

Globalisation, Skill Dynamics, Inequality and Welfare

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Abstract: *We analyze the impact of globalization upon education and inequality in advanced countries (the North) and upon the world welfare. We build a simple two-goods North-South intergenerational model with human capital formation and in which globalization consists of an increase in the size of the South. The model generates a continuum of possible steady states, one of which is optimal in terms of world welfare. The skill dynamics can thus produce sub-optimal states. Globalization causes an enlargement of the set of potentially sub-optimal situations and can cause the world to shift from an optimal to a sub-optimal state. Its impacts on the skill endowment and inequality depend on the intensity of the globalization shock and on the elasticity of substitution between goods. In addition, globalization produces rather different impacts upon the generation in work and upon the following generations in terms of income and inequality. Finally, there is a threshold value of the skill endowment under which inequality is lower after than before the globalization shock, and above which inequality is higher.*

Keywords: Globalisation, Human capital, Inequality, Welfare.

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