

## Causes that Determine Wage Inequality in Contemporary Economy

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**Abstract:** Differences in income have increased both in respect of full-time employees with university studies and those with secondary education and in respect of employees of non-productive sector and those in the industry. Differences have increased both in the '80, and end the years '90, despite the growth of real income of labor as a whole. Among OECD countries, increasing differences can be seen in France and Japan (although World Bank study in France in 2007 considered an example of shrinkage differences in income), but it is insignificant in Germany or Italy.

**Keywords:** Inequality, globalization, discrimination, unemployment

Analysis of economic inequalities of income can be seen from at least two perspectives: the perspective of liberal and neoliberal theories and theories from the perspective of social democratic (protectionist).

In recent decades, more and more economists feel that the phenomenon of income inequalities has developed and it became an object of study for many of them (Feenstra, 2007).

The poor population increase as a share demographic, the rich and the very rich grow as a share of their wealth in GDP. The trend

toward inequality is a fact of the contemporary economy. In the figures, things are as follows: average income of the poorest fifths of the population decreased by approx. 5%, while the richest fifth was enriched to 15%. In the 90s the poorest fifth of the population had 3.7% of GDP, while the richest fifth had more than half of GDP. Statistics presented the situation is that of the U.S. economy. Even if the figures are not the same, the trend toward inequality began to increase and in the European economy (Lemieux, 2007).

In Europe, studies of international institutions (IMF, World Bank, etc.) upon European countries shows that the analysis of inequality based on Gini coefficient reveals a reduction in the inequalities until the '80, after which more than 50% of European countries have considered increases in inequalities, generally attributable to factors of globalization. For example, Spain, a country with the greatest inequality of income in 1980, proves to be first and twenty years later, followed by a very open economy and globalization namely Switzerland. In 2001, the Nordic countries, Germany, Austria and the Netherlands were considered the most fair, according to the respective study.

Developing countries in Asia, the emerging economies of Europe, Latin America or the new industrialized Asian countries and developed ones are those that have increased inequalities in the above mentioned, while the African sub-Sahara or the Commonwealth of Independent States (CIS), have decreased inequalities. An interesting aspect is that in the initial period of globalization (1965-1989), East Asian countries, whose economies have grown rapidly, have diminishing inequalities of income and a better (equal) redistribution of them, because of their active economic policies how was the reform of land ownership policy of building public housing or investments in the health sector, infrastructure and manufacturing industries oriented to exports.

Among OECD countries, the greatest inequality of income we meet in the U.S. and Britain, and differences in income are growing.

Inequality like exclusion should not be accepted as an inevitable and especially should not be accepted in this way that the

actual distribution of income is an inevitable and a necessity for most people to live better now than 20-30 years ago. Created the problem, that of social dissolution by financial self-centredness, you should not groom anyone. Upheavals increasingly frequent in big cities of Europe or the U.S., the riots are excluded from the effect of such carelessness.

The causes of inequalities of income varies from country to country, there were disputes between economists on the prevalence of cases against the other.

The most important causes that determine the appearance, maintenance and amplification of this phenomenon are:

- Technological changes;
- Changes in the structure of national economies;
- Globalization;
- Education;
- The labor market.

### Technological changes

Further technological developments in some branches of national economies to the other led the emergence of income inequalities even among categories of the active population with equal level of training.

Using the large-scale computers and other high-tech equipment requires highly qualified workers to work with these modern technologies.

Heart specialists in the fields of „new“ technology such as the IT & C (programming, web design, e-commerce, telecommunications) increasing the revenue in these types of services to the other and in relation to other branches of economy.

Increasingly many entrepreneurs from different areas prefer to invest in new

technologies that combined with reducing the number of personnel necessary to achieve the production cycles determines increase productivity and maximize profits. This choice is justified for two reasons: first reason is the increased quality goods made and services rendered, and the second reason is the lower cost of depreciation of new technologies compared with the costs of personnel that would be needed to achieve the same volume of production.

### **Changes in the structure of national economies**

The changes that have taken place in the structures of national economies, in particular the transition from the economy based on the industry - which is specific equalizing wages - at the service economy - which is a dispersion of specific occupational categories and inequality in the system of salary of these categories - had as a consequence the emergence of differences of income.

The transition from an economy based on industry at the service was conducted in developed capitalist economies after the Second World War, and in the case of communist countries with start of dissolving the Communist bloc.

This transitional period has resulted in the emergence of differences in the pay of active people with the same level of educational preparation but with different specializations due to orientation to the „new“ areas of economic activity.

Another question that resulted in the emergence of inequalities of income was the transition from a closed economy (for example, the economies of communist societies), which is based on a economy of self-

consumption and equalizing wages to an open economy that is based on international exchange of products and Capital and the differences in income are enhanced.

### **Globalization**

Globalization can be both a source of inequality of income - where financial globalization - but can lead to equalizing incomes and - if globalization of trade (for example a country has access to technologies from developed countries lead to increased productivity in less developed countries and increasing trade deficit of developed countries).

The question that needs to be answered is how much further growth of existing inequalities can be attributed to globalization. To be able to outline a response to this problem, economists used an explanatory model based on the Stolper-Samuelson theorem, which can be summarized as follows: in an economic model with two countries with two factors of production exuberance different, increasing openness to trade (by reduction of customs duties) in a country in developing countries, where labor is relatively poorly qualified abundant, will increase revenue and decrease those with more specialized skills and high, and consequently reducing inequality. After taxes on imports will be reduced, the price of an imported product „labor-intensive qualified“ falls, and the same will happen with the revenue factor highly qualified employment, while prices of export products (created with labor weak qualified) increase. For a developed country with high labor qualified relative abundance, is going backwards and thus inequalities will increase.

Inequality, result of globalization, more and may take another form explanatory: differences in remuneration of factors of production. Globalization, say some economists, increase revenue factor capital, to the detriment of those in work. Thus, increased income from interest, dividends, repatriated profits, fees or royalties, to the detriment of wages. However, few studies done have failed to conclude in the direction of a significant effect of this redistribution on the inequalities of income.

The European Union is, without a doubt, the best example of free trade in contemporary society, and for an economist this means globalization. Free trade involves challenges that take different forms: first there is an impact of trade on income becoming a problem in Europe, secondly there is a question regarding the ways in which free trade affects the productivity of firms. Thus improving productivity expects that these gains are reflected by low prices and therefore higher revenue. The answer to the second question involves of course the impact of globalization on workers.

The influence of globalization on inequality should not be interpreted but the unit, several trends are observable: countries integrate into the world economy have reduction of the difference in income between the various developed countries with abundant labor force of international openness led to the reduction of inequality, determining the effect of emigration, in countries with labor mobility, opening the increased inequalities, as is the case of OECD Member; inequalities will persist and in a fully integrated, but will be lower than in any of the stages of its segmentation.

## Education

I consider that there are three ways through which education affects social inequality. The first is that there are differences between individuals involved in the process of working with different levels of preparedness. The second way by which the social inequality has to do with different degrees of payments corresponding to a level of education. The third way is to influence changes in the curricula of schools that may contribute to widening income inequality.

One of the problems the economy of the past 50 years has been generated by the increase to differences in income between workers with a level of preparedness higher compared to those with a poor level of training.

There is a view that education can lead to greater inequality of income. Analyzing the current situation of increasing inequalities in most developed societies in which there is a high level of education, with schools that are financed by public funds, we can reach the conclusion that a labor force educated young will be associated with an increase in inequality of income, so education does not reduce social inequality, reducing inequality is necessary for the education of the active population is high but one uniform (Telhado Pedro Pereira, Pedro Silva Martins, 2000).

There is a strong link between skills and education: the higher level of education will be even stronger impact on revenues skills, because skills are more easily deprived through education. Enhance skills is a consequence of a high level of education.

Statistics show that parents with a low level of education do not invest too much money in the education of their children, especially in their academic studies, this

phenomenon with the consequence that a differentiation between children who are not receiving a proper education potential of some of them.

Income is transmitted from generation to generation through parents investments in the human capital of children.

In general, workers in the field need more training because they perform administrative work with a greater responsibility than those employed in the production involved in textiles and assembly of goods that require a level of preparation lower.

### **Labor market**

On the labor market there are certain segments where there is absorption due to demand for specialists with certain qualifications who needs an economy at a time, but due to pressure and are in excess supply and falling demand for specialists in areas that no longer is a priority for the economy.

The influence of external markets on domestic labor market and the absorption of increasingly intense lead to a shortage of real balance between demand and supply of labor because of excessive migration of the work - force in certain areas resulting in increased salaries of persons remaining in the country of origin because increasing demand and low supply more manpower.

The phenomenon of migration of labor are as a result of widening income inequalities reported in other areas of the economy but also relative to the incomes of working abroad and those who work in the country of origin doing the same work.

Hidden unemployment is another face of inequality, namely the one who revealed that the price for a reduced rate it is increasing

inequalities among those who already had a job. Once, poverty was a consequence of the lack of a job, now it appears even when you have a job. Nearly 17 of the 32 million living below the official poverty threshold had a job. Among those who work full time, the number of poor increased by 45%. Differences between the highest salary in a company and the average salary of the same company have increased from 1/12 after tax in 1960, 1/70 in 1998. Similarly, differences between the salaries were increased depending on the level of training, a graduate of the college winning twice more than the average preparation.

These short information, and correlated with sectoral differences between the salaries we are to believe that low wages are the price for maintaining a busy active population, as the increases in production and productivity have not been reflected in further gains for ordinary workers but only for those in the top of the pyramid. Hidden unemployment, due to technology and unfair distribution of income is another element contributing to the current unemployment picture, without being considered by the Keynesian model.

A problem that should solve any function of demand in a modern economy is to identify which is the threshold at which uneven redistribution of income will lead to a slump long? What is the point to which the excess consumption of the lowest parts of the population with the highest incomes will be lower than the decrease in demand the other party, much of the population with low incomes? Continuous decrease in the rate of savings is a first indication of a future threshold of rupture. Even if a strategic solution would cover goods to emerging markets in Europe or in Asia, the large number of people is not a sufficient argument to support the

idea of a high demand for long-term, in circumstances where the average salary is somewhere near 100 dollars (and this in terms of optimistic statistics).

An interesting aspect, attributable to change the content of work, due to the phenomena accompanying globalization is that in OECD countries, income from employment become more unequal, while income from working full-time, no. This is because the inequalities of income are beginning to

appear increasingly as much attributable to unemployment, and activities with reduced schedule. Other phenomena which increases the differences in income, "attributable to globalization, are opening the labor market to immigrants access to productive activities with lower wages, trade liberalization, the outsourcing. Equally important are weakening labor unions, lack of skills, technological change that increases the demand for highly qualified labor.

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