

Globalization, Poverty and Inequality: are the criticisms vague, vested, or valid?

Prepared for the NBER Pre-conference on Globalization, Poverty and Inequality
October 24-25, 2003

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This draft: September 20, 2003

Abstract: Lasting global economic integration is not the inevitable outcome of the process of globalization. Many alternative outcomes are possible, and many of these will be far less favorable to the poor. The best hope of achieving beneficial outcomes from globalization is to improve the quality of the dialog between participants on both sides of the debate. This paper contributes to this goal by explaining some of the reasons for the widely differing opinions of the impact of globalization on poverty and inequality in developing countries, and by suggesting ways in which researchers can better target their efforts towards allaying fears about globalization. It suggests that the public have more interest in poverty reporting based on total headcounts rather than poverty incidence, and which acknowledges non-monetary dimensions of poverty. In regard to inequality, statistics that focus on absolute gains from globalization and on income polarization are likely to have more resonance than statistics that attempt to summarize the shape of the income distribution.

Introduction

Economic globalization is a surprisingly controversial process. Surprising, that is, to the many economists and policy makers that believe it is the best means of bringing prosperity to the largest number of people all around the world. Under this belief, proponents of economic globalization have had a tendency to conclude that dissent and criticism is the result of ignorance or vested interest¹. They argue that anti-sweatshop campaigners do not understand that conditions in the factories owned by multi-nationals tend to be better than those in comparable domestic firms in developing countries; that environmentalists are denying the world's poor of the right to develop freely; and unionists in developed countries are protecting their interests at the expense of the workers in poorer parts of the world.

Bhagwati (2000, p.134) provides a good example of way that some proponents of globalization have reacted to critics:

“No one can escape the antiglobalists today.....This motley crew comes almost entirely from the rich countries and is overwhelmingly white, largely middle class, occasionally misinformed, often wittingly dishonest, and so diverse in its professed concerns that it makes the output from a monkey's romp on a keyboard look more coherent.”

This sort of sentiment is not uncommon among proponents of globalization. It has its roots in the period of neoclassical economic triumphalism of the 90s, when deep economic integration seemed a singular outcome towards which the process of globalization was inevitably propelling us.

¹Bardhan (2003)

Proponents of globalization were able to dismiss criticism of globalization, feeling confident that history would see them both victorious and vindicated.

The first motivation for this paper is that in light of the collapse of the last two Ministerial meetings of the World Trade Organization, global economic integration of the type envisaged by its proponents is now seeming far from inevitable. Many alternatives are currently vying for the crown, including a reversion to something approximating historical patterns of isolation, or deep economic integration at a regional rather than global level².

The second motivation for this paper is a belief that public support is necessary if global economic integration is to be achieved, and the best way to obtain public support for any policy is to engage them meaningfully in its development. This requires understanding their perspective, and addressing their questions.

The third motivation for this paper is that the absence of meaningful dialog between well-intentioned people on both sides of the globalization debate, leaves a vacuum of ignorance and distrust. This vacuum allows vested interests to expand their agenda and obtain a globalization outcome that truly does cheat the majority of the world's people³.

This paper aims to contribute to the meaningful dialog that is slowly emerging from the

²Many economists are concerned about the potential impact of a broadening backlash against globalization. See for example Rodrick (1997); Micklethwait & Wooldridge (2000); Graham, Birdsall & Pettinato (2000); Graham (2001); Drabek (2001); Irwin (2002).

³An example of this is that agricultural subsidies in Europe continue to enjoy wide-spread popular support on the basis that they are supporting small-scale, traditional farming, despite the fact that large farms are a major beneficiary of the program.

globalization debate. The first part of the paper attempts to explain what some of the more common concerns with globalization are, and why some people have these concerns when others do not. Particular attention is paid to 'corporate globalization', and conceptions of poverty and inequality. This section draws heavily on the important contributions made by Ravi Kanbur (2001) and Martin Ravallion (2003), as well as recent contributions by Deardorff (2003), and Elliott, Kar and Richardson (2003).

The second part of the paper considers how and why critics of globalization believe that the empirical evidence to date provides proof of the failure of globalization to help the poor, when proponents of globalization are able to reach exactly the opposite conclusion. This part proceeds in two steps. Firstly it considers the calculation of poverty and inequality numbers, and identifies how these calculations make it possible for people to reach such different conclusions about the same objective reality. This section draws on work by Ravallion (2003), as well as Sala-i-Martin (2002) and Wade (2002).

The second section considers the empirical evidence linking globalization to the observed trends in poverty and inequality. It identifies a set of points of consensus that have emerged from the empirical research to date, but argues that beyond these, the causal evidence is not as clear as either proponents or critics tend to claim.

Unfortunately, in order to make the paper readable and coherent, it has been necessary to severely restrict the breadth of globalization-related concerns that are addressed. With a view to fostering meaningful dialog, I have concentrated almost entirely on the opinions of middle-of-the-road

participants in the globalization debate. Though I believe this simplification was necessary, I have made it reluctantly. The multitude and diversity of opinions is one of the most notable aspects of the globalization debate.

PART I - UNDERSTANDING THE CONCERNS

Globalization

Despite the fact that the definition of globalization has been attempted by hundreds of authors and distinguished speakers on the topic, the word continues to mean very different things to different people. In light of this, I do not attempt any general definition of globalization, but rather explain what is meant by globalization in the context of this paper.

Primarily when globalization is referred to here, what is actually meant is global economic integration, or 'economic globalization'. Economic globalization is occurring partly due to improvements in technology and decreased transportation costs, and partly due to a deliberate choice on behalf of many national governments, to increase their integration with the global economy. Thus we may see economic globalization as an aggregate outcome that results from the choices of many individual countries to increase their integration with the global economy.

Though it will not be a major issue in this paper, it is worth noting that the impact on a country of its own integration may be different from the impact of exogenous increases in globalization.

Consider the case of Mexico. The impact of its own efforts at liberalization and integration may be to increase foreign trade and investment. At the same time, however, many other low and middle-income countries have been integrating, which leads to more competition for foreign capital and

export markets. Thus exogenous increases in the level of global economic integration (i.e. economic globalization), and increases in Mexico's own level of integration, may have exactly opposite effects on the level of trade and investment in that country. Indeed this example is not far from reality. One of the conclusions of the Trade and Development Report, 2002 (UNCTAD, p.IX) is that middle income countries such as those in Latin America and South-East Asia will need to rapidly upgrade their skill intensive manufactures if they are to stay ahead of competition from low-income countries that are becoming increasingly export-oriented.

Having established that globalization is largely the aggregate result of integration on behalf of many individual countries, we need to consider how individual countries become integrated into the global economy. There are two ways in which we may consider the extent to which a country is integrated with the global economy. The first is to determine the level of restrictions placed on the movement of goods, services and factors into and out of the country. Thus an absence of trade restrictions, liberalized capital markets, and free movement of labor could all be considered indicators of an integrated economy. The second measure of a country's integration is the relative size of the flows of goods, services, factors, and profits into and out of the country. While in general these two measures are correlated, they are not identical concepts. The most important example of this is export enhancement programs. Considered from the first perspective, these programs are generally considered akin to trade protection, and decidedly contrary to the principle of economic globalization. Yet considered from the second perspective, these programs can be seen to greatly increase the level of integration achieved. Indeed, this ambiguity is one of the reasons that some people claim that the East Asian Tiger's success was based on integrating into the world economy, while others claim exactly the opposite.

As will be seen later, this distinction is important to the globalization debate. Most people are happy with increases in trade, so long as it means they can sell more exports and buy more imports in return, yet they are not convinced that a policy of unrestricted free markets and minimal government involvement is the best way to achieve this goal. In line with this sentiment, the discussion in this paper focuses on integration as measured by the degree of liberalization of government policies with regard to trade and investment. Indeed, in some places the discussion will go beyond liberalization of external policies, to liberalization of domestic economic policies.

The inclusion of domestic economic policies in a paper on globalization was not my original intention. However as my research progressed I realized not only that critics of economic globalization often conflated the two together, but also that they were right to do so. Liberalization is sometimes an explicit requirement of integration agreements. The most infamous example of this is the conditional lending of the IMF, which was based on adherence to structural adjustment programs that embodied 'Washington Consensus' economic policies. However, liberalization is more often an unwritten requirement for integration. If a country wishes to be integrated into the global economy, they need to attract foreign investment, and in order to do that, they need to implement economic policies that foreign investors think are sound, and at the moment, foreign investors think that neoliberal economic policies are sound⁴. The result is what Milton Friedman (1999) refers to as the “golden straight jacket” for economic policy makers.

⁴Rodrick (1997); Gray (1998)

'Anti-Globalization'

Despite its popularity and convenience, in the remainder of this paper I avoid referring to the 'anti-globalization movement'. I do this for two reasons. Firstly, many of the concerns and positions that I discuss may be attributed to a far broader segment of the population than merely those that are actively involved in any movement. The use of such a label, and its application to street protesters, has a divisive effect between groups who in reality share many of the same concerns. In particular, it forces a wedge between academic economists and the concerned public⁵.

Secondly, as has been noted by many leading authors⁶, the so-called 'anti-globalization' movement is not uniformly opposed to globalization as it is broadly defined. It is a fact that the movement itself is global, and all the leading writers of the movement reject the 'anti-globalization' label⁷.

Naomi Klein, 'unofficial spokesperson of the movement' has this to say about the term:

“The irony of the media-imposed label, 'anti-globalization,' is that we in this movement have been turning globalization into a lived reality, perhaps more so than even the most multinational of corporate executives.”⁸

But what about globalization as I have defined it? People may enjoy the world-wide-web, and easy international travel, but is it not true that they are actually opposed to global economic integration? As will be argued in the following paragraphs, for the most part people are not opposed to global economic integration in principle. However they are critical of the way in which it is currently progressing, and they do believe that the optimal level of integration will allow space for national

⁵ For example Jagdish Bhagwati is an outspoken critic of the 'anti-globalization' movement, yet his opinions on some issues are so close to many people in that so-called movement that he has quoted extensively by them (see for example Lopatin, 2003 in “Sand in the Wheels”: newsletter of ATTAC (4/24/03) Available online.).

⁶ See for example Sen (2002); Kanbur (2001); Ravallion (2003)

⁷ See for example Kortan (1996)

⁸ Quoted in Chihara (2002)

sovereignty, democracy, and some level of government involvement in the economy. I label people that hold these sorts of views as 'critics of globalization' under the belief that the label 'anti-globalization' is more fitting to someone who would like to stop globalization dead in its tracks.

There are four distinct but related issues that are a source of much of the concern and opposition to globalization. The first issue is not an objection to globalization in principle, but rather to the hypocritical way in which it is being implemented. Oxfam International is the most prominent non-profit organization for whom the major concern with globalization is its biased application, as exemplified by the agricultural policies of the US and EU⁹. This form of objection is the one that finds most sympathy among academic economists¹⁰.

The second major globalization-related source of concern is the loss of autonomy of national governments, and the perceived loss of democratic process that accompanies it. Prime examples of this have been the 'forcing' of 'Washington Consensus' policies on poor nations by rich nations or their agencies, the World Bank and IMF, and the restrictions on environmental regulations imposed by the WTO. Note that not all people who have concerns about globalization are concerned about the loss of sovereignty, some see increased super-national governance as necessary to deal with the problems facing the world today. According to this group the problem with the current incarnation of globalization is the power imbalance in global governance between the economic institutions, primarily the WTO, and the institutions charged with managing

⁹See for example "Rigged Rules and Double Standards".

¹⁰See for example Deardorff (2003) and Bardhan (2003)

environmental and social concerns¹¹.

The third aspect of globalization that raises objections is the domestic economic policies that often accompany it. In particular, what are variously referred to as 'neoliberal' or 'Washington Consensus' economic policies. To the extent that globalization does restrict provision by the government of public goods, social insurance, and environmental regulation, it would be fair to say that many people are genuinely opposed to globalization.

The fourth and final contentious aspect of globalization is the rise of big corporations. Whether by active design or by the inherent nature of the process, large corporations often appear to be the biggest gainers from globalization. Dissatisfaction with this pattern has led many critics to label the current course of globalization as 'corporate globalization'. It is important to note that for many people, benefits to large corporations enter their personal utility functions negatively. This may be partially attributable to envy, but there is also evidence of two more logically motivated reasons. Firstly, there is the assumption that if corporations benefit, someone else must be losing, or at least gaining less than they deserve. Secondly, there is a perceived link between increasing wealth and increasing power. Many people consider corporations to be already too powerful, they do not like or trust large corporations, and they feel very uncomfortable with the fact that many corporations are richer and more powerful than the governments of the countries in which they are operating¹². Thus even a change that increases personal income may be considered welfare

¹¹Dani Rodrick (1997 & 2002) has paid a lot of attention to this issue. In his paper "Feasible Globalizations", Rodrick argues that democratic politics, the nation state and full global economic integration are mutually incompatible. Only two can co-exist and we need to make a conscious decision about which pair we choose.

¹²Of the largest 100 economies in the world, 52 are now corporations. From http://www.thirdworldtraveler.com/Globalization/Globalization_FactsFigures.html, attributed to Institute for

decreasing if a large corporation benefits disproportionately more. This issue is discussed further under the next heading.

Corporate Globalization

This section focuses on concerns about the impact of 'corporate globalization' on the poor in developing countries. The role of big business is the most widely held concern of the general public with regard to globalization. For evidence of this, one need look no further than the titles of the two best selling 'anti-globalization' books; David Korten's "When Corporations Rule the World", and Naomi Klein's "No Logo". However, the role and consequences of large, multinational firms in globalization has received relatively little attention from economists.

When critics refer to 'corporate globalization', they are referring to the influence that large corporations have on writing the rules of the global economy, as well as to the perception that large, multinational or transnational corporations¹³, are the biggest beneficiaries of globalization. The link between corporate globalization and worsening poverty in the minds of many critics is illustrated by the following quote from the WTO overview on the website of Global Trade Watch¹⁴.

*“Established in 1995, the World Trade Organization (WTO) is a powerful new global commerce agency, which transformed the General Agreement on Tariffs and Trade (GATT) into an enforceable global commerce code. The WTO is one of the main mechanisms of **corporate globalization**.*

Policy Studies, Top 200: The Rise of Corporate Global Power, 2000.

¹³Hereafter I refer to 'transnational corporations' when I mean both transnational and multinational corporations.

¹⁴(<http://www.citizen.org/trade/wto/index.cfm>)

*Under the WTO's system of **corporate-managed trade**, economic efficiency, reflected in short-run **corporate profits**, dominates other values. Decisions affecting the economy are to be confined to the **private sector**, while social and environmental costs are borne by the public.*

*The WTO and GATT Uruguay Round Agreements have functioned principally to pry open markets **for the benefit of transnational corporations** at the expense of national and local economies; workers, farmers, indigenous peoples, women and other social groups; health and safety; the environment; and animal welfare. In addition, the WTO system's, rules and procedures are undemocratic, un-transparent and non-accountable and have operated to marginalize the majority of the world's people." (emphasis added)*

The logic suggested by quotes such as these is that benefit to transnational corporations necessarily implies loss to everyone else, particularly the most poor and marginalized groups. I will argue that while *on average* this belief does not appear to be borne out, the concerns on which it is based are valid, and they point to ways in which the benefits of globalization could be better spread.

The empirical evidence against Global Trade Watch's assertion in the preceding quote is simply that trade and foreign direct investment are correlated with growth, and growth is correlated with poverty reductions. Thus it is very hard to argue that on average what is good for transnational corporations is bad for either national economies or the poor. So why do these concerns persist?

In my view there are three primary sources of the sort of sentiment expressed by Global Trade Watch. The first is evidence based. The reality is that transnational corporations have been the

biggest beneficiaries of globalization¹⁵. It is also true that many local economies, many groups of workers, farmers, and indigenous peoples have suffered as a result of globalization. While some members of these groups may find new and better sources of income as a result of globalization, millions do not¹⁶. Sentiments against globalization are based in no small part on the knowledge that real people are losing their traditions, their livelihoods, and indeed their lives in the process.

The second basis for believing that what is good for corporations is bad for the poor is the connection between consumption and environmental quality or natural resources. The inclusion of the environment as one of the losers in the above statement from Global Trade Watch is not coincidental. If you believe that all human consumption comes at an environmental or natural resource cost, and that the global environment is approaching some critical level of degradation, then increased consumption by the rich *necessarily* implies decreased consumption by the poor. The 'poor' here may be a part of either current or future generations¹⁷.

The following quote from a recent article in PBS's Online NewsHour¹⁸ illustrates this sentiment. When asked if he resented foreigners that had come to the Philippines and made their fortune, Rolando Katigbak, a Filipino ex-patriot, had this to say:

¹⁵For example, between 1983 and 1999, the combined sales of the Top 200 corporations grew from the equivalent of 25.0 percent to 27.5 percent of World GDP. Over the same period their profits grew 362.4 percent, while the number of people they employ grew by only 14.4 percent. Source: Anderson & Cavanagh, Institute for Policy Studies (2000).

¹⁶The recent suicide of Lee Kyung Hae at the WTO meeting in Cancun painfully illustrated the despair felt by farmers in South Korea, a country which is often held up as a poster child for globalization. His case highlights the particular difficulties that older people with specific skills experience when their industry can no longer compete.

¹⁷Kanbur (2001) includes differences in time horizons as one of the reasons for the different opinions regarding the impact of globalization on the poor. Critics tend to apply both shorter and longer time horizons. That is, they are concerned about those who are negatively impacted (such as the Korean farmers) in the short term, and they are concerned with environmental sustainability so that future generations are not compromised.

¹⁸Paul Solman, PBS Online NewsHour, Online Focus: Global Trade, September 12, 2000. Available at http://www.pbs.org/newshour/bb/international/july-dec03/wto_9-12.html.

“Of course. If you get rich in your own country I don't care. But our resources are being used by other people who came over...”

Oil, mineral, timber and agricultural land are the sorts of resources most often in people's minds when they express this sort of sentiment. The following quote from Vinanda Shiva (2002), a member of the International Forum on Globalization, illustrates the trade-off envisaged in agriculture.

“Export-oriented agriculture policies divert scarce land and water from meeting local food needs to providing for export markets thus creating hunger and conditions for famine for the most vulnerable and marginal communities. This is what happened during colonialism and is happening under the recolonisation of globalisation.”

These sorts of sentiments will be familiar to economists as the basis for dependency theory that was used to justify protectionism in developing countries during the eighties. Such theories have been largely discredited by the positive correlation usually found between foreign direct investment, trade and growth. However, as Woolcock (2001) argues, where institutions are weak and states predatory, globalization can exacerbate problems of exploitation. According to Woolcock (2001, p.5):

“In short, globalization via the sale of point source natural resources in countries with weak political institutions and divided civil societies can be a disaster.”

Once again we see the different conclusion that is reached depending on whether one concentrates on average relationships or specific cases of the failure of a certain approach.

The third basis for concern over the gains to big business from globalization is their increasing

power. The larger and richer corporations get, the more political and market power they hold. Concern over corporate power and its links with globalization is often voiced in terms much like the following quote from John McMurtry (2002, p.202) in his article *“Why the Protesters are Against Corporate Globalization”*.

“The ultimate subject and sovereign ruler of the world is the transnational corporation, operating by collective prescription and enforcement through the World Trade Organization in concert with its prototype the NAFTA, its European collaborator, the EU, and such derivative regional instruments as the APEC, the MAI, the FTAA, and so on.

Together these constitute the hierarchical formation of the planet’s new rule by extra-parliamentary and transnational fiat.”

Statements such as these are more notable for their dramatic effect than for their sense of balance, but the general problem to which they allude is real enough. Widespread concern over the political power of big business exists even in countries such as the United States, that have wealthy and educated populaces, and strong democratic institutions¹⁹. To believe that these same businesses are not capable of wielding political power in countries that do not have these endowments is difficult. The influence of business in international politics, most notably at the WTO is also well documented. The most often criticized result of this influence is the Trade Related Intellectual Property Rights (TRIPS) agreement²⁰. It is generally acknowledged that the primary outcome of this agreement is to increase the profits of large corporations at the expense of poor governments and consumers.

¹⁹A Business Week/Harris Poll published in the September 2000 edition of Business Week showed that 72-82% of respondents agree that business has gained too much power over too many aspects of American life, while 74-82% agreed that big companies have too much influence over government policy, politicians and policy-makers in Washington.

²⁰See for example Bardhan (2003); Deardorff (2003); Wright et al. (2003)

Concern over the political power of transnational corporations is also linked to the difficulties that people perceive for nation states in an increasingly economically integrated world. Some academics, such as Woolcock (2001) argue that the threat that the globalization represents to the nation state has been greatly over-exaggerated. At the same time, however, Woolcock argues convincingly that we need sound political institutions and civil society more than ever, without addressing the question of whether globalization will foster or frustrate their development. Considered from a game-theoretic perspective, it would seem that the increased economic opportunities provided by globalization may tend to increase the likelihood of capture of politicians and bureaucrats. Countering this effect is the increased competition and accountability provided by openness²¹. In light of the theoretical ambiguity, Bardhan (2003) suggests that the effect of globalization on the political equilibrium in a country will vary on a case by case basis.

The final aspect of corporate globalization we consider is what Kanbur (2001, p.1089) describes as “undoubtedly the most potent difference in framework and perspective” in the globalization debate. That is, market structure and market power held by transnational corporations. While much economic research has considered the ability of globalization to reduce the market power held by local firms, many critics see globalization as a mechanism by which the oligopolistic reach of the big corporations is spread to the furthest corners of the globe. Bardhan (2003), Kanbur (2001) and Bhagwati (2002) have all noted that one of the fundamental differences between globalization's proponents and critics is that the former consider the impacts of market liberalization within a framework of perfect competition, while the latter consider it in the context

²¹Krueger (1980) argues strongly for this effect, and stands by this assertion still (Berg & Krueger, 2003).

of highly imperfect competition. Within a framework of imperfect competition, distortions in both factor and goods markets are feasible²². Hence the poor are seen as being exploited both in their role as suppliers of labor or raw produce, and in their role as consumers of finished products.

Intuitively one would expect that globalization, defined in its broadest sense, favors large and transnational corporations²³. It is also true that business executives have been attempting to attain market power under the belief that this is necessary in a globalized economy, and that some major markets are highly concentrated²⁴. Among economists, monopolistic competition is increasingly being accepted as a model for describing the world economy²⁵. However, the empirical evidence for the perceived links between the globalization of an industry and the concentration of that industry are weak²⁶. And even if large corporations hold significant market power, there are several further facts that need to be established before it can be claimed that this leads to a bad outcome for the poor. For example:

1. Does power in world markets translate into power in national markets?
2. How much are these firms exploiting the market power that they hold? and
3. Are these rents simply the price we must all pay for the greater efficiency of the larger firms?

²²E.g. Sethi (2003, p.1) claims that “most modern economies operate under conditions of imperfect competition where corporations gain above-normal profits, i.e., market rent, from market imperfections. Therefore, corporations should be held accountable for a more equitable distribution of these above-normal profits with other groups, e. g., customers, employees, etc., who were deprived of their market-based gains because of market imperfections and corporate power.”

Deardorff (2003) attempts to provide an economic model describing the exploitative power corporations are accused of exercising over labor.

²³In its broad definition, globalization entails a deduction in market restrictions that corporations face, as well as decreasing transport and communication costs. Marketing costs are a growing proportion of total costs in many industries, and these have very large scale efficiencies. Thus we can expect globalization to increase the minimum efficient size of firms. The extent to which this is true in practice is an issue worthy of empirical investigation.

²⁴Ghemawat & Ghadar (2000)

²⁵Elliot, Kar & Richardson (2003)

²⁶Ghemawat & Ghadar (2000)

Bardhan (2003) suggests that the implications of corporate market power are in need of empirical investigation. However he argues that even if the issue is validated empirically, protesters should be lobbying for better anti-trust laws, not more trade restrictions.

Poverty

This section seeks to identify and explain the concepts of poverty that are most often employed by critics of economic globalization. It will become evident from the discussion that the way in which people think about poverty and inequality is driven by philosophical, practical, and political considerations. Ravi Kanbur (2001) identifies several dimensions along which conceptions of poverty tend to vary. They are:

- level of aggregation,
- time horizon,
- total number of poor verses poverty incidence, and
- monetary verses multi-dimensional measures.

Level of Aggregation

It is often perplexing to economists to hear people refer to globalization 'worsening poverty' even in situations in which it is clear that the total number of people in poverty has fallen. Part of the explanation for this puzzling view is that many people consider the phrase 'worsening poverty' to be apposite in any situation in which a significant number of already poor people are made poorer. Thus it may be applied even when the total number of people living in poverty has decreased.

Kanbur (2001, p.1087) explains labels this position as one based on a more geographically disaggregated perspective. He explains their more local perspective as follows:

“For an NGO working with street children in Accra, or for a local official coping with increased poverty among indigenous peoples in Chiapas, it is cold comfort to be told, 'but national poverty has gone down'.”

However, concern for subgroups based on direct contact with the poor cannot be the whole explanation. There are large numbers of people who work in normal jobs in rich countries who also use this criterion for worsening poverty. So what is the explanation for *their* claim poverty is worsening whenever *some* (rather large numbers of) poor people are made worse off? Are they simply looking for reasons to criticize economic policies that do not line up with their political preferences?

Undoubtedly political biases do play a role, but this is certainly not all the answer. A more constructive conclusion is simply that the opposing groups have in mind different social welfare functions. Those concerned with losses to any already poor group may be viewed as applying a Rawlsian social welfare function²⁷, while economists tend to assume a utilitarian social welfare function²⁸.

²⁷Seen another way, these people are applying the Pareto criterion. If some people (particular very poor people) have been made worse off by a change, then that change cannot be considered an improvement.

²⁸Since the demise of welfare economics in the 1970's, very few economists admit to applying any social welfare function at all. However, it is without doubt that almost all measures employed by economics correspond to an implicit utilitarian social welfare function.

Time Horizon

Kanbur's second explanation for concern over negative impacts on subgroups is a difference in time horizon. According to him, critics of globalization have at once a more short term and a longer-term world-view than many of its proponents. The shorter-term view is the one that leads them to feel more concerned about the loss of income by certain subgroups that results from globalization. The more medium term perspective of economists suggests that new industries will open up, and better jobs will become available.

The question remains, however, whether the people who lost their livelihoods due to globalization will be the same ones that gain a new and better source of income. In the case of middle aged or older people, or where education and geographical immobility limit access to new opportunities, there is good reason to believe that the losers will remain losers, within any time frame that is comparable with a human lifetime²⁹. This brings us to the conclusion that it is not really a shorter time horizon, but rather a smaller geographical perspective, combined with a pessimistic view of mobility, that generates concerns over impacted subgroups.

Numbers verses Incidence

Both Ravallion (2003) and Kanbur (2001) observe that the relative importance of the *total number of poor* and the *incidence of poverty* is one of the major points of difference in the globalization debate. Academic economists, and international development agencies such as the World Bank

²⁹Ravallion (2003, p.??) provides some empirical evidence in support of this concern. He claims that, when analyzing the poverty impact of economic integration:

“...it is quite common to find considerable churning under the surface. Some people have escaped poverty while others have fallen into poverty, even though the overall poverty rate has moved rather little.”

and UNDP rely almost entirely on incidence as the appropriate measure, while critics of economic globalization refer almost without exception to the total number of people living in poverty. The following “Globalization Facts and Figures” collected by the International Forum on Globalization³⁰ illustrates this focus.

“Excluding China, there are 100 million more poor people in developing countries than a decade ago. - The World Bank, Annual Review of Development Effectiveness, 1999

Since 1980, economic decline or stagnation has affected 100 countries, reducing the incomes of 1.6 billion people. For 70 of these countries, average incomes are less in the mid 1990s than in 1980, and in 43, less than in 1970. - United Nations Human Development Report, 1999”

We can understand the different focus of the two groups very easily if we consider the advantages and disadvantages of the two concepts. If we want to make inter-country comparisons, for example, then poverty incidence makes much more sense as a measure³¹. Poverty incidence also allows the poverty outcomes of a policy to be evaluated independent of the impact of population growth. These are all things that economists and development specialists wish to do. These groups are also very concerned with progress towards poverty eradication, and believe that poverty incidence is better indicator of how easy or difficult it will be to eliminate poverty in a particular country³². Thus, a decrease in the poverty incidence is considered to be progress against poverty, purely because the country is now in a better position to fight poverty in the next period, even if

³⁰IFG Bulletin, 2001, Volume 1, Issue 3, Available at

http://www.thirdworldtraveler.com/Globalization/Globalization_FactsFigures.html

³¹It is possible, however, to conceive of alternative measures that could be used for inter-country comparisons. For example, one could compare “poverty reduction rates” in much the same way that GDP growth is used as a the primary measure of overall economic performance.

³²Consider for example two countries that both have with one million poor people. One country has only one thousand rich people and the other has ten million rich people. It is obvious that the latter country is in a much better position financially to eradicate poverty.

the total number of poor has not changed or has risen slightly.

For people outside the economics profession, the utility of a poverty measure as an analytical tool is less important. Their focus tends to be directly on the goal, and that goal is to minimize the number of people that are deprived of basic needs. Further, many would argue that there are ways in which the total number of people remaining poor is a better measure of how easy it will be to eradicate poverty in the future. This view is based on environmental limits or neo-Malthusian perspectives³³.

As it turns out, whether one assesses world poverty trends based on total numbers or incidence does make a difference. Though there is significant variation in the estimates obtained using different methods, and considering different time periods³⁴, all of the estimates show a decrease in the incidence of poverty since the 1980s. The total number of extreme poor, however, has been variously found to increase³⁵, stay the same³⁶, slightly decrease³⁷, or significantly decrease³⁸.

Excluding China, or using a higher poverty line, there is evidence of a significant increase in the total number of poor³⁹.

³³The argument is, that if the creation of goods ultimately depends on environmental resources, and those resources are limited, then an increase in the number of poor people in the world is always a bad sign. Thus this group tend to see poverty as the result of lack of access to resources, more than a lack of economic activity.

³⁴For discussions of the issues involved in calculating poverty estimates, and the different results obtained see Wade (2002), Ravallion (2003), Deaton (2001), Deaton (2002) as well as the original source articles cited.

³⁵World Bank, World Development Report 2000/01

³⁶World Bank, World Development Indicators 2001

³⁷Chen & Ravallion (2002)

³⁸World Bank (2002). Note that their estimate of a 200mill. reduction in the number of poor is based on comparison of numbers generated by two incompatible methodologies (Wade, 2002).

³⁹Chen & Ravallion (2002). In this paragraph references to the number of extreme poor are based on a poverty line set at approximately \$1/day, while the higher poverty line referred to is \$2.15/day.

Monetary verses Multi-Dimensional Measures

The debate over whether monetary measures are a sufficient measure of poverty is one in which there has been an increasing amount of agreement. As Kanji and Barrientos (2002, p.13) note:

“The current debate over trade liberalization is taking place within a context of important shifts in development thinking on poverty. There have been significant changes over the last 25 years and a much broader, multi-dimensional and more dynamic concept of poverty has become acceptable to most actors in the international development arena.”

Kanbur (2001, p.1085) also notes that health and education outcomes are now agreed to be “on a par with income in assessing poverty and the consequences of economic policy”. Evidence of the consensus regarding health and education outcomes is provided by the UNDP's “Human Development Report 2003”, the World Bank's “World Development Report 2000”, the World Bank and UNDP's joint efforts on the “Millennium Goals”.

Though harder to quantify, *empowerment, participation, and vulnerability to shocks* are also gaining acceptance as important dimensions of poverty⁴⁰. The inclusion of these additional dimensions seems justified by the priorities of the poor themselves. A major study “Voices of the Poor: can anyone hear us?” was published by the World Bank in 2000. They found that poverty was indeed multi-dimensional, and that lack of material well-being, humiliation, absence of basic infrastructure, illiteracy, illness, and lack of physical assets (as opposed to income) formed the major issues.

Concern over these non-monetary impacts is undoubtedly a major source of the belief that

⁴⁰Kanbur (2001); World Development Report, 2000

globalization is bad for the poor. The following paragraphs outline some of the arguments on which this belief is based. The most obvious starting point is the assumption that government cutbacks and privatization lead to under-provision of public services. Kanbur (2001, p.1087) explains the way in which critics believe that monetary measures under-estimate the negative impacts of globalization on the lives of the poor. As he says:

“If the bus service that takes a woman from her village to her sister's village is canceled, it will not show up in these [monetary] measures. If the health post in the urban slum runs out of drugs, it will not show up. If the primary school text books disappear, or if the teacher does not show up to teach, it will not show up.”

The second dimension is voice, empowerment and self-determination for poor people. The argument here is that globalization shifts decision-making to higher and higher levels of government, well beyond the potential for democratic participation from the poor⁴¹.

Many critics of economic globalization also argue that globalization disempowers the poor in their roles as providers of labor. The type of trade-off envisioned is illustrated by the example of multinational corporations setting up in a developing country. The large corporation may provide more unskilled employment, at wages better than the local industry. At the same time, however, they force smaller, local firms out of business. Thus, current and future local entrepreneurs lose the possibility of being their own boss, and their potential employees lose the opportunity of working in a small company in which they may have more power. Instead, all these people

⁴¹See IFG (2003). See also Bardhan & Mookherjee (2000) who claim that political centralization may exacerbate problems of capture in the presence of inequality.

become a very small and powerless part of very large, global corporations⁴².

Unfortunately, despite the growing consensus in the development community regarding the appropriateness of multidimensional poverty measures, there is a continued lack of application of them in empirical work on globalization. The primary cause for this is a relative lack of data coverage, both in spatial and temporal terms⁴³. Additional causes include lack of familiarity with the newer measures, extra work involved in implementing such definitions, and the difficulty in determining the appropriate weight that should be assigned to each dimension. Regardless of the cause, the lack of empirical evidence makes it very difficult to objectively assess and respond to the charges made against globalization on the basis of its non-monetary impacts.

Aside from the concerns of those critics of economic globalization who reside in relatively rich countries, the opinions of the poor themselves also suggest the need for more research into non-monetary impacts of globalization. Graham (2001) reports that the perceptions of the poor and middle-class of their welfare change from national integration and liberalization are systematically below what is suggested by their measured income change. And in the forward to “Voices of the Poor”⁴⁴, Clare Short and James Wolfenson have this to say:

“What poor people share with us is sobering. The majority of them feel they are worse off and more insecure than in the past.”

⁴²This argument is essentially one about the destructive effect that integration has had on the middle in some countries. See Graham, Birdsall & Pettinato (2000) for more on this problems facing the middle class.

⁴³See Rao (1998) for a genuine attempt to include additional dimensions in an analysis of the impacts of globalization.

⁴⁴Narayan et al. (2000, p.ix)

Inequality

Critics of corporate globalization tend to consider the level of inequality to be an important component of social welfare, independent of its impact on poverty. If there exists a trade-off between fairness and efficiency, they will tend to lean towards fairness. The impact of this preference for fairness on the globalization debate is highlighted by the debate over sweatshops.

Consider the case of a multinational corporation opening a factory in a developing country. The multinational provides better pay and conditions than similar local enterprises; say \$2.20/day rather than \$1.80/day. For the poor and unskilled in the local community, taking a job in the new factory represents an improvement over their previous standard of living. Meanwhile, as a result of transferring to the new, cheaper location, the multinational makes cost savings \$18 per worker per day. Six dollars of this saving is spent on paying off the investment in the new factory, six dollars is passed on to consumers, primarily in rich countries, and corporate executives collect six dollars as a bonus.

The scenario described is undoubtedly a Pareto improvement, and would most likely be considered an improvement by the workers at the new factory. Thus it is not immediately obvious why so many people object to these sorts of scenarios so strongly. For an explanation, we must turn in part to instinct and in part to logic. The instinctive component is being increasingly well documented by the study of behavioral and experimental economics. As Fehr & Schmidt (2000, p.1) state quite simply, “many people are strongly motivated by concerns for fairness and reciprocity”.

The logical component of the explanation comes from the counter-factual envisaged by anti-sweatshop campaigners. Most defenders of the record of multinational corporations in developing countries have in mind a counter-factual in which the company does not build the new factory, and instead continues to operate its factory in some rich country. But the counter-factual that critics have in mind is one in which the factory is still built, but the gains are spread much more evenly between workers, consumers and executives.

Having established why inequality might be so important to some people, we now consider what different groups mean by inequality. One of the differences between globalization's critics and its proponents is their respective emphasis on *absolute* versus *relative* inequality. The latter group, which includes most economists, usually reports statistics that summarize the income distribution in some way. These statistics, for example the Gini co-efficient, are all relative measures of inequality. They are very useful to economists because they allow the distributional effects of a policy change to be examined through a single number, and completely independently of growth effects.

Absolute Inequality

According to Ravallion (2003) emphasis on *absolute* inequality appears to be the source of much of the perception that globalization is increasing inequality. In support of this, he quotes experimental evidence in which 40% of participants were found to think about inequality in absolute terms. Behavioral reasons aside, there are some very practical arguments for why we should consider absolute inequality. Wade (2002, p.21) gives us the following in regard to absolute, market exchange rate based inequality between countries:

“It may, for example, predispose the elites to be more corrupt as they compare themselves to elites in rich countries and squeeze their own populations in order to maintain a comparable standard of living. It may encourage the educated people of poor countries to migrate to rich countries, and encourage unskilled people to seek illegal entry⁴⁵. It may generate conflict between states, and – because the market-exchange-rate income gap is so big – make it cheap for rich states to intervene to support one side or another in civil conflict.”

Perhaps the most broadly compelling reason to care about absolute inequality, is the implications it has for peace and security. On this point, the International Forum on Globalization (2002, p.30) quotes the U.S. Central Intelligence Agency (CIA) from its *Global Trends 2015* report. According to them, the CIA maintained that globalization would create:

“...an even wider gap between regional winners and losers than exists today. [Globalization's] evolution will be rocky, marked by chronic volatility and a widening economic divide...deepening economic stagnation, political instability and cultural alienation. [It] will foster political, ethnic, ideological and religious extremism, along with the violence that often accompanies it.”

Inequality in the Absolute Gains from Globalization

Compelling as these reasons are, I do not believe they are at the heart of the perception within in the general public that globalization increases inequality. Two slightly different aspects drive that perception. The first is the belief that the *gains* from globalization are unfair, and in this regard people generally think in terms of *absolute* gains. The second is that people think of inequality primarily in terms of polarization, or difference between the top and the bottom of the distribution, and in this respect they tend to think in *relative* terms.

⁴⁵Thomas Straubhaar (1988) finds that net emigration from a poor country to a rich one tends to diminish when the wage differential between the two countries falls below 1:4. Quoted in IMF (Ch4).

The example that Ravallion (2003) gives is perfect for illustrating the first of these two aspects. In his example an economy has only two households, one with an income of \$1,000 and the other with an income of \$10,000. Distribution-neutral growth of in the economy of 100% would double both incomes, leaving one with \$2,000 and one with \$20,000. This means that the richer household gained ten times as much as the poor household. Many people would not consider this a fair outcome, and would probably describe it as an example of increased inequality, despite the fact that inequality is unchanged according to most conventional definitions.

Ravallion's example is very similar to the sweatshop example described earlier in this paper. It brings us back to the issue of 'fairness' of the distribution of the *opportunities* and *gains* from globalization. Birdsall (2001, p.3) claims that this issue is the major reason for the popular perception that globalization is good for the rich and bad for the poor. As she says:

“We economists (and I put myself in that group) are missing the point. True, world poverty may be declining and global inequality no longer rising. But that does not mean that the global economy is fair or just. ...even relatively benign outcomes may belie fundamentally unequal opportunities in an unfair global game.”

Polarization and Top-Driven Inequality

I agree with both Birdsall and Ravallion that *changes* in inequality in *absolute* terms are important in the minds of many. However, there is a second good reason that the popular perception of the impacts of globalization on inequality is so much more pessimistic than economic opinion. The

statistics most often quoted in support of the negative impact of globalization on inequality, are in fact measures of the *level of relative* inequality. However, unlike economist's measures, which tend to emphasize the shape of the income distribution, the figures reported by critics of economic globalization usually refer simply to the polarization of the distribution. That is, they focus on the difference between the top and the bottom of the distribution, which indicates a particular concern with 'top-driven' inequality. Robert Wade, himself an economist from the London School of Economics, provides an excellent statement of this concern.

"Global inequality is worsening rapidly ... Technological change and financial liberalization result in a disproportionately fast increase in the number of house-holds at the extreme rich end, without shrinking the distribution at the poor end ... From 1988 to 1993, the share of the world income going to the poorest 10 percent of the world 's population fell by over a quarter, whereas the share of the richest 10 percent rose by 8 percent."

Statements such as this, which refer to changes in the relative incomes of the top and bottom deciles, are typical of the criticisms of economic globalization that originate in relatively rich countries. According to Carol Graham (2001), top-driven inequality may also be important to the negative perceptions of globalization among the poor and middle class in poorer countries.

Graham's argument is that by providing an ever-higher benchmark for comparison, top-driven inequality leads people to under-estimate their own income gains.

With this understanding of the concepts of inequality that prevail in the general public, the confidence with which critics of economic globalization assert that it causes increased inequality, become much more understandable. The empirical evidence is that people do tend to gain from

globalization in proportion to the amount of wealth they already had⁴⁶, and that the ratio of the incomes of the richest to the poorest is rising⁴⁷.

Though I do not think it is not a point major division in the globalization debate, it is worth noting that the observed trends in inequality also vary according to the geographical unit under consideration. In China and India for example, inequality between states is the major source of inequality in the country as a whole. Similarly, between-country inequality is the major source of global inequality, and economists often debate whether we should be more concerned with between-country or within-country inequality. The answer from the street is that we should worry about both⁴⁸.

PART II – EXAMINING THE EMPIRICAL EVIDENCE

Anyone who has attempted to follow the globalization debate will have noticed the remarkably contradictory claims made by the two sides in regard to one very fundamental question, “Is globalization bad for the poor?”. Those in favor of the current brand of globalization claim that there have been significant gains against global poverty, as well as decreases in inequality in the last 20 years, and that liberalization of economic policies has been responsible for this achievement⁴⁹. At the other extreme, critics claim that globalization and neoliberal economic policies have led directly to increases in both poverty and inequality. The rich are getting richer

⁴⁶This, as Ravallion (2003) points out, is the correct way to interpret Dollar and Kraay (2001) and Dollar & Kraay (2002)

⁴⁷Wade (2002). Note that in his influential paper that found the global income inequality was falling, Sala-i-Martin (2002) did not include top-bottom ratios as one of his seven measures of inequality.

⁴⁸For example a very commonly quoted fact is the finding from the UNDP “Human Development Report 1999” that inequalities between rich and poor within countries, and among countries are increasing in the era of globalization.

⁴⁹See for example World Bank (2002); Dollar (2001); Berg & Kreuger (2003)

and the poor getting poorer⁵⁰.

The discussion in the previous section has shown that a large part of this difference in opinion can be explained by different priorities and different concepts of poverty and inequality. However, these differences do not explain all of the disagreements. In order to understand the debate fully, it is necessary to understand the empirical evidence.

The empirical evidence discussed here is of two types. Firstly, there is evidence about the level and trends in poverty. For reasons of space, and because many of the fundamental issues are illustrated by the one example, we consider only the debate over the level and trend in the world poverty headcount. The second type of empirical evidence that one needs to consider is evidence that links trends in poverty and inequality to globalization. This is the topic considered in the final section.

The primary purpose of the following sections is to explain how it is that such differing views of globalization, poverty, and inequality, can persist in spite of a very large research effort aimed at resolving these differences. It is hoped that this will be of use to researchers who are interested knowing which methods and questions will be most successful in progressing the debate over globalization. Accordingly, the approach taken in the following sections is to highlight some of the different empirical methods, as well as their limitations and biases. It does not try to reach an overall conclusion based on the evidence, or attempt to summarize the findings of the empirical literature. Anyone interested in such a review should read one of the several high quality survey

⁵⁰See for example IFG (2002)

papers, reports, and opinion pieces have already been devoted to these questions⁵¹.

Measuring Trends in Poverty

In order to calculate any measure of poverty or inequality at a global level, it is first necessary to find some way of estimating and consistently comparing the economic well-being of different income groups in different countries. In the discussion that follows, I restrict my attention to measurements of well-being based only on income or expenditure.

Table 1 provides a comparison of the most widely accepted poverty estimates currently available. It can be seen that significantly even very rigorous authors have produced different estimates of the same statistics. The reasons for these very different results may be largely explained by a few key differences in method. We discuss these differences below. Also included in the discussion are the claims by other authors that all of the estimates in Table 1 significantly underestimate the level of poverty.

Table 1 – Comparison of Recent World Poverty Estimates

<i>1998 Headcount (bill.)</i>	<i>1998 Incidence (%)</i>	<i>Ave. Change 1987-98 (mill. p.a.)</i>	<i>Poverty Line (\$/day)</i>	<i>Source of Mean</i>	<i>Currency Conversion</i>	<i>Reference</i>
1.20	24.0		1.08	HHS	WBPPP93	Chen & Ravallion (2000), Table 2
2.80	56.0		2.15	HHS	WBPPP93	Chen & Ravallion (2000), Table 3
-	6.7		1.08	NACC	WBPPP93	Sala-i-Martin (2002b), Table 3a
0.46	9.2		1.08	NACC	WBPPP93	Bhalla (2003), Table 1
0.37	7.4		1.15	NACC	WBPPP96	Bhalla (2003), Table 1

⁵¹See for example IMF (1997, Chapter IV); UNDP (1999); McKay, Winters & Kedir (2000); Reimer (2002); Bigman (2002); Berg & Krueger (2003); Bhagwati & Srinivasan (2002); Prasad et al. (2003); Baldwin (2003)

Notes:

Ave. Change - total change in the headcount over the period 1987-98, divided by 11 years.

HHS – household survey data

NAcc – national accounts data

WBPPP93 – World Bank Purchasing Power Parity conversion using base year 1993.

WBPPP96 – World Bank Purchasing Power Parity conversion using base year 1996.

Chen & Ravallion (2000) are essentially responsible for generating the most recent World Bank figures.

Total Headcount and Ave. Change for Bhalla (2003) were calculated from his reported incidence figures, using the same population size as Chen & Ravallion (2000).

Sala-i-Martin's incidence is based on the total world population, rather than the population of developing countries as used by the other authors.

Choosing a Poverty Line

The first step in generating a poverty headcount is to choose a poverty line. Since 1991, the standard poverty line has been approximately \$US1 per day, in purchasing power parity terms.

This line was originally chosen as being representative of the poverty lines in low-income countries⁵². It is also common to report poverty figures for a line set at twice this value.

Wade (2002) and Pogge & Reddy (2003) provide two main criticisms of the World Bank's \$1 per day and \$2 per day poverty lines. The first is that they are arbitrary, and arbitrarily too low, which leads to the conclusion that they underestimate the number of people living in poverty. Wade argues that because the income distribution is relatively flat at the lower end, small changes in the level of the poverty line can lead to large changes in the headcount. This effect can be observed in Table 1, where the headcount for the current \$2 per day line is more than twice that for the \$1 per day line. More importantly, the *upward* trend in the headcount is more than ten times as high using the \$2 per day line.

The second criticism put forward by Pogge & Reddy (2003) is that purchasing power parity

⁵²Chen & Ravallion (2000)

adjustments do not adequately reflect how much more expensive basic needs are in richer countries. The conclusion from this is that poverty in richer countries is underestimated more than in poorer countries.

Estimating the Incomes of Different Groups within One Country

There are two main methods of estimating the economic wellbeing of the population of a country. The first is use national accounts data to estimate the mean income, and household-level survey data to estimate the income distribution. The second is to use household survey data to directly calculate the incomes of each decile in the income distribution.

Deaton (2003) explains the main difference between these two methods arises from the fact that the household surveys (HHS) lead to a lower estimate of average income than the national accounts (NAcc), and that the difference between the two increases as incomes increase. This is true when comparing richer and poorer countries at the same time period, and when comparing the same countries over time. There are three main causes of this discrepancy. Firstly, richer people tend to understate the income by more than poorer people. Secondly, richer people tend to respond less often to household income or expenditure surveys. Thirdly, according to Deaton (2003), national accounts data tends to overestimate the growth rate of per capita income.

The impact of the difference between these two methods is illustrated in Table 1. Here it is clear that HHS based estimates produce significantly more pessimistic estimates of both the total number of poor, and the reductions in the number of poor. Bhalla (2003) has argued vigorously that the national accounts estimates are far more accurate, and accuses the World Bank of biasing

their estimates in order to obtain more funding.

Maintaining Consistency Across Countries

The third contentious issue in the calculation of world poverty figures, is the way in which incomes of the poor are compared across countries. The main criticism, once again put forward by Wade (2002) and Pogge & Reddy (2003), is that the consumption basket used to estimate purchasing power parities (PPP) does not reflect the consumption patterns of the poor. The baskets of goods and services used in all the World Bank's PPP calculations are based on an international, average consumption basket, not the basket of goods typically consumed by the poor. They also argue that because basic needs are relatively more expensive in poor countries, the use of such 'broad gauge' PPP measures overestimates the purchasing power of the incomes of the poor in developing countries in the order of 30-40%.

Maintaining Consistency Across Time

The method used by the World Bank and the other authors in Table 1 involves comparison between countries on PPP terms in some specified year, followed by country-by-country, year-to-year adjustments in real income based on national consumer price indexes (CPI). The problem with this methodology, as noted by Deaton (2001), is that the use of a different base year causes changes in poverty estimates that overshadow the magnitude of any real trend. Among other things, this means that poverty headcounts using different base years cannot be compared. As noted by Wade (2002), it was the comparison of headcounts based on two different PPP base years that generated the claim by the World Bank that the poverty headcount had decreased by 200 million over the period 1980 to 1998.

Pogge & Reddy (2003) have another complaint in regard to the updating of PPP base years. Their argument is that the bias that leads to the overestimation of the incomes of the poor will get progressively worse as average incomes in the world rise. This means that over time, as the base year is updated, the poverty headcount will fall, irrespective of what is actually happening to the poor. Evidence of this effect is provided by comparison of the bottom two lines in Table 1. The poverty estimates in these lines differ in terms of the base year for PPP comparison, and in terms level of the poverty line. Notice that for the latter base year, 1996, the estimated poverty headcount is less than that for the 1993 base year. This effect occurs despite the fact that the poverty line for the latter is higher, which should otherwise lead to a higher headcount.

The preceding discussion has illustrated that the official World Bank poverty figures are simultaneously attacked from the left on the grounds that they outrageously underestimate the extent of poverty and overestimate the gains made in recent years, and attacked from the right on the grounds that they do exactly the opposite. Both the right and left claim that the Bank is manipulating its chosen methodology for political reasons. This is an unfortunate state of affairs, which makes it very difficult for disinterested participants in the globalization debate to form an objective opinion.

Questionable Causation

As noted by Bardhan (2003), both sides of the globalization debate have had a tendency to claim an unreasonable degree of causation between observed trends in poverty and inequality, and policies. The claims of causation are so confounded that both sides claim the success of the Asian

tigers as the result of their own policies, and the failure of many of the African states as the result of the opposite policies. Thus globalization's proponents claim China and Taiwan's growth in recent decades as the result of liberalization of their economies. While globalization's critics claim that these same countries have been able to capitalize on the opportunities afforded by globalization because of extensive government intervention both now and in the past.

Similarly, globalization's proponents claim that much of Africa's economic problems are due to lack of openness and excessive, inappropriate government intervention. Globalization's critics claim that Africa's woes come from other sources (including corrupt or incompetent governments), but the forced liberalization imposed by structural adjustment programs and other lending conditions has not delivered the promised growth. Instead globalization has only made living conditions worse for the poor as government services are cut back, and instability increased.

An enormous research effort has been expended by economists in an attempt resolve these contradictory claims. This section will summarize the types of empirical research that have been conducted, and identify a set of stylized facts that may be seen to have emerged from it. It then discusses why the empirical literature has not been as successful as many practitioners would hope in convincing skeptics of the benefits of globalization.

One of these survey papers is due to Reimer (2002), who also provides an excellent overview of the different empirical methods that have been employed. Reimer categorizes the research methods under the following headings:

- **Cross-country regression analyses** which test for correlations among trade, growth, income, poverty and inequality measured at the national level;
- **Partial equilibrium/ cost of living analyses** which are typically based on household expenditure data and emphasis commodity markets and their role in determining poverty impacts;
- **General equilibrium studies** that are generally based on disaggregated economy-wide Social Accounting Matrices, and account for commodity, terms of trade and factor market effects; and the newest approach
- **Micro-macro syntheses** that involve general equilibrium analysis coupled with some form of post simulation analysis based on household survey data.

One important method for analyzing the impacts of globalization is left off Reimer's list. I describe this category as micro-economic studies that test specific mechanisms (other than prices) through which globalization is believed to impact on the poor. Some good examples of this type of work include Edmonds, E. & Pavcnik, N. (2002) and Goldberg, P. & Pavcnik, N. (2003). In the former work, the authors examine the impact of Vietnam's opening up to rice trade on child labor in that country. The latter work looks at the response of the informal sector to trade liberalization in Columbia and Brazil.

While each empirical approach suffers from its own set of limitations, in combination, the above types of empirical research have been successful in providing several points of relative consensus. Below I summarize what from my reading of the literature (both empirical and other) have emerged as the 'stylized facts' of globalization and poverty.

1. Trade is correlated with, and often a source of growth.
2. Growth is on average good for the poor.
3. U.S. and E.U. should liberalize their trade, particularly in agriculture and textiles.
4. FDI is correlated with, and often a source of, growth.
5. Liberalization of markets for short term capital can be detrimental and should be approached with caution.
6. Governments should provide safety nets to compensate the poor who lose as a result of liberalization.
7. TRIPS should be modified.
8. Access to education, health, and credit are important factors in ensuring the poor benefit from globalization. These factors also increase the growth potential from openness.
9. Poverty should be measured using education and health as well as income.
10. Excessive corporate power (market and political) is a problem.
11. Capture of market or political power by elites has negative implications for growth and welfare.
12. Political reform is needed in many developing countries.

It is particularly reassuring to observe that these points of consensus in the academic literature have supported the tentative emergence of a middle ground in the debate over globalization. In

reading the publications of both sides, I have observed what appears to be an increasing number of participants who are wishing to move beyond the competing and contradictory monologues and are willing to acknowledge some aspects of the argument presented by 'the other side'. For example, Oxfam International is one of the leading non-governmental organizations campaigning on free trade issues. Their briefing prepared for the Doha round of trade talks begins:

“International trade can be a force for poverty reduction by reducing scarcity, and by creating livelihoods and employment opportunities, but this is not an automatic process. Liberalization is not a panacea for poverty any more than protectionism.”

From the other side, we have the Economist magazine, a publication established specifically to promote the free market. Their recent special issue on capitalism and democracy highlights personal greed on behalf of company executives, a vacuum of ownership in publicly traded firms, and an unsavory degree of mutual vested interest between government and businesses as the major threats to capitalism and democracy.

Heartening as such progress is, there are a large number of unresolved issues that make it impossible to feel that the globalization debate is close to a consensus. A summary of remaining disagreements over globalization, poverty and inequality in developing countries is tabulated in Appendix 1. In the remainder of the current section, I consider some of the reasons why such disagreements persist, despite the prodigious research effort that has been exerted by economists to resolve them. In essence I see two reasons for the limited success. One is that these are very complex and difficult questions to answer, and the other is that the link between the empirical findings and the policy conclusions has been paid insufficient attention.

The literature on the impacts of globalization faces the same prodigious obstacles that the broader literature on growth faces. The trouble begins with the fact that there is no unambiguous theoretical outcome, and thus everything must be tested empirically⁵³. The trouble continues because the observable outcomes, growth, inequality, and poverty, are functions of a very large number of both past and present variables, and influence these other variables in return.

The result is that it is very difficult to prove in the case of an individual country exactly which factor or combination of factors was responsible for its success or lack thereof. For this reason, it is important to consider the experience of a number of countries. In order to do that, comparable individual country case studies must be conducted, or some form of cross-country comparison made. The latter method usually involves statistical analysis based on a cross-country regression model.

Cross-country regression studies have proved extremely useful for identifying correlations between relevant variables; however, they suffer some important methodological limitations when used for policy analysis⁵⁴. Primary amongst these limitations are a lack of exogenous measures of openness, an inability to convincingly establish direction and strength of causality, and the economic simplifications required to use a linear regression framework. These limitations have led several leading economists to conclude that cross-country regressions should not be used as a basis for causal conclusions regarding the impacts of globalization⁵⁵. These well-known

⁵³Winters (2000); Agenor (2002)

⁵⁴Ravallion (2003)

⁵⁵Bhagwati (2000); Bhagwati & Srinivasan (2002); Bardhan (2003); Ravallion (2003)

limitations are also one of the reasons that critics of economic globalization remain unconvinced by the generally positive findings of such studies.

However there is a second, potentially much more significant, reason that the empirical evidence to date has failed to convert critics of economic globalization into proponents. The reason is that the literature has not been well targeted towards addressing the remaining reservations that many people have about globalization. The mismatch between the questions currently being asked, and the answers that people want may be observed with reference to the list of 'Outstanding Disagreements' in Appendix 1.

In essence, people do not need to be convinced that growth is generally good for the poor, or that increased trade is generally good for growth. They are interested in the optimal policy mix to maximize the benefits to the poor, while minimizing the negative impacts on any subgroup of the poor that is made worse off by such policies, and ensuring that growth is economically, socially and environmentally sustainable. Social sustainability, it is assumed, requires inequality be kept under a certain limit.

Consider the case of the debate over 'free trade'. Only a very small proportion of critics consider autarky to be an optimal trade policy. The vast majority agree, like Oxfam, that trade can be beneficial. They disagree, however, with the conclusion that a policy of unilateral, total free trade is optimal. Before they will agree with such a policy, they need to be convinced that it is preferable to the counterfactual position of a trade policy that includes some trade restrictions, some export support mechanisms, and some environmental, health, or labor regulations that may

restrict trade. Given the discussion in preceding parts of this paper, we can envisage that the criteria they would use to decide the optimal policy choice might be:

- maximum the value of trade in the medium and long term;
- maximum economic growth and development;
- maximum benefits to the poor; and
- minimum costs in terms of autonomy in environmental regulation, health and labor protection.

Thus the question in most critics minds is not “To Globalize or Not to Globalize?” but “What, and How Much to Globalize?” This way of thinking may be viewed within the context of the broader debate over prop-poor growth. Both Kanbur (2001) and Ravallion (2003) mention this debate in their papers on globalization and poverty. As Ravallion (2003, p.18-19):

“According to some observers “such actions are not needed...Growth is sufficient. Period.” (Bhalla, 2002, p.206) The basis of this claim is the evidence that poverty reduction has generally come with economic growth. But that misses the point. Those who are saying that growth is not enough are not typically saying that growth does not reduce absolute income poverty....They are saying that combining growth-promoting economic reforms with the right [other] policieswill achieve more rapid poverty reduction than would be possible otherwise.”

Conclusion

In light of ongoing technological and managerial advances, a certain amount of globalization is inevitable. However the extent and form that globalization takes is highly dependent on the combined policy choices of national governments. If the social consensus shifts towards outright rejection of globalization, nation states may back away from globalization, except where strong vested interests prevail. The likely result of this would be a partial and highly sub optimal form of globalization. Thus it is important to maintain a viable level of public support for globalization, and in order to do this, proponents of globalization need to more adequately address the concerns of the general population. Researchers in the field need to understand these concerns, to direct research toward quantifying their impacts, and to recommend adjustments to the path of globalization where these concerns are found to highlight genuine deficiencies in the current process.

This paper has attempted to identify the sources of some of the criticisms of globalization as it is currently unfolding. In order to make the task manageable, and the discussion more meaningful to economists, it has concentrated on more moderate criticisms. Indeed, the criticisms presented here largely point to the need to improve and moderate globalization, but in no way suggest that nations should revert to some archaic form of economic isolation. Four major sources of concern about impact of globalization on the poor were identified. All of these related in some way to the imbalanced distribution of globalization's benefits in favor of already wealthy individuals, states, and particularly corporations.

The issue of 'corporate globalization' was examined in more detail in the subsequent section. The phrase 'corporate globalization' is used by critics to describe a situation in which the process of globalization proceeds according to rules set by large corporations, and ultimately the disproportionately benefits those corporations. Fears about corporate globalization were seen derive from the belief that large corporations have both political and economic power, and that they would use this power to the detriment of poor and marginalized groups. I argued that large corporations do have power, and that globalization makes them larger and more powerful. However this does not mean that they necessarily exploit that power, and even if they do exploit it to some extent, it is not clear that the associated welfare loss outweighs the gain provided by their more efficient size. It would seem that this is an area that warrants much more attention than it has previously received from researchers.

The next section identified several reasons for the pessimistic perceptions of poverty trends amongst critics of economic globalization. One of these is that many people consider the total number of people living in poverty a more appropriate measure than the incidence of poverty. There is also a belief that any change that further impoverishes the already poor, or sends middle class into poverty, is not welfare improving, even when the total number of people living in poverty decreases as a result of this change. This position translates into a strong desire for globalization to proceed only where adequate safety nets are available. An additional reason for pessimistic perceptions of poverty trends is the belief that globalization and economic liberalization have negative non-monetary impacts on the lives of the poor. In order to address this concern researches may be able to continue to work towards the use of multi-dimensional measures of poverty.

Inequality is also a major issue of concern, independent of its relationship to poverty. Here it was observed that inequality measures most often employed by researchers do not line up well the priorities of the general public. Economic research generally applies measures of the shape of the income distribution, while many people implicitly think of inequality in absolute terms, or in terms of polarization. In light of the very large and unambiguously growing level of absolute inequality, and increasing polarization, academic debates over the direction of inequality changes based on their preferred measures appear less relevant to addressing concerns about globalization.

Having established the basis for differing opinions on the trends in poverty and inequality, a brief assessment of the state of empirical evidence was made. I first examined the calculation of world poverty headcounts, and then considered the evidence of a causal link between globalization and trends in poverty and inequality. My conclusion was that the empirical evidence to date is consistent with a broad range of claims. It is not possible to unambiguously determine the trend in world poverty headcount, let alone establish causal relationships between policies that promote globalization and the welfare of the poor. I then argued the case for more research that examines specific issues and linkages that are the source of the concerns over globalization, poverty and inequality.

In the course of analyzing the state of empirical knowledge, I summarized some of the major achievements of globalization research to date. The result of this is a list of points of relative consensus, as well as a table of outstanding disagreements, that I suggest may be taken as a starting point for further research.

My overall conclusion is that the difference of opinion between globalization's critics and proponents can be explained by differences in priorities, as well as current ambiguities in the empirical evidence. Thus there is no need to seek for explanations based on ignorance and vested interest. That being said, ignorance and vested interest are playing a part in the globalization debate. It is the urgent responsibility of well-meaning participants on both sides of the debate, to improve the quality of their dialog and thereby avert the threat of a globalization that truly does hurt the poor.

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Appendix 1. Summary of Remaining Disagreements

<i>Strong Globalizers</i>	<i>Cautious Globalizers</i>
Globalization is good for the poor.	Globalization is bad for the poor.
Inequality should not be a concern, as long as poverty is decreasing. Relative inequality is the appropriate measure of inequality.	Absolute inequality should be a concern in its own right, regardless of poverty outcomes.
The proportion of the population living in poverty is the appropriate measure of poverty outcomes.	The absolute number of people living in poverty matters more than the proportion.
Current income-based measures are sufficient for answering most questions regarding the benefits of globalization.	Poverty measures should include empowerment and vulnerability.
More liberal trade is always better.	Total trade liberalization may not be the best means of promoting trade in the longer term, and even if it is, it may come at too great a cost in terms of social and environmental policies. Totally free trade is unlikely to be the optimal policy, and the optimal policy mix will be case specific.
It is optimal for developing countries to unilaterally liberalize their economies.	Developing countries should refuse to further liberalize their economies until the major economic powers genuinely improve access for developing country exports.
The way in which growth is achieved makes little difference to distributional outcomes; therefore governments should employ policies that focus on maximizing growth.	Maximizing short-term growth is not necessarily the way to produce sustainable reductions in poverty.
Governments should place minimal controls on FDI in order to attract as much as possible.	Governments should place controls on FDI in order to maximize the welfare gain to the host country.
Policies that improve the profitability of large foreign corporations should be undertaken because these corporations provide jobs for unskilled workers and bring in new technology.	Policies that improve the profitability of large foreign corporations should not be undertaken as the poor and the environment inevitably pay for the extra profits gained.
Though the provision of safety nets is important, lack of safety nets should not be used as a reason for delaying liberalization.	Liberalization should not proceed until adequate safety nets are in place.
Government provision of essential services such as health, education, water and power is inefficient and/or corrupt; therefore these activities should be privatized. This can be done	Government provision of essential services is the only means of ensuring all the poor have access to these them at a reasonable standard. Privatization will have severe negative

<i>Strong Globalizers</i>	<i>Cautious Globalizers</i>
without negative effects on the poor by provision of subsidies or vouchers.	consequences for the poor.
Opening economies to foreign trade and investment improves competitiveness and eliminates inefficiencies caused by national monopoly power.	Opening economies to foreign trade and investment eliminates smaller local firms and further extends the oligopolistic power of the transnational corporations.
Large reductions in wages in previously protected sectors is merely evidence that these sectors were earning monopoly rents that they were sharing with their workers.	Large reductions in wages in previously protected sectors send many previously middle class towards poverty. It is evidence of the shift towards corporations in relative bargaining power that accompanies opening.
Opening reduces the potential for capture of economic and political power by local elites.	The evidence is that integration with world markets is associated with relative increases in the incomes of the very rich. This makes it difficult to believe that their economic and political power has shifted towards the lower income brackets. If anything, local elites must now share their power with international elites.
Political reform is necessary in many developing countries; liberalization will provide a catalyst for reform.	The effect on the political equilibrium will be case specific, and it is highly possible that liberalization will have detrimental effects.
It is appropriate to have enforceable super-national trade and investment agreements. They will ultimately lead to an optimal outcome.	Either: Nation states should not relinquish power to international bodies, since democracy does not function at such a high level. Or: Economically oriented international bodies such as the WTO need to be balanced by equally powerful international organizations whose primary concerns are social and environmental.

[Bhalla, 2003][Sala-i-Martin, 03][Reddy, 03][Deaton, 03][Micklethwait, 2000][World Bank]

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