people's level of happiness. The "happiest" countries, according to the survey – Canada, northern European nations, and Western Europe, also have lower levels of income inequality.

"The United States and South America are less so, but generally tend to be pretty happy," Jarchow said. People in Africa, India and China rate themselves as being less happy.

"If we're going to look at a major trend in terms of places that have a lot of income equality, Scandinavia is doing spectacularly well, and also Canada, western Europe, and Australia," she said.

A trend that has emerged from her study of various research, Jarchow said, shows that countries where most of the people are wealthy and where there is greater income equality receive an additional benefit.

"That (trend) boosts people's happiness even farther," she said. "The United States … has quite a bit of income inequality. We're a country where people are very wealthy; the median income in the United States is very high, but somehow, our happiness does not exactly track to that."

Jarchow said, however, that there isn't one universal relationship between happiness and income inequality.

"One general statement that I've read is that really the level of inequality is not the most important factor according to some of the studies that have looked at it, but rather it's how it is perceived," she said. "How people perceive income inequality to be is what most affects it, and this is particularly important as to how it relates to their status in society, and as it relates to their opportunities."

In some instances, people living in countries with higher levels of income inequality are happier because of their perceptions.

"If there is a lot of income inequality, and people believe they can become wealthy, that might actually improve their happiness," Jarchow said. "It seems that more often, though, having that income inequality does lead to reduced happiness because people see that those with higher income have more than they do."

A study that focused solely on the United States finds there is no direct relationship between income inequality and happiness.

The research revealed, however, "when there is more income inequality, people were trusting other folks less, and they perceive other folks to be less fair. So, it was this indirect route that then led to decreased happiness with increasing income inequality."

Dr. Kathryn Birkeland, professor of economic at USD, said it is important, when discussing income inequality, to distinguish between income and wealth.

"Income is something that is earned in a given year, it's something we produce, we could divide it up, perhaps, among all of the people and see how it's distributed," she said. "And there is definite inequality in the amount of income that we earn."

A factor that may lead to even greater unhappiness among people, however, is the distribution of wealth, not income.

"When we talk about wealth inequality, it is much more unequal," Birkeland said. "Those at the high end of the income spectrum don't spend all of income, and therefore they save it and they convert it to assets and they're wealthy in the future."

Research shows that the distribution of wealth among the rich is very high in South America and in the United States.

"We know that rich people are very, very, very rich," she said. "They're much, much wealthier, and that distribution across wealth is much bigger than the distribution across income."

Recent economic data is showing that countries that are rich are getting richer, and countries that are poor are either staying the same or may be growing poorer.

Globally, for the past several decades, a big difference remains when comparing the standards of living of residents of people in the world's richest and poorest countries.

"Countries are growing; they are trying to catch up to the U.S.," she said, noting the fastest growth is occurring in the world's poorest countries.

"Inherently, what we are considering with these types of development goals and these ideas of measuring income inequality is whether we want a bigger pie or whether we want the pie to be more evenly distributed," Birkeland said. "We want both. We want more pie, and we want everyone to have a bigger slice. Of course, we know that's not always the case.

"We know that the policies that we have to put into place to bring individuals out of poverty may very well change the size of the pie, especially in developed countries," she said. "In developing countries, that may not be the case; we may be able to increase the size of the pie and be able to give everyone a bigger slice."

She noted, however, that such accomplishments may not solve inherent problems in both developed and developing countries – there likely will still be people with larger pieces of pie, so to speak, than others, meaning income inequality will remain an issue.

Dr. Lucy Wenqian Dai, Dr. Meghann Jarchow, and Dr. Kathryn Birkeland field questions at Monday's International Forum held in Farber Hall on the USD campus.
(Photo by David Lias)