The effect of globalisation on income inequality

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Introduction

This research aims to analyse how different dimensions of globalisation (**offshoring, financial globalisation and migration**) affect changes in the **personal income distribution** in high-income countries. I seek to establish whether dimensions of globalisation that feature prominently in public discourse (e.g. migration) are supported by empirical analysis. Another aim is to establish whether globalisation affects personal income inequality via **technological change** or changes in the **bargaining power of labour**.

Research questions

1. Does globalisation increase income inequality?
2. How do individual dimensions of globalisation affect inequality: offshoring, financial globalisation and migration
3. How does globalisation affect the income distribution: technological change or bargaining power?

Research design

- Literature review
- Descriptive statistical analysis
- **Econometric analysis**
  - panel data methods: fixed effects (FE), generalised method of moments (GMM)
  - Unconditional quantile regression (Firpo et al. 2009)
  - Instrumental variables (IV)

Data

- Income: **EU-SILC survey data** of ~7 million European households
- Trade: OECD TIVA input-output tables that map global trade flows
- Financial globalisation: KOF-indices of financial globalisation (various de facto and de jure measures)
- Migration: EU-SILC survey data

Preliminary conclusions

1. **Financial globalisation and exports** increase inequality
2. Increases in **intermediate imports** reduce inequality
3. **Migration** does not affect income inequality
4. Globalisation affects inequality via the **bargaining channel**.

Theoretical channels

Globalisation affects the income distribution within countries via two main channels:

1. **Bargaining channel**: Globalisation affects income inequality through changes in the bargaining relationship between capital and labour (and between high- and low-paid labour) (e.g. Rodrik, 1998; Stockhammer, 2017)

   Example: Globalisation allows firms to move their production to lower-wage countries. As a result of this threat, domestic workers (or unions) reduce their wage demands
   → effect on income distribution.

2. **Technological change channel**: Globalisation affects income inequality through changes in the production structure of national economies (e.g. Bloom et al. 2016)

   Example: Globalisation increases competition among firms. In response, domestic firms try to increase their productivity and innovate. Firms substitute labour for capital
   → effect on income distribution.

Results from country-level analysis

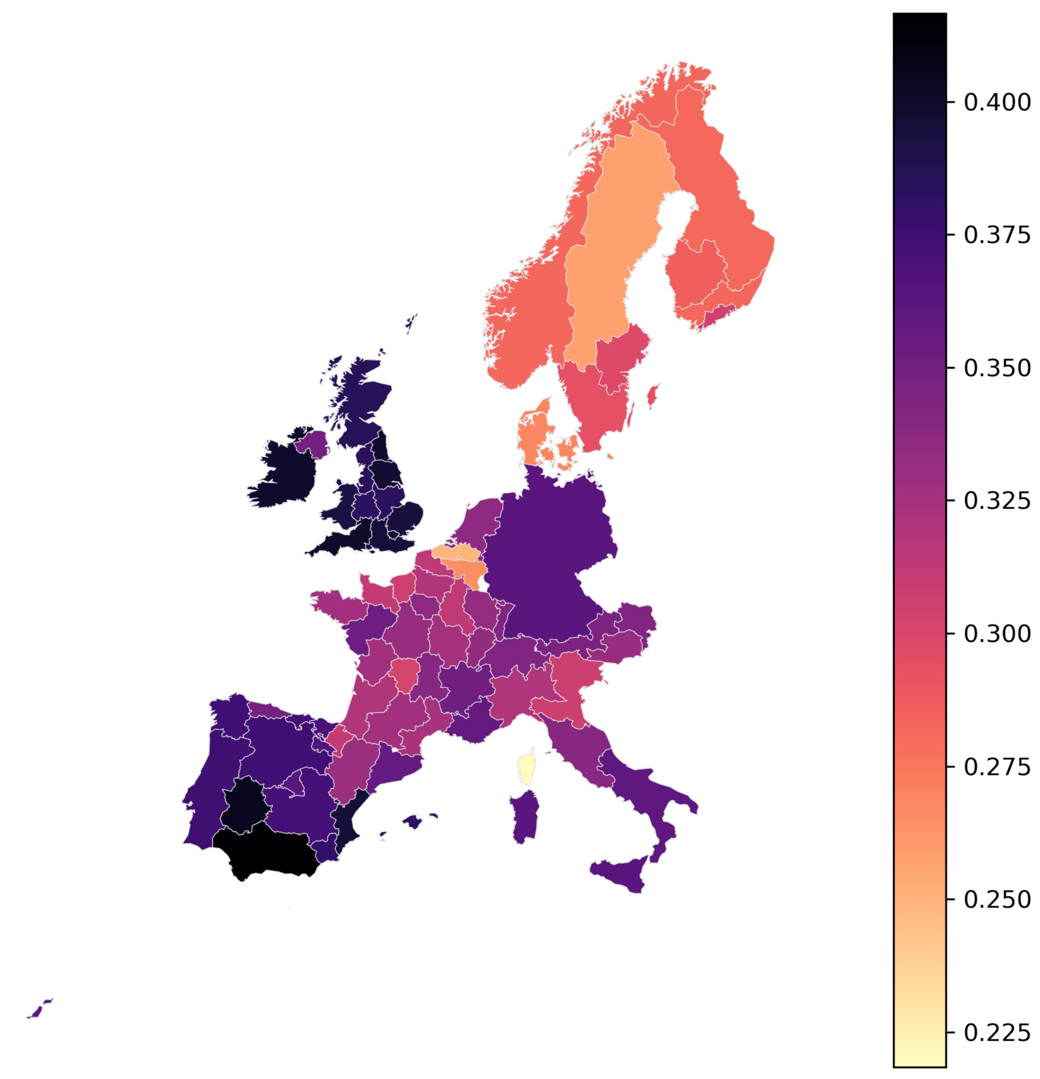
Table 1: Gini, selected specification, FE

	(1) Gini (SILC)
Intermediate imports	-0.311**
	(-2.79)
Exports	0.254**
	(2.52)
Migrant share	0.0351
	(1.05)
Financial globalisation	0.357**
	(2.56)
Capital-value added ratio	-0.134
	(-0.93)
Observations	150
r2	0.356

t statistics in parentheses
All variables in logs. Further control variables include the ICT share of investment and the average education level.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Next steps: 1. Regional inequality

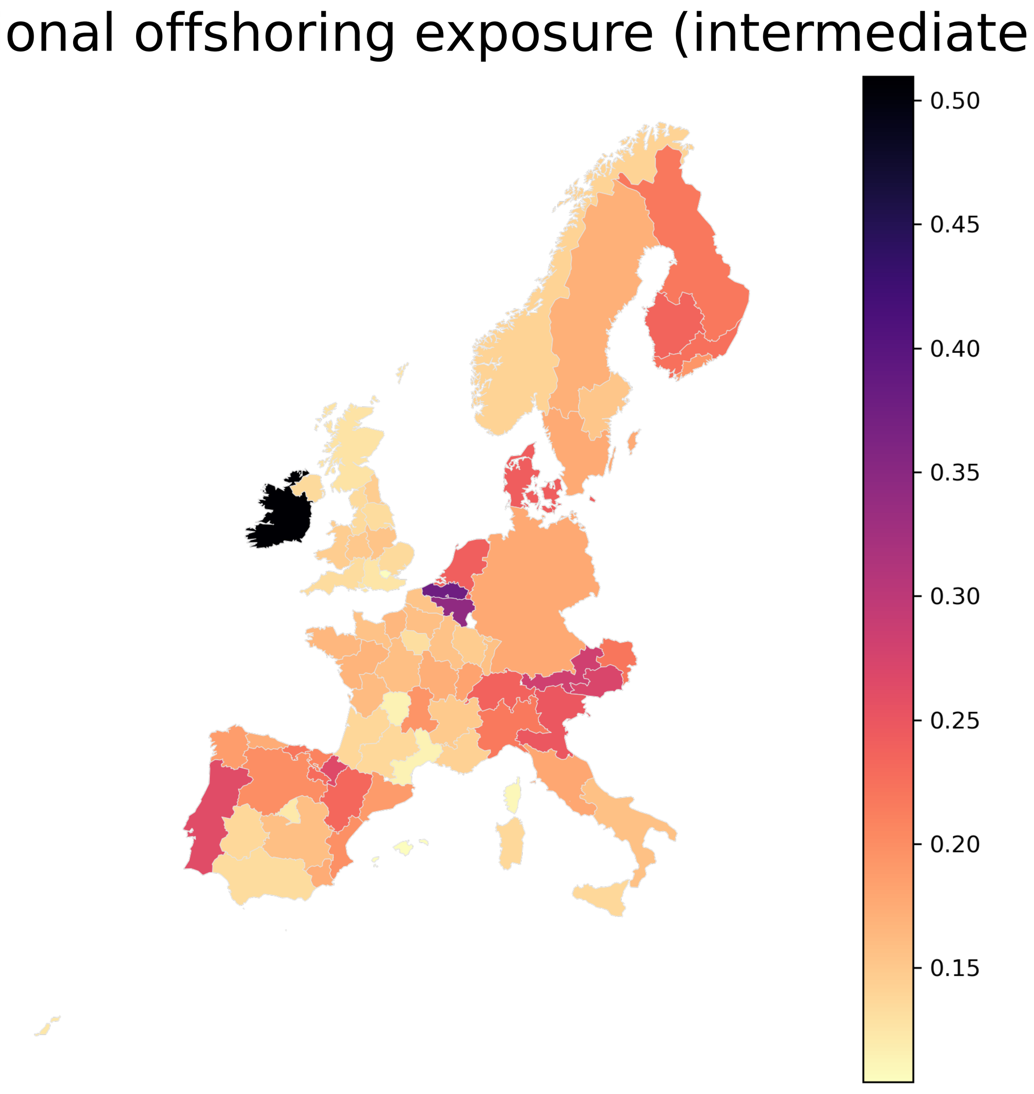
Regional Gini coefficient 2015 (higher value = higher inequality)



Source: own calculations from EU-SILC.

2. Regional globalisation exposure

Regional offshoring exposure (intermediate inputs) 2015



Source: own calculations from EU-SILC and OECD Input-Output Tables