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Abbas J. Ali

EDITORIAL

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Abbas J. Ali
IUP Management, Indiana, Pennsylvania, USA

Abstract

Purpose – The purpose of this paper was to reflect on the relationship between globalization and income inequalities. The paper investigates briefly the forces that make income inequalities within a nation or between advanced and developing countries a lingering problem.

Design/methodology/approach – The paper discusses inequality in the context of capitalism and globalization. It relies on recent debates on the state of globalization and the dark side of inequality.

Findings – Based on a survey of the current literature on the state of economic and income disparity, the paper demonstrates that inequality is not something that can be obliterated easily. The paper recommends that, in the near future, the only perceivable solution is a modified form of global capitalism. In the long term, however, a more inclusive economic system is needed.

Originality/value – The paper reflects on the state of income inequality in light of the current debate and economic crisis. It makes a powerful argument that in the era of globalization coordinated efforts must be undertaken to lift the spirits of those who are left out of economic activities and find creative ways to unlock their energy to contribute effectively to economic growth and opportunities.

Keywords Globalization, Global capitalism, Inequalities, Economic progress.

Paper type Viewpoint

Introduction

In the *International Journal of Commerce and Management* Vol. 18 No. 4 2008, we made the case that globalization had altered many economic assumptions. Chief among them is the ability of the market to regain its balance, recover its health and optimally create wealth for its participants. This particular case is not only a challenge to the basic classical economic theory which advanced that the market's invisible hand would magically solve market problems to the satisfaction of market actors, but it also underscores a growing reality: globalization is never independent of its actors. More important is the implicit assumption that practical, especially tangible, issues that people face on a daily basis can be optimally solved through coordinated and dedicated efforts.

The *Wall Street Journal* (2014) reported that globalization has made the world a more equal place by improving the economic conditions of a large number of poor people over the last quarter century (Fidler, 2014). However, at the same time, it has made richer countries more unequal – squeezing the incomes of the poor and the middle class. For example, in the USA, the incomes of the top 1 per cent grew 113 per cent, while those of the eightieth percentile income grew by only 1 per cent. The *Journal* calls this development the rise of a "Two-Track Future" that will eventually imperil global growth.

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The *Journal* appears to advocate that inequality in developed countries is an unhealthy situation and that the fate of the global economy is contingent on the health of advanced economies. If we treat this notion as a fact, we come to the conclusion that developing economies, including the emerging ones, play a secondary role in the global marketplace. This conclusion, however, is easily challenged on three grounds. First, developing economies are experiencing a historic growth of the middle classes and skilled labor. Countries with a sizable middle class and sound political institutions traditionally witness rapid economic growth and thriving cultures. Second, in the past three decades, developing countries have strengthened their contributions to the world economy, and the welfare of consumers in advanced countries has been linked strategically to economic development and growth in many developing countries, such as China, Turkey and India. Third, and most importantly, multinational corporations (MNCs) from developing nations have become major players in the global marketplace. Not only do their goods and services offer consumers in advanced countries various options to choose from, but these corporations in their offshore operations and geographical expansion have become a source of employment and innovation, generating income from taxation for many governments.

That is, the world economy has been increasingly driven by events in developed and developing nations. It is no longer a one-directional economy where advanced countries fuel development, while developing ones are just passive recipients. This does not mean that developed economies have lost their economic influence and clout. Rather, it means that these countries, in their quest for prosperous economies, have found in developing economies useful partners. It means too that advanced technologies, especially information technology, have not only eased technological transfer but also boosted the innovation capacity of developing nations. These countries have become an attractive place for many Western MNCs and a fertile land for locally growing MNCs. These two developments are expected to hasten the involvement of developing countries in the world economy and boost their capacity as a source of essential talents for advanced countries.

The *Journal* acknowledges that income inequality is a threat to global economic growth. This recognition demands serious reflection. Income inequality is not a new development. Since the Industrial Revolution, inequality has become a hallmark of the global economy. In fact, it captures the essence of global capitalism and symbolizes two contradictory trends: (1) countries which do not participate in the global economy witness economic stagnation and an increasing income gap between the elite and the general public and (2) countries which participate in the global economy experience income inequality primarily because of displacement of labor, flight of companies to more economically attractive locations at home and abroad and increasing reliance in today's economy on skilled labor.

The debate

To make our argument relevant, we refer to a recent debate on "The Future of Globalization" organized by the World Economic Forum (2013). Both the former Prime Minister of Australia, Kevin Rudd, and the Director-General of the World Trade Organization, Pascal Lamy, addressed this subject. Kevin Rudd stated that "Inequality is an inevitable consequence of capitalism. The key is managing the level of inequality". He suggested that government intervention is needed for managing inequality. By advancing the notion that inequality is an intrinsic aspect of capitalism, Rudd acknowledges that under global capitalism, inequality is not going to disappear and the only practical solution is continuous government intervention. However, at the global level, this requires coordinated efforts to be mounted by governments across the globe.

Lamy is broader in his vision, highlighting that the worst outcome of globalization is inequality. He stresses that because "globalization is extremely efficient, inequalities within countries and among countries have increased: poverty reduction is absolute, inequality is relative". Not only does Lamy place an emphasis on the currency of inequalities, but he treats it as a natural outcome of globalization. This is the very reason that Lamy promotes his structural solution for inequalities stating that "At an international level, we need proper global governance that has the necessary tools, power and intervention capacity to recreate a more level playing field".

Practicality of the fair playing field

Certainly Lamy's proposition of creating a more level playing field has its problems. That is, recreating a playing field that is fair to market actors, while commendable, falls short on practical and theoretical levels. In practice, powerful actors with their ample resources and capabilities are able to reach customers even in remote areas of the globe. This is not an available option for a company based in Kenya or Ecuador. Likewise, powerful corporations, especially from advanced countries, have easy access to governments around the world and thus are capable of influencing market functions to their advantage. In either case, the market, even if there is access to it, inherently serves the interests of those who are powerful.

Theoretically, a level playing field is possible if four primary conditions are met. First, all market actors share similar interests and agree on overriding goals. In today's global environment, this is wishful thinking. Second, corporations as market actors are similar in size and are committed to a well-defined competition game. Third, the arena of competition is known to all actors and these actors are willing to act ethically. Four, income inequality reduction is incorporated in the strategic planning of corporations, and governments are driven to facilitate the achievement of this worthy goal.

Even though both Lamy and Rudd did not tackle the sources of income inequality, despite their ideological differences they brought to the fore a worthy subject that leaves its marks on millions of people within and across nations. This by itself energizes the debate on globalization and inequalities in an era where greed and accumulation of wealth deters many forces from addressing societal ills. Though inequalities in income have frightening consequences (e.g. social unrest, crimes, paralyzing economic growth, underutilization of human capital, less government revenue), many market actors, including governments, behave as if these are either not their concern or out of their direct control. This makes the issue of increasing the gap of income inequality a national and global priority. The source of this increasing gap revolves primarily around limited access to opportunities, be they social, educational or economic. While there is an understanding that in each society there are those who are able but are not willing to work, differences in abilities and qualifications always exist. These are present across history and civilizations and must not be a justification for overlooking the potent forces underpinning income inequalities.

These forces are market specific and political. The market forces are found, as Rudd argued, in capitalism itself and the primacy of self-interest over societal and organizational goals. Politically, governments in various parts of the world are either unable or unwilling to confront special interest groups and change social and political structures. Furthermore, the state increasingly has become an instrument for advancing corporate interests and, at the same time, using their home-based corporations to serve the political and economic interests of the home country.

Nevertheless, the rise of globalization facilitates the expansion of capitalism and enhances the global capitalism system. This makes it possible to create new economic opportunities for millions of people. The benefits from and access to these opportunities, however, appear to differ across advanced and developing countries. In advanced countries, as the *Wall Street Journal* documented, the people at the top 1 per cent of the income groups have managed during the current economic downturn to gain the most from government programs designed for lifting the economy through economic stimulus and rescue packages. People at the top of the income level have two things working to their advantage: connection to the power elite and policy makers and the means to enlist the services of professionals to manipulate the system and get the most out of government programs. The Wall Street Journal argued that "As central banks have pumped unprecedented sums of money into western economies, the super-rich have thrived as prices of high-end properties in cities such as London and New York have rocketed and equity markets soared". As the economy starts to take off, the rest of the upper class along with the upper middle class are energized to regain their economic health, while the poor experience no tangible improvement, and the majority of them are left behind. However, those in lower income brackets who manage to sharpen their skills through extensive training and education have the opportunity to be socially mobile and professionally competitive.

In developing countries, the situation is different. Business globalization opens economic opportunities for both skilled and unskilled labor. While the upper and middle classes have already established themselves, globalization enables the poor to seize new opportunities. In fact, globalization and the opening up of free markets have generated jobs for the poor and created opportunities for them to gain new skills. What is interesting to note here is that a large number of the poor in developing countries are sensitive to their economic status and are aware that the only way to reverse their fortune is to obtain an education and seize whatever opportunities arise. Because the poor in many developing nations constitute the majority, their economic gain is noticeable both in scale and magnitude. However, this improvement has its own limits and may mature in a few years, leaving both the upper and middle class groups dominating the economic scene.

Like among classes within a nation, inequalities between advanced and developing countries are problematic too. There is no doubt that developing nations have made remarkable progress economically in recent years. Some of them have achieved a decent standard of living and considerably improved the life expectancy of their citizens. However, not all developing nations are steadily progressing, and many of them will not reach an income level compatible with that of advanced countries in the foreseeable future. Indeed, the gap in income may increase instead of decrease. While some developing countries with large markets and plenty of resources, like China, Brazil, Turkey and South Africa, may in the near future narrow the gap of income inequality, these, however, are exceptions, just like those countries that rely heavily on producing and marketing energy and energy-based commodities (e.g. Qatar, Saudi Arabia, Kuwait).

In both groups of countries, there is a need for sound political and legal institutions, a thriving middle class, active and well-established civic organizations and active traditional and popular media outlets. While these preconditions are mostly met in advanced countries, in developing countries they are a distant reality. However, the poorer segments of the population, especially in developing countries, are untapped resources. Their energy and creative imagination are either not explored adequately or are overlooked. Without unlocking their energy and utilizing their imaginative capacity, progress toward narrowing the income gap remains a mere dream.

The preceding discussion makes an argument that ultimately some poor segments of the population, both in advanced and developing countries, are more likely, relative to other social classes, to not experience rapid economic gain from economic globalization. The discussion reaffirms, too, that access to educational opportunities might be the only practical mechanism for the poor to move forward and improve their income status. That is, under the conditions of prevailing global capitalism, inequality is the norm of life. Although no other perceivable economic system, at this time, may seriously uproot income inequality, a modified form of global capitalism may offer the best hope for a reduction in income inequality in the near future.

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Further reading

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Corresponding author

Abbas J. Ali can be contacted at: aaali@iup.edu