Why are the Critics so Convinced that Globalization is Bad for the Poor?

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Abstract: Defenders of globalization have often been quick to dismiss its critics as ignorant or self-motivated. In doing so, they have missed a valuable opportunity to discover both how best to communicate the benefits of globalization, and how to improve on the current model of globalization. This paper examines the values, beliefs and facts that lead critics to the view that globalization is bad for the poor. We find that critics of globalization tend to be concerned about non-monetary as well as monetary dimensions of poverty, and more concerned about the total number of poor than the incidence of poverty. In regard to inequality, critics tend to refer more to changes in absolute inequality, and income polarization, rather than the inequality measures preferred by economists. It is particularly important to them that no group of poor people is made worse off by globalization. Finally, we argue that the perceived concentration of political and economic power that accompanies globalization causes many people to presume that globalization is bad for the poor, and the continued ambiguities in the empirical findings mean that this presumption can be readily supported with evidence.

1. Introduction

Economic globalization is a surprisingly controversial process. Surprising, that is, to the many economists and policy makers who believe it is the best means of bringing prosperity to the largest number of people all around the world. Proponents of economic globalization have had a tendency to conclude that dissent and criticism is the result of ignorance or vested interest[1]. They have argued 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; 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 the 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."*

More recently, however, leading economists and policy-makers, including Bhagwati (2004, p.4), have been advocating for 'reasoned engagement' and 'careful response' to some of the more mainstream critics of globalization. There is a growing realization that if we economists really want to make sure that the globalization we help to create is the best one possible, we need to do more than knock down the straw men put forward by the extreme or the misinformed. As Stanely Fischer (2003, p.2) says:

[1]Bardhan (2003)

"The debate [over globalization] is untidy and ill-defined, and one could react by saying that it has no place in a professional setting like this one. But we cannot afford to ignore it, for the views and attitudes expressed in it will inevitably affect public policy – and the issues are critically important for the future economic growth and well-being of people all the people of the globe."

The aim of this paper is to help explain both the 'what' and the 'why' of common criticisms of globalization's record on poverty and inequality. In particular, it addresses the question of why many people in rich countries believe that globalization has been bad for the poor in developing countries, and has worsened inequality[2].

The answer to this question will proceed in four parts. Section 2 will argue that people are predisposed to thinking globalization is bad for the poor because they view the power structures of globalization as being biased towards the already rich and powerful. Section 3 will show that critics of globalization often have different conceptions of poverty and inequality than those preferred by economists. Section 4 will show that the range of poverty and inequality estimates, which arises from apparently minor methodological differences, leaves ample room for a difference in opinion about the achievements of the last 20 years. Section 5 will argue that the linkages between globalization policies and poverty outcomes remain theoretically unclear and difficult to test empirically, and that empirical research has not been well targeted to addressing the remaining concerns with regard to globalization. Section 6 summarizes and concludes.

Before attempting to explain 'anti-globalization' sentiment, it is worthwhile clarifying what is meant by globalization and anti-globalization in the context of this paper. That is the subject of the remainder of this section.

[2] A recent survey conducted by the World Economic Forum (WEF, 2002) found that people in richer countries were more likely than people in poorer countries to believe that globalization benefited the poor less than the rich.

1.1. 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, we do not attempt any general definition of globalization, but rather explain what is meant by globalization in the context of this paper.

In this paper, globalization refers to global economic integration, or 'economic globalization'. Economic globalization is occurring through a combination of improvements in technology and decreased transportation costs, and deliberate policy choices on behalf of many national governments to liberalize their economies and participate in the development of global institutions. Thus the policy aspect of economic globalization is an aggregate outcome that results from the choices of many individual countries to increase their integration with the global economy[3].

Given that globalization is largely the aggregate result of increased integration on behalf of many individual countries, we need to consider how individual countries become integrated into the global economy. There are two broad approaches to measuring the extent to which a country is integrated with the global economy. The first approach 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 these two measures are often used interchangeably, they are not identical concepts, and are

[3] 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.

not even highly correlated empirically (Harrison, 1996). Consider export subsidies. Viewed from the first perspective, these programs are akin to tariffs, and are decidedly contrary to the principle of economic globalization. Yet viewed 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 pro-integration policies, while others claim the exact opposite.

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 view policies of unregulated free markets and minimal government involvement much less favorably. Since this paper is trying to explain dissatisfaction with globalization, the focus will be on integration as measured by the degree of liberalization of government policies with regard to trade and investment, rather than the size of trade and investment flows. In some places the discussion will go beyond liberalization of external policies, to include 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 that critics of economic globalization often conflated the two together. Liberalization is sometimes an explicit requirement of integration agreements. One example of this is the conditional lending of the IMF, which was contingent on the implementation of 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. At the moment, foreign investors think that neoliberal economic policies are sound[4]. The result is what Thomas Friedman (1999) refers to as the “golden straight jacket” for economic policy makers.

[4]Rodrick (1997); Gray (1998)

1.2. 'Anti-Globalization'

Despite its popularity and convenience, in the remainder of this paper we avoid referring to the 'anti-globalization movement'. There are two reasons for this. Firstly, many of the concerns and positions that I discuss may be attributed to a far broader segment of the population than that which is 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 public.

Secondly, as has been noted by many leading authors[5], 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' label[6]. 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."*[7]

But what about globalization as defined here? People may enjoy the world-wide-web, and easy international travel, but what about the economic aspects of globalization? As will be argued in the following paragraphs, for the most part people are not opposed to the principle of global economic integration. They are, however, 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 sovereignty, democracy, and some government intervention to advance social and environmental agendas. We refer to people that hold this these sorts of views as 'critics of globalization', and reserve the label 'anti-globalization' for people who would genuinely like to stop globalization dead in its tracks. Globalizations 'critics' will be the focus of this paper.

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[5]See for example Sen (2002); Kanbur (2001); Ravallion (2003), Bhagwati (2004)
[6]See for example Kortan (1996)
[7]Quoted in Chihara (2002)

2. Dissatisfaction with the Process of Globalization

"Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone."

John Maynard Keynes

"This powerful network, which may aptly, if loosely, be called the Wall Street-Treasury complex, is unable to look much beyond the interest of Wall Street, which it equates with the good of the world."

Jagdish Bhagwati, 1998

According to Bayesian learning theories, the conclusion that a person draws from a given set of information is highly dependent on the prior opinion of that person. Similarly, when faced with a number of conflicting information sources of unknown quality, a person will place the most weight on those sources which agree with their priors[8]. These theories provide a very substantial explanation for why, despite the vast research effort directed at proving whether globalization is good or bad for the poor, large differences in opinion remain. The purpose of this section is to explain why so many people form negative priors about the impact of globalization on the poor.

The answer to our question begins with the observation that people view globalization as a process through which power is distilled upward and away from the poor, towards a global elite. This global elite includes technocrats, politicians, and most controversially, transnational corporations. John McMurtry (2002, p.202) provides a lucid and impassioned example of this type of concern 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."

[8] Tenenbaum (2003)

The second half of the answer to our question "Why do people form negative priors about the impact of globalization on the poor?", is that few non-economists believe that this power, self-interested global elite will make decisions that maximize long-run benefits to the poor. Indeed, the assumption is more commonly that the elite will make decisions that are good for the elite, and that what is good for the elite is almost invariably *bad* for the poor[9]. Consider the following quote from the WTO overview on the website of Global Trade Watch[10].

> *"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)*

While these statements are somewhat lacking in balance, they do hint at a number of important policy questions that have attracted some academic interest, but are deserving of much more. Of all these questions, the one on which the gap between public concern and academic interest has been the greatest is the role of big business. This issue 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.

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[9] It is worth noting here that this is an area of important difference between critics of the current form of globalization and those that may be truly described as opposed to globalization. The first group includes organizations such as Oxfam International and Greenpeace. These groups are global themselves, and thus their position is that global governance can work, however, the influential global elite needs to be expanded to include civil society in an equally strong role as big business. In contrast, the latter group, which includes most notably the International Forum on Globalization, tend to believe that democracy will deliver better policies than a combination of technocracy and lobby groups, even if the lobby groups are broadly balanced. Further, they argue that democracy cannot function when the representative group exceeds a certain maximum size, which is far smaller than the world population. Thus they argue that global governance is inherently flawed and local, democratic self-determination is to be preferred.

[10] (http://www.citizen.org/trade/wto/index.cfm)

As the two book titles above suggest, people are concerned about both the political and market power of transnational corporations. Concern about the political power of big business exists independently of concern over globalization[11]. However, critics believe globalization exacerbates the problem of corporate power in three ways. Firstly, it facilitates the expansion of the richest and most powerful corporations into countries whose governments are more susceptible to capture, and whose populations are far less empowered than those in their home countries. Secondly, it involves the strengthening of supra-national institutions, to which they believe large corporations have disproportionate access. The WTO is the most often criticized international institution in this regard, and the Trade Related Intellectual Property Rights (TRIPS) agreement is the most often criticized outcome of this perceived influence[12]. Thirdly, globalization is believed to exacerbate the problem of excessive corporate political power because it is believed to make big business to get even bigger, and power is believed to be proportional to size.

Proponents of globalization often hold a much more optimistic view of the impact of globalization on corporate political power. They argue that corporate input to policy-making can be constructive, and that globalization actually decreases the likelihood of policy capture by industry. The latter point, is supported by the observation that globalization is often associated with increased accountability and openness of national governments, and increased competition for national monopolies. The result, they claim, is a reduction in government capture[13].

Bardhan (2003) suggests that the forces identified by both sides of the debate are at work[14]. Consequently, he says, the effect of globalization on the political equilibrium will vary on a country by country basis. Similarly Woolcock (200, p.5) says that while globalization often has positive impacts, in some situations it can exacerbate problems of capture. As he says:

[11]A 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.

[12]See for example Bardhan (2003); Deardorff (2003); Wright et al. (2003)

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

[14] See also Bardhan & Mookherjee (2000)

"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."

We turn now to the second major source of concern with 'corporate globalization', that is, increased market concentration. This issue, according to Kanbur (2001, p.1089) is "undoubtedly the most potent difference in framework and perspective" in the globalization debate. Bardhan (2003) and Bhagwati (2002) also note 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 of highly imperfect competition. Thus, while much economic research has considered the ability of globalization to reduce the market power held by previously monopolistic local firms, many critics see globalization as a mechanism by which the oligopolistic reach of the transnational corporations spreads to the furthest corners of the globe.

The important implication of the assumption of a world of imperfect competition is that it makes distortions in both factor and goods markets feasible[15]. Hence it is possible to believe that the poor are being exploited both in their role as suppliers of inputs, particularly labor, and in their role as consumers of finished products. A classic example of this belief was the debate in India in the mid-1990s. Many small farmers were suffering at the same time as many poor consumers were facing rapidly increasing food prices. The culprits, some claimed, were the rapidly expanding foreign agribusinesses who were acting as 'middle-men' in the food supply chain[16].

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[15]E.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.

[16] For example, in a speech in late 1998, the then Prime Minister, Shri Atal Bihari Vajpayee said

"A major area of concern for all of us in the supply and distribution of essential commodities is the exploitative role of middlemen. This was evident even in the recent spurt in prices - the difference between wholesale and retail prices of onion, potatoes, pulses and edible oils was sometimes in the 200 per cent to 300 per cent band.

The worst irony is that increased purchase price for the consumer does not mean better sale price for the farmer. Prices of agriculture produce often fluctuate so wildly from year to year due to market manipulations by middlemen, that sustainable crop planning becomes a near impossibility."

See also Shiva (2002), FAO (2001)

While it is unlikely that foreign agribusinesses were the primary cause of the consumer price hikes in the Indian example, there is some evidence that some large transnational corporations do have market power. Some major world markets are highly concentrated, and business executives continue to strive for greater market share under the belief that this is necessary in a globalized economy[17]. Even among economists, models of imperfect competition are increasingly being used to describe the world economy[18], and the implications of this for the theoretical gains from trade are being examined[19]. However, hard empirical evidence that globalization of an industry drives increased concentration of that industry is lacking[20]. Bardhan (2003) suggests that this area is in need of more empirical investigation. However, he adds that even if the issue is validated empirically, protesters should be lobbying for better anti-trust laws, not more trade restrictions.

3. Concepts of Poverty and Inequality

The previous section argued that people's interpretation of the evidence on globalization and poverty is highly influenced by their priors. For critics of globalization these priors tend to be negative because they see globalization as a process by which power is taken from the poor and given to the rich and powerful, particularly to transnational corporations. The current section will provide a very different explanation for the persistence of different opinions about the impact of globalization on poverty. It argues that poverty and inequality are not uniquely defined concepts, and shows that the impact of globalization on each varies according to the definition that is used.

3.1. Poverty

This section seeks to identify and explain the concepts of poverty that are most often employed by critics of economic globalization. It will show that the concepts employed by critics

[17]Ghemawat & Ghadar (2000)
[18]Elliot, Kar & Richardson (2003)
[19] Marazzi (2002)
[20]Ghemawat & Ghadar (2000)

tend to be ones that lead to a more pessimistic conclusion about the impact of globalization on poverty. This choice of concepts by critics could be viewed as simply a cynical means of supporting their prior position. However, this section will argue that their choice of definition of poverty is equally well explained by values and social preferences that many critics hold.

This section builds on the work of Ravi Kanbur (2001), who identified several dimensions along which conceptions of poverty tend to vary. They are:

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

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 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" reported by the International Forum on Globalization[21] 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*
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> *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"*

[21]IFG Bulletin, 2001, Volume 1, Issue 3, Available at http://www.thirdworldtraveler.com/Globalization/Globalization_FactsFigures.html

We can understand the different focus of the two groups very easily if we consider the advantages and disadvantages of the two concepts. If, for example, we want to make inter-country comparisons, then poverty incidence makes much more sense as a measure[22]. 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 'poverty professionals' also tend to believe that poverty incidence is a better indicator of how the ease with which poverty could be eliminated in the next period[23]. Thus a decrease in the poverty incidence is considered to be progress against poverty, even if the total number of poor has not changed or has risen slightly, because the country is now in a better position to fight poverty in the next period.

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 perspectives[24].

As it turns out, using total number of poor or using poverty incidence does make a difference to the conclusions that one draws from an assessment of world poverty trends. Though there is significant variation in the estimates obtained using different methods or different time periods[25], all of the estimates show a decrease in the *incidence* of poverty since the 1980s. The total *number*

[22]It 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.

[23]Consider 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.

[24]The 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.

[25]For 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.

of extreme poor, however, has been variously found to increase[26], stay the same[27], slightly decrease[28], or significantly decrease[29]. Excluding China, or using a higher poverty line, there is evidence of a significant increase in the total number of poor[30].

Monetary verses Multi-Dimensional Measures

Kanbur (2001) argues that critics of globalization tend to think of poverty as a multi-dimensional concept, rather than something that can be fully captured by measures of average income or expenditure. In this regard, critics are now on the same side as the majority of development economists[31]. Kanbur (p.1085) 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 importance now placed on 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 poverty[32]. 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.

The opinions of the poor also seem to suggest that the impact of globalization on their lives is less positive than measures of changes in their average income would suggest. Graham (2001)

[26]World Bank, World Development Report 2000/01
[27]World Bank, World Development Indicators 2001
[28]Chen & Ravallion (2002)
[29]World 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).
[30]Chen & 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.
[31] Thorbecke (2003), Kanji & Barrientos (2002), Kanbur (2001)
[32]Kanbur (2001); World Development Report (2000)

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. Similarly, as Clare Short and James Wolfenson say in the foreword to "Voices of the Poor"[33]:

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

People's self-perceptions, of course, are always prone to subjectivity and bias. So what do external measures of poverty's 'other dimensions' suggest about the impact of globalization? As proponents of globalization like to note, there have been significant improvements in literacy rates, life-expectancy and infant mortality over the last 25 years[34]. As with the monetary measures, however, the use of numbers rather than incidence tells a somewhat less laudable story. For example, while the world rate of illiteracy fell by a third between 1980 and 2002, the total number of illiterate adults in the world decreased by a mere 1.4% over the same period[35]. Similar patterns hold for other measures such as infant mortality, and access to clean water and sanitation.

Proponents also point out that the period of globalization has been accompanied by the spread of democracy, a factor very important to voice and empowerment[36]. In contrast, as explained in the previous section, many critics believe that voice and empowerment are among the first casualties of globalization. They believe that globalization shifts decision-making to higher and higher levels of government, well beyond the potential for meaningful democratic participation from the poor[37]. These two opinions are not, however, incompatible. Proponents of globalization seem to be talking about whether or not the system is in each country is fundamentally democratic,

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[33]Narayan et al. (2000, p.ix)

[34] For example Fischer (2003), Loungani (2003)

[35] Source World Resources Institute 'EarthTrends' database. The world literacy rate rose from 69.3% in 1980 to 80.2% in 2002. The total number of illiterate in the world rose from 883 million in 1980 to a peak of 890 million in 1988 and has been falling steadily since then to around 871 million in 2002. This was helped in large part by China in which the number of illiterate has been falling steadily from 222 million in 1980 to 145 million in 2002, and hampered by India where the number has been rising steadily from 250 million in 1980 to 291 million in 2002.

[36] For example Fischer (2003), Micklethwait & Wooldridge (2000)

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

while critics of globalization are talking about the realities of voice and participation within those countries that are already ostensibly democratic.

Aside from the impact on democratic participation, there are two other major claims made against globalization on the basis of non-monetary dimensions of poverty. The first is that it increases vulnerability to shocks, and the second is that reduced tariff revenues and neoliberal policies associated with globalization lead to cutbacks in government services important to the poor.

Kanbur (2001, p.1087) provides a list of the type of services people envisage as being harmed by globalization, but not recorded in monetary measures of poverty:

"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."

Thankfully, there has been a large amount of research effort directed at evaluating the concerns over both vulnerability and government service provision. To attempt to summarize the conclusions of this research is to do a grave injustice to this extensive literature. However, for our purposes, with the help of Winters (2004), we offer the following. Firstly, there is agreement that capital account liberalization can lead to increased macroeconomic volatility in developing countries[38]. Similarly there is evidence that the removal of government price support mechanisms can increase volatility of income for those dependent on the sale of agricultural commodities. However, the impact of other aspects of liberalization, such as trade liberalization, has been found to be sometimes stabilizing and sometimes destabilizing. While there is little evidence to support the claim that trade liberalization and structural adjustment packages in developing countries lead to cutbacks in the provision of public goods for the poor[39].

[38] Bhagwati (1998), Fischer (2003), Prasad et al (2003)
[39] Winters (2004)

Level of Aggregation and Time Horizon

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. Kanbur (2001) attributes the greater concern that critics of globalization have for those who lose from the process to a smaller geographical perspective, or lower level of aggregation, and different time horizon. He explains the smaller geographic perspective as follows (Kanbur, 2001, p.1087):

> *"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'."*

With regard to time horizon, Kanbur suggests that critics of globalization have at once a shorter term and a longer-term world-view than many of its proponents. The shorter-term view is the one that leads critics to feel particularly concerned about the loss of income by certain subgroups as a result of globalization-induced changes in the economy. This short-term view is contrasted with the medium term perspective of economists. In the medium term it is argued that globalization will promote new industries, and better jobs will become available to replace those that had been lost.

According to critics of globalization, the pertinent question is whether the people who lost their livelihoods in the short term are likely to be the same ones that gain a new and better source of income in the medium term. In the case of middle aged or older people, or where lack of education and poor geographical mobility limit access to new opportunities, it is often the case that the losers remain losers, for the rest of their life[40].

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[40]Ravallion (2003, p.16) 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."

The problem with Kanbur's explanation based on geographical scope and time horizon is that is does not fully complete the picture. His examples of NGO workers and local officials working with the poor do not explain why large numbers of people who work in office jobs in rich countries also appear to use the losses of certain subgroups as their criterion for claiming that globalization has 'worsened poverty'.

I propose a more basic explanation: that people simply do not like to see poor people being made worse off. This could be interpreted as an indication that critics of globalization support a Rawlsian notion of social welfare, but this is not the only explanation. Although the rational side of most personalities will tend towards a utilitarian perspective, the social side of those same personalities will find personal tragedies such as the suicide of South Korean farmer Lee Kyung Hae at the WTO meeting in Cancun highly compelling.

The balance between greater good and personal losses is a dilemma to which there is no easy solution. Balancing stakeholder and national interest is the perennial challenge for policy-makers. Part of the reason that globalization is so unpopular may be that, in order get past the powerful stakeholders such as the owners of capital in protected industries, policy-makers have had to shift the balance far towards being concerned with the greater national good. In such an environment, the voices of already marginalized groups such as peasants and indigenous peoples have almost no chance of being heard.

Seen in the worst light, those middle class white kids protesting in the street in their wealthy countries are trying to stop something that has made many of the world's poor better off. Seen in the best light, they are giving a voice to those who otherwise have none, and pushing policy-makers to think harder about how to soften those sharp edges of globalization.

3.2. 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 is a trade-off between fairness and efficiency, they will lean towards fairness. Interestingly, the mounting evidence from behavioral economics research is that they are not alone. As Fehr & Schmidt (2000, p.1) find, "many people are strongly motivated by concerns for fairness and reciprocity". While the deep philosophical reasons for this motivation are still being unraveled, some argue that there is a practical basis for concern with inequality.

Robert Wade (2002, p.21) provides an example of he practical justification in his argument for why we should be concerned about 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 entry[41]. 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."*

In its *Global Trends 2015* report (IFG, 2002, p.30), the U.S. Central Intelligence Agency (CIA) also seemed to think inequality was worth worrying about. According to them 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."*

[41]Thomas 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).

Given then, that inequality is a common concern, the question still remains why some people think that globalization leads to more inequality, and others think it leads to less. As with poverty, the explanation lies largely in differences in what people really mean by inequality and 'worsening inequality'. Indeed, the debate over what type of inequality we 'should' worry about is even more intense than that over poverty. The intensity of the debate seems to be fueled by the fact that inequality is a genuinely complex concept. Concepts of inequality vary significantly depending on the person, and depending on the framing of the issue presented to each person (Devooght, 2003; Litchfield, 1999).

In order to keep this paper a manageable length, we must once again apologize to an extensive literature (this time on the philosophical, axiomatic and social bases for selecting inequality measures), and move on to the evidence that directly relates to globalization. In short, we will argue that critics of globalization tend to think in either absolute dollar terms, or in terms of polarization between the top and bottom of the income distribution. While proponents of globalization, and most academic economists, tend to use distributional measures of relative inequality, of which the Gini coefficient is the most popular[42].

Inequality in the Absolute Gains from Globalization

According to Ravallion (2003) emphasis on *absolute* as opposed to *relative* inequality is 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. To explain what he means by absolute inequality, he provides the following example. Consider 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, and leave the Gini coefficient unchanged. However, the poorer household now has $2,000 and the richer $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 *relative* inequality

[42] Different statistics regarding the population over which inequality is being measured have also been used to advantage by both sides of the debate. This issue is discussed in a later section under "Technical Details - Inequality".

is unchanged.

The example above is also relevant to the sweatshop debate. 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.

Despite the fact that the above situation clearly describes a Pareto improvement, many critics of globalization would consider the above situation a bad outcome on the basis that it was unfair. They would rather see a greater share of the gains going to the poor workers. This issue is closely related to what Nancy Birdsall (2001, p.3) claims is the major reason for the popular perception that globalization is good for the rich and bad for the poor. According to her:

> *"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."*

Combining the insights of Ravallion and Birdsall, we may conclude that many critics are concerned about inequality in absolute gains and in opportunities for gain from globalization.

Polarization and Top-Driven Inequality

Changes in inequality in absolute terms are no doubt important in the minds of many critics. However, a perusal of the internet suggests that there is a second concept of inequality which is also popular among critics of globalization. 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 (cf *changes* in *absolute* inequality as discussed above). However, unlike economist's

measures, which are based on the entire the income distribution, the figures reported by critics of economic globalization usually refer simply to the polarization of the distribution. That is, they focus only on the two ends of the distribution, which suggests a particular concern with 'top-driven' inequality. Robert Wade, provides an excellent example of the figures quoted on polarization.

> *"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. However, 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.

Knowing that many people think of inequality in terms of 'absolute gains' and polarization, rather than in terms of Gini coefficients, makes it easier to understand the confidence with which critics of economic globalization assert that it causes increased inequality. The empirical evidence does suggest that people do tend to gain from globalization in proportion to the amount of wealth they already had[43], and that the ratio of the incomes of the richest to the poorest is rising[44].

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

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

4. Measurement of Poverty and Inequality

The central question in this paper is why some people believe that globalization is bad for the poor, while others believe quite the opposite. The previous sections have provided two parts of an answer to this question. Firstly, that some people interpret the available evidence negatively because they have negative expectations about the impact of globalization on the poor. The source of these negative expectations was seen to be the concentration of political and economic power that is often associated with globalization. The second explanation, provided in the previous section, was that poverty and inequality can have very different meanings to different people. Further, it showed that the concepts of poverty and inequality used by critics of globalization very often lead to a negative assessment of the impact of globalization.

The following two sections leave aside the philosophical underpinnings of the differences in opinion and focus on more technical details. The current section discusses the evidence about the level and trends in poverty and inequality, while Section 5 discusses the evidence that links these trends to globalization.

Before proceeding, it is important to make clear what the following two sections do and, more importantly, do not try to achieve. Neither of them is in any way a comprehensive assessment of the literature which they are discussing. Their aim is not produce a statement of the type "overall the empirical evidence supports the conclusion that globalization is good/bad for the poor" [45]. Quite the contrary, their aim is to show how the empirical evidence to date leaves ample room for debate about the impact of globalization on the poor. Accordingly, the approach taken in the following sections is to highlight only a few key statistics and empirical methods, as well as their limitations and biases.

[45] Readers who are interested in more comprehensive assessments of the empirical literature may consider one of the several high quality survey papers, reports, and opinion pieces have already been devoted to these questions. See for example IMF (1997, Chapter IV); UNDP (1999); McKay, Winters & Kedir (2000); Reimer (2002); Bigman (2002); Berg & Krueger (2003); Bhagwati & Srinivasan (2002); Bourguignon et al (2002); Prasad et al. (2003); Baldwin (2003); Pavcnik and Goldberg (2004) & Winters (2004)

4.1. Poverty

Despite the existence of a multitude of different poverty measures, many of which may be technically superior, the discussion in this section is limited to the world poverty headcount. This particular measure was chosen both because it is the simplest one, and because it is arguably the most often quoted in the globalization debate. As will be obvious from the discussion that follows, the calculation of even this most simple of measures involves enough technical detail to confuse the inexpert, and to promote a vigorous scholarly debate.

Table 1 provides a comparison of the most widely cited current estimates of the world poverty headcount. It can be seen that even very rigorous authors have produced different estimates of the same statistic. 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 some authors that all of the estimates in Table 1 significantly underestimate the level of poverty.

Table 1 – Comparison of Recent World Poverty Estimates

1998 Headcount (bill.)	*1998 Incidence (%)*	*Ave. Change 1987-98 (mill. p.a.)*	*Poverty Line ($/day)*	*Source of Mean*	*Currency Conversion*	*Source*
1.20	24.0	+1.4	1.08	HHS	WBPPP93	Chen & Ravallion (2000), Table 2
2.80	56.0	+22.9	2.15	HHS	WBPPP93	Chen & Ravallion (2000), Table 3
0.35	6.7	-3.3	1.08	NAcc	WBPPP93	Sala-i-Martin (2002a), Table 1
0.97	18.6	-20.0	2.15	NAcc	WBPPP93	Sala-i-Martin (2002a), Table 1
0.46	9.2	-30.8	1.08	NAcc	WBPPP93	Bhalla (2003), Table 1
0.37	7.4	-22.6	1.15	NAcc	WBPPP96	Bhalla (2003), Table 1

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 countries[46]. It is also common to report poverty figures for a line set at twice this value, $US2 per day.

The World Bank's $1 per day and $2 per day poverty lines have been criticized for being arbitrary, and arbitrarily too low, which means that they underestimate the number of people living in poverty[47]. The importance of the choice of poverty line to the estimated headcount can be observed in Table 1. it can be seen that 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.

While acknowledging that there was an element of arbitrariness to the original choice of $1 and $2 per day, Deaton (2001) argues that the data consistency losses from defining a new poverty line would outweigh any benefits obtained.

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

[46]Chen & Ravallion (2000)
[47] Wade (2002) and Pogge & Reddy (2003).

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. On the other hand, 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.

The impact of the difference between these two methods is illustrated in Table 1. 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.

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 is that the consumption basket used to estimate purchasing power parities (PPP) does not reflect the consumption patterns of the poor[48]. The baskets of goods and services used in all the World Bank's PPP calculations are based on a representative national consumption bundle, not the bundle of goods typically consumed by the poor. Wade (2002), Pogge & Reddy (2003) 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

[48] Wade (2002), Pogge & Reddy (2003) and Deaton (2001)

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 much cited claim by the World Bank that the poverty headcount had decreased by 200 million over the period 1980 to 1998.

In addition to the arbitrary changes in poverty headcount that are brought on by updating the PPP base year, there may also be systematic biases. Pogge & Reddy (2003) argue that ongoing updating of the PPP base year will cause the overestimation of the incomes of the poor to get progressively worse as average incomes 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 the 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.

There are undoubtedly weaknesses in the current poverty accounting practices of the World Bank that leave it vulnerable to such criticisms. Some of these weaknesses are implicit in the attempt to summarize all the deprivation in the entire world into a single number, and will never be resolved. However, some of the weaknesses can be reduced as methodology continues to evolve and improve. A good first step would be to follow Deaton's (2001) recommendation that a locally validated set of PPP poverty lines be developed and then held fixed, thus eliminating the

large variations brought on by changes in PPP base year.

4.2. Inequality

The numbers debate over global inequality has every bit of the complexity of that over poverty, plus one additional layer. That additional layer is the question of what sample best represents "world inequality". Should we consider every citizen as an element of a single global income distribution? Or should we recognize the existence of national boarders and talk about 'within country' and 'between country' components of inequality? The answer, of course, is that each measure has its different merits, and each will be preferable in different contexts.

This section will focus on world inequality calculated assuming that there are no borders, referred to from here on as 'world inequality'. This measure has been chosen on the basis of two major merits. Firstly, it is the concept most analogous to the world poverty headcount, which was discussed under the previous heading. Secondly, it is the concept that most represents what globalization is all about. Indeed, one of the reasons that globalization has been associated with a rise in concern over global inequality is that people are beginning to think more as global citizens. Consumers in rich countries see that the global economy connects them to the very poorest farmers in developing countries, and that makes them feel that they have the power, indeed the responsibility, to make the world a fairer place.

The one major disadvantage of the 'no borders' approach to calculating inequality is that it is possibly the least relevant to policy analysis. Thus it is worth spending a paragraph to summarize a few broadly accepted 'facts' about the other measures and their trends in recent decades[49]. To begin with, everyone agrees that the lion's share, of the order of three quarters or more, of inequality in the world is due to between-country inequality, and that this share has changed little since 1980. Most experts would agree that since 1980 within-country inequality has increased in

[49] This paragraph based on the reading the following papers: Dowrick & Akmal (2001), Milanovic (2002), Sala-i-Martin (2002a,b), Wade (2002), Ravallion (2003), Crook (2003), Galbraith (2003), Fischer (2003), Loungani (2003)

more countries than it has decreased. Most would also agree that between-country inequality has increased if all countries are given equal weight. On the other hand, many would also agree that between-country inequality has decreased if countries are weighted by population[50]. Finally, almost all would agree that the driving force underlying any inequality calculations over the period has been the fact that major economies especially at the very poor end (China and India), but also at the very rich end (US and UK), experienced a combination of growth and increased within-country inequality.

The fact that India and China both grew and experienced increased internal inequality means that estimates of changes in the measure that we are interested in, 'world inequality', consistently lie between the estimates of changes in between-country inequality calculated using alternatively unit weights or population weights for each country. It is, therefore, not surprising that some authors find that world inequality is increasing, while others find it is decreasing.

Though there are many variations in methodology for calculating world inequality, most of the variation in results arises from two sources, both of which were also important to the debate over poverty headcount. The first is the use of national accounts data verses household survey data to calculate mean national income. The second is the use of the purchasing power parity (PPP) verses exchange rate to convert between incomes in different countries[51]. The impact of these methodological differences on the results obtained can be seen in Table 2. Note that though the results presented in Table 2 are based only on the Gini coefficient, the qualitative conclusions of each of the methodologies are robust to the use of several common measures of inequality.

[50] This latter finding, however, is dependent on whether incomes are compared on exchange rate or purchasing power parity (PPP) terms, with PPP the more widely accepted basis, and the one which more often leads to the conclusion that inequality has fallen. Dowrick & Akmal (2001) argue that both exchange rate and PPP are biased, and that when the bias is removed from PPP, very little change is found in population weighted between-country inequality over the period 1980-97.

[51] There are several methods for calculating purchasing power parity, however, most studies use the Penn World Tables PPP figures. These are based on the Geary-Khamis method. See Summers & Heston (1991) for details.

Table 2 – Comparison of Some Recent World Inequality Estimates

Gini (Start Yr)	*Gini (End Yr)*	*Rate of Change*	*No. of Countries*	*Source of Mean*	*Income Conversion*	*Source*
78.2 (1988)	80.5 (1993)	0.46	91	HHS	XR	Milanovic (2002), Table 16
62.8 (1988)	66.0 (1993)	0.64	91	HHS	EKSPPP	Milanovic (2002), Table 16
62.8 (1988)	64.7(?) (1998)	0.19	91	HHS	EKSPPP	Milanovic *forthcoming*
62.7 (1988)	61.5 (1993)	-0.24	125	NAcc	GKPPP	Sala-i-Martin (2002b), Table 1
62.7 (1988)	60.9 (1998)	-0.18	125	NAcc	GKPPP	Sala-i-Martin (2002b), Table 1
64.2 (1978)	60.9 (1998)	-0.17	125	NAcc	GKPPP	Sala-i-Martin (2002b), Table 1
63.8 (1980)	61.5 (1993)	-0.18	125	NAcc	GKPPP	Sala-i-Martin (2002b), Table 1
65.9 (1980)	63.6 (1993)	-0.18	46	NAcc	GKPPP	Dowrick & Akmal (2003), Table 5
77.9 (1980)	82.4 (1993)	0.37	46	NAcc	XR	Dowrick & Akmal (2003), Table 5
69.8 (1980)	71.1 (1993)	0.15	46	NAcc	Afriat	Dowrick & Akmal (2003), Table 5

Notes:
Rate of Change - total change in the Gini from start year to end year divided by number of years between.
HHS – household survey data
NAcc – national accounts data
PPP – purchasing power parity. Sala-i-Martin and Dorick & Akmal use Penn World Tables PPP data, based on the Geary-Khamis method. Milanovik uses the EKS (Elteto, Koves and Szulc) method to calculate PPP.
XR – exchange rate
Afriat – an alternative PPP conversion designed to eliminate the biases typically present in GKPPP. See Dowrick & Akmal (2003) for details.

As was the case with the poverty estimates, the use of household survey data gives a significantly more pessimistic view of recent decades. Using household survey data only, Milanovic (2002, *forthcoming*) finds that world inequality *increased* at a rate of around 0.2 Gini points per year. Using national accounts data to find average incomes, Sala-i-Martin (2002b) finds that world inequality *decreased* at the rate of about 0.2 Gini points per year over the same period[52]. This is despite the fact that the two had very similar estimates for the initial inequality in 1988.

[52] Both using purchasing power parity currency conversion.

The work of Dowrick and Akmal (2003) illustrates the sensitivity of trends in inequality to the choice of currency conversion when national accounts data is used to find average incomes. They argue that both exchange rates and purchasing power parities (PPP) based on the Geary-Khamis method are biased means of conversion. To correct for these biases, they recommend and apply a PPP measure based on an Afriat index. Not surprisingly, both the level and the trend in inequality based on Dowrick and Akmals' Afriat index lie between the corresponding values based on Geary-Khamis PPP and exchange rate. On balance, the Afriat index shows a very slight increase in inequality over the period 1980-93.

According to Sala-i-Martin (2002b), the major difference between his methodology and that of Dowrick and Akmal is that he includes a larger number of countries in his sample. Sala-i-Martin notes that the bias in the countries which are excluded from Dowrick and Akmal's sample leads to an *underestimate* of the increases in inequality over their chosen time period. This would suggest that if the larger sample of Sala-i-Martin was combined with the unbiased PPP conversion of Dowrick and Akmal, we would find that world inequality rose over the period 1980-93.

5. 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 liberalizing policies and observed trends in poverty and inequality. 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 in the past and present.

Similarly, globalization's proponents claim that many 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 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.

Reimer (2002) provides an excellent overview of the different empirical methods that have been employed in research on globalization and their findings. He 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 emphasize 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 the poor. The findings of this literature have

been summarized in a recent paper by two of the leading authors in this field, Goldberg and Pavcnik (2004).

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[53] has emerged as common ground, at least within the academic debate on 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.

[53] See for example IMF (1997, Chapter IV); UNDP (1999); McKay, Winters & Kedir (2000); Reimer (2002); Bigman (2002); Berg & Krueger (2003); Bhagwati & Srinivasan (2002); Bourguignon et al (2002); Prasad et al. (2003); Baldwin (2003); Pavcnik and Goldberg (2004) & Winters (2004).

It is particularly reassuring to observe that these points of consensus in the academic literature have supported the furtive emergence of a middle ground in the public debate over globalization. In reading publications from both sides, we observe 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 75th Birthday special issue on capitalism and democracy identified 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 (Emmott, 2003).

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 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 until recently been given insufficient attention.

The literature on the impacts of globalization faces the same 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 empirically[54]. 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. In short, endogeneity plagues empirical research efforts on globalization.

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[55]. 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 analysis[56]. 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 globalization[57]. These well-known limitations are also one of the reasons that critics of economic globalization remain unconvinced by the generally positive findings of such studies.

It is heartening to see that there is a growing acknowledgement of the limitations of a black box approach to globalization and poverty, and increasing recognition among researchers of the importance of identifying the causal mechanisms through which globalization affects the poor. This approach is being lead by Alan Winters (2000, 2002, 2004) and the current UNU-WIDER project on the Impact of Globalization on the World's Poor (UNU-WIDER, 2004).

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[54]Winters (2000); Agenor (2002)

[55] The former method was developed and applied very successfully in two projects, one by Little et al (1970) at the OECD and one lead by Bhagwati & Krueger for the NBER (Bhagwati & Srinivasan, 2002).

[56]Ravallion (2003)

[57]Bhagwati (2000); Bhagwati & Srinivasan (2002); Bardhan (2003); Ravallion (2003)

There is, however, a second 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 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. They are also interested in 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 the optimal policy for a developing country is to unilaterally free trade without bargaining for any concessions from rich countries in return. Before they will agree with such a policy, they need to be convinced that it is preferable to the counter factual 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.

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 pro-poor growth. Both Kanbur (2001) and Ravallion (2003) mention this debate in their papers on globalization and poverty. As Ravallion (2003, p.18-19) says:

> *“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] policies ....will achieve more rapid poverty reduction than would be possible otherwise."

6. Conclusion

This paper has attempted to explain why criticisms of globalization's impact on the poor continue to abound, despite the general consensus that liberalization promotes growth, and growth is good for the poor. The explanation consisted of four parts. Firstly, many people view the empirical evidence in favor of globalization skeptically because they see globalization as a process through which power is concentrated upward and away from the poor. In particular, they see transnational corporations as gaining a disproportionate amount of both political and market power. Critics of globalization are also firmly of the opinion that corporations will use their increased power in ways that benefit themselves, and harm the poor.

Though these concerns are not without basis, there are mediating factors that make it difficult to conclude that globalization is increasing corporate power, or that increased corporate power is necessarily bad for the poor. On the first point it is important to remember that globalization exposes many previously powerful national corporations to outside competition, and requires greater transparency in government policy-making. On the second point, it may be that the efficiency benefits of large corporations outweigh any losses from increased market power. Thus it would seem that there is room for more empirical research to determine whether the 'corporate globalization' does indeed give the poor cause for concern.

The next part of our explanation focused on the multiplicity of meanings of the phrases 'worsening poverty' and 'increasing inequality'. The discussion in regard to poverty followed on from Ravi Kanbur's (2001) work which identified four major differences between the concepts of poverty employed by globalization's critics and proponents. These four dimensions are: the total number of poor verses poverty incidence, monetary verses multi-dimensional measures, level of

aggregation, and time horizon. We argued that although level of aggregation and time horizon do appear to be important distinctions, they are both emblematic of a more general concern that the poor should not be the ones to bear the adjustment costs of globalization.

We then examined the implications of each of these different concepts to our assessment of the progress of the last twenty years. It was argued that invariably some groups of poor are adversely affected by globalization, even when a much larger number of poor are made better off. Thus concern for negatively affected subgroups will always lead to a less favorable assessment of the impact of globalization. In the presence of strong population growth, looking at total number of poor rather than poverty incidence also leads to a predictably more pessimistic assessment. However, the implications of including non-monetary dimensions of poverty are less clear. Many people clearly believe that liberalization will lead to negative impacts on non-monetary dimensions of poverty, but the empirical evidence on this mixed.

In regard to inequality we argued that economic research generally applies measures of the shape of the income distribution, while many of the criticisms of globalization are based on polarization and on changes in absolute inequality. The latter concept is related to the observation that the poor often do not have equal access to the opportunities presented by globalization (Birdsall, 2001; Winters et al, 2004). Both polarization and absolute changes in inequality tend to indicate rising inequality more often than the measures of inequality preferred by economists.

The next section showed that there remain important, unresolved methodological issues in the calculation of even the most fundamental poverty and inequality measures. Foremost among these issues are the use of household survey data verses national accounts data to estimate average national incomes, and the method of comparing incomes across countries and over time. Both of these issues have major implications for our assessment of the last twenty years. Until we reach a consensus on them, there will be empirical support for both optimistic and pessimistic views of the period of globalization.

Global trends over the last twenty years, however, are not the best facts on which to base claims about the benefits or otherwise of globalization. Thorough empirical work, which links specific policy measures to poverty outcomes, provides a far better basis. The empirical work to date has contributed to a broad acceptance that trade and foreign direct investment are growth promoting. Yet much work remains to show which policies can reduce the adjustment costs bourn by the poor, and maximize the share of the benefits they obtain from globalization.

Overall it seems that the difference of opinion between globalization's supporters and critics can be largely explained by differences in prior views and priorities, as well as current ambiguities in the empirical evidence. Rather than viewing criticism as a burden to be thrown off as quickly as possible, policy-makers and researchers alike could do well to heed its message: That 'good' isn't good enough. We owe it to the world's poor to do better.

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Appendix 1. Summary of Remaining Disagreements

Strong Globalizers	***Cautious Globalizers***
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 without negative effects on the poor by provision of subsidies or vouchers.	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 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	Large reductions in wages in previously protected

Strong Globalizers	***Cautious Globalizers***
sectors is merely evidence that these sectors were earning monopoly rents that they were sharing with their workers.	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.