

The impact of globalization on labour market specially focusing on wage inequality and job displacement. A theoretical analysis

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Abstract. *The paper analyses the impact of globalization on the labour market, with a specific focus on wage inequality and job displacement. Globalization increases competitiveness, which breeds income inequality and job relocation. Technological change has resulted in a widespread shift in labour demand, favouring skilled workers at the expense of less skilled ones. Around the world, significant numbers of jobs have been eliminated due to cyclical downturns as well as structural changes brought on by changes in consumer demand, trade patterns, technology change, etc. Loss of employment has a detrimental effect on morality, consumption and health. Understanding the advantages and downsides of prospective public policy responses in the context of these consequences is essential. The paper also addresses potential strategies to deal with the challenges it brings. By throwing light on these concerns, the study aims to enhance a better understanding of the effects of globalization on the labour market and provide information for policy discussions aimed at creating a more equitable and sustainable future for workers.*

Keywords: globalization, wage inequality, job displacement, labour market.

JEL Classification: E24, F66.

Introduction

Globalization, which has influenced economies and societies worldwide, has been a defining feature of the modern period. It refers to the growing interdependence and integration of nations' economies and societies. It has facilitated the exchange of commodities, services, capital, and information across borders on an unprecedented scale, leading to a more integrated global marketplace. While globalization has undoubtedly brought numerous benefits like economic growth and increased consumer choices, it has also generated significant challenges for the labour market. The labour market is the one where people exchange their works and skills for wages and salaries. The demand and supply of labour, as well as job opportunities, wages, and the working conditions are all included in the labour market. However, globalization has brought both opportunities and challenges to the labour market. This paper aims to explore two key aspects of the impact of globalization on the labour market: wage inequality and job displacement.

Wage inequality is the unequal distribution of income or wages among workers. Competition among workers has been intensified worldwide due to globalization. It has led to a widening of the wage differences between highly skilled and lowly skilled workers, hence escalating income inequality between different industries and nations.

Job displacement is another significant challenge of globalization on the labour market. Due to global competition and technological advancement, there is displacement of workers in certain sectors or occupations. Despite the fact that, it has increased the number of job opportunities, globalization has also contributed to the collapse of traditional industries and the requirement for workers to adapt to shifting market conditions.

Understanding the impact of globalization on wage inequality and job displacement is critical for government, policymakers, businesses and workers themselves as it enables us to detect the causes of these problems and design strategies to lessen their negative impact thus helping to make the labour market more inclusive and equitable.

Literature review

Over the years, numerous studies have been conducted on globalization. A few significant studies which are particularly relevant for present analysis are reviewed in this paper.

Martín Rama (2003) in his paper examined whether globalization affects labour market outcomes, and whether labour market policies can mitigate the effects. According to him, if increasing economic integration favours those with the abilities to adapt to new organizational structures and technological advancements while leaving the rest behind, inequality among workers could worsen.

Goldberg and Pavcnik (2007) in their paper explained that the primary factor contributing to the growing wage disparity between skilled workers and unskilled workers is the growing demand for skilled people in comparison to unskilled ones. This indicates that skilled employment and wages are moving in the same direction.

Freenstra (1996, 1999) in his studies shows that international outsourcing has the potential to worsen wage disparity in both outsourced developing nations as well as in outsourcing developed nations.

Helpman et al. (2010) demonstrate that trade which causes revenue reallocation among firms to increase wage inequality between them, also causes wage inequality among workers. In this sense the impact of globalization on wage inequality among firms may represent a new avenue for affecting workers' wages.

Methodology

The present paper tries to analyze the impact of globalization on labour market specially focusing on wage inequality and job displacement. The study is based on secondary sources of data. The secondary data are obtained through various reports, publications, journals, articles, internet sources, etc. The study is descriptive in nature. The collected data were processed and graphically represented using MS-Office.

Objective

The objective of the paper is to provide an overview of the relationship between globalization and the labour market, and also to explore the impact of globalization on wage inequality and job displacement. Furthermore, the paper also seeks to identify potential strategies to minimize the negative effect and foster a more equitable and sustainable labour market in the context of globalization.

Globalization and the labour market

The concept of 'globalization' has drawn the attention of researchers, academics, social activists, and policy makers all around the world. The labour market and globalization are two interrelated processes that have profoundly changed the global economy over the past few decades. Globalization has both positive and negative impact on the labour market, affecting workers, businesses, and economies worldwide.

The increased mobility of labour is one of the key implications of globalization on the labour market. Globalization facilitates the workers to move freely across borders in search of better employment opportunities which in turn increase the competition among workers globally. This has produced both benefits and challenges. On the one hand, skilled workers are able to move to higher paying jobs with better working conditions in stronger economies. While on the other hand, due to greater competition from foreign countries with cheaper labour, low-skilled workers may experience wage pressure and job insecurity.

The outsourcing and offshoring of jobs has also been made easier by globalization. Businesses can now move their production activities to nations with lower labour costs, which results in employment losses in some industries and regions. Concerns have been raised regarding the potential for displacement of workers and the effects on local

economies. However, it has also made possible for businesses to more effectively access global markets resulting in enhanced productivity and economic growth.

Furthermore, through transferring technology and expertise, globalization has contributed to expand knowledge and skills across borders. Through the spread of technology, there is no doubt that Globalization is helping to improve labour market integration and reduce the wage gap between workers in the developed and emerging nation, but it also adds to the widening of wage gaps as workers without the required skills or training may find it difficult to compete in a labour market that is becoming more and more globalized.

The influence of globalization can also be seen in working conditions and labour standards. International labour standards, human rights, and social responsibilities are becoming increasingly important as more businesses and firms are engaging globally. These practices can help in improving working conditions of labour, eliminating forced and child labour, and promote fair wages.

However, adopting protectionist measures to curb the impulses of globalization is not the best course of action. Instead, policymakers should focus on how to help workers adjust to a changing environment.

The paper's specific focus on the labour market as a channel for the social and welfare effects of globalization is its main contribution. The nature of household poverty and inequality in a society is determined by access to income, and in all economies, the labour market continues to be the entry point for this income accumulation. In other words, the labour market serves as a filter through which the distributional and poverty effects of globalization are shaped. Therefore, it is crucial to study the impact of globalization on the labour market of an economy.

Global forces behind wage convergence

Channels of globalization such as the expansion of technology, trade, migration, and foreign investment, etc. work together to bring about wage convergence.

The cross-border movement of technology and knowledge is a common feature of globalization. Modern technologies have the potential to boost productivity and stimulate economic growth. Increased productivity due to adoption of new technologies by nations could result in greater wages. As countries like to catch up with more technologically advanced regions, expansion of technology may help to drive up wages. Automation and digitalization have made it possible for businesses to adopt a more efficient production process, reducing the need for labour-intensive tasks. This may result in a decrease in wages for those working in routine and repetitive jobs, while at the same time due to increase demand of skilled labours, their wages will rise, thus contributing to wage convergence.

Labour migration can influence wage convergence. There may be upward pressure on wages in the receiving regions when workers move from low-wage regions to high-wage ones. Conversely, the outflow of workers from lower paying regions to higher paying ones may result in a decrease in the labour force, which could lead to an increase in local wages.

The disparities in wages between nations or regions may eventually narrow down as a result of this mobility of labour. Migrant labours are an imperfect substitute for native workers and may even be complementary to one another, as they can raise the overall demand for the native worker's services. Additionally, immigrants lower the cost of services that local workers use.

Even when workers stay put, trade can advance wage convergence. Trade causes wages in developing nations to rise in comparison to rich nations, which have more capital and less labour, because developing nations with ample labour force export commodities which are made using labour-intensive manufacturing techniques.

Foreign investment can contribute to wage convergence by reducing production costs in lower-wage regions by making investment in and thus raising wages by boosting demand for local workers; transferring technology and knowledge to enhance productivity plus higher wages as workers become more skilled. It also fosters industry and skill development, leading to new jobs and higher wages. Competition and better working conditions from foreign companies can attract workers, further increasing wages in the region. Additionally, spillover effects from foreign investment can create demand for local businesses, leading to the growth of related industries and more jobs, further contributing to wage convergence.

The impact of globalization on wage inequality

Globalization has had a substantial impact on wage disparity since it has changed how income is distributed both within and across countries. There are several causes of this phenomenon:

1. Offshoring and outsourcing. Companies have been able to relocate their production process to countries where labour costs are lower due to globalization which leads to the loss of jobs and downward pressure on wages in countries with higher labour costs. Offshoring and outsourcing concentrate higher skilled and higher-paying jobs in developed countries shifting lower skilled ones to emerging economies. Thus, the wage gaps between skilled and unskilled workers as a result of geographic relocation of jobs have therefore worsened income inequality.
2. Global competition. As a result of the increased global competition brought on by globalization, a "Race to the Bottom" dynamic has been formed in which nations and firms strive to tempt investment and production by offering lower wages and relaxed labour regulations. In industries where labour intensive manufacturing is easily substitutable between nations, the competition to cut costs can result in a downward cycle of wages and labour standards. Workers now confront greater wage pressure, which makes it more challenging to achieve income mobility and worsens wage disparity.
3. Skill-Biased technological change. Rapid technological advancements that have accompanied globalization have contributed to skill-biased technological change. The need for highly trained professionals who have the knowledge and expertise to navigate the changing global economy has increased as a result of technological advancement.

However, as routine works have become automated or are now readily outsourced, the demand for low skilled workers have decreased. Thus due to the discrepancy in skill demand, high skilled workers now command high wages while low skilled workers see declining pay, thus escalating wage inequality.

4. The role of the global elite. The concentration of income and wealth among a global elite as a result of globalization has also widened income gaps. High income individuals and transnational corporations make profits from globalization by having access to global markets, enjoying favourable tax policies and being able to take benefit from regional variations in labour and production costs between nations. As the benefits of globalization disproportionately benefits those who are at the top of the income distribution while the majority of workers finds it difficult to keep up, this concentration of income and wealth among a small number of people adds to the rising income inequality.

The implications of globalization on job displacement

Globalization has serious implications for job displacement, especially in industries susceptible to offshoring, outsourcing and automation. The following factors demonstrate the impact of globalization on displacement of jobs:

1. Displacement in manufacturing industries. Due to globalization, jobs in higher cost economies have been lost as a result of the movement of manufacturing activities to nations with lower labour cost. Particularly noticeable examples of this trend are found in the textile industries, automobile production industries, and electronics industries. Significant job displacement results from the relocation of production activities to countries with lower wages and more hospitable business environment, as workers in higher-cost countries often find it difficult to compete with the lower production costs provided by the developing economies.
2. Automation and technological advancements. Technological advancement brought about by globalization has been a major factor in job displacement. In several industries, automation and the use of cutting-edge technologies have replaced human labour, thus decreasing the demand for certain types of jobs. The majority of displacement has occurred in routine and repetitive work that can be automated. Moreover, technological improvements have made it possible for businesses to streamline operations, resulting in decreased need for human labour in particular roles, as they strive to increase efficiency and cut costs.
3. Challenges in transitioning to new industries. Workers face challenges as a result of job displacement brought on by globalization, particularly by those who are working in low-skilled or declining industries. Because of the skills gap created by the change in demand for labour in the labour market from low-skilled to higher-skilled positions, it is challenging for the displaced workers to get adequate employment opportunities in new sectors. Moreover, cost and time required for retraining and acquisition of skill may make it difficult for an individual to reintegrate into the workforce. This may result in extended periods of unemployment, underemployment, or a mismatch in the capabilities of the workforce and the prospects for employment.

4. Impact on vulnerable groups. As a result of globalization, some worker groups are particularly impacted by job displacement. Older workers may find it challenging to adjust to the shifting needs of the job market and may endure longer periods of unemployment. Low-skilled workers are more vulnerable to losing their jobs, as their jobs can be more easily replaced by technology or outsourced to low-wage nations. Moreover, accessing new job prospects that require higher levels of qualifications and skills may be difficult for workers with limited education or training, increasing already existing inequalities.

Strategies to address wage inequality and job displacement

To minimize the negative effects of globalization on the labour market, policymakers, workers, and businesses must cooperate in unison. Some of the potential strategies are:

1. Investment in education and skill development. Workers can improve their adaptability and employability by giving priority to education and training programs which provides workers the skills they need in the changing global economy. Therefore, to create a competent and resilient workforce capable of fulfilling the needs of the global economy, government should prioritize on strengthening educational institutions, lifelong learning opportunities, and vocational training programs. Policies should prioritize affordable and accessible education and training with a special emphasis on disadvantaged communities and sectors vulnerable to job displacement.
2. Strengthening social safety nets: During periods of job displacement or economic downturns, social safety nets plays an important role in supporting workers. To help workers impacted by job relocation, government should strengthen their social safety nets. The effects of disruptions brought on by globalization can be mitigated to an extent with the help of robust unemployment benefits, income support, and job retraining programs, thus offering temporary financial assistance and helps workers to move to new employment opportunities. By ensuring that workers have access to the necessary resources and assistance they need to get through uncertain times, social safety nets protect against the negative consequences of globalization. It should be inclusive and open to all workers, including those employed in the gig and informal economies.
3. Promoting fair trade practices and labour standards. Upholding labour standards and engaging in fair trade practices are crucial for safeguarding the rights of workers and advancing fair wages. Establishing and enforcing regulations that ensure decent working conditions, fair wages, and protection from exploitative labour practices should be a joint effort of policymakers and businesses. It will be easier to level the playing field for workers and reduce wage inequalities caused by exploitative practices by promoting fair trade and ensuring that international labour standards are upheld. Government can promote responsible sourcing and procurement by implementing certification schemes and preferential policies that give priority to vendors who uphold ethical labour standards.
4. Collaboration between businesses and workers. Employers can cooperate with employees and their representatives to design policies and procedures that encourages equitable pay, job stability, and skill development, which in turn can lead to more

equitable outcomes in labour markets. Businesses can learn a lot about the requirements and concerns of the workers by incorporating them in the decision making process. In this way by working together, the benefits of globalization can be distributed more fairly among all parties involved.

5. Promoting inclusive growth. Policies that promote inclusive economic growth should be put in place by the government, with a particular emphasis on lowering income disparity, fostering upward mobility, and opening up of possibilities for all segments of the society ensuring that the benefits of globalization are shared more equitably. Progressive taxation, wealth redistribution mechanism, investment in infrastructure, targeted social programs that give people access to quality education, affordable housing and healthcare, and the job creation are some of the policies that can all be used to achieve this. Countries can establish an environment where workers have access to resources and opportunities to improve their economic well-being by encouraging inclusive growth. In order to generate new job possibilities, policies should encourage innovation, entrepreneurship and investment in emerging industries.
6. Strengthening international cooperation. Global cooperation is necessary to address global problems. In order to examine how globalization is affecting the labour market, international cooperation is essential. Governments can work together to design policies that support sustainable development, safeguard the rights of workers, and promote fair trade. They can also work together to establish and enforce international labour standards, preventing unfair labour practices, and fostering equitable economic development.
7. Lifelong learning and reskilling. In an economy that is changing rapidly on a global scale, continuous learning and skill upgrading are crucial. For workers to have the chance to learn new skills and adjust to the changing needs of the labour market, educational institutions, governments, and businesses should work together to serve these opportunities.
8. Supporting entrepreneurship and small businesses. Policies should support entrepreneurship and small businesses for job creation, economic growth, and reduce dependency on large corporations through financing, business development support, and simplified regulatory frameworks.
9. Strengthening social protection for gig economy workers. Policies should be developed for social protection and uphold labour rights for gig economy workers, including provision of healthcare, protection against unfair practices, and retirement benefits.
10. Continuous monitoring and evaluation. To assess the effectiveness of policies designed to address wage inequality and job displacement, it is important to continuously evaluate and monitor it. Government should invest in data driven systems to track labour market trends, wage dynamics, and policy impacts. Data-driven approach informs evidence based policy making enabling timely adjustments.

Conclusion

Globalization has a complex and multifaceted impact on the labour market. Despite the fact that globalization has brought numerous benefits, it has also led to wage inequality and job

displacement. The interplay of global competitiveness, technological advancement, offshoring, outsourcing, and automation has changed the distribution of income and job opportunities worldwide. It is thus necessary to take proactive measures to solve these issues in order to ensure that the benefits of globalization are distributed more equally among workers.

A comprehensive and multi-stakeholder approach is needed to address wage inequality and job displacement. To design and implement policies that prioritize workers' empowerment and well-being, governments, businesses, workers' organizations, and civil societies must work together. Thus, by doing so it would be conceivable to develop a labour market that is more equitable and sustainable, utilizing the positive aspects of globalization while minimizing its negative ones.

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