International Review of Economics and Finance 39 (2015) 371–375

Contents lists available at ScienceDirect

International Review of Economics and Finance

journal homepage: www.elsevier.com/locate/iref

Social exclusion, capital accumulation and inequality

Bharat Hazari [a], Vijay Mohan [b,*]

[a] Department of Economics and Finance, City University of Hong Kong, Hong Kong
[b] School of Economics, Finance and Marketing, RMIT University, Australia

ARTICLE INFO

Article history:
Received 22 January 2015
Received in revised form 16 July 2015
Accepted 16 July 2015
Available online 26 July 2015

JEL classification:
D5
F1
I3

Keywords:
Social exclusion
Capital accumulation
Immiserized growth
General equilibrium
Inequality

ABSTRACT

We construct a four-good, four-factor general equilibrium model with trade to show that, under certain conditions, capital accumulation results in: (a) the immiserization of socially excluded groups; (b) an increase in the rate of return on capital; and (c) a decrease in the wage rate of socially excluded groups. Our analysis shows why social exclusion increases inequality.

© 2015 Elsevier Inc. All rights reserved.

> "*Social exclusion is a process and a state that prevents individuals or groups from full participation in social, economic and political life and from asserting their rights. It derives from exclusionary relationships based on power.*" Beall and Piron (2004)

1. Introduction

In recent years, discussions on poverty and inequality have been inextricably linked to social exclusion, a slippery concept that has generated a multitude of definitions.[1] It is worthwhile to focus on a working definition, such as the one provided by Beall and Piron (2004) above, that captures to a large extent the multidimensional nature of this phenomenon. Examples of groups that have been socially excluded historically include the *Dalits* and *Adivasis* in India, the indigenous population in Australia, sections of the non-white population in apartheid South Africa, illegal migrants in various parts of the world, and so on.

Given its prevalence in discussions on poverty and inequality, there is a noticeable paucity of formal economic models that incorporate an idea of social exclusion. In this note we attempt to formalize this concept along three dimensions[2]:

(a) *Production exclusion* that arises from a lack of ownership of productive assets such as capital.
(b) *Consumption exclusion* that limits the consumption opportunities of the excluded group.

* Corresponding author at: School of Economics, Finance and Marketing, RMIT University, 445 Swanston Street, Melbourne, Vic 3000, Australia.
E-mail addresses: bhazari@gmail.com (B. Hazari), vijay.mohan@outlook.com (V. Mohan).

[1] See Sen (2000), Levitas (2005), Silver (1994) and Rodgers, Gore, and Figueiredo (1995) for insights into the nuances of social exclusion.

[2] Burchardt, Le Grand, and Piachaud (2002) use data from the British Household Panel Survey to measure social exclusion along four dimensions: consumption, production, political engagement and social interaction. We attempt to capture the first three features. Nevertheless, our list is by no means exhaustive in terms of factors determining social exclusion that have been identified in the literature. We focus on a select few primarily to maintain analytical tractability.

http://dx.doi.org/10.1016/j.iref.2015.07.004
1059-0560/© 2015 Elsevier Inc. All rights reserved.

(c) *Political exclusion* that prevents a socially excluded group from participating in decision-making processes. Specifically, we model this by supposing that the utility of the socially excluded group is ignored by another, controlling, group that makes economic decisions, and that the excluded group is powerless to change this situation.

To examine the impact of social exclusion, we construct a four-good, four-factor model with trade and show that capital accumulation, under certain conditions, necessarily immiserizes the socially excluded group. Moreover, capital accumulation increases the return to capital and lowers the wages earned by members of the socially excluded group, thereby increasing inequality.

By incorporating social exclusion explicitly in the analysis, our paper adds to the existing trade theoretic literature that focuses on inequality in the presence of non-traded goods. Oladi, Gilbert, and Beladi (2011), for example, highlight the possibility of rising inequality between the wages of skilled and unskilled workers as a result of increased foreign direct investment, even though both wages increase in real terms. Similarly, Oladi and Beladi (2008) show that technical progress reduces the wages of unskilled labor under certain circumstances. Both these papers build on the insight provided by Beladi and Batra (2004) that non-traded goods can be important in establishing the impact of trade on the wages of skilled and unskilled labor. Our paper differs from this literature in two significant ways. First, we explicitly model the importance of social exclusion, which requires relaxing the assumption of a representative agent that forms the basis of the wage inequality literature. Dropping this assumption is essential for modeling the plight of excluded groups in society. Secondly, we bring to fore the tension between domestic capitalists and the socially excluded group, with capital accumulation resulting in an increase in the return to capital and a decrease in the wages of the socially excluded group.

2. A trade theoretic model to analyze social exclusion

Consider a society that is divided into two groups: a socially excluded group, G, and a controlling group, C. The society produces four goods: X_1, X_2, X_3 and X_4, of which X_1 and X_2 are traded goods while X_3 and X_4 are non-traded goods. These goods are produced using four factors of production: two types of capital, K and T, and two types of labor, L and L^G. The term L^G denotes labor provided by G, while the controlling group provides labor L.[3]

Before proceeding with the model equations, we explicitly state the analytical requirements to describe the three dimensions of social exclusion outlined in the introduction:

(a) *Production exclusion*: Both types of capital, K and T, are owned by C; G owns only one factor of production: its labor, L^G. The inability of the socially excluded group to own capital can arise due to two factors, both of which seem to play a role in developing countries: first, the inability to gain access to credit markets; and second, no savings.[4]

(b) *Consumption exclusion*: Members of G consume only X_4, which we can think of as a composite good, while members of C consume X_1, X_2 and X_3. In other words, we assume that G is excluded from consuming goods that the rest of society enjoys.

(c) *Political exclusion*: The welfare of G does not enter the utility function maximized by C, which controls the assets used in the production process. Political exclusion relates to the inability of G to influence the welfare function that is optimized by C.

The production functions for producing the four goods are assumed to be strictly concave functions and are described in Eqs. (1) to (4):

$$X_1 = F_1(K_1, L_1), \tag{1}$$

$$X_2 = F_2(K_2, L_2), \tag{2}$$

$$X_3 = F_3\left(T_3, L_3^G\right), \tag{3}$$

$$X_4 = F_4\left(T_4, L_4^G\right). \tag{4}$$

As these equations indicate, X_1 and X_2 are produced with the help of K-type capital and L. Commodities X_3 and X_4 are produced with T-type capital and L^G. The variables $K_i(i = 1, 2)$, $T_i(i = 3, 4)$, $L_i(i = 1, 2)$ and $L_i^G(i = 3, 4)$ denote the allocation of different types of capital and labor across the four sectors $X_i(i = 1, 2, 3, 4)$.

The system satisfies the following marginal conditions on factor rentals:

$$r = \frac{\partial F_1}{\partial K_1} = P\frac{\partial F_2}{\partial K_2}, \tag{5}$$

[3] In what follows, we use the superscript 'G' to indicate variables that relate to the socially excluded group.

[4] As suggested by Kaldor (1955), savings is a disaggregated variable, and different groups have different propensities to save. Kaldor proposed that workers have a lower propensity to save than capitalists. Here, we allow this disaggregation to extend further, with socially excluded groups having virtually zero savings.

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
✓ امکان دانلود نسخه ترجمه شده مقالات
✓ پذیرش سفارش ترجمه تخصصی
✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
✓ دانلود فوری مقاله پس از پرداخت آنلاین
✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات