

# **Increasing Income Inequality**

#### What is the issue?

\n\n

\n

- Income of labourers is decreasing & that of capitalists is increasing.  $\slash n$
- Generally globalisation and automation is blamed for this.  $\ensuremath{\sc vn}$

\n\n

### Can globalisation and automation be blamed?

\n\n

∖n

• **Globalisaation** - Rich countries tend have a lot of capital and poor countries tend have a lot of labor.

\n

- When rich & poor countries trade, labor's income share should go down in the rich countries due to increased supply of labour.  $\n$
- At the same time income of labors should rise in the poor countries due to increased demand.

∖n

• But the labor share has been falling not just in rich nations, but in developing countries as well.

\n

- If globalization is purely to be blamed, this anamoly wouldn't be happening.  $\space{\space{1.5}n}$
- 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.
   \n
- Investment goods like machines, vehicles, computers haven't really become cheap enough in poor countries.  $\gamman n$

\n\n

#### What is the real reason?

\n\n

\n

- **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.
- Capital owners do well, but can't get truly rich, because of lack of high-end investments and incure considerable labour costs.  $\n$
- But when trade opens up, the rich countries start offshoring manufacturing jobs to the poor countries.  $\gamman \gamman$
- These jobs offer better opportunities for workers, but much better opportunities for capitalists.
   \n
- This reduces the labour share of income in relative terms.  $\slashn$
- **Rich Countries** Companies in rich countries can ship labor-intensive manufacturing jobs in electronics assembly, toys and clothing to China and Bangladesh,.

\n

\n\n

\n

- At the same time they buy advanced machine tools and robots to do more high-end manufacturing.
- As a result, workers in rich countries were hit harder by both free trade and the advent of cheap automation.
- Labor wage decline can thus be linked to a combination of increased automation, globalization & development of large monopolies.  $\n$

\n\n

\n\n

## Source: Businessline

\n

