

Globalization and Earnings Uncertainty in Nordic Countries

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In the face of the increasingly hectic pace of globalization, concerns regarding the future of domestic earnings have been raised in many countries. This applies to levels, i.e. earnings growth, but also to the stability of earnings. The fear is that the increasing international competition associated with globalization will lead to increasingly uncertain earnings, as employers and employees are exposed to the vagaries of international markets.

It has been observed that the evolution of uncertainty (alternatively labeled earnings fluctuations or volatility) may be an important explanation to the general increase in earnings inequality frequently observed. Cross-sectional inequality may thus be decomposed into a permanent and a temporary inequality component, and that a rise in either of these would lead to an increase in overall inequality. The public and academic debate has tended to assume that the permanent component has risen, yet the growth in inequality may equally well be explained by the temporary component.

Which of the two components has been driving the development of inequality is a central question for social policy. A rise in permanent inequality would suggest an increased centrality of factors affecting citizens' long term earnings potential, and a prime example is education. Growing temporary inequality would on the other hand underline the relevance of more traditional earning protection schemes, for instance unemployment compensation. Nevertheless, relatively little is known regarding the evolution of the two components, in particular on a comparative basis, and this is even more the case with regard to potential explanations. Existing analyses are largely limited to country specific studies, and are furthermore almost completely descriptive.

Against this background, the general question of the paper will therefore be how globalization has affected fluctuations in wage earnings in the Nordic countries. In the analyses we will make use of 15-20 year long individual earnings records drawn from national registers in Denmark, Finland, Norway, and Sweden. The data sets span the period mid-1980s to mid-2000s, with the exception of Norway for which the data begins in the mid-1990s. The records contain high quality earnings information from tax and social security registers. The information allows for a detailed analysis of the evolution of earnings uncertainty, including developments within subgroups defined by e.g. educational level and income. Information on employer will then be linked to import and export data to allow for the analysis of the impact of globalization.