Introduction

Today, we live with more awareness and concern about global poverty than at any time in our world's history. More than ever, people can see or read about swollen stomachs of hungry African children, 11 year-old Asian children working in sweatshops, and Haitian families living in mud huts without medical care, electricity, or clean water. At the same time, many of the richest people are global celebrities. Poverty can no longer be kept secret and neither can prodigious wealth. Yet, the growing world recognition of massive disparities between rich and poor does not necessarily mean that economic inequality is worsening or that poverty is spreading.

Ironically, it is the very improvement in the economic well being of hundreds of millions of people that raised the world's consciousness about poverty and inequality. Until a few hundred years ago, almost everyone experienced material poverty. Few saw themselves as poor relative to their neighbors and hardly any were comfortable enough to worry whether other people had enough food, clothing and shelter. Rising incomes created the large middle classes that could worry about the hungry and expose the poor to what they lacked. In addition, economic growth and technological change fueled the expansion and accessibility of mass communication that makes poverty and income disparities readily observable not only in the rich countries but in many poor countries as well.

This growing recognition of world poverty and inequality is significant, but so too are questions about the realities of material hardships and material wealth. What are today's levels of poverty and inequality? Are they increasing or decreasing? Answering these questions is a complicated task, though far less complex than determining the causes of poverty and inequality and the effects of domestic and international policies. One critical set of decisions is whether countries should block or embrace the trends toward "globalization". The often emotional debate over globalization's role is hardly surprising, given the apparent stakes for organized labor, investors, farmers, and civil servants in rich, middle, and poor countries and the continuing ideological battle over free markets. Other causes of poverty—such as the decline in two-parent families—attract less attention.

Today, my goal is to shed light in three directions: first, by presenting the best analyses of the levels and trends in world poverty and inequality; second, by reviewing briefly the evidence on how the economic pillars of globalization—international trade, investment, and immigration—have influenced and continue to influence poverty and inequality; and third, by considering why some people oppose globalization.

The Dramatic Decline in Absolute Poverty

Let us begin by looking at trends in world inequality and poverty over the last two decades, a period of remarkable growth in trade and investment and some increase in immigration. Determining whether poverty and inequality increased or decreased is not simple. The data are not available for all countries over time. Nor are data quality and measures comparable across countries. Some countries rely on household income surveys and others on household consumption. Estimating how many units of each currency translate into buying power is difficult. The meaning of world poverty thresholds differs from one country to another. Another issue is whether the income statistics are examined across countries or across individuals.

The most comprehensive recent analysis of trends in poverty and inequality comes from studies by Columbia University professor Xavier Sala-i-Martin (2002). Professor Martin uses data on income gaps between countries and within countries to portray income differences across all individuals in 125 countries, representing 90 percent of the world's population. He adjusts for inflation and for the fact the purchasing power in some countries, especially low-income
new laws stimulate more investment by local citizens. If higher growth takes place, should globalization or sound local
country adopts laws to protect private property in order to attract investments from abroad. Now, at the same time, the
run a simple experiment with and without components of globalization. Let me illustrate with an example. Suppose a
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than it looks based on translating their currencies into dollars or marks on the basis of exchange
rates. Professor Martin's poverty measures are $1/day or $2/day per person in 1985 prices (or $1.52/day or $3.04/day in 1998 terms). Unlike some studies, which treat each country as one unit and thus give people in small countries much
weighter than people in large countries, Martin attaches the same importance to each individual regardless of his
Sala-i-Martin paints a picture of striking progress. He estimates that the share of the world's population in severe
555$/year (hereafter I use 1998 dollars) declined by nearly two-thirds between 1970 and 1998, from 17.2% to
6.7%. Using the more generous poverty line of $1,110 per year, he finds an even greater percentage point decline, from
41% in 1970 to 18.6% in 1998. Most of the headway against poverty has taken place since 1980. Even though world
population grew by 1.5 billion between 1980 and 1998, the number experiencing severe poverty declined by 160 million
people. Still, as of 1998, 353 million people lived below the $1.52/day threshold and another 620 million lived below the
$3.04/day threshold. The World Bank's figures are higher, but both sets of poverty figures show marked reductions in
poverty since 1980.
More surprising than the declines in poverty are the reductions in inequality. With the 1980s viewed as the "lost decade"
for many developing countries, especially in Africa and Latin America, we might have expected a sharp rise in world
inequality. Instead, Sala-i-Martin finds that the world distribution of income became more equal since 1980, after
changing little change in the 1970s. True, the improvements were modest, ranging from about 5-11 percent, depending
on the indicator of inequality. But small gains in narrowing income gaps are a far better outcome than the "explosive"
growth in inequality described by the UN and many outside observers.
Are these figures too optimistic? Could huge numbers of the world's poor really have escaped poverty and could the
gap with people in rich countries really have narrowed? Progress in Asia provides much of the answer. In 1970, 39%
of the world's poor lived in Asia and 37% lived in other parts of Asia. Of the 1.3 trillion people living on less than $3 a day,
85% lived in Asia. The Asian economic miracle of the 1980s and 1990s lifted the living standards of hundreds of
millions of people—the majority of the poor. The percentage of those scraping by on $3/day in Asia fell from 48% in
1980 to 16% in 1998. China's bullish performance was quite impressive but so were the improvements in Asia outside
China, where $3/day poverty rates declined from 42% to 13% in the 1980-98 period.
Meanwhile, since the 1980s, poverty rates have stagnated in Latin America and worsened in Africa. While Africans
accounted for only 16 percent of the world's deep poverty in 1980, they made up two-thirds of the poor in 1998. By the
$3/day standard, 64% of Africans were poor in 1998, up from 55% in 1980. Poverty in Latin America—with rates of 2%
at the $1.5/day standard and 10% at the $3/day standard—is not nearly as severe as African poverty. Moreover,
poverty did fall some in Latin America during the 1990s, though only enough to compensate for the rise in poverty
during the 1980s. It is troubling that neither Latin America nor Africa gained on the rich countries or lowered their overall
poverty rates in the last two decades.
Continuing growth in populous India and China, where most people in developing countries still live, will mean
significant progress in the reduction of world poverty and inequality. But, unless Africa and Latin America fare better
than they have in the last two decades, severe poverty will continue to foster and world inequality will increase.
The Role of Globalization
What role has globalization played in these developments? Whether globalization deserves credit for helping Asia or
blame for harming Africa and Latin America is more than an academic issue. Governments still choose their trade,
investment, and immigration policies. How governments and their citizens see globalization's effects will go a long way
in determining their economic future.
In principle, allowing trade, investment and migration should reduce global poverty. Less clearly, it should also shrink
the gap between rich and poor. Migration toward high wage areas makes labor scarcer in sending areas—thereby
pushing wages up—and makes labor more abundant in receiving areas and lowering wages there. The net effect?
Incomes of the poorest workers rise and wage differences shrink between areas. Similarly, investment should go
toward areas with lower wages, all else equal. As firms move from high to low wage areas, the demand for workers
should grow in low wage areas and decrease in high wage areas, again lowering inequality.
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 consumers can pay lower prices for necessities and producers can pay lower prices for inputs and earn higher prices
for their exports. Of course, there are exceptions to these rules. When foreign companies invest, labor markets may
become stratified into protected high wage sectors and informal low wage sectors. A rapid influx of financial
investments may drive up exchange rates and suddenly make exports less competitive. While the laws of economics
are powerful, the exceptions—many of which trace back to self-defeating government actions—mean globalization's
impact must be determined not by theory but by what happens in practice.
Distinguishing the effects of globalization from other economic, political, and social developments is difficult. We cannot
run a simple experiment with and without components of globalization. Let me illustrate with an example. Suppose a
country adopts laws to protect private property in order to attract investments from abroad. Now, at the same time, the
new laws stimulate more investment by local citizens. If higher growth takes place, should globalization or sound local
One way of analyzing globalization's impact is to take the long view and assess trends from the perspective of centuries. Jeffrey Williamson (2002) and his colleagues (Lindert and Williamson 2001) have done so and they offer a largely positive verdict. Income gaps did widen in the 1820-1950 period, when rapid industrial development took place in Europe, the United States and other European offshoots, and Japan. Starting from a state of nearly universal poverty, the world became more unequal when some countries developed rapidly while others remained poor. Still, in periods of globalization, income gaps narrowed among countries taking part in global trade, immigration, and investment. By far, the main force closing the gap was large-scale immigration. True to theory, the immigration of 60 million European increased wages in the sending, low wage countries, decreased wages in the receiving, high wage countries, and substantially raised incomes for the immigrants themselves. Trade helped incomes converge as well, boosting the prices received by producers and lowering the prices their consumers and producers paid for imports. Investment was the one component that went against expectations. Flows of international capital moved toward already rich countries, perhaps following the movement of workers and perhaps because additional capital is sometimes more productive in places where concentrations of capital are already present—a phenomenon vividly described by William Easterly (2001) in his thoughtful book on growth.

Overall, globalization helped the poor countries that adopted sound policies and contributed to income convergence among the countries participating in the global system. However, since stagnation continued in many countries isolated from globalization, world inequality still rose.

Has the same pattern prevailed in the last decades? One big difference is lower immigration. Over the last 25 years, 1-2% of the world's population immigrated, a rate far lower than the 10% who immigrated between 1870 and 1910. The trade and foreign investment components of globalization expanded significantly, though with large variations across countries. Confirming what Williamson found for earlier episodes of globalization, David Dollar and Aart Kraay (2000) have shown that low-income countries most open to the rest of the world achieved significantly higher economic growth than in developing countries that reduced their trade and higher than in rich countries. Moreover, the added economic growth induced by globalization was broadly shared so that low-income families saw income growth as high as did other groups in the economy. Although not every study finds clear, positive effects from trade, none show gains for countries that chose to become less open to trade in the 1990s. On balance, then, the weight of the evidence goes in favor of globalization as a force for narrowing income gaps between countries.

Sources of Opposition to Globalization

If globalization encourages growth, lowers poverty, and reduces income gaps among countries, why do so many advocates for the poor stridently oppose liberalizing trade, investment, and immigration? One possibility is globalization might increase inequality within countries. Since time is too short to examine the evidence among all countries, consider the cases of China and the United States.

China did experience a rise in inequality after liberalizing its foreign trade and investment. Yet, according to Williamson, many rural areas did not fully share in the country's income gains and poverty reductions because there was too little globalization, not too much. The coastal cities and provinces benefited most, partly because other provinces were not integrated with the rest of China. The government's ban on migration from the rural and non-coastal areas until the mid-1990s widened urban-rural and coastal-hinterland income gaps.

The case of the U.S. is widely misunderstood. Perhaps half of the growth in income inequality over the last 30 years resulted from the rising share of single-parent families, especially mothers who never married the father of their children (Lerman, 1996). Foreign trade did increase in earnings inequality. But foreign trade's impact on prices has helped low-income consumers and helped limit inflationary pressures, thereby allowing the U.S. to reach nearly full unemployment in the late 1990s.

The immigration story is complex. The U.S. did absorb millions of immigrants with low education into jobs, driving down the wages of low-skill workers. But once the wage gains to the immigrants themselves are taken into account, a large part of the observed increases in U.S. wage inequality go away (Lerman 1999).

Foreign investment—the third pillar of globalization—probably reduced inequality by raising the demand for workers in manufacturing, especially in the lower wage, Southern part of the country. Finally, the changes in the U.S. economy have apparently caused much larger changes in the short-run variability of income than in long-run inequality. A recent study (Krueger and Perri 2002) finds that, despite globalization and family instability, the inequality of consumption in the U.S. hardly changed since the 1970s and not at all since the mid-1980s.

The rapid shifts induced by globalization can be another source of discontent. Like technical change, trade, investment and migration can generate disruptions in the lives of farmers, workers, and firms. With openness comes competition from around the world. Consumers gain, as the competition forces suppliers to make better products and to become more productive. But firms and specialized workers not able to keep up with the competition can suffer. Yet, even without international trade, internal competition, technical change, and labor mobility cause substantial movement between jobs in nearly all advanced economies. More serious is the impact of financial instability that sometimes accompanies the liberalizing of international financial flows. This very real problem has harmed low-income and middle-
income countries in recent years and is a negative on the globalization balance sheet. The solution is not to limit the capital inflows to developing countries but to create a financial structure in the corporate, banking, and government sectors that cushion shocks instead of creating a veritable "volatility machine." (The phrase is the title of the insightful book by Michael Pettis).

Still another source of opposition to globalization is the self-interest of farmers, workers and firms afraid of competition. While sometimes these groups explicitly state they want tariff protection to maintain their incomes, often they try to rationalize their positions by arguing that trade hurts the poor in any event. Too often, the result is trade restrictions that limit imports from poor countries in what they can produce most efficiently. The average 40-50% import duty on farm products is a prime example.

A final and perhaps critical source of hostility to globalization is the explosion of media images of Third World poverty in rich countries and of First World living standards in low-income countries. The vivid portrayal of severe poverty by rich country media—whether due to globalization or not—rightly arouses concerns and globalization is an easy scapegoat. At the same time, the expansion of travel and media access causes people in poor countries to realize what they lack relative to living standards in rich counties. Television ownership increased dramatically in the 1990s in many less developed countries (doubling in China and India and tripling in Indonesia).

Though young demonstrators and some political leaders in rich countries are protesting against globalization and international economic institutions, few thoughtful critics want to turn back the clock and make countries into protected enclaves. Few deny the potential good globalization can bring. It is time for opponents and proponents of globalization to join forces to help low-income countries expand their access to rich country markets and develop and nurture their governing institutions so that the world’s poor gain from the benefits of a more integrated world.

References


Let me turn instead to the central tasks that I have set out to explore in this book: the sources of anti-globalization sentiments, the concerns that globalization lacks a human face, the reality that it does have one, and the governance that must accompany globalization once one recognizes that it is generally a benign force for social agendas. I base my remarks in the much-cited Oxfam report Rigged Rules and Double Standards: Trade, Globalization and the Fight Against Poverty (Oxford: Oxfam, 2002). Oxfam spokesmen have written extensively in this vein in newspapers and magazines. I was also on a panel of trade ministers and trade experts at the last Davos meeting where a senior Oxfam representative spoke along the same lines with passion but little else. The fight against poverty in South Africa is actually written in the country's own Constitution, to be carried out via social assistance. While it's certainly not the first time that a constitution doesn't match reality - it tends to be an expression of a nation's ideals - in this case, it is quite far off that picture. From 2000 on, numbers showed a decrease in poverty per capita and of the poverty gap. But a common feature of globalization also started to take place there: the better off end up better off, and conversely for the worse off. However to be fair, all those who managed to secure a job, and maybe develop some human capital (education, skills, knowledge), saw their situation improve.